

ANNUAL REPORT
OF
GLOBAL CREDIT RATING CO. (PTY) LTD FOR THE FINANCIAL
YEAR ENDED 31 DECEMBER 2014

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

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SECTION A: EXECUTIVE SUMMARY

Overview by Global Credit Rating Co. (Pty) Ltd's Chief Executive Officer

Introduction

The financial year ended 31 December 2014 marks the 19th year since the inception of Global Credit Rating Co. (Pty) Ltd ("GCR"). The company has gradually evolved from a relatively unknown start-up rating agency in 1995 into its current guise of a highly recognised and well respected key market participant, in what is now a highly competitive operating landscape. Aligned to the development of the ratings industry in the South African market, the regulatory landscape has similarly advanced, with stringent regulatory oversight evolving in recent years, culminating in the Credit Ratings Services Act 24 of 2012 ("the Act"). The Act is aligned to the International Organisation of Securities Commission (IOSCO) Principals, as agreed to by all G20 member countries following the global financial crisis. The Act required a significant enhancement to reporting and compliance requirements, an overhaul of internal policies and procedures, segregating the analytical and commercial aspects of the business, and substantially bolstering internal staffing capacity (including the creation of new departments and functions). Moreover, new members with the requisite background, experience, integrity and independence were procured to augment the Board of Directors ("the Board").

GCR was the first rating agency to be accorded a license under the Act by the Financial Services Board, in December 2013. The combined and ongoing efforts of the Board and all GCR employees in meeting these continuously evolving objectives demonstrates their utmost dedication to the company.

Executive Summary

This summary is prepared in furtherance of Section 15 of the Credit Rating Services Act of 2015 (the Act) and item 2(1) (h) of the Board Notice 168 of 2013.

The Chief Executive Officer ("CEO") of GCR is also the Managing Director of the company responsible for the day to day operations of GCR, and is supported by four analytical Ratings Sector Heads, an IT Manager, a Marketing Officer, a Finance Manager, and an Administrative Manager. The Chief Executive Officer, 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 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.

The independent Compliance division is headed by Daphne Molatjane. Her appointment and the support she provides to GCR is as per the dictates of section 16 of the Act. Daphne reports to the Board of Directors of GCR and is not involved in the day to day activities of the company.

The review on GCR's operational and business strategies is conducted and finalised annually during the month of January each year. GCR has achieved its business objectives set for 2014, 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

The Board of GCR is committed to ensuring adherence to the high standards of corporate governance in the conduct of its business, which is essential to enhancing the organisations sustainability, reputation, investor confidence, and employee retention. GCR's Board of Directors strives in all its activities to adhere to the principles of best practice regarding corporate governance as set out in the King III Report on Corporate Governance. The governance structures of GCR is in the spirit of and compatible with what the King Code purports. Our goal is to continue in the same spirit by remaining a responsible corporate citizen in the way we conduct our business and raise the bar as our thought processes evolve.

Corporate Governance policies and procedure required to be adopted by GCR are now aligned to some of the largest listed entities, and the Board continue to assess adherence and make recommendations for improvement. Similarly, companywide Risk Management has rapidly evolved in recent years, given the criticality of this extensive function to the sustainability of the company, and flexibility required to meet the changing needs of the company's operations

GCR supports the Code of Conduct Fundamentals as embodied in the IOSCO Principals. Our Professional Code of Conduct sets out the company's commitment and approach to conducting business ethically, transparently, with the highest levels of integrity, and in the best interests of all stakeholders. As applicable pieces of legislation, IOSCO standards and governance principles continue to advance, GCR's Professional Code of Conduct is regularly updated and communicated to all employees and other stakeholders.

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	52.5	British Virgin Islands
Moses Modidima Ngoasheng	22.5	South Africa
GCR South Africa Employment Trust	25.0	South Africa

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

- (i) In pursuit of item 2(1) (a) with regards to the details of the review of its quality control system, GCR informs that:
- GCR's Board of Directors comprises five directors, of which four are non-executive and one is an executive.
 - Of the four non-executive directors, two are independent (includes the Chairperson).
 - GCR's non-executive directors either hold, or have held directorships in other listed or unlisted companies registered in South Africa, and have had considerable professional experience at a senior level.
 - The Board meets four times a year, with additional meetings being convened to discuss specific issues that arise between scheduled meetings.
 - Board meetings are convened by formal notice to the directors, and are accompanied by comprehensive meeting packs in a timely manner in advance of scheduled meetings.
 - The Board has established three sub-committees, encompassing a Risk Committee (comprising three non-executive directors, of which two are independent), a Remuneration Committee (comprising two non-executive directors) and an Audit Committee (comprising 2 non-executive directors, of which one is independent), each of which meet a minimum of twice a year and provide feedback to the Board of Directors.
 - Specific Terms of Reference have been adopted for the Board of Directors and each sub-committee, setting out the composition, scope of authority, responsibilities, powers and functioning of the Board and each sub-committee, and are reviewed annually.
 - In adhering to the highest international rating standards, GCR's directors and Chief Executive Officer are entirely independent of the ratings process, thus ensuring the integrity and objectivity of this crucial aspect of our business.
 - The Board also ensures that GCR is sufficiently staffed with appropriately skilled and adequately incentivised personnel, and that such employee's meet the company's stringent performance expectations.
 - All members of the Board of Directors complete annual fit & proper and declaration of interest documentation, in addition to probity and fitness forms.
 - Declarations of interest remains a standing item on each Board meeting agenda, in order for directors to update GCR's Compliance Officer regarding possible amendments to their standing, should such change not have been communicated between Board meetings.
 - GCR's structure ensures a clear delineation between GCR's non-executive Board of Directors and GCR's operational unit.

