S&P Global
Ratings

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Summary:

Telkom SA SOC Ltd.

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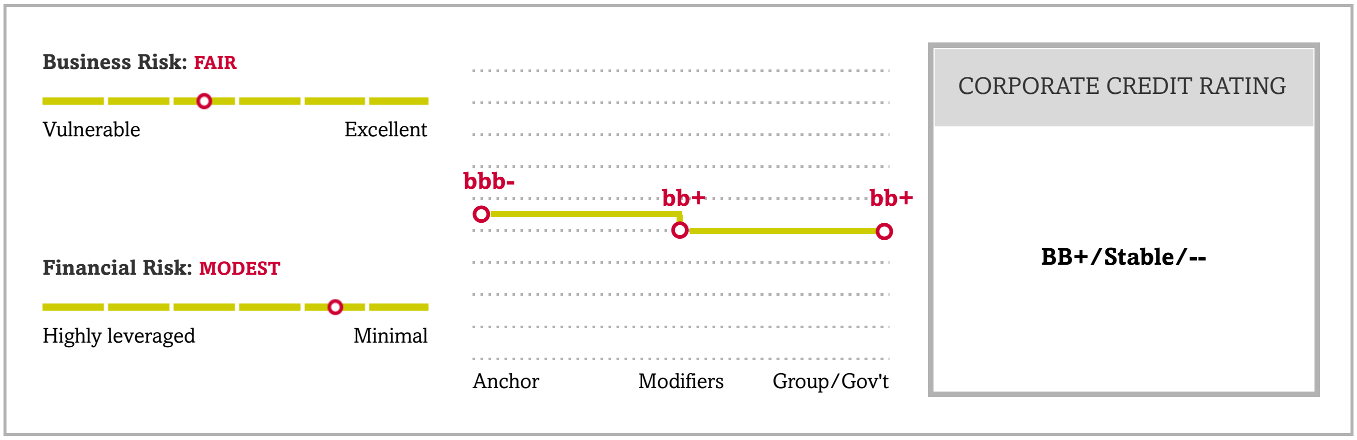
Summary:

Telkom SA SOC Ltd.



Rationale

Business Risk: Fair

- Dominant position in structurally declining fixed-line business; somewhat offset by a weak position in the highly competitive mobile market.
- Broad ICT product spectrum, with limited geographical scope as operations focus on the South African market.
- Weak margins relative to the domestic peer group, largely attributable to the fixed-line business orientation, and a rigid cost structure.
- Challenging operating environment, encompassing regulatory uncertainty, an evolving political landscape, and low economic growth and consumer confidence.

Financial Risk: Modest

- Strong leverage and funds from operations (FFO) credit ratios for the current rating level.
- Negative discretionary cash flow (DCF) in fiscal year ending March 31, 2018, expected to turn positive in fiscal year 2019 owing to a dividend policy that reflects a sustained proportion of headline earnings.
- Robust liquidity position and solid fundraising capability to support diminishing capital intensity.
- Clear guidance from management on commitment to maintain conservative leverage.

Outlook: Stable

S&P Global Ratings' stable outlook on South Africa-based telecommunications company Telkom SA SOC, reflects the stable outlook on South Africa, and incorporates our expectation of weaker market conditions for Telkom. The stable outlook also recognizes our expectation that the company's liquidity will remain at an adequate level, with sources of liquidity fully covering uses over a 12-month horizon starting Feb. 28, 2018, even in a stress scenario associated with a hypothetical sovereign default.

Our 'BB+' long-term issuer credit rating on Telkom reflects our expectation that the company will maintain our growth and margin expectations such that adjusted debt to EBITDA will remain about 1x, FFO to debt in excess of 70%, and DCF to debt will return to positive on a sustainable basis after fiscal year 2018.

We could lower our assessment of Telkom's stand-alone credit profile if we were to expect prolonged negative DCF beyond fiscal 2018, and adjusted debt to EBITDA above 1.5x. This could occur if cash flows weaken considerably due to sustained aggressive capital expenditure or dividend policy. This could also result from poor operating performance, such as weak traction in the broadband business or a failure to maintain at least break-even earnings in the mobile segment.

Downside scenario

We could lower the rating on Telkom if we lowered our rating on South Africa to 'BB-', reflecting persistence of the weakening economic and fiscal trajectory of the country, and related increased pressures of operating in the South African market. We could also consider lowering the rating if a decline in liquidity left Telkom unable to pass our sovereign stress case, and we capped its rating at the level of our foreign currency rating on South Africa.

Upside scenario

We could raise the rating or revise the outlook to positive if we took a similar action on South Africa, or if we believed the company's ability to withstand sovereign stress had improved, either as a result of significantly higher liquidity levels or moderated risk of negative intervention by the South African government.

We would also require the operating performance to be in line with our base case, and a supportive financial policy, with sustainable positive DCF and adjusted debt to EBITDA below 1.5x. However, we could accept leverage as high as 2x if combined with stronger adjusted DCF of at least 15% of debt.

Our Base-Case Scenario

Assumptions

- Fairly flat revenue growth for both the consumer and business segments, indicating good traction of the mobile and fixed broadband services. However, this is offset by declining fixed service revenue and a slightly lower contribution from the ICT business solutions division (BCX), stemming from a pullback in discretionary ICT spend. We expect consumer and business confidence in South Africa to remain muted.
- A stable EBITDA margin, in line with management guidance. This reflects low margins resulting from high operating leverage in the intensely competitive growing mobile and fixed broadband segments, and lower margins in the fixed-line voice segment. An improvement in cost structure following capital expenditure (capex) on network modernization and expansion supports the potential for margin growth as the broadband business scales up.
- Capex equal to about 18.5% of revenues in fiscal 2018, falling thereafter toward 15% between fiscals 2021-2022, mostly related to fiber rollout, network expansion and modernization, wireless base-station development, base-station connections to the backhaul, and IT system improvements.
- A stated dividend policy of 60% of headline earnings.

Key Metrics

	2017a	2018e	2019e
Revenues (bil. ZAR)	41.5	41.0-42.0	41.0-42.0
Adjusted EBITDA margin (%)	27.9	25.0-27.0	25.0-27.0
Debt/EBITDA (x)	0.7	1.0-1.1	1.1-1.2
FFO/Debt (%)	116.8	80.0-85.0	75.0-80.0
FOCF/Debt (%)	(2.9)	4.0-6.0	8.0-10.0
Capital Intensity*(%)	20.0	18.0-20.0	15.0-17.0

*Capex as a percentage of revenue. a--Actual. e--Estimate. FOCF—Free operating cash flow.

Company Description

Telkom owns and operates South Africa's largest national wholesale telecommunications infrastructure, comprising integrated copper and fibre lines linked to a high-speed backhaul network. Fixed broadband internet, and mobile voice and data services are available to individuals and small and midsize enterprises, while a diversified ICT product offering including access to telecommunications, data centers and IT services, is aimed at the enterprise market. At Sept. 30, 2017, Telkom had 1 million fixed broadