CRITERIA FOR THE GCR RATINGS FRAMEWORK

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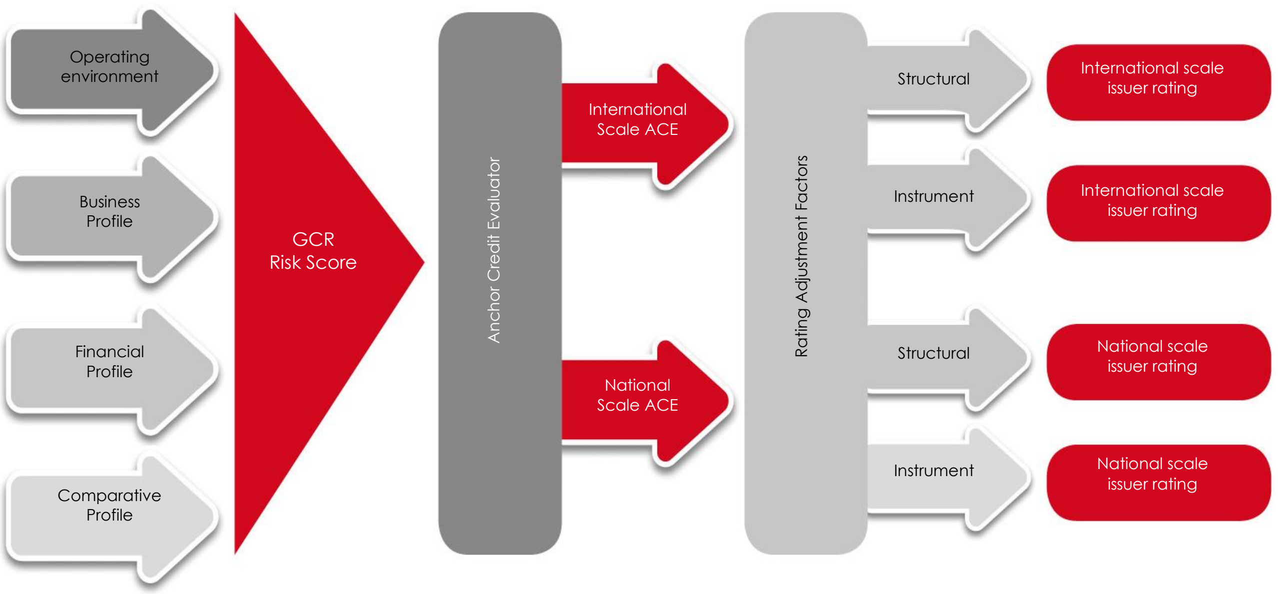
1 Introduction to the GCR Ratings Framework

1. In order to improve the comparability and transparency of issue(r) credit ratings, GCR implemented the GCR Ratings Framework in May 2019 (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 some detail each of the major rating drivers and ultimately what factors may change the ratings in the future.

2. 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, with a public positive or negative score assigned to each. The accumulation of the scores determines the GCR Risk Score, which is translated, using the GCR Anchor Credit Evaluator into the Anchor Credit Evaluation. Subsequently, this is used to determine the final credit ratings, using the Rating Adjustment Factors.

3. The way these concepts interact with each other and result in an issue(r) credit rating is best illustrated in Figure 1, below.

Figure 1: The GCR Ratings Framework



2 Scope

4. The GCR Ratings Framework is a transparent and comparable credit ratings system. It is applicable for all corporate, financial institution, insurance and public sector issue(r) credit ratings. This criteria should be read alongside the sector specific criteria pieces, which provide detail regarding the assessments for each asset class.

5. This framework is not directly applicable for Structured Finance ratings, whose criteria and methodology can be accessed here. However, elements of the country risk and group classification and support criteria (guarantees) may be applicable to aspects of Structured Finance ratings.

6. GCR will periodically publish a "Jurisdictional Supplement" at www.GCRratings.com, explaining any qualifications to credit ratings issued within specific markets or jurisdictions in order to reflect any divergent or market related nuances which have the potential to detract from the comparability of GCR credit ratings across jurisdictions within which GCR provides credit rating services.

3 Summary of the Criteria Changes

7. There have been no material changes to the criteria, since the May 2019 initial release.

8. However, moderate changes have been made to the group rating methodology. In particular, the 'relevance' section in group support has been updated to allow for a wider and start-up strategic initiatives. Secondly, the insulation section has been re-worded to allow for greater clarity and ultimately higher, but limited, ratings uplift above weaker parents/groups, should the conditions be met.

4 The GCR Ratings Framework

9. The framework revolves around three concepts: the GCR Risk Score, the GCR Anchor Credit Evaluator and the GCR Rating Adjustment Factors. The way these concepts interact with each other and result in an issue(r) credit rating is best illustrated in Figure 1 (above).

4.1 GCR Risk Score

10. The GCR Ratings Framework is anchored upon a numerical scoring system, however it has not been designed as a quantitative model. Rather, GCR assigns scores to four major analytical components, which themselves comprise of a various number of factors and sub-factors (depending on the asset class), using a mixture of qualitative and quantitative indicators and assumptions.

11. These four components are:

1. Operating Environment	2. Business Profile	3. Financial Profile	4. Comparative Profile

12. The above four components will be scored either positively, negatively or neutrally using specific methodologies and assumptions to assess various factors and sub-factors (which change by sector).

13. The accumulation of the component scores will generate the GCR Risk Score. Typically, this score will range between zero (0: weakest) and forty (40: strongest). The lower the score, the weaker the assessment.

14. Importantly, GCR can use decimal scoring (example 0,25, 0,50 or 0,75) in order to improve differentiation.

15. No one component, factor or sub-factor has any predefined weighting or impact in the final GCR Risk score. As a result, any one component could be the driving force behind the final score. However, the potential amount of positive or negative scoring does change per asset class and factor depending on GCR's opinion of that factor's importance. For example, the liquidity factors across all sectors allow for deepest negative scoring to reflect the close association between weak liquidity and issuer default.

16. Component scores will typically be made public upon the release of the rating so the user can determine the specific strengths and weaknesses of a rated entity and how this might change issuer and issue ratings over time.

4.2 The Anchor Credit Evaluator & Evaluation

17. Once GCR has derived the GCR Risk Score, GCR will typically use the GCR Anchor Credit Evaluator (see Figure 2 below) to assign the, lower-case letter, GCR Anchor Credit Evaluation ('ACE').

18. The Anchor Credit Evaluator is a mapping table, which links the GCR Risk score to GCR issue(r) credit ratings. It can be used by looking up the GCR Risk Score (on the left of the table), finding the appropriate international and/or national scale rating columns (at the top of the table) and drawing an interlocking line between the two points of reference. *For example, a GCR Risk Score of 10 would map to an International Scale "b" and National Scale "bb/bb-" on the national scale column '8.5 to 9'.*

19. These lower-case scale ratings are the ACE. The ACE is not an issuer credit rating. However, it is an important link between the GCR Risk Score and the international/national rating scales. Hence, the ACE is represented by lower-case letters to demonstrate its link to the issue(r) credit ratings.

20. One key difference between issue(r) credit ratings and the ACE, is that the former can only be assigned to legal entities/obligations. Conversely, the ACE will typically be assigned to a theoretical 'analytical entity', which is often the nearest consolidated group around a legal entity. This reflects GCR's opinion that the creditworthiness of an entity or obligation is often based on, or supported by, the financial and corporate strengths of its immediate group or parent (excluding structured finance ratings). It is worth noting that in some cases that whilst the 'analytical entity' may be a complete consolidated group, it could also be a part of a consolidated group or even a standalone legal entity. Furthermore, it is possible that a number of legal entity ratings could be assigned or supported from one ACE. *The legal entity/obligation that has or will be assigned an issue(r) credit rating is called the 'rated entity/rated obligation'.*

Figure 2: The GCR Anchor Credit Evaluator

Country risk score		9.5 to 10	9 to 9.5	8.5 to 9	8 to 8.5	7.5 to 8	7 to 7.5	6.5 to 7	6 to 6.5	5.5 to 6	5 to 5.5	4.5 to 5	4 to 4.5	3.5 to 4	3 to 3.5	2.5 to 3	2 to 2.5	1 to 2	0-1
Rating Score	**GCR ISR**	**GCR NATIONAL SCALE RATING**																	
40	aaa																		
39																			
38																			
37	aa+																		
36																			
35	aa																		
34																			
33	aa-																		
32																			
31	a+																		
30																			
29	a																		
28																			
27	a-																		
26																			
25	bbb+																		
24																			
23	bbb	aaa																	
22		aa+	aaa																
21	bbb-	aa	aa+	aaa															
20		aa-	aa	aa+	aaa														
19	bb+	a+	aa-	aa	aa+	Aaa													
18		a	a+	aa-	aa	aa+	aaa												
17	bb	a-	A	a+	aa-	Aa	aa+	aaa											
16		bbb+	a-	a	a+	aa-	aa	aa+	aaa										
15	bb-	bbb	bbb+	a-	a	a+	aa-	aa	aa+	aaa									
14		bbb-	bbb	bbb+	a-	A	a+	aa-	aa	aa+	aaa								
13	b+	bb+	bbb-	bbb	bbb+	a-	A	a+	aa-	aa	aa+	aaa							
12		bb	bb+	bbb-	bbb	bbb+	a-	a	a+	aa-	aa	aa+	aaa						
11	b	bb-	bb	bb+	bbb-	Bbb	bbb+	a-	a	a+	aa-	aa	aa+	aaa					
10		b+,b	bb-, b+	bb,bb-	bb+,bb	bbb-, bb+	bbb,bbb-	bbb+,bbb	a-,bbb+	a,a-	a+,a	aa-, a+	aa, aa-	aa+	aaa				
9	b-	b-	b-, b	b+,b	bb-, b+	bb,bb-	bb+,bb	bbb-, bb+	bbb,bbb-	bbb+,bbb	a-, bbb+	a,a-	a+,a	aa, aa-	aa+,aa	aaa			
8				b-	b, b-	b+,b	bb-,b+	bb,bb-	bb+,bb	bbb-, bb+	bbb,bbb-	bbb+,bbb	a-,bbb+	a+,a	aa-,a+	aa+,aa	Aaa		
7	ccc+	ccc+	ccc+	ccc+	ccc+	b-	b, b-	b+,b	bb-, b+	bb,bb-	bb+,bb	bbb-, bb+	bbb,bbb-	a-,bbb+	a,a-	aa-,a+	aa+,aa	aaa	
6						ccc+	ccc+	b-	b, b-	b+,b	bb-, b+	bb,bb-	bb+,bb	bbb,bbb-	bbb+,bbb	a,a-	aa-,a+	aa+,aa	aaa
5								ccc+	ccc+	b-	b, b-	b+,b	bb-, b+	bb+,bb	bbb-, bb+	bbb+,bbb	a,a-	aa-,a+	aa+,aa
4	ccc	ccc	ccc	ccc	ccc					ccc+	ccc+	b-	b, b-	bb-, b+	bb,bb-	bbb-, bb+	bbb+,bbb,bbb-	a,a-	aa-,a+,a
3						Ccc	ccc	ccc	ccc			ccc+	ccc+	b, b-	b+,b,b-	bb,bb-	bb+,bb,bb-	bbb+,bbb,bbb-	a-, bbb+, bbb
2										ccc	ccc			ccc+	ccc+	b+,b,b-	b+,b,b-	bb+,bb,bb-	bbb-,bb+,bb
1	ccc-	ccc-	ccc-	ccc-	ccc-	ccc-	ccc-	ccc-	ccc-			ccc	ccc	ccc	ccc	ccc+	ccc+	b+,b,b-	bb-,b+,b
0										ccc-	ccc-	ccc-	ccc-	ccc-	ccc-	ccc, ccc-	ccc, ccc-	ccc+,ccc ,ccc-	b-,ccc+,ccc ,ccc-

21. The primary role of the Anchor Credit Evaluator is to transparently demonstrate the link between the GCR Risk Score and the ACE. However, it has three further important functions.

22. Firstly, it allows for a separation of national and international scale ratings without the subordination of one scale to the other. This allows for ratings differentials to be made for organizational and creditor hierarchy factors on both a national and international rating scale basis, allowing for more accurate representations of relative risk.

23. Secondly, the Anchor Credit Evaluator allows for a change in country risk conditions to be reflected in the international scale ratings but not (necessarily) in the national scale ratings. This has been achieved by linking the national scale rating tables (1 to 10 only) to the country risk score of that specific jurisdiction. Typically, when a country risk score changes, GCR will make a parallel move with that jurisdiction's mapping table. For example, an improvement in the country 'x' risk score could lead to movement from column '6 to 6.5' to column '6.5 to 7'. Simultaneously, all entities operating in 'x' could have an improvement in the underlying GCR Risk Score, all else being equal. This could lead to an improved international scale rating but no change in the national scale ratings because the mapping moves in parallel. This is important because national scale ratings are meant to, to some extent, neutralize for country and sovereign risk. However, GCR believes it to be important that the risk score still notes a fundamental change in operating conditions.

24. The last benefit provided by the anchor credit evaluator is that it allows for better differentiation at lower rating levels than traditional credit rating agency scales. Due to the fact that GCR is predominantly an Emerging market rating agency, GCR believes this ratings differentiation at lower levels is a key requirement for the users of its ratings.

4.3 Rating Adjustment Factors

25. Having established the ACE for the 'analytical entity', GCR can apply the final Rating Adjustment Factors on a ratings scale basis to finalise the rating(s) on the 'rated entity'.

26. The Rating Adjustment Factors make alterations on a ratings scale basis (from the ACE) for structural, organizational and regulatory factors for issuer credit ratings. GCR makes these adjustments on a rating scale basis, instead of the risk scoring basis, to allow it to create its view of the most 'correct' credit hierarchy, within a group. The adjustments are typically specified in the sector specific or group classification and support methodology (page 17).

27. Similarly, GCR will also adjust instruments for issue ratings on a rating scale basis, factoring in contractual/statutory subordination or default characteristics of the notes. Importantly, the issuer credit rating is typically meant to be reflective of its senior unsecured credit strength.

28. GCR has created a standardised approach for rating debt instruments for every asset class. The details of this approach will be provided in the sector specific criteria for the asset classes.

5 Country Risk

5.1 Introduction to the GCR Country Risk Assessment

29. The core of the proposed GCR Ratings Framework is based on GCR's opinion that an entity's operating environment frames its creditworthiness. For GCR, the operating environment of an entity equates to the country risk of the jurisdiction(s) that it operates in, as well as its specific sector dynamics. For sector specific criteria, please see either the Criteria for Financial Institutions, Insurers or Corporates.

30. The Country Risk assessment interacts with GCR ratings in three ways. Firstly, and most importantly, the country risk score/assessment acts as an anchor to the GCR Risk Score and therefore ultimately to the GCR issuer ratings. Secondly, the country risk assessment acts as a hurdle (or more accurately as a series of hurdles, differing according to industry) that limits uplift away from an entity's operating environment (the combination of the country risk score and the financial sector risk score). Thirdly, the country risk score (as a key part of the operating environment score) provides a level from which government support can be applied for each industry.

5.2 Country Risk Assumptions

31. The country risk assessments have been based on the assumptions that the higher (reflecting a lower score) the country risk facing any one legal entity, the higher (frequency and severity) the risk of operating stress. This opinion is based on the following:

32. Emerging market governments default more frequently and are often more cyclical than developed market peers. Nearly all countries have defaulted at least once and many several times on their external and/or domestic debt during their emerging market economy phase[1]. This can be demonstrated by the poor track-record of African sovereigns. In Africa, only Mauritius has never defaulted or restructured its debt. Several African states have spent a little under 50% of their time in default, post-independence. However, Africa is far from unique in this regard. This is because low wealth and high growth economies are typically more exposed to bouts of high or hyper-inflation, their exchange rates appear to be less stable and credit cycles appear to be shorter and steeper.

33. GCR has used two factors to identify and measure the development stage of an economy, which are primarily based around the prosperity and stability of its population. Firstly, GCR use GDP per capita to assess the wealth of a country's population. Secondly, GCR use a blended institutional strength score (see "Establishing the Institutional Assessment" below) to capture the softer elements of development such as governance, competitiveness, control of corruption, rule of law and political stability. Consequently, through the application of the criteria, entities operating in a country with lower wealth levels and weaker governance scores (for example) will start from a relatively lower (worse) GCR credit risk score.

[1] *This Time is different: A Panoramic view of Eight centuries of financial crises, Reinhart & Rogoff*

34. GCR associates high long term sustainable economic growth with better country risk. As a result, GCR can make positive adjustments for strong real GDP per capita growth rates in the country risk score. However, if economic growth is being primarily fueled by private or public-sector debt or other elements which make the growth unsustainable (and/or increase cyclicality) GCR can make negative adjustments to compensate.

35. Typically, GCR assumes that higher leverage levels, for both the public and private sector, correlates to weaker country risk. As a result, GCR actively monitors central and general government debt (including their contingent liabilities) against revenues in the country risk score, whilst GCR captures the risk of private sector indebtedness in the financial sector risk score.

36. The commodity cycle often plays a significant role in country risk. Commodity related export revenues can be advantageous, if the revenues associated are pushed into productive means and if general government revenues are not overly dependent on them. On the other hand, if the economy uses the positive terms of trade created by expensive commodities to ramp up its borrowing, or it leads to significant dollarization of an economy, or significant industry concentrations, it can raise risks materially.

37. Country risks are exposed to global capital flows and global business cycles. The danger being that borrowers over extend themselves in good times (i.e. they borrow when debt is cheap and available) and struggle to refinance when sentiment changes. As a result, GCR captures external vulnerabilities including the debt dynamics (i.e. how the percentage of external and/or hard currency debt to total debt, plus refinancing risks), terms of trade and balance of payments position. GCR also opines that large and diverse economies will typically be more stable through economic and business cycles.

38. GCR also examine the vulnerability that a global industry stress can have an idiosyncratic impact on any given in-country industry, which spills over to the rest of the economy. A good example of this risk was the impact of the global financial crisis, which had wide spread repercussions for default across the world, both in and across industries. Relatedly, whilst financial system risk is a significant factor in country risk, as are related asset price bubbles (real estate, credit or equity prices), GCR chooses to capture these risks predominantly in the sector specific criteria as it affects industries differently.

39. Finally, GCR believes that sovereign risk can be both symptomatic of, and a cause of, country risk. There appears to be a definitive link between the two risks which has been factored into the ratings criteria. However, GCR also notes that a sovereign default does not imply that every entity within that country will also default. Some industries are more vulnerable than others to sovereign stress. As a result, GCR has created hurdles (which differ by industry) for rated entities to clear in order to dislocate themselves from their operating environment. Having said that, there appears to be one clear unifier of sovereign and country risk in the guise of negative geopolitical events (war, terrorism, plague, famine and severe political instability). Throughout history, the largest periods and instances of default are often recorded just after or during such events. This too has been factored into the criteria.

5.3 Establishing a Country Risk Score

40. Primarily, the Country Risk Score captures what GCR opines to be the core elements of structural country risk, i.e. the set of risks of investing in a particular country. These include the social and political stability, economic strength and the robustness of governance practices within a single sovereign jurisdiction. GCR has adopted a mixture of public economic and institutional benchmarks, refined by adjustments, to create the starting point to this country risk assessment.

41. Secondly, GCR overlays elements of stress and/or sovereign risk, i.e., the risk of a government defaulting on its debt obligations. In this latter risk, GCR includes geopolitical events and risks such as exchange rate and inflationary risk of the home environment which couldn't be captured in the initial score, as they are more mercurial than structural. Typically, these can be seen as negative adjustments to the initial score although when a Sovereign strength exists that could improve Country Risk, GCR will recognize it in the scoring.

42. The combination of the scores creates the country risk score/assessment. Elements such as asset price risk and financial system are typically covered in the underlying sector risk criteria for each asset class.

43. GCR aims to publish the final country risk score for each jurisdiction in individual, regional or global reports, on at least an annual basis.

Step 1: The Structural Country Risk Score

- *The Economic Strength Score*

44. Whilst Gross Domestic Product ('GDP') is the most commonly used measure of a country's economic strength, GCR believes that the ratio is more useful as a proxy for status, political power and vulnerability to external or idiosyncratic shocks rather than a useful guide about the risks facing institutions in that country. Instead, the root of GCR's country risk analysis is based on GDP per capita (and its growth) as it is a better measure of a specific population's financial health and robustness through stress. For example, higher wealth levels provide more tax, greater opportunity for corporates in regards to both investment and potential market. This can be distorted for countries which have a strong reliance on commodities, or demonstrate a significant Gini-coefficient in wealth disparity, which pressurize social and political agendas.

45. As a result, GCR use the following metric, as a starting point:

GDP per capita (USD), on a one (1: weakest) to ten (10: strongest) scale.

Table 1: GDP Per Capita Scores

GDP Per Capita (USD'000)	Above 40k	30k to 40k	25k to 30k	20k to 25k	15k to 20k	10k to 15k	5k to 10k	2,5k to 5k	1k to 2,5k	<1k
Score	10	9	8	7	6	5	4	3	2	1

46. Then, GCR makes adjustments to the score, if GCR believes there is a under or overstatement of risk by the GDP per capita score:

a) Positive/Negative (+2, 0, -2): if GCR believes the real GDP per capita growth is going to be strong and sustainable, (i.e., not with associated credit (sovereign and private sector) or asset price bubbles) over the forecasted period GCR can uplift the starting point. Conversely, if growth is slow or negative or the Gini co-efficient is high, and is placing additional strain on the public and private sector, GCR can lower the starting point.
b) Positive/Negative (+1, 0, -1): if exchange movements rate has altered the bracket unsustainably.
c) Negative/Neutral (0, -1): Significant Commodity/Industry concentrations.

- *Establishing the Institutional Assessment*

47. After judging a country's wealth levels, GCR overlays an institutional assessment (1-5 scale) based on the weighted average of two publicly available indictors. GCR does this to formulate a view on how political risks, governance factors and the business environment render an economy more or less likely to shocks.

48. Firstly, GCR looks at the World Bank Governance Indicators (WBGI; 25% weighting). GCR does this by taking an average score of the government effectiveness, regulatory quality, rule of law, voice and accountability, politics and stability and control of corruption scores and then ranking them in the following way:

Table 2: World Bank Governance Indicators Scores

World Bank Governance Indicators average	Score
Above 1	5
0.5 to 1	4
-0.5 to 0.5	3
-1 to -0.5	2
<-1	1

49. The WBGI are a compilation of perceptions, from a very diverse group of respondents, which benchmark governance across 200 countries. Whilst there have been some criticisms regarding the biases, comparability and transparency of the indicators, GCR still believes them to be an important and independent view of governance.

50. Secondly, GCR ranks the economy using the scoring provided in the World Economic Forum *Global Competitiveness Index* 4.0 (75% weighting). The Global Competitive Index 4.0 score measures national competitiveness: defined as the set of institutions, policies and factors that determine the level of productivity[2].

51. GCR scores this assessment thusly:

[2] World Economic Forum

Table 3: World Economic Forum Global Competitiveness Scores	
World Economic Forum: Global Competitiveness Report	Score
75-100	5
65-75	4
55-65	3
45-55	2
<45	1

Step 2: Idiosyncratic Stress & Sovereign Risks or Strengths

52. GCR makes adjustments to the structural country risk score if there are material government fiscal restraints, external vulnerabilities, limited monetary policy flexibility or geopolitical events occurring that could raise the risk of shock to that rated entity. GCR may also make positive adjustments if the economic size and diversification of the country makes it a clear regional or global outlier or if the government within a country has an exceptionally strong fiscal and/or external position, which could be used to revitalize the economy if, and when, needed. GCR may choose not to reflect such risks, or lower the impact of such risks, if the structural country risk score is already at very low or very high levels. GCR also does not expect to publish the exact scoring of the adjustments, although GCR expects to publish the final overall adjustment made.

53. Due to the fact that GCR is primarily measuring country risk and not sovereign risk, GCR expects to use these adjustments sparingly, especially for those countries at the lower end of the initial scoring.

a) **Fiscal** (-10 to +2: +2 best, depending on the initial score and expected impact): If the government has, in the opinion of GCR, strained public finances (either growth, stock or interest repayments) that could spill over into the private sector GCR may choose a negative score. Conversely if the government has a strong fiscal position, including reliable revenue generation, GCR may make a positive adjustment.

b) **Geopolitical** (-10 to 0: 0 best, depending on the initial score and expected impact): GCR includes geopolitical events (war, terrorism, or political upheaval) or contagion risks (for example cross border financial system exposure).

c) **External position** (-10 to +2: +2 best, depending on the initial score and expected impact): Depending on the nature of external risks, measuring the pressure on the domestic exchange rate or reserve coverage (gross international reserves in months of imports), GCR can also bring down the initial score. Conversely, if the country is the home of a global reserve currency country, GCR can adjust the score positively.

d) **Monetary policy** (down -5 to 0; 0 best, depending on the initial score and expected impact): if the government has limited monetary policy flexibility, due to high dollarization or a currency peg GCR may reduce the score. If a government (through the Central Bank) has limited control over inflation or lacks the ability to change interest rates or devalue the currency, GCR believes it can lower its resilience of the private sector to external or domestic shocks.

e) **Size & diversification** (-5 to +2: +2 best): if the economy is a positive regional or global outlier in regards to its geopolitical muscle, economic diversification and/or economic size GCR may positively adjust the score. GCR may negatively adjust the score if the country is very small and reliant on another, weaker country, for its economic advantages.

Step 3: Finalising the country risk assessment

54. GCR finalizes the Country Risk score for an entity by combining the economic strength score, weighted average of the governance rankings and the adjustments. When an entity or group operates in more than one jurisdiction, GCR may choose to blend the scores using the breakdown of revenue, loans, premiums or assets (depending on the asset class), to create a blended entity country risk score if GCR considers the diversification to be material, and has enough information. If the score is not a whole number, GCR may round up or down to the closest whole number, depending on analytical discretion.

5.4 Country Risk Hurdles

55. Typically, severe economic stress can be characterized by (one or more of) periods of high or hyper-inflation, a large economic contraction, violent exchange rate depreciation, significant asset price decline (equities and real estate), the restriction of credit, heightened unemployment, increased banking credit losses and ultimately heightened issuer defaults (including sovereign).

56. In GCR's opinion, the best bell weather for the accumulation of such risks is the health of the domestic financial system because banks (in particular) can be sensitive to, or indeed the cause of, such risks. For example, the banks are often the largest owners of domestic sovereign debt (ergo very exposed to sovereign default). They also reflect, through their balance sheets, the impact of currency debasement and high/hyper-inflation. Furthermore, the domestic loan books of the banking sector can reveal a lot about economic concentrations and the debt serviceability of the private sector even before stress is evident. Most importantly, ultimately, banks are typically the custodians of payments and transfers. They are the engine of money transformation and liquidity in the economy, consequently a large-scale default and moratorium of payments by the banking sector can have the most significant economy wide impact. This is why, for example, governments have a strong history of bailing out private sector banks at the cost of their own creditworthiness and ultimately the tax-payer.

57. As a result, the GCR criteria only allows entities which demonstrate extremely strong credit fundamentals (including group support) and sufficient geographic diversification to reach a risk score well beyond the combined country risk score and financial system risk score (referred to as the financial operating environment risk score) of the entity's primary location(s).

58. Due to the fact that domestic economic and banking sector stress can have a different impact on different industries, these tolerances differ according to entity's the underlying sector. Supranational entities are not included in scope for this section of the country risk assessment.

Table 4: Country Hurdles	
Sectors	To achieve a risk score of over 1x the primary country risk score above the Financial Operating Environment Score, of any one jurisdiction*
Bank, Non-bank, IHC, Life (re)insurance, REIT, CRE	The entity or group would typically have more than 66% of EBITDA or Assets or Premiums outside that jurisdiction
Short-Term (Re)Insurance, non-financial Corporates	The entity or group would typically have more than 50% of EBITDA or Assets or Premiums outside that jurisdiction

*For entities operating in a primary country with a risk score below '5', '5' will typically be used as the country risk score input for the purpose of the country hurdle calculation. Entities in primary countries with risk scores below '2' may have additional adjustments applied.

5.5 A Worked Example of the Country Risk Assessment, Hurdles and Support

59. *Example: A rated entity has operations in three jurisdictions. It is domiciled and has its core operations in Country A, which is a relatively high wealth country, suffering from very low growth, with above average governance for the region. However, it also has operations in Country B (low wealth but average governance, which is benefiting from the commodity cycle) and Country C (low wealth and weak governance).*

60. *Below is an example of how GCR has chosen to blend the EBITDA/loan book/premium/asset to create the country risk score:*

Table 5: A Worked Example of the Country Risk Assessment | Breakdown of the EAD for the Group

Country	GDP Per Capita (USD'000)	Initial Score	WB Governance Indicator	Score	WEF Competitive Index	Score	Weighted average	Adjustments	Weighting*	Final Score
A)	$10-$15	5	>1	5	>4.5	5	5	-1	55%	4.95
B)	$5-$10	4	0.5 to 1	4	3.5 to 4	3	3.25		25%	1.81
C)	$2.5-$5	3	<-1	1	<3	1	1		20%	0.80
D)							0			0.00
Total									**100%**	**7.56**

61. Due to the fact that the entity has more than 55% of EBITDA in location A, the risk score on this entity would typically be capped at 9 (1x country risk score) above the combined country risk and financial sector risk score financial operating environment score) of that jurisdiction. For example, if the financial sector risk was 8, then the maximum risk score would be 26 (9+9+8) if the standalone strengths of the entity afforded it.

62. Presuming that the entity and qualified for government support, it could be supported up to the combination of the country risk (9 above) and sector risk (assume 7) for its host location. In this case it could supported up to a risk score of 16.

5.6 Government Support

63. Entities that provide an essential public service or infrastructure role (such as water or power supply) would typically benefit from ongoing support. Such companies may be provided ongoing budgetary support, or allow tax concessions, or financial guarantees to ensure the continuation of its wider social/economic mandate, by its government. GCR only recognises such support in the fundamental analysis of the entity. For example, by boosting the business profile component score due to its protected market position or factoring in implied government due to superior cost of funds and market access. However, GCR ultimately believes that ongoing support should be tangible. If a company has a critical role, then the government or regulators should ensure that the company in question maintains leverage levels appropriate for the amount of EBITDA and cash flow generated (for example). If not, there should be regular planned and reliable capital increases, if the entity isn't capable of or mandated to drive sufficient internal capital generation. All of the above can be captured in GCR's forward-looking fundamental analysis of any given entity. In GCR's opinion, anything less demonstrates low willingness or capacity to support by the government on an ongoing basis.

64. GCR also recognises that government support can be provided on an extraordinary basis, especially during times idiosyncratic stress. For example, if a troubled financial institution is considered to be of high systemic importance, its home government may provide direct support by providing liquidity or capital injections, or by buying/insuring risky assets, to limit the impact on the wider financial system and to protect depositors. These anticipated actions may lead to a strengthening in the bank's stand-alone credit characteristics, especially in a time of stress, which have yet been factored into the balance sheet due to the uncertain nature and timing of support.