- In addition, all commercial considerations regarding GCR's business are wholly independent and ring-fenced from the analytical ratings unit.
- (ii) In pursuit of item 2(1) (k) of Board Notice 168 of 2013 with regards to information on enhancements and changes to the credit rating agency's risk mitigation, operational integrity and related issues, GCR has in place:
- A documented risk management plans that cover regulatory and operational risks.
 - A Management Risk Committee, which is independent of the business divisions that provide credit rating services, and that is responsible for continuously identifying, quantifying, and managing company specific or related risks; assessing the adequacy and appropriateness of internal controls; and regularly reviewing the effectiveness of the risk management environment and quality assurance processes.
 - The Management Risk Committee meets quarterly, and ad-hoc when required, and reports directly to GCR's Board Risk Committee.
 - An effective and adequate business continuity plan, which includes an appropriate disaster recovery plan, has been established and is continuously monitored and updated. This document is available to all employees and stipulates procedures to follow in the unlikely event of emergencies or business disruptions.
 - Furthermore, an independent report scrutinizing GCR's internal risk management policies and procedures is procured through the company's auditors each year, with the most recent report concluding that GCR has proper systems and procedures in place to reduce business and operational risks to an acceptable level.
 - A separate Senior Management Committee ("EXCO") responsible for implementing the Board approved strategies and overseeing the affairs of the company meets each alternate month, and is chaired by the Chief Executive Officer.
 - Feedback on the detailed activities of each sectoral unit is also discussed at each EXCO meeting.
 - Staffing requirements remains a standing item on the EXCO agenda, and is supplemented by broad guidance from the Business Development Manager regarding future expected business flows, enabling GCR to timeously gear up its analytical staffing requirements in need.
 - In addition to bolstering analytical resources by 10% during 2014, GCR also procured the services of a Financial Controller.
 - GCR also continues to advance its internal analytical credit rating training and mentoring programme, in order to ensure that analytical staff maximise their credit rating knowledge and skills.
 - This is supplemented by ongoing regulatory and IT training.
 - Information technology governance is key to GCR and there are aggressive business continuity and recovery structures.
 - Absolute independence is ensured during the ratings process.
 - Detailed rating panel minutes are documented for each and every rating accorded, and attendance is validated by each member's vote, with a duplicate version of the panel votes overseen by GCR's independent Compliance Officer.

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

The annual internal review was undertaken by the Compliance Officer in furtherance of section 13(3) (a) to (f) of the Act which revealed the following:

- The credit ratings that are issued by GCR are of high quality and not subject to any outside political or economic fetter.
- A rigorous and independent formal internal review function is responsible for periodically reviewing GCR's methodologies, models and key rating assumptions.
- Back-testing and validation of methodologies is based on historical experience.
- The rating methodologies, models and assumptions are tested for robustness and adequacy in pursuit of the provision of sections 2 and 9(c) of the Credit Ratings Services Act.
- There is optimum compliance with the Act, the Rules, IOSCO Code of Conduct Fundamentals for Credit Rating Agencies, GCR's Code of Professional Conduct and other applicable pieces of legislation.
- Absolute independence is ensured during the rating processes.
- The remuneration structure of the analysts is not linked to GCR's financial performance or the amount of revenue from the entities that they rate.
- Stringent record keeping policies are in line with applicable pieces of legislation.

4. Description of Record Keeping Policy

- GCR has a document age analysis procedure and keeps records in terms of the Companies Act and Archive Act
- Information technology policies and Information Management Systems are in place to preserve electronic files in terms of the applicable legislation.
- There is a full and incremental back-up system on electronic information which is done on a frequent basis. This includes files that are either irreplaceable and or have high replacement value or are considered critical on the exchange.
- Unless obsolete, electronic information is maintained on GCR's database indefinitely.
- Information in excess of seven years and no longer valid to an existing credit rating is archived annually and stored on GCR's database.
- The latest system enhancements include an upgrade of GCR's server to Microsoft Server 2012 R2 and a migration to Microsoft Exchange Server 2013, providing increased reliability on IT infrastructure.

5. Revenue Sources

Revenue Source	Rand's
Credit Rating Services	23,374,235
Non-Credit Rating Services	0
Ancillary Services	0
Other Permissible Services	0
Total Revenue	23,374,235

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. These reviews take into account the outcome from GCR's Rating Transition and Default Studies produced each year, amongst other factors. The 2014 edition was published on our website in February 2015, with no notable rating movements reflected. As such, no material modification of systems or changes to any of our methodologies or models was 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 very 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
Corporate and Public Sector Debt	4
Insurance	9
Financial Institutions	4
Structured Finance & Securitisation	4
Total	21

Minimum qualifications and general competency requirements:

▪ 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.

