

ANNUAL REPORT
OF
GLOBAL CREDIT RATING CO. (PTY) LTD FOR THE FINANCIAL
YEAR ENDED 31 DECEMBER 2016

(Published in accordance with Section of 15 of the Credit Rating Services Act 24 of 2012)

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SECTION A: EXECUTIVE SUMMARY

Executive Summary

This annual reports is published by Global Credit Rating Co. (Pty) Ltd (“GCR”) pursuant to Section 15 of the Credit Rating Services Act, 2012 (the Act) and item 2(1) (h) of the Board Notice 168 of 2013.

GCR was established in 1995, and has gradually evolved into a well-recognised and highly respected credit rating agency in the South African market. Our portfolio of rated clients continued to grow in 2016, aligned to GCR’s objective of contributing to the development of the South African capital markets, delivering high quality credit ratings and providing unsurpassed service levels.

The 2016 year closed off with the Carlyle Group acquiring a significant stake in the GCR group. We are very excited at this development, which we expect will be a massive boost to GCR’s international credentials as well as provide access to vast financial and technical resources, noting that Carlyle is also a controlling shareholder in DBRS, one of only 4 rating agencies worldwide whose ratings are accepted by the European Central Bank.

GCR’s Chief Executive Officer is based full time in South Africa, and by virtue of delegated authority from the Board of Directors has decision making powers, and all business sectors report to his office on a straight line basis. The Chief Executive Officer is supported by four analytical Ratings Sector Heads, a Business Development Officer, a Finance Manager, an IT Manager, and an Administrative Manager. The analytical structure is established on a sectoral approach, overseen by a Sector Head and underlying analytical staff that comprise of the following broad sectors:

- Structured finance and securitisation;
- Corporates and public sector debt;
- Insurance;
- Financial institutions.

GCR has in excess of 30 staff based full time in South Africa. Our employees are the fundamental foundation of our business, and we are extremely proud of the collective effort of an exceptionally hard working and dedicated team. Their contributions towards building on GCR’s existing strong relationships with all stakeholders is invaluable.

Corporate governance and risk management remain at the forefront of GCR’s thought processes and business conduct, and for which GCR’s Board of Directors and management team are committed to maintaining high standards, thereby upholding the principles of best practice. GCR is also proud of the initiatives instituted in 2016 towards gradually increasing its focus on corporate social responsibility.

GCR’s well established and independent compliance function remains a critical component of the company’s operations, and for which our Compliance Officer ensures adherence to legal and regulatory requirements, as well as international standards of best practice.

The review of GCR’s operational and business strategies is conducted and finalised annually. GCR has achieved its business objectives set for 2016, specifically relating to the following:

- Strategic objectives - Improve investor protection and reduce systemic risk; provide reliable and objective credit rating services and issue quality reports; effectively manage regulatory, IT and compliance risk.
- Economic performance objectives are implemented to achieve set goals for all stakeholders.
- Operational performance objectives are adopted in order to improve business resilience and to continue to provide on-going training and development to our employees, focus on the on-

going development of organizational efficiencies, and ensure stringent IT related corporate governance.

The business processes of GCR are embedded in its business strategies that are compatible with the IOSCO Code of Conduct Fundamentals for credit ratings and the objects of section 2 of the Act.

Corporate Governance

GCR has a two tier governance structure consisting of five members of the governing body and the executive management team. The governing body serves and stands at vanguard for governance and exhibit collectively and individually characteristics of integrity, competence, responsibility, accountability, fairness and ethics. There are sub-committees of the governing body with stand-alone charters.

The Governing body and the management team of GCR embrace the precepts of King IV and its accompanying code on corporate governance and puts emphasis on the role of ethical and effective leadership culture, sustainable performance and legitimacy by providing direction through strategy by established and approved policies, demonstrating accountability, and transparency thorough disclosures.

The governing body is responsible for the implementation of ethics of governance, and the governance of ethics and opportunities, so that GCR remains a responsible corporate citizen in its milieu of operations by incorporating the 6 capitals approach in its value creation processes and stakeholder reporting.

The governing body approves the codes of ethics and professional conduct and makes disclosures on how ethics and ethical outcomes are addressed.

The compliance function

The compliance officer is independent from the rating analytical units and performs legislated duties under Section 16 of the Credit Rating Services Act. She is also tasked with ensuring that there are effective risk management strategies to control the risk of non-compliance with governance, legal and ethical precepts and the resultant business and reputation risks.

SECTION B: INFORMATION AS PER SECTION 13 AND 15 OF THE ACT

1. Detailed Information on Legal Structure and Ownership

Name of Shareholder	% shareholding	Country
Global Credit Rating Company Limited (Mauritius)	64.0	Mauritius
Moses Modidima Ngoasheng	14.1	South Africa
GCRSA Management	11.5	South Africa
GCR Manco Limited	10.4	South Africa

2. Description of Internal Control Mechanisms (as per item 2(1) (a) and 2(1) (k) of Notice Board 168 of 2013)

2.1. The governance of risk and opportunities

The management structure of GCR is designed to ensure that there is appropriate allocation of resources and responsibilities. A delegation of authority is in place to achieve effective

internal control. The governing body and management risk committees are in place to approve and ensure that the risk control strategies are resilient and designed to control the following risks:

- Industry associated.
- Personal and ethical risks.
- Conflicts of interest and non- disclosures.
- Operational and reputational.
- Information and communication technology and business continuity management.
- Legal and regulatory.
- Information management system and misuse of non- public information.

2.2 Policies and procedures

GCR's policies and procedures are in line with IOSCO 2014 provisions and designed to engender consistent compliance with legal and governance precepts.

2.3 Management of conflicts of interests

- The charter of the governing body of GCR puts emphasis of the independence of the members, the sub committees, and the arms -length relationship between the compliance office and the governing body. GCR has in place codes of professional conduct and ethics.
- The governing body of GCR sets the ethical tone.
- The management of conflicts of interest is robust and widened to cover both tangible and intangible conflicts.
- The governing body has a duty to disclose fiduciary positions that they hold at other organizations on an ad-hoc basis.
- The composition of the governing body is made of one executive member, two independent non -executive and two non-executive members.
- The charter of the governing body is reviewed on an annual basis.
- The governing body review committee is a stand- alone committee made up of independent members and reports to the governing body. They are charged with the responsibility of providing oversight on the review of credit rating methodologies and models undertaken by the management review committee.
- There is a delineation of functional areas between the governing body and business operations.
- Business development is an independent unit from the credit rating analytical units. The remuneration of credit rating analysts is arranged in a way that discourages conflicted interests.
- There is a rotation of credit rating analysts and external assurance on a five year basis.
- The governing body ensures that there is transparent internal and external reporting that is stakeholder inclusive.
- Anti-corruption structures are in place and enforced to foster a misconduct resistant environment.
- The independence of the credit rating committees is key to the integrity of credit ratings that are issued.

- GCR employees have a duty to declare financial, fiduciary interests and relations in other organizations as per GCR policies and other governance structures.
- The complaint management system is independent from the analytical function and is escalation procedurally based.

3. Outcome of the Annual Internal Review undertaken by GCR's Compliance Unit

The efficacy of the risk control strategies is tested on a risk based approach.

- Credit ratings issued by GCR were of quality and without external fetter.
- There is periodic review of methodologies, models and rating assumptions.
- Back-testing and validation of methodologies is undertaken annually based on historical trends
- Conflicts of interest were adequately disclosed and managed.
- The risk management strategies remain resilient and there were no misstatements of identified risks.
- There is a culture of compliance.

4. Description of Record Keeping Policy

- The document retention and age analysis frameworks and procedures are in line with the Companies Act and applicable archiving legislation.
- There is an effective information management system and a comprehensive and incremental back up system that is undertaken on a regular basis and which includes files that not replaceable, or have a high replacement value or considered critical on the exchange.
- The record keeping is in line with the Information and Communication Technology Act to ensure that the business continuity strategies and the integrity of stored data are not compromised.

5. Revenue Sources

Revenue Source	Rand
Credit Rating Services	35,425,869-00
Non-Credit Rating Services	--
Ancillary Services	--
Other Permissible Services	--
Total Revenue	35,425,869-00

SECTION C: INFORMATION AS PER BOARD NOTICE 168 OF 2013

1. Details of Methodologies, Models and Key Assumptions Reviewed

All of GCR's methodologies and models are formally reviewed at least annually, applying a similar review process to that of our credit ratings, with additional oversight and scrutiny conducted by an independent management and Board review committee. These reviews take into account the outcome from GCR's Rating Transition and Default Studies produced each year, amongst other factors. The 2016 edition was published on our website in February 2017

with no notable rating movements reflected. As such, no material modification of systems or changes to any of our methodologies or models was deemed necessary, with no credit ratings impacted as a result. Typically, we would not expect major changes in our methodologies and models from year to year.