65. As a result, GCR has created a government support level for all entities where GCR considers such extraordinary support to be likely. For GCR, the level is the operating environment score (i.e. the combined country risk and sector risk score) of the entity in question. The level only starts to contribute to the overall GCR Risk Score when the creditworthiness of the entity is below that of the implied operating environment score. *For example, if issuer A has a total risk score of 8 and the operating environment score is 11, then GCR could uplift the final score by up to 3 scores, assuming that there are grounds to add government support (i.e., can the government support and does the entity qualify for support)*.

66. Only entities operating in countries where the government has a good track-record of intervention and the capacity to support (as signified by a country risk score more than 3), should benefit from uplift. Domiciles with fiscal constraints, or legal/operational blockages to support should have no uplift.

67. The maximum support will be up to 5 scores by using Table 6:

Table 6: Government Support		
Assessment	Score	Typical Characteristics
Strong Support	4 to 5	The entity is wholly owned or an arm of the government. The entity conducts or maintains an essential function or infrastructure role that would be exceptionally hard to substitute. The entity is key for social or policy reasons, and is not profit maximizing. A bank of domestic systemic importance, with market share of over 25%, Very high interconnectedness with the financial system and not in a resolution active market. No legal or regulatory impediments to support Strong history of capital or liquidity support for this entity, or for an entity of similar status
Adequate Support	2 to 3	Majority owned by government. Conducts a role or mandate of social or policy importance. A bank of domestic systemic importance, with market share of over 15%, high interconnectedness with the financial system and not in a resolution active market. Insurer, classified as systemically important by its regulator, with a market share of over 25% and very high interconnectedness with the wider financial system. No legal or regulatory impediments to support Some history of capital or liquidity support for this entity, or for an entity of similar status
Moderate Support	0 to 1	Government owns a stake in the entity. A bank of domestic systemic importance, with market share of over 10%, high interconnectedness with the financial system and not in a resolution active market. Insurer, classified as systemically important by its regulator, with a market share of over 15% and very high interconnectedness with the wider financial system. Maybe some legal or regulatory impediments to support. Limited track-record of support to the entity or any entity of similar status.

*can include decimal numbers, i.e. Limited could be 1, 1,25, 1,50 and 1,75

6 Group Classification & Support

6.1 Introduction

68. Defining the nature of a group and the importance of a subsidiary to its group are key parts of the proposed GCR Ratings Framework. The proposed Group Classification & Support assessment explains how GCR proposes to make analytical decisions regarding identifying the analytical approach, classifying group important and support, guarantees and rating subsidiaries with weaker parents.

6.2 Identifying the Initial Analytical Approach

69. While GCR assigns ratings exclusively to legal entities/obligations, the creditworthiness of that entity or obligation is often based on the financial and corporate strengths of its immediate group or parent. This is because there is tangible likelihood of support or risk transfer either up from subsidiaries, across from sister companies under the same holding company/parent or down from that holding company/parent. As a result, GCRs ratings on a legal entity can be based on its own stand-alone strengths and weaknesses, or solely on group/parent factors, or on a mixture of standalone and support characteristics. GCR also note that due to a myriad of legal, regulatory, or geographic elements, several different legal entity ratings could be relevant within one consolidated group at any one time.

70. In order to improve transparency regarding the exact 'entity' to be analysed, GCR proposed the establishment of the 'analytical entity' concept. The 'analytical entity' identifies the exact nature of the corporate structure and financials being analyzed, which becomes the anchor for one or more legal entity rating(s). The 'analytical entity' can be a consolidated group, a subgroup or a stand-alone legal entity. The 'analytical entity' will be accorded a numerical GCR Risk Score and lower-case letter ACE. However, the 'analytical entity' will not be accorded an issuer credit rating. Issuer ratings will be accorded only to legal entities.

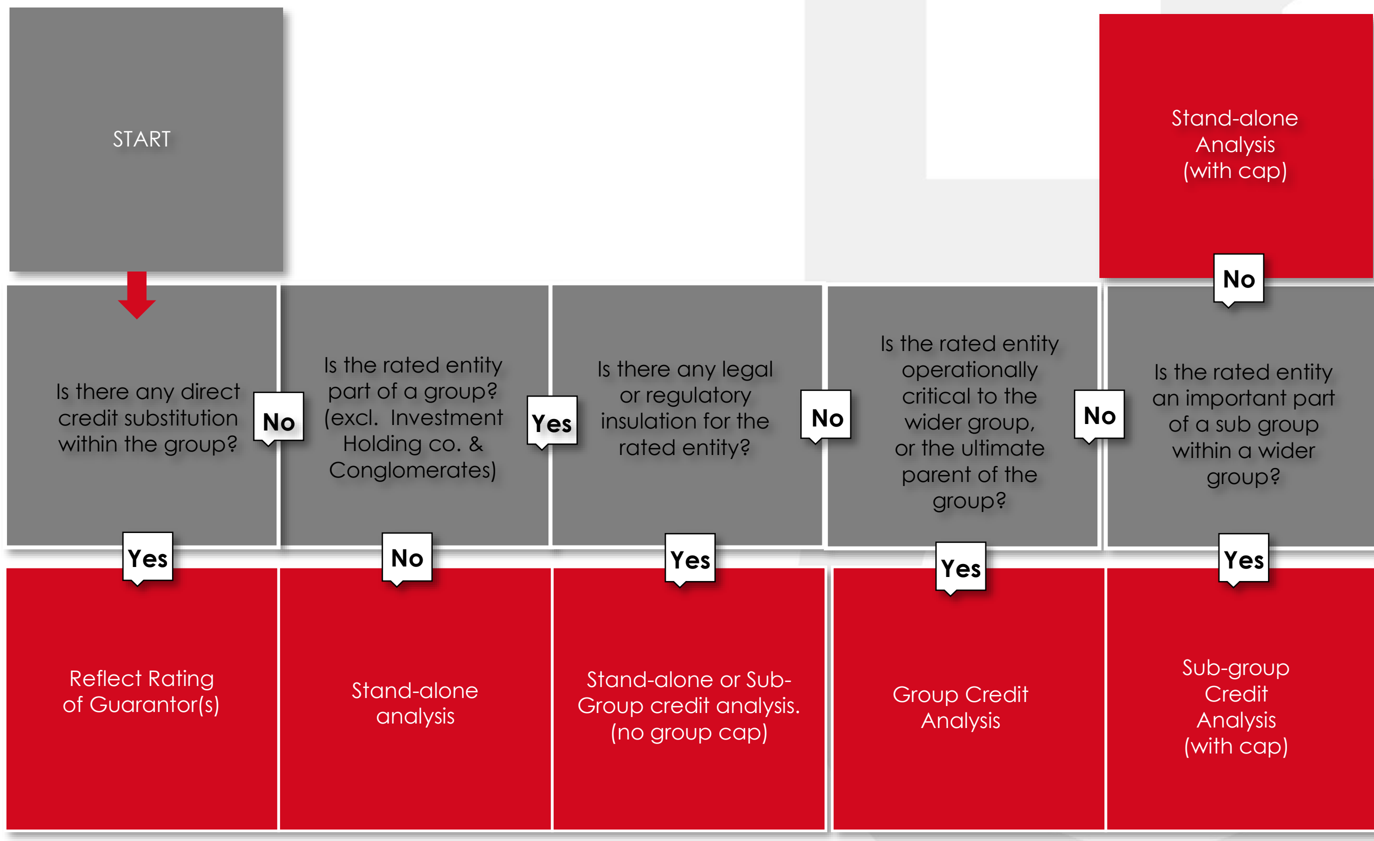
71. The approach to identifying the 'analytical entity' will typically be one of the following:

   a) Standalone Credit analysis: For entities that are insignificant part of a group, are a small part of a group, or are insulated from the rest of the group. The analysis focuses on the entity's solo operations and financial information.
   b) Group Credit analysis: For rated entities that are the significant part of their group (typically accounting for over 50% of the operations assets, revenues, loans or premiums) or conduct a critical role or is the ultimate parent of the group. The analysis focuses on the wider group operations and financials, although insulation may alter this approach.
   c) Sub-group credit analysis: For rated entities that are a significant size within their own sub-group, which operates within a larger group.
   d) Guarantees: an entity whose creditworthiness depends entirely on another. The analysis therefore depends on the guarantors' creditworthiness. See section 6.4 for information on the guarantee.

72. GCR chooses the analytical approach using the decision tree in Figure 3 below.

73. The details of the relevant group structure, relevant financials and operations of the rated entity will be described in every GCR rating report.

Figure 3: Group Support Analytical Decision Tree



The details of the relevant group structure, relevant financials and operations of the rated entity will typically be described in every GCR rating report.

74. Those entities typically excluded from the above decision tree would include:

a) Investment Holding Companies (IHC): Where the rated entity is a holding company that owns equity participations in operating companies, expressly with the goal to generate capital appreciation over the medium to long term by managing and eventually selling the assets and reinvesting returns in new undertakings. The Criteria for Ratings Investment Holding Companies will detail how GCR will rate the IHC. If GCR is to rate an operating entity that operates within an IHC, GCR would conduct a standalone credit analysis on the entity. There would be no cap created by the IHCs creditworthiness, for the operating entities, if the IHC doesn't have majority control.

b) Conglomerates: Where the rated entity is a holding company that has controlling stakes in a diverse range of operating entities, which function across industries, and the ultimate owners have no medium-long term strategic view to sell the assets. In this case, to determine the GCR Risk Score and ACE GCR would analyze and weigh the contribution to assets or revenues of the individual operating entities or subgroups on a risk score basis. If the rated entity is part of a conglomerate, GCR would rate the entity on a standalone basis and provide uplift for support (up to the conglomerates ACE, presuming there is no insulation) using the below criteria.

c) Branches: Applicable for financial institutions only, and folded into the Financial Institutions criteria.

6.3 Classifying Group Importance and Support

75. Group support is included in the GCR Risk Score via the comparative profile section. To do so GCR first needs to ascertain the importance of the entity within its group and secondly the impact on the ratings.

76. GCR defines group support as the expected and ongoing financial or operational enhancement of an entity from related parties. This support can be provided directly from immediate or ultimate parents or due to its positioning within a specific group. GCR's group support criteria encompass both elements of potential support, focusing on the relative size, the history of parental support and rated entity performance, as well as the assimilation of the rated entity with its wider group/parent.

77. Where the financial or operational linkages are very strong, little or no weighting will be applied to the standalone characteristics of the rated entity but rather the financial/business strengths of the entity's immediate group. However, absent these strong levels of support GCR will continue to conduct analysis on the rated legal entity (or the predefined sub-group) and add elements of support should it be necessary (using Table 7 below).

78. To ascertain the possible amount of shareholder support, GCR first conducts a credit view on the parent/group. If the rating on the parent/group is higher than that of the subsidiary, GCR can raise the ratings on the latter (using Table 7).

79. If the parent itself benefits from some support, the uplift from this higher support will only carry through to the rated entity (the subsidiary) if GCR considers it likely that the support will flow through.

80. If a subsidiary is majority owned, it should not be rated higher than the parental group unless, it has been operationally and regulatory insulated from the parents' default (see below).

81. If the subsidiary operates in areas of higher country risk and it is not equalized to the ratings of the wider group, GCR cap the potential ratings uplift on the subsidiary using the country risk hurdle criteria. However, if the country risk is less than 3, GCR will typically cap support at 3 (unless guaranteed), because uncertainty of support rises materially as the country risk increases.

82. If the legal entity is a holding company, GCR will take the group ACE and lower the ratings if GCR see structural or regulatory subordination to group assets/revenues to be a risk. This approach differs per sector and can be found in the 'Rating Adjustment Factors' for each sector criteria.

83. GCR determines the importance of the subsidiary according to the below factors:

84. **Relevance**

- Full ownership or a large majority stake by the primary parent, or by two parents with shared economic/long term strategic interests, and is not an immaterial revenue or asset (typically +/- 10%) contributor to the group or the rated entity represents a part of a publicly communicated strategic priority of the parent (including ESG considerations).

- The subsidiary is material (c35%) to a group's assets, capital, revenues or profit but it is not the core operation of the group. OR the parent is regulatorily/legally obliged to support the subsidiary. OR it is an internally funded insurance/finance captive of the group.

85. **History of Support and/or Performance**

- History of Support: A track-record of tangible economic support is evident, for at least the last three years, either through capital (where injections equal or outweigh dividends), guarantees, funding or liquidity. Including, if applicable, during a period of sovereign stress.

- History of Performance: The supported subsidiary has operated for more than three years and demonstrates adequate credit fundamentals (capital, liquidity, earnings etc.). If the supported entity has failed to perform (either in line with its parents' expectations or the market as a whole) over a three-year period or has been materially stripped of capital/liquidity by the parent GCR can negate the history of support uplift.

86. **Assimilation**

- The subsidiary must conduct some key operations or participate in lines of business key for the group.

- The subsidiary shares the name and branding of its parent, or otherwise has a well-known reputational link to the parent.

- There is strong operational integration of platforms and management.

87. Upliftment scores for support are derived using the following table:

Table 7: Group Support		
Assessment	Notches	Shareholder or Affiliate Support
Equalized	Equalized with the Parent	The subsidiary benefits from parental guarantees (or other credit substitution) on all liabilities (>99%), or there are significant cross default clauses on senior debt of the parent evident. The subsidiary operates a function without which the parent will fail or a core part of the business will fail, which will irreparable damage the group/ parent franchise. *Only companies that achieve the equalized category can have ratings equal to that of the parents, using group support.*
Essential	1 to 3 risk scores below the ACE of the group/ parent.	Both relevance sub-factors, one of the history sub-factors and at least two assimilation sub-factors.
Important	2 to 3 risk score uplift, capped one risk score below the ACE of the group/parent.	One sub-factor from all three of the relevance, history and assimilation factors.
Limited	0 to 1 risk score uplift, capped one risk score below the ACE of the group/ parent.	At least 1 of the sub-factors above.

* can include decimal numbers, i.e. Limited could be 1, 1,25, 1,50 and 1,75

6.4 How GCR views Guarantees

88. In the case of a guarantee, GCR can uplift the ratings on the legal entity or issuer to the level of the guarantor. Typically, guarantees are either general obligations for legal entity liabilities or designed to cover specific issues or programs.

89. For full guarantees that cover 100% of general obligations or the entirety of a bond/program, GCR applies direct credit substitution to the guarantor (therefore the credit analysis is on the guarantor), as long as the guarantee is unconditional, irrevocable and meets local legal opinion on the enforceability of the guarantee.

90. Generally, GCR believes that a guarantee must at least cover the following aspects to allow for credit substitution.

   a) The guarantor (in the guarantee document) must unconditionally (waiving all circumstances and conditions of release) promise to pay all (100%, pre-set offs or other deductions) of the guaranteed obligation or (if applicable) all of the obligations of the guaranteed entity in line with the original obligations. It should not promise to pay on the outstanding debt post recoveries or collateral coverage and should not be an exchange for other obligations or change the initial terms of the obligation.

b) The payment has to be timely, i.e. in line with the original documents or liabilities as they come due, although GCR will allow a grace period of up to five days. To this end, there must be a well-established payment mechanism in place, to avoid delays.
c) The guarantee must be pari-passu with obligations of similar ranking, i.e., if the obligations are senior unsecured then the guarantee must rank at the same level.
d) The holders of the obligations must be beneficiaries of the guarantee. There cannot be a second party that benefits from the guarantee and takes on the obligations.
e) The guarantee must be irrevocable, so guarantors' right to terminate or amend the guarantee should be limited, especially not changing any of the points raised in points a) to d).

6.5 Rating subsidiaries with weaker parents

91. If the rated entity is owned and ultimately controlled by another legal entity, which is considered to be of relatively weaker credit strength (excluding investment holding companies), then GCR should typically cap the ratings on the subsidiary at the parent or sub group level. However, GCR do allow some uplift above the parents rating in the following cases:

a) When the entity is owned by a private equity firm or an investment holding company, where there is no long term or strategic interest in the subsidiary beyond the creation of short term value for the parent. In this case, GCR may aggressively strip dividends to artificially increase the leverage of the entity and perhaps negatively change management and governance, but GCR may not cap the ratings.
b) When a legal entity, within an analytical group, is relatively small but of clearly higher creditworthiness relative to sister companies and GCR believes management/ regulators/ creditors have the intention of operationally and legally insulating the entity from the rest of the group in the case of stress.
c) For non-regulated entities, typically non-financial corporates, GCR may uplift the risk score by up to three above group ACE if GCR believes the legal entity is:
   - Severable from the parent, for example it has no material related party obligations or operational integration, and,
   - has limited joint franchise and management, and
   - has strong and effective minority interests, and
   - is separately listed on an exchange, and
   - has no joint funding or credit linkages (creditor ringfencing could provide further uplift), and
   - there are no management and governance concerns at group or subsidiary level, and/ or
   - there is limited shared distribution.
d) When a subsidiary (or subgroup) is prudentially regulated (i.e., has capital, liquidity, or other prudential requirements) in its own market (sector or country) and GCR expects the regulator to shield the entity from exogenous and intra-group risks. This is called regulatory insulation and where possible discussion with regulators has led us to opine that there is a level of protection. Cases of regulatory insulation should be rare within the same jurisdiction, due to the obvious joint default risk of two entities operating within

the same group but can be more easily applied when the group operates across borders. However, if GCR does see both operational and regulatory insulation, GCR can allow the subsidiary up to three risk scores above the parent. In order to allow for insulation, GCR will also (in addition to the non-financial factors above) take a view on whether:

- The government or regulator has the right to change ownership and management?
- If there is a strong economic basis for the regulator to insulate the subsidiary or affiliate (such as systemic importance)?
- If there is limited group or related party exposure?

6.6 An Example of How GCR applies the Group Classification and Support Criteria

92. *GCR rates a number of legal entities within a consolidated insurance group, whose subsidiaries include a short term insurance company, a life-insurance company, a real estate company and an equities trading business. There is a non-operating holding company ("NOHC") above the group, which owns 100% of all the subsidiaries. The short-term insurer contributes 80% of group assets and premium, the life insurer contributes 15% of group assets and premium with the real estate company and equities trading business contributing a minor amount of assets and revenues. GCR does not think there is regulatory insulation of any subsidiary. However, there is an unconditional and irrevocable guarantee from the NOHC to the equities trading business.*

93. The analytical approach for rating each of the legal entities would typically be the following:

   a) To rate the short-term insurer: Due to the fact that the legal entity contributes the clear majority of assets/premium, GCR would conduct the financial and business analysis on the consolidated group. Therefore, the analytical entity would be the group and the legal entity issuer credit ratings would be 'equalized' with the ACE of the analytical entity.
   b) To rate the NOHC, GCR would notch down from the analytical entity ACE used to create the short term insurance entity rating. The amount of notching would reflect the structural subordination of the NOHC plus any leverage, including the guarantee on the equities trading business.
   c) To rate the life insurer, GCR would analyze the stand-alone accounts and business strengths of the entity and then add uplift up to, but not beyond, one below the group ACE. This would reflect the modest contribution to group premiums/assets and the fact there is no insulation.
   d) To rate the real estate business, GCR would analyze the stand-alone accounts and business strengths of the entity but not include any uplift, as GCR wouldn't consider it to be of 'group importance'.
   e) To rate the equities trading business, GCR would look at the quality of the guarantee and assuming it passes GCR's criteria, equalize its rating with the NOHC (the guarantor). If it doesn't, the approach would be the same as the real estate business above.

7 Management and Governance

7.1 Introduction

94. GCR defines management as the control of a company's operations within the context of its strategies, policies, processes, and procedures set by a governing body. Whereas governance is the creation, measurement and compliance with the same policies, processes and procedures. If management are concerned about achieving results, then the governing bodies should be concerned about how the results are achieved. GCR considers both.

95. In practice, the margins between management and governance is often blurred, particularly for entities with limited size and maturity. Smaller companies with limited staffing and financial resources will often blend responsibilities between those who manage and those who govern. As a result, GCR is not looking for 'international best practice' for all of its rated entities. To some extent, the size of the governance (and risk management) function(s) should be proportionate to the size and complexity of the company. However, the rated entity must be aware of the major threats and weaknesses facing the company and be able to articulate and manage against those risks. This is because fundamentally, management and corporate governance failure is a leading cause of default.

96. The management and governance assessment is judged on a scale of 'adequate' (0) to 'very weak' (-5), purely on a qualitative basis, and it typically will involve a holistic and cumulative view of management and governance shortfalls against the implied ratings from the framework. Due to the fact that GCR expects all companies to have appropriately skilled management and governance structures for the size and complexity of the organization, GCR views the score purely as a negative adjustment on the competitive position score. For most rated entities, the score will remain neutral. Often, management and governance failures are not seen until after the event, when it has already impacted the financial or competitive profile. However, if GCR finds significant single or cumulative concerns, GCR may create a negative score for the issuer.

7.2 Management and Governance Factors

97. Below is a list of factors that could be included in GCR's Management and Governance assessment, although any additional relevant factors may be included as they develop:

98. **Complexity/Opaqueness of operations or structure**: GCR believes that complex or opaque operating groups or structures could raise risks within a rated group. This is because complex operational structures, such as multiple layers of intermediary holding companies (including off shore), or a multitude of joint ventures or associates, could trap capital and liquidity, hide poor performance, or bring unknown risk into the group. GCR also believes it could also inhibit the board's oversight over the subsidiaries/associates/ventures of the company.

99. **Shareholding**: Typically, GCR views opaque ownership or ownership by private equity companies, families or individuals as a potential negative, especially if there isn't strong and independent board and/or regulatory oversight. This is because it may raise the risk of profit taking before sustainability, on one hand, or the risk of intra-group or related party activities on the other. Family or entrepreneur run businesses may choose to make decisions that are best for the family/individual, not for the creditors. GCR may also find risk in the shareholding structure or voting rights, elements such as put or call options or golden shares or unusually strong minority interests or voting blocks' with in the shareholder base could cause some uncertainty around the strategic direction or decision making of the company.

100. **Transparency, disclosure and audit**: GCR believes the consistency, reliability and quality of disclosure by the entity to be an important guide of management and governance quality. Generally, GCR takes comfort from companies who are transparent and willing to open their books to investors and agencies, including GCR itself. Conversely, those which hide or delay information, whether through poor management information systems or a lack of willingness to share information are generally viewed negatively. GCR includes in this the failure to report contingent liabilities, off-balance sheet assets (and the economic impact thereof) related party interests or other factors which may affect the financial profile of a company.

101. GCR believes in the **independence, reputability and scope of the external auditors**. GCR will take strong guidance from the auditors' opinion on the financial statements, internal controls and risk management functions when applicable. Qualified audits may raise pertinent risks, particularly opinions which question the going concern capability of the entity. Furthermore, financial restatements, or restatements made by a new external auditor or the frequent turnover of auditors could show poor management control/systems. GCR also believe that the independence and quality of the internal audit function is important, as is the oversight provided by the board and chair.

102. **Management and Corporate behavior**: GCR believes that the depth and quality of senior management is an important differentiator for rated entities. Whilst this is sometimes difficult to ascertain, ultimately, executive and board skills need to be appropriate for the risks undertaken by the rated entity. GCR believes that an over dependence on, or control by, a single or group of executives is a negative as a strong corporate culture typically benefits from multiple voices. A high percentage of management shareholding, management board control or over aggressive compensation factors that could lead to excessive risk taking is also viewed negatively. Rapid turnover of senior management can also be a sign of a weak corporate culture, amongst others. A high number (frequency or severity) of regulatory actions over legal/taxation/regulatory or compliance breaches raises a red flag, so might a risk appetite that is well beyond the market.

