GCR RATINGS

CRITERIA FOR THE
GCR RATINGS FRAMEWORK

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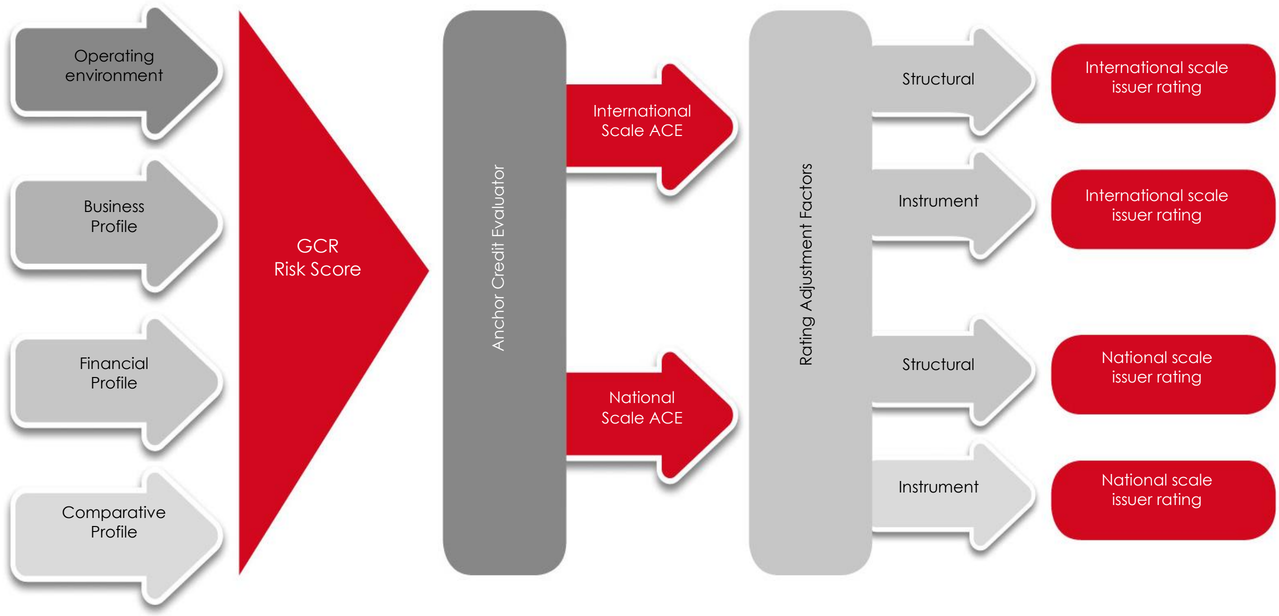
Introduction to the GCR Ratings Framework

1. GCR's Rating Framework is the anchor methodology for all issuer credit ratings. It prescribes 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 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 (a mapping table shown below in Fig 2) into the Anchor Credit Evaluation. Subsequently, this is used to determine the final national, regional or international scale credit ratings.

2. 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



Scope

3. The GCR Ratings Framework is a transparent and comparable credit ratings system. It is applicable for all issuer credit ratings. This article should be read alongside the sector specific criteria pieces, which provide detail regarding the assessments for each asset class.

4. This framework is not directly applicable for Structured Finance ratings, whose criteria and methodology can be accessed here. However, elements of the Country Risk, Group Support (guarantees) and Sustainability criteria may be applicable to aspects of Structured Finance ratings.

5. GCR periodically publish a "Jurisdictional Supplement" at Criteria – GCR Ratings 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.

Summary of the Criteria Changes

6. The major changes to the GCR Ratings Framework revolve around the increased imbedding of environmental and social considerations into issue(r) credit ratings. The thought process of how GCR has tackled these factors can be found in the article titled 'FAQ: *How Does GCR Approach and Include Environmental, Social and Governance Considerations into its Issuer Credit Ratings' (published *).*

7. As a result, the following changes have been made since the Ratings Framework criteria was last updated (January 2022):
   I. There have been changes in the way GCR determines the Country Risk Score, which broadly realigns the Institutional Assessment towards the UN Sustainable Development Goals (resulting in a name change to Development Assessment) and changes the way adjustments are made to the anchor score.
   II. Management & Governance has been renamed to the Sustainability Assessment and broadens the assessment to see how the issuer is managing and controlling Environmental and Social Risks.
   III. The Group and Government Support has factored in elements of transition and physical risks.
   IV. Unrelated to ESG, the Insulation concepts have been broadened as we see greater efforts across the continent to mitigate cross border risks by regulators and to a lesser extent creditors.

The GCR Ratings Framework

8. 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).

GCR Risk Score

9. 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.

10. These four components are:

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

11. 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).

12. 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.

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

14. The criteria have been designed so that an entity's relative standalone/ group strengths and weaknesses move the risk score, positively or negatively, around the midpoint of the operating environment. Essentially this roots the risk score of any entity in its country and sector risk score. As a result, the Operating Environment component (Country Risk and Sector Risk Factors) score typically has the highest impact in the nominal risk scoring. This accomplishes differentiation of risks across geography/ jurisdiction and industry to be reflected in the international scale credit ratings. However, the impact of the country score is negated for using dynamic mapping table (Anchor Credit Evaluator) for national and regional scales.

15. The potential amount of positive or negative scoring for the components differs and can change per asset class 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.

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 several 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: GCR Anchor Credit Evaluator

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 to 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 the impact of country 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. Since 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.

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, organisational, 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 14).

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.

Country Risk Assessments

29. The core of the GCR Ratings Framework is based on GCR's opinion that an entity's operating environment frames its creditworthiness, when comparing on a global basis. 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 asset class specific criteria.

30. The Country Risk assessment interacts with GCR ratings in three ways:

    I. Firstly, and most importantly, the country risk score acts as an anchor to the GCR Risk Score, differentiating creditworthiness on an international scale and determining the national scale mapping table, via the Anchor Credit Evaluator.

    II. Secondly, the country risk assessment acts as part of the 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).

    III. 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.

Establishing a Country Risk Score

31. 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, often aligned to the United National Sustainable Development Goals, and then refined by adjustments to create the starting point to this country risk assessment.

32. GCR aims to publish the country risk score for each jurisdiction where there is a public rating at least on an annual basis.

33. The GCR Country Risk Score equals Economic Strength Score + Development Assessment + Sovereign Adjustments

The Economic Strength Score: (on a zero (0: weakest) to ten (10: strongest) scale)

34. The root of GCR's country risk analysis is based on GDP per capita, as it is a good 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 regard to both investment and potential market.

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

35. Then, GCR can make adjustments to the Economic Strength score, if GCR believes there is an under or overstatement of risk by the GDP per capita score:

    a) **Size & diversification of the Economy** ((worst)-5 to +2 (best)): if the economy is a positive regional or global outlier regarding 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 or if Country's GDP per capita is significantly swayed by commodity or industry concentrations.

    b) **GDP per capita growth and anomalies** (-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 GCR can lower the starting point.

    c) **Geopolitical Risk / Impact** (-10 to 0): Including but not restrained to war, terrorism, plague, pestilence, physical environmental risks, political or social upheaval, contagion risks (for example cross border financial system exposure), significant transition risks and finally the impact the country is having on global climatic change. We will typically moderate the impact of this adjustment (relative to wealthier countries) for any country where GDP per capita is less than USD15,000 per capita, as the low wealth levels already capture the risk.

The Development Assessment: (on a zero (0: weakest) to five (5: strongest) scale)

36. After judging a country's Economic Risk Score, GCR overlays a Development Assessment (0 (weakest) to 5 scale) based on the weighted average publicly available indictors. GCR does this to formulate a view on how social structures, political risks, governance factors might affect the business environment.

37. The Development assessments blend the World Bank Governance Indicators (WBGI: 50%), the United Nations Development Program's (UNDP) Multidimensional Poverty Index (MPI: 30%), the UNDP Gender Inequality Index (GII: 5%), Life expectancy information from the UNDP Human Development Index (HDI: 2,5%), the World Banks Gini-coefficient Ratio (2,5%) and the World Banks Logistic Performance Index (LPI: 10%).

a) The WBGI measures government effectiveness, regulatory quality, rule of law, voice and accountability, politics and stability and control of corruption scores, which 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 international governance.

b) The UNDP Multidimensional Poverty Index (MPI) is a comprehensive measure that provides a multidimensional understanding of poverty. It goes beyond the traditional income-based approach and considers and captures a range of deprivations that people experience in three dimensions: health, education, and living standards. The MPI is conducted largely for emerging and frontier economies, therefore we typically assume stronger scores for developed countries.

c) The UNDP Gender Inequality Index (GII) is a vital tool that measures gender-based inequalities in various aspects of human development. Developed by the United Nations Development Program (UNDP), the GII sheds light on the disparities between men and women in three key dimensions: reproductive health, empowerment, and the labour market.

d) The Human Development Index (HDI), is a comprehensive assessment of human growth and well-being, including life expectancy as a key component. The HDI was designed by the United Nations Development Program (UNDP) to give a comprehensive assessment of a country's progress in terms of health, education, and income.

e) The Gini coefficient is a widely used measure of income inequality within a society. It provides a quantitative assessment of the distribution of income or wealth among the population.

f) The LPI evaluates various dimensions of logistics performance, including the quality of infrastructure, the ease of customs and border procedures, the competence and efficiency of logistics services, the tracking and tracing of shipments, and the overall timeliness of deliveries.

Sovereign Risks

38. GCR can adjust the Development Assessment if the score is overstated versus peers using to the following adjustments:

I. **Sovereign Risks** (-5 to 0): If the government has, in the opinion of GCR, strained public finances (either growth, stock or interest repayments) that could or has spilled over into the private sector.

II. **External Position / Monetary Risks** (-10 to +2): Pressure on the domestic exchange rate, low reserve coverage (gross international reserves in months of imports), high dollarization and limited control over inflation could pressurize the score. Conversely, if the country is the home of a global reserve currency country, GCR can adjust the score positively. 5

Finalising the Country Risk Score

39. When an entity operates in one jurisdiction, they will typically receive that country's risk score as part of its GCR risk score calculation. 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) if GCR considers the diversification to be material.

40. GCR publishes Country Risk Scores on its website on an ad hoc basis.

Country Risk Hurdles

41. Typically, severe economic stresses can be characterized by 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). In GCR's opinion, the best bellwether for the accumulation of such risks is the combination of the Country Risk Score and Financial Institutions Sector Risk Score.

42. 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 above the Country Risk Hurdle. This Country Risk cap is applied using the following:

    a. For entities operating in jurisdictions with Country Risk Scores 6 or above, the cap is Country Risk Score x 2 + the Financial Sector Risk Score of that jurisdiction. Therefore, if an entity operating in a jurisdiction with a Country Risk Score of 7,5 and a Financial Institutions Sector Risk Score of 7, the cap would be 22.

    b. For entities operating in jurisdictions with Country Risk Scores at or below 5, the cap is two risk score above the implied lowest 'aaa'. Therefore, for example, an entity operating in a jurisdiction with a Country Risk of 5.25 (mapping column 5 to 5,5) would cap at 16, and 5,75 (mapping column 5,5 to 6) would be 17.

Table 2: Country Hurdles	
Sectors	To Exceed the Country Risk Cap
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

Government Support

43. Entities that provide an essential public service or infrastructure role (such as water or power supply) typically benefit from ongoing government support. Such companies may benefit ongoing budgetary support, tax concessions, or financial guarantees to ensure the continuation of its wider social/economic mandate, by its government. GCR only recognizes 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.

44. 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 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 the above can be captured in GCR's forward-looking fundamental analysis of any given entity. In GCR's opinion, anything less demonstrates a low willingness or capacity to support by the government on an ongoing basis.

45. GCR also recognises that government support can be provided on an extraordinary basis, especially during times of 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 or insuring risky assets, to limit the impact on the wider financial system and to protect depositors. These anticipated actions may lead to a strengthening of 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.

46. As a result, Government Support 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.

47. The maximum support will be up to 5 risk scores by using Table 3 (below):

Table 3: 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 environmental, social or policy reasons, and is not profit maximizing. A bank of domestic systemic importance, with a market share of over 25%, with 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 Neutral Sustainability Assessment
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 a 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 Neutral Sustainability Assessment
Moderate Support	0 to 1	Government owns a stake in the entity. A bank of domestic systemic importance, with a 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. No material deficiencies in the Sustainability Assessment

*can include decimal numbers, 0.25, 0.50, 0.75. I.e. the Limited Support Score could be 1, 1,25, 1,50 and 1,75

Group Classification & Support

48. The Group Classification & Support assessment explains how GCR identifies the analytical approach, classifying group importance and support, guarantees and rating subsidiaries with weaker parents.

Identifying the Initial Analytical Approach

49. 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 notes 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.

50. To improve transparency regarding the exact 'entity' to be analysed, GCR established the 'analytical entity' concept. The 'analytical entity' identifies the exact nature of the corporate structure and financials being analysed, which becomes the anchor for one or more issuer credit rating. 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.

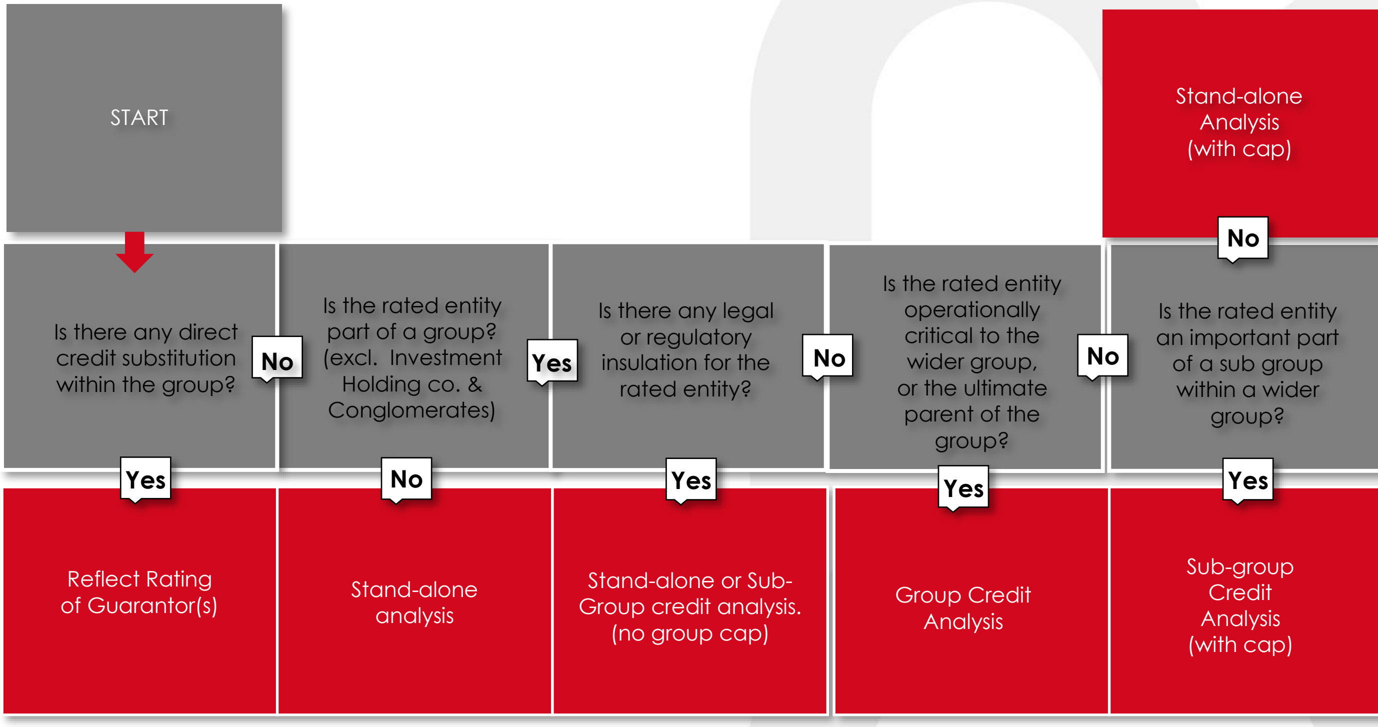
51. The approach to identifying the 'analytical entity' will typically be one of the following:

    a) Standalone Credit analysis: For entities that are an 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 a 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's 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 "How GCR views Guarantees" for information on the guarantee.

52. GCR chooses the analytical approach using the decision tree in Figure 2 below.

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

Figure 2: 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.

54. 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 potentially selling the assets and reinvesting returns in new undertakings. The Criteria for Ratings Investment Holding Companies details 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. Typically, there would be no cap created by the IHCs creditworthiness, for the operating entities, if the IHC doesn't have majority control.

b) Conglomerates: Typically, 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 analyse and weigh the contribution to assets or revenues of the key 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: Typically, applicable for financial institutions only, please see the Financial Institutions criteria.

Classifying Group Importance and Support

55. 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.

56. 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 their positioning within a specific group. GCR's group support criteria focus on the relative importance of the subsidiary in terms of revenue/asset or other strategic importance, the history of parental support and rated entity performance, as well as the assimilation of the rated entity with its wider group/parent.

57. 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 an analysis on the rated legal entity (or the predefined sub-group) and add elements of support should it be necessary (using Table 4 below).

58. 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 4). 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.

59. 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 a potential parents' default/ liquidation (see below).

60. If the subsidiary operates in areas of higher (worse) country risk than the parent and it is not equalized to the ratings of the wider group, GCR caps 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.

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

62. **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, profit, premium, loan 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 environmental and social considerations).
- The subsidiary is material (35%) 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.

63. **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.) or success against a subscribed environmental or social mandate. 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.

64. **Assimilation**

- The subsidiary must conduct some key operations (including efforts in transitioning or mitigating environment or social risks) 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.

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

Table 4: 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 irreparably 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*

How GCR views Guarantees

66. 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.

67. 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), if the guarantee is unconditional, irrevocable and meets local legal opinion on the enforceability of the guarantee.

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

    a) The guarantor (identified 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 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 must 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).

Rating subsidiaries with weaker parents

69. If the rated entity is owned and ultimately controlled by another legal entity, which is of relatively weaker credit strength, then GCR will typically cap the ratings on the subsidiary at the parent or sub-group level. However, GCR may allow some uplift above the parents rating in a few examples detailed below.

70. Firstly, 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 the Sustainability Assessment, but GCR may not cap the ratings.

71. Secondly, when a legal entity, within an analytical group, is of a clearly higher creditworthiness relative to its 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.

72. For non-regulated entities, typically non-financial corporates, GCR may uplift the risk score by up to three notches above its group ACE if GCR believes the legal entity demonstrates most of the following characteristics.

- Contractual or statutory creditor protections/ ring fencing is present and,
- The subsidiary is operationally severable from the parent, including the full separation in back-office, services, distribution, and products, and,
- Has no joint franchise and limited reputational links and,
- The subsidiary has strong and effective minority interests, and
- is separately listed on an exchange, and
- there is no joint funding or group lending, and
- there is no management and governance concerns at group or subsidiary level.

73. Furthermore, 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.

74. 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. If GCR does see both operational and regulatory insulation, GCR can allow the subsidiary up to an additional three risk scores above the parent/ group).