▪ 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.

▪ **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.

▪ **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.

4. Information on Credit Ratings by Category

Rating units	Total Ratings as of 31-Dec-2014	Withdrawn Ratings in 2014
Corporate and Public Sector Debt	68	5
Insurance	41	5
Financial Institutions	29	3
Structured Finance & Securitisation	64	1
Total	202	14

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	<ul style="list-style-type: none"> - Bachelor of Arts: Economics - Master of International Management: International Finance 	Independent Non-Executive Director; Chairman of the Board	01.03.2013
Michael Fischer	<ul style="list-style-type: none"> - Master Degree of Business Administration and Engineering 	Non-Executive Director	01.01.2008
Moss Ngoasheng	<ul style="list-style-type: none"> - Bachelor of Arts in Economics - Philosophy in Developmental Studies (Masters) 	Non-Executive Director	06.06.2002
Sanjay Bhikha	<ul style="list-style-type: none"> - Chartered Accountant: South African Institute of Chartered Accountants - Bachelor of Accounting Science (Honours) - Bachelor of Commerce 	Independent Non-Executive Director	01.07.2014
Christophe Blanchot	<ul style="list-style-type: none"> - Institut Supérieur Des Affaires (ISA, bilingual option), MBA HEC - Master in Agricultural Sciences (Honours) - Advanced degree in Engineering, eq. MA - Masters in Genetics & Physiology of Micro Organisms (Honours) 	Non-Executive Director*	08.09.2011
Marc Joffe	<ul style="list-style-type: none"> - Bachelor of Commerce (Honours) 	Chief Executive Officer	18.12.2013 (appointed employee at GCR effective 01.03.2001)
Paul Greeff	<ul style="list-style-type: none"> - Bachelor of Science 	Executive Director**	01.03.2013 (appointed employee at GCR effective 01.03.2001)

*Resigned on 07.09.2014

** Resigned on 16.02.2015

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

Introduction

- GCR is aware that the applicability of the principles of the King Code is regardless of the form or the size of the organization.
- GCR considers best practice recommendations in the King Report and will, by way of explanation make a positive statement about how the principles have been applied or not applied and disclose such applicability or non - applicability of the Code.
- GCR takes cognisance of the fact that substantial applicability of the Code does not achieve compliance.
- GCR is also aware of the fact that the “apply or explain” approach requires more consideration and that it entails the application of the mind and the explanation of what has been done in order to implement the principles and best practice recommendations of governance.

The following are policies and initiatives implemented and adhered to by GCR in adopting the King Code:

- Information technology policies in terms of IT governance framework and applicable legislation.
- Risk management strategies which are inclusive of business continuity management and disaster recovery structures.
- Compliance adequacy reports.
- Terms of reference for the Board of Directors and its committees.
- Establishment of a risk management committee.
- Risk based audit structures and risk assessment activities.
- Self- assessment of the Board of Directors and its sub-committees.
- An annual gap analysis regarding GCR’s compliance status.
- Management of conflict of interests and the potential thereof.
- Performance appraisals system and employee training to ensure continual competence.
- Professional Code of Conduct to ensure that the values espoused by the King Code are adhered to.
- Internal code of ethics/credo.
- Whistle blowing and anonymous tip off system.
- Gift and remuneration policies.
- Monitoring and evaluating of the adequacy of internal control systems.

8. Status Report on Investor Education Initiatives

During 2014, GCR was a sponsor at the two leading structured finance and bond market conferences in Africa, namely the Bonds and Loans Conference and IMN Capital Markets Conference held in Cape Town each year.

Investor road shows are also conducted annually, when GCR’s Head of Business development and typically two sector heads visit the major asset managers in Cape Town and Johannesburg. The discussions are geared to keep investors up to date on developments at GCR, to discuss recent market developments and also to address any queries that investors may have in terms of GCR’s rating announcements. Additional road shows will be conducted if warranted.

Typically, these would be in response to a material change in methodologies or following a significant event that has impacted investors meaningfully, such as a debt default.

In addition, GCR maintains an information rich and transparent website, where investors, clients and other market participants are able to download all of our methodologies, view all of the public ratings accorded by GCR, as well as 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.

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

Please click on the following link: [South African Transition and Default Study 2014](#)

10. Adherence to the Prescribed Code of Conduct

- No material amendments were applied to GCR's Professional Code of Conduct during 2014, which changes mainly related to minor advancements.
- Once appointed, all GCR employees receive a copy of the prescribed Professional Code of Conduct, which is aligned with the IOSCO Code Fundamentals and the Act.
- There is adequate and regular on the job training (analytical, IT, regulatory) and a comprehensive workbook to guide employees.
- There are no departures from the IOSCO Code and to date there are no changes made.
- Please visit www.globalratings.net to access GCR's publically available Professional Code of Conduct.