

ANNUAL REPORT
OF
GLOBAL CREDIT RATING CO. (PTY) LTD FOR THE FINANCIAL
YEAR ENDED 31 DECEMBER 2015

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

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SECTION A: EXECUTIVE SUMMARY

Introduction

The financial year ended 31 December 2015 marks the 20th year since the inception of Global Credit Rating Co. (Pty) Ltd (“GCR”). The company has gradually evolved into its current guise of a highly recognised and well respected key market participant, in what is 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) Principles, as agreed to by all G20 member countries following the global financial crisis.

GCR was the first rating agency to be accorded a license under the Act by the Financial Services Board, in December 2013. Furthermore, GCR is recognised as an External Credit Assessment Institution by the South African Reserve Bank, which enables investors to utilise GCR’s international scale ratings for investment decision making purposes. The regulatory accreditation underpins the quality and integrity of a GCR rating.

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 Business Development Officer, a Financial Controller, and two Administrative Managers. 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 (“the Board”) of GCR on a quarterly basis, and ad hoc in need, and is not involved in the day to day activities of the company. She ensures that the Board remains aware of its duties and that all directors have full and timely information that is relevant in order to properly discharge their duties collectively and or individually, with detailed Terms of Reference. Board members have unrestricted access to the advisory services of the Compliance Officer on an arms-length basis.

The review of GCR’s operational and business strategies is conducted and finalised annually. GCR has proudly achieved its business objectives set for 2015, 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 highest 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. GCR is also currently gravitating towards adapting its governance structures to align with the King IV Report and King Code on corporate governance. The governance structures of GCR are 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 and embracing ethical leadership culture in the way we conduct our business, and raise the bar as our thought processes evolve.

In furtherance of embracing an ethical leadership culture, the Board ensures that GCR is, and is seen to be a responsible corporate citizen with social responsibilities. In this regard, GCR's business interests are also focussed on the impact its operations have on the environment and the society in which it operates. GCR contributes to sustainable development including the educational training and welfare needs of the society, taking into account the legitimate expectations and interests of stakeholders. The Board is cognisant of the fact that while in pursuit of social responsibility, corporate investment in the form of financial and other assistance should be an integral component of the broader economic, social and environmental sustainability strategy.

All deliberations, decisions and actions in pursuit of GCR's strategic objectives mirror the four values of good governance in that we take responsibility and accountability for our actions and conduct our business in fairness and transparency.

The Terms of Reference for the Board and its committees are aligned towards the Act and other international regulatory precepts. The Board formally delegates certain functions to well-structured committees, and without abdicating its own responsibilities. In addition, the Board has an approval delegation matrix that is annually reviewed and updated.

There is an obligation on the Board to make declarations of fiduciary position that they hold at other entities in order to mitigate the risk of conflicts of interest.

Operational and Information Technology Risk Management strategies are aligned to the Institute of Risk Management South Africa, and to the extent that Control Objectives for Information and Related Technology standards are applicable to GCR's IT risk management strategies.

GCR supports the Code of Conduct Fundamentals as embodied in the IOSCO Principles. Our Code of Professional 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 evolve, GCR’s Code of Professional Conduct is 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	64.0	British Virgin Islands
Moses Modidima Ngoasheng	22.5	South Africa
Management	13.5	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 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 ad hoc meetings being convened to discuss specific issues that may 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 their functioning, and these 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 fiduciary standing.
 - GCR makes it a requirement for all employees and directors to make timeous and adequate disclosures of actual, potential or perceived conflict of interest that may arise as a result of personal, business or fiduciary relations that exist or may exist between its employees and/or employees of rated entities, competitors and directorship positions at entities that are rated by GCR. The disclosures are made in pursuit of the second and fifth structural pillars of the IOSCO Code 2014 and other regulatory and legislative requirements.
 - 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.
- a. 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 Management Risk Committee that is independent of the business divisions that provide credit rating services, and which 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.
 - GCR has established an independent Criteria Review Committee charged with the task of ensuring that there is optimum compliance with Section 7(g) and (h), and Section 9(b) and (c) of the Credit Ratings Services Act, and Rule 3(4) of the Credit Rating Services Rules.
 - A documented risk management plan covers regulatory and operational risks.
 - Risk governance operates within a defined structure approved by the Board, and monitored by the Compliance Officer and the Risk Management Committee. The objectives are to identify the levels of risk tolerance and appetite appropriate to GCR.
 - Risk identification includes both actual and potential risks. The potential impact of risks are measured against a broad set of assumptions that are based on trends and historical patterns.
 - GCR continually monitors a broad range of possible risks including compliance, operational, human element, information and communication technology, business continuity and disaster recovery, market, rating and industry risks.
 - Contingency plans in the form of disaster recovery strategies are closely monitored to ensure that there is on-going delivery of credit rating services under adverse conditions.
 - GCR's critical risk areas are updated annually.
 - Systems of internal control include defined lines of accountability. The Compliance Officer conducts risk based audits twice a year or on an ad-hoc basis.