75. To allow for regulatory 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 banking / insurance sector resolution regime in place.
- If the regulator requires strong operational autonomy and risk management.
- If the regulator measures liquidity and capital adequacy on a frequent basis.
- If there is a strong economic basis for the regulator to insulate the subsidiary or affiliate (such as systemic importance).
- If there is monitoring and rules around group or related party exposure.

Sustainability Assessment

76. GCR reflect sustainability risks into two ways. The first risk is more tangible and, because companies will be exposed to such risks or opportunities in different ways depending on the sector they operate in, they are included in asset class specific criteria- typically through the Sector Risk, Competitive Positioning and Financial profile of a company. Such risks can be broadly summarised to include exposure to physical risks (risks resulting from climatic events or social upheaval) or transition risks/ opportunities (policy, regulatory, and technological or social changes that impact the stability of the business's lines/ revenues). Furthermore, it would include mandate/ reputational advantages or realised reputation or regulatory risks.

77. The second risk is typically less tangible but no less material. This risk refers to the impact of a company on stakeholders and the broader operating environment, alongside the adequacy of internal controls/ policies and risk management, behaviour/ reputational risks, as well as potentially unrealised legal or operating risks. It also reflects the awareness and adequacy of monitoring, transparency, and reporting of Environmental, Social, Governance and Financial risks. This risk is included in the Sustainability Assessment and is judged on a scale of 'adequate' (0) to 'very weak' (-5), purely on a qualitative basis.

78. It is important to note that to some extent, the Sustainability Assessment is judged proportionate to the size, complexity and focus of the company. However, the rated entity must be aware of the major threats and weaknesses of the company and be able to articulate and manage those risks.

79. Since GCR expects all companies to be aware of and manage its own Sustainability Risks, GCR views the score purely as a negative adjustment within the Business Profile component, essentially as a moderating factor to the competitive position score. For most rated entities, the score will remain neutral (best).

Sustainability Assessment Factors

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

81. **Complexity/Opaqueness of operations or structure**: GCR recognizes that operating groups or structures that are overly complex or opaque may pose risks to a rated entity. This is because such structures, including those with multiple layers of intermediary holding companies or numerous joint ventures / associates (especially those offshore with different auditors), have the potential to trap capital and liquidity, obscure poor performance, or introduce unknown risks into the wider group. Moreover, these structures may also impede the board's ability to oversee the company's subsidiaries, associates, or ventures.

82. **Shareholding and related parties**: GCR typically view ownership structures that are opaque or held by private equity firms, families, or individuals as a potential warning sign, particularly if there is a lack of a strong

and independent board or regulatory oversight. This is because such structures could lead to a focus on short-term profits over long-term sustainability or raise the risk of related party transactions.

Family or entrepreneur-led businesses may prioritize decisions that benefit their own interests rather than those of creditors or the wider social and environmental considerations. GCR may also consider the risks associated with the shareholding structure or voting rights, such as put or call options, golden shares, or unusually strong minority interests or voting blocks, which could cause uncertainty around the company's strategic direction or decision-making. Additionally, GCR may factor in the risks posed by the direct group or related companies that have weak creditworthiness, a poor reputation, or legal liabilities for social or environmental issues.

83. **Board Structure & Effectiveness:** To ensure effective oversight of management performance and accountability to stakeholders, the board must be capable of providing independent oversight, particularly with regards to financial and environmental/social risks. GCR considers the expertise and independence of directors as key to achieving this, with regular disclosure of their interests and potential conflicts of interest. Functioning boards with clearly articulated responsibilities and a comprehensive understanding of matters such as compensation (especially for the CEO), strategy, environmental and social considerations, risk, and auditing provide a solid foundation for effective oversight. Any form of executive control over the board, whether by number or personality, could also be viewed negatively. GCR also considers factors such as board and staff diversity, sustainability, and risk management in the decision-making process, with elements such as race, age, disability, gender equality, and LGBTQ also considered in relevant markets/jurisdictions of operation.

84. **Transparency, disclosure, and audit**: GCR believes the consistency, reliability, and quality of financial and ESG disclosures by the entity to be an important guide of sustainability. Generally, GCR takes comfort from companies who are transparent and willing to provide information to investors and agencies. Conversely, those which don't monitor or report, hide or delay information, whether through poor management information systems or a lack of willingness to share information are generally viewed negatively. From a financial perspective, 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. Regarding ESG, we will view the sufficiency of disclosure, reporting and monitoring against the business lines, risks, and complexity and operations of the businesses. The failure to monitor or report ESG risks would be viewed negatively. Adherence to the standard Global Reporting Initiative and Climate Related Financial Disclosures are viewed as current best practice in our markets.

85. GCR believes in the **independence, reputability, and scope of the external auditors and ESG reporting partners**. 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 believes that the independence and quality of the internal audit function is important, as is the oversight provided by the board and chair.

ESG risks, controls and policies are not reported with consistent rigor in our key markets. However, weak internal reporting, monitoring, and audit around ESG risks would be viewed negatively. We will focus on the concept of double materiality, i.e. the ESG risks that could impact the financial profile of the company and the impact of the entity on the social and physical environment.

86. **Management and Corporate behaviour**: GCR places great emphasis on the quality of senior management when assessing rated entities. We believe that the expertise and experience of executives and the board are key factors in ensuring that the entity can effectively manage the risks it faces, including those related to environmental and social issues. In addition to technical skills, GCR examines how management engages with stakeholders and treats its employees, as well as staff turnover rates. We also analyse the entity's approach to product safety and testing, and its relationships within the community (including market intermediaries). We seek evidence of ESG risk-related objectives and limits, as well as engagement with counterparties and clients. We assess the need and demand for sustainable products and services in the market and the entity's ability to meet those needs. Legal, reputational, and operational risks are also closely scrutinized in our analysis. We evaluate how the company measures and monitors potential risks and examine its risk management practices to ensure they are effective in identifying and mitigating risks.

87. **Strategic implementation**: GCR will only opine on strategic implementation when it believes it actively increases or decreases the creditworthiness of the rated entity. Entering new markets or new products without the appropriate skills, awareness of its environmental or social impact, or financial backing could raise risks. Conversely, being slow to move into new markets or failing to deal with transition risks could demonstrate weak management. Typically, however, GCR believes that 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 consistently misses performance or environmental / social targets or fails to convert strategic decisions into concrete actions, GCR may view management poorly. Conversely, if management achieves a strong track record of stable financial performance and management of environmental and social risks, GCR may have a more neutral or positive view.

88. **Risk Management**: Examining a weak risk culture, poor internal controls, or inaccurate risk management/measurement is important. Strong risk management ensures that there are policies for identifying, measuring, managing, and communicating financial and ESG risks on a forward-looking basis. Subsequently, monitoring the implementation of such policies and the quality of reporting underlines the success of the risk/ESG management framework. Creating a strong risk and ESG aware and adherent culture is important, but it is ultimately difficult to measure.

Conversely, viewing the comprehensiveness of enterprise-wide risk and environmental/social management standards, including how well 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 to how the company manages and measures its risk. The entity should comply with the local and international applicable laws and regulations. Any fines/regulatory actions/adverse media coverage in this regard is also likely to be seen negatively. Evidence of fraud, economic crimes, money laundering, tax evasion would be seen negatively.

89. **Cybersecurity**: We examine how comprehensive the awareness and management of Cybersecurity for our rated entities are. This includes how robust the security measures are, including firewalls, encryption and intrusion detection systems and how regular the vulnerability assessments/ security audit and penetrating testing is undertaken. Part of the process will also be board and management knowledge and reporting, as well as how an entity ensures employee training and awareness. Adhering to relevant cybersecurity regulations and industry standards are also important consideration.

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 regards 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 regard 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.