103. **Board Structure and Effectiveness**: Addressing the ability of the board to provide independent oversight of management performance and hold management accountable to shareholders and creditors. GCR believes that a strong base of truly independent Directors is important, as well as the regular and transparent declaration of a director's interests. GCR believes it is important that director's interest to be declared at

least annually, as well as when a potential conflict of interest arise. Active and functioning boards that are well informed and whose responsibilities are clearly articulated provide better oversight on such matters as compensation (especially for the CEO), strategy, ethics, risk, and audit (etc.), in GCR's opinion. Executive control of the board, either by number or by personality, would also be viewed negatively.

104. **Strategic implementation**: GCR will only opine on strategic implementation when GCR believes it actively increases or decreases the creditworthiness of the rated entity. Entering new markets or new products, without the appropriate skills or financial backing could raise risks. Conversely, being slow to move into new markets or losing market share in existing ones could demonstrate weak management. Typically, however, GCR believes management's success against its own strategic goals and how they fit with or challenge the overarching governance structures is a good guide for the quality of management. If management are consistently missing performance targets or failing to convert strategic decisions into concreate actions, GCR may view the management poorly. Conversely, if management achieve a strong track-record of stable financial performance, without losses emanating from high operational risk or an overtly high-risk appetite, GCR may have a more neutral or positive view.

105. **Risk Management**: Even the strongest boards cannot overcome a weak risk culture, poor internal controls or inaccurate risk management/measurement. Strong risk management ensures that there are policies for identifying, measuring, managing and communicating risks on a forward-looking basis. Subsequently, monitoring the implementation of such policies and the quality of reporting underline the success of the risk management framework. Creating a strong risk aware and adherent culture is important, but it is ultimately difficult to measure. Conversely, viewing the comprehensiveness of enterprise-wide risk management standards, including how well known these standards are understood and adhered to in the company, and understanding internal tolerances against the identified risk appetite of the company in question can be a good guide how the company manages and measures its risk. On a more fundamental level, ensuring compliance with all applicable laws and regulations at the international and national level is an important guide to how seriously management and the board view risk. Furthermore, doing excessive amounts of business with politically exposed people or having signs of weak procurement practices may also show a shortfall in governance.

106. **Environmental and Social** issues are increasingly important for directors to consider, having regard for the impact of an entity's operations on both its environment and its community, which has a bearing on the sustainability of financial performance. GCR will assess the sensitivity of an entity's credit profile to environmental and social issues and the degree to which management has considered the potential for, and measures to mitigate against, such risk. Any fines/regulatory actions/adverse media coverage in this regard could be seen negatively.

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.
Agency	An insurance sales office which is directed by an agent, manager, independent agent, or company manager.
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.
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.
Bond	A long term debt instrument issued by either a company, institution or the government to raise funds.
Borrower	The party indebted or the person making repayments for its borrowings.
Budget	Financial plan that serves as an estimate of future cost, revenues or both.
Business Cycle	Regular fluctuations in overall activity in an economy over time. The cycle has four distinct elements: recession, recovery, peak and slowdown.
Call Option	A security that gives the holder or buyer the right but not the obligation to buy an underlying instrument at an agreed price (the strike price) within a specified time. The seller or writer has the obligation to sell the underlying instrument if the holder exercises the option.
Capacity	The largest amount of insurance available from a company. In a broader sense, it can refer to the largest amount of insurance available in the marketplace.
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.
Collateral	Asset provided to a creditor as security for a loan or performance.
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.
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.
Conglomerate	A company made up of subsidiaries that operate in several business sectors that are unrelated to each other.
Contingent Liabilities	Liabilities not recorded in an entity's financial reports, but which might become due.
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.
Corporate Governance	Refers to the mechanisms, processes and relations by which corporations are controlled and directed, and is used to ensure the effectiveness, accountability and transparency of an entity to its stakeholders.
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.
Coverage	The scope of the protection provided under a contract of insurance.
Credit Rating Agency	An entity that provides credit rating services.

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
Creditor	A credit provider that is owed debt obligations by a debtor.
Creditworthiness	An assessment of a debtor's ability to meet debt obligations.
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.
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.
Exchange Rate	The value of one country's currency expressed in terms of another.
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 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.
Forecast	A calculation or estimate of future financial events.
Fundamental Analysis	A method of evaluating a security that entails attempting to measure its intrinsic value by examining related economic, financial and other qualitative and quantitative factors.
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.
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.
Guarantor	A party that gives the guarantee.
Index	An assessment of the property value, with the value being compared to similar properties in the area.
Insolvency	When an entity's liabilities exceed its assets.
Insurance	Provides protection against a possible eventuality.
Interest Rate	The charge or the return on an asset or debt expressed as a percentage of the price or size of the asset or debt. It is usually expressed on an annual basis.

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.
Intermediary	A third party in the sale and administration of insurance products.
International Scale Rating.	An opinion of creditworthiness relative to a global pool of issuers and issues.
Irrevocable	Not able to be changed, reversed, recovered and final.
Issue Ratings	See GCR Rating Scales, Symbols and Definitions.
Issuer Ratings	See GCR Rating Scales, Symbols and Definitions.
Issuer	The party indebted or the person making repayments for its borrowings.
Joint Venture	A project or other business activity in which two persons or companies partner together to conduct the project.
Layer	A horizontal segment of the liability insured, e.g., the second R100,000 of a R500,000 liability is the first layer if the cedent retains R100,000 but a higher layer if it retains a lesser amount.
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.
Legal Opinion	An opinion regarding the validity and enforceable of a transaction's legal documents.
Leverage	With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
Liabilities	All financial claims, debts or potential losses incurred by an individual or an organisation.
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.
Monetary Policy	Measures taken by the central bank to influence the quantity of money or the rate of interest with a view to achieving stable prices, full employment and economic growth.
Moratorium	A period of time in which an activity is suspended until such time as a change in circumstances permits its removal. For example, a borrower can declare a moratorium on the repayments of the principal, and sometimes the interest, on a loan.
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.
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.
Parent Company	The senior company in a group or fleet of insurers.
Pari Passu	Side by side; at the same rate or on an equal footing. Securities issued with a pari passu clause have rights and privileges that are equivalent to those of existing securities of the same class.
Policy	The legal document issued by the company to the policyholder, which outlines the conditions and terms of the insurance.
Political Risk	The risk associated with investing and operating in a country where political changes may have a negative impact on earnings or returns.
Premium	The price of insurance protection for a specified risk for a specified period of time.
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.
Ranking	A priority applied to obligations in order of seniority.
Real Estate	Property that consists of land and / or buildings.
Refinance	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.
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.
Release	An agreement between the creditor and debtor, in terms of which the creditor release the debtor from its obligations.
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.
Reserves	A portion of funds allocated for an eventuality.
Risk Management	Process of identifying and monitoring business risks in a manner that offers a risk/return relationship that is acceptable to an entity's operating philosophy.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
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.
Sovereign Debt	A bond issued by a government or a government-backed agency.
Sovereign Risk	The risk of default by the government of a country on its obligations.
Spread	The interest rate that is paid in addition to the reference rate for debt securities.
Structured Finance	A method of raising funds in the capital markets. A Structured Finance transaction is established to accomplish certain funding objectives whist reducing risk.

Subordination	The prioritising of the payment of interest and principal payments to tranches (senior, junior etc. Senior tranches are paid before junior tranches.
Taxation	A source of government revenue levied on income and accruals.
Total Risk	Both systematic and unsystematic risks.
Turnover	The total value of goods or services sold by a company in a given period. Also known as revenue or sales. Turnover can also refer to the total volume of trades in a market during a given period.
Unconditional	Not subject to any conditions.
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.