- An independent report scrutinizing GCR's internal risk management policies and procedures is procured through the company's auditors each year.
- GCR's ICT department is responsible for the management of the technology infrastructure for GCR. This includes:
 - Monitoring, reporting and assessment of the ICT Risk Management Plan as approved by GCR's Board Risk Committee.
 - Implementing access control for folders, files and applications in compliance with GCR's ICT policies and appropriate legislation.
 - Implementing data security in compliance with confidentiality policies.
 - Maintaining and monitoring technology infrastructure including laptops, networks and backups required for ongoing operations.
 - Ensuring an effective and adequate Business Continuity Management ("BCM") plan, which includes an appropriate disaster recovery plan, has been established and is continuously monitored for resilience and updates. This document is available to all GCR employees and stipulates procedures to follow in the event of emergencies or business disruptions. The resilience of the BCM strategy is tested periodically on an ad-hoc mock basis.
 - Maintain custom applications required to support core ratings activities, such as workflow systems, analysis and surveillance systems, and publishing and document management systems.
- 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.
- GCR 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 on-going regulatory and IT training.
- Absolute independence is ensured during the ratings process to ensure that there are no actual, potential and or perceived conflicting interests.
- 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 GCR's Compliance Unit

An annual risk based internal audit is undertaken by the Compliance Officer in furtherance of legislative and governance precepts, with the compliance unit's key findings as follows:

- The credit ratings that are issued by GCR are of quality and not subject to any outside political or economic fetter.
- A rigorous and independent formal review function is responsible for periodically reviewing GCR's methodologies, models and key rating assumptions.
- Back-testing and validation of methodologies is undertaken annually, 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 applicable pieces of legislation and governance precepts.
- 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.
- There were no reported incidences of conflicts of interest during 2015.

4. Description of Record Keeping Policy

- GCR has a documented retention and age analysis procedure and keeps records in terms of both the Companies Act and Archive Act.
- Information and communication technology policies and Information Management Systems are in place to preserve the integrity, availability and confidentiality of electronic files in compliance with ICT polices and 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 deemed 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 the implementation of a central web space accessible to all GCR personnel. This is to improve business efficiency through more appropriate document management, enhanced internal communications and by facilitating information sharing and collaborative working across the different divisions at GCR.

5. Revenue Sources

Revenue Source	Rand
Credit Rating Services	27,632,455.00
Non-Credit Rating Services	--
Ancillary Services	--
Other Permissible Services	--
Total Revenue	27,632,455.00

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 2015 edition was published on our website in

February 2016 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
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 Public Credit Ratings by Category

Rating units	Total Public Issuer Ratings as of 31-Dec-2015	Withdrawn Issuer Ratings in 2015
Corporate and Public Sector Debt	37	5
Insurance	37	3
Financial Institutions & Fund Rating	13	1
Structured Finance & Securitisation	23	0
Total	110	9

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	01.03.2013

		the Board	
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

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 and has commenced with aligning its policies with the precepts of the King IV Report and the Code.
- The journey that GCR will undertake in furtherance of the application regime of King IV will be manifested in its Code of Professional Conduct, Board performance, compliance risk management strategies and Code of Ethics.
- 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 conflicts of interests and the potential thereof.
- Performance appraisals and employee training to ensure continual competence.

- Code of Professional 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.
- Fit and proper probity.

8. Status Report on Investor Education Initiatives

During 2015, GCR attended and 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, both held in Cape Town. 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.

Investor road shows are also conducted annually, when GCR's Head of Business Development and typically two sector heads/senior analysts visit the major asset managers in Cape Town and Johannesburg. A road-show was conducted in March 2015, when GCR met with key investors. Meetings were also conducted in November 2015, at the same time as the IMN Conference. These 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 ratings and its criteria. 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. The 2016 Cape Town road-show will be conducted on 27th and 28th of June, which will include a presentation by GCR's structured finance department on recently completed transactions and the applicable methodologies. A subsequent road show to investors will be undertaken in Johannesburg.

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 publically accorded ratings, 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 2015](#)

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 Act and other resident applicable legislation pieces.

- There were no material amendments applied to GCR's Code of Professional Conduct during 2015.
- Once appointed, all GCR employees receive a copy of the prescribed Code of Professional Conduct, accompanied by a structured training programme.
- Regular on the job training (analytical, ICT, regulatory) is conducted to staff, complemented by a comprehensive workbook to guide employees.
- Please visit www.globalratings.net to access GCR's publically available Code of Professional Conduct.