Although we remain committed to continually enhancing our systems, resources and procedures in order to continue to adequately meet our objectives, no material modifications were required over the past year and no credit ratings were impacted following these enhancements.

2. Details of Analyst Rotation

GCR is acutely aware of the risk associated with failure to rotate analysts that may give rise to conflict of interests or a potential thereof caused by analysts becoming familiar with the rated entity or losing their objectivity because of familiarity with the client. GCR continues to adhere to the regulatory requirements requiring rotation of its analytical unit, as well as the Sector Heads overseeing ratings, within the prescribed periods.

3. Details of Staff Allocated to Ratings

Rating units	Number of Analysts for the year to 31-Dec-2016
Corporate and Public Sector Debt	4
Insurance	9
Financial Institutions	5
Structured Finance & Securitisation	6
Total	24

Minimum qualifications and general competency requirements:

- **Sector Head**

Relevant degree in finance or equivalent and 7 years relevant experience OR a minimum of 10 years relevant experience related to credit risk. He/she must demonstrate advanced skills in financial analysis, strong expertise and analytical knowledge of the sector. The candidate must be able to take a lead role in criteria and methodology development. He/she must have strong knowledge of the sector as a whole, with superior analytical skills.

The candidate must be able to lead and direct staff, and develop strategies for achieving team objectives and goals. This includes the ability to assess team and individual workloads. He/she must be a pro-active, self-motivated professional, who works well in a team environment as well as alone. He or she must demonstrate strong writing and communication skills, experience with spreadsheet/model creation and analysis. Strong interpersonal and client relationship management skills are also required. The candidate must be able to work in a stressful environment, be goal/deadline orientated, and demonstrate skills relating to time management, attention to detail, accuracy, follow-through and efficient work processes/procedures.

- **Senior Analyst**

The typical minimum requirement for all senior analyst positions is a degree in Finance, or equivalent/similar. The candidate should have at least 5 years' experience in research and financial analysis preferably related to the rating sector in which he/she focuses. He/she must have a full understanding of the principal areas of rating methodologies and is able to identify key analytical factors, issues and concerns. Candidate must demonstrate the ability to evaluate relevant analytical problems in a timely, orderly and insightful manner and form opinions thereon. He/she must take full responsibility for their rating portfolio, with very little supervision. He/she must have a sound knowledge of the sector in which he/she works and be able to guide and mentor junior staff.

- **Analyst**

The typical minimum requirement for all analyst positions is a degree in Finance, or equivalent/similar. The candidate should have at least 2-3 years' experience in research and financial analysis, with an emphasis on credit risk. He/she must demonstrate an ability to think analytically by critically reviewing and questioning information and considering the impact/implications as appropriate. The candidate must be able to read, comprehend and interpret relevant quantitative data, and be able to identify key analytical factors, issues and concerns. He/she must possess independent thought and contribute to new ideas. He/she must have adequate knowledge of the industry sector in which he/she works. He/she must take responsibility for their rating portfolio, under the supervision of the Sector Head.

- **Junior Analyst**

All junior analysts must have the requisite finance degree or equivalent qualification and remain on probation for a minimum period of 6 months. There is a probationary review session that is conducted at the end of the first three months to determine whether or not the junior analyst meets the performance expectations of this position. Corrective measures are put in place and performance is re-evaluated at the end of the probation period.

4. Information on Credit Ratings by Category

Rating units	Total Public Issuer Ratings as of 31-Dec-2016	Withdrawn Issuer Ratings in 2016
Corporate and Public Sector Debt	39	1
Insurance	32	5
Financial Institutions & Fund Rating	24	1
Structured Finance & Securitisation*	26	0
Total	121	7

*Based on the underlying Structured Finance Entity, and used as a proxy for the total public issuer ratings in the structured finance & securitisation sector.

National Scale Credit Rating						
	Affirmation	Downgrade	New	Upgrade	Total	Withdrawal
Credit Rating actions at Issuer level	66	4	15	10	95	6
Credit Rating actions at Issue level	47	0	66	15	128	0
Grand Total:	113	4	81	25	223	6

International Scale Credit Rating						
	Affirmation	Downgrade	New	Upgrade	Total	Withdrawal
Credit Rating actions at Issuer level	12	1	4	0	17	1
Credit Rating actions at Issue level	--	--	--	--	--	--
Grand Total:	12	1	4	0	17	1

Please see the Global Credit Ratings Webpage entitled "Rating Scales & Definitions" for a description of the types of Credit Ratings provided by Global Credit Ratings. This webpage can be found at <https://globalratings.net/ratings-info/rating-scales-definitions>

5. List of Ancillary Services

GCR does not perform any ancillary services.

6. List of Members of the Board of Directors

Full Name and Surname	Qualifications and Experience	Committee Membership	Date Appointed to Board
Richard Wilson	- Bachelor of Arts: Economics - Master of International Management: International Finance	Independent Non-Executive Director; Chairman of the Board	01.03.2013
Michael Fischer	- Master Degree of Business Administration and Engineering	Non-Executive Director	01.01 2008
Moss Ngoasheng	- Bachelor of Arts in Economics - Masters of Philosophy in Developmental Studies	Non-Executive Director	06.06 2002
Sanjay Bhikha	- Chartered Accountant: South African Institute of Chartered Accountants - Bachelor of Accounting Science (Honours) - Bachelor of Commerce	Independent Non-Executive Director	01.07.2014
Marc Joffe	- Bachelor of Commerce (Honours)	Chief Executive Officer	18.12.2013 (appointed employee at GCR effective 01.03.2001)

7. Details of Policies and Initiatives in Adopting the King Code

- GCR embraces King IV and its accompanying code and conducted training sessions as part of its awareness strategy.
- All risk management strategies are aligned to include ethical and opportunities assessments.
- The charter of the governing body and its committees echo the principles of King IV.

8. Status Report on Investor Education Initiatives

During 2016, as in previous years, GCR sponsored the two leading structured finance and bond market conferences in Africa, namely the Bonds and Loans Conference and IMN Capital Markets Conference, both held in Cape Town. We participated in panel discussions at both conferences. An investor road show was also conducted in June 2016, focussed predominantly on structured finance and securitisation, recent transactions rated by GCR, and GCR's methodologies. The roadshow was attended by GCR's Head of Business Development, the Head of Structured Finance and Senior Structured Finance Analysts. All of the major asset managers were visited, both in Cape Town and Johannesburg. Investors are also well represented at the two conferences mentioned earlier, allowing for further interaction and discussions, meaning that we actively engage at least 3 times per year, whilst other meetings and discussions are held throughout the year as required. All of GCR's staff are readily available to meet or discuss our ratings, criteria or provide clarity where needed. Additional road shows will be conducted if warranted. GCR's Head of FI Ratings also presented at the Africa Financial Services Investment Conference (AFSIC) in May 2017, and also presented at the Nedbank Group Investments Treasury Conference in June 2016. Other conferences attended included the IIASA Southern Africa Insurance conference.

GCR also maintains an information rich and transparent website, where investors, clients and other market participants are able to download our methodologies, view all of GCR's publicly accorded ratings, as well as review details on the rating process and other information to assist in a better understanding of how our ratings are derived. Aside from maintaining contact with investors and capital market participants throughout the year, we also encourage all stakeholders to provide feedback for an open exchange of information.

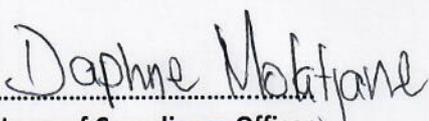
In addition, GCR continues to have an active presence at various other conferences and workshops, while also often participating as a guest speaker. GCR is also active in the public domain by way of regular thought leadership pieces, news articles and television appearances, and as a professional commentator on company and industry developments.

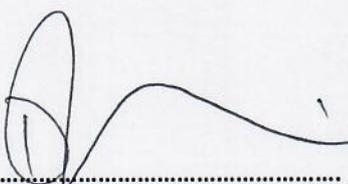
9. Historical Default Rates of the Past 10 Years Per Category

Please click on the following link: [South African Transition and Default Study 2016](#)

10. Adherence to the Prescribed Code of Conduct

- GCR's Code of Professional Conduct is aligned to the IOSCO 2014 Code to the extent that the Code is compatible with the Credit Rating Services Act and other applicable legislation pieces.


Name of Compliance Officer


Signature of Compliance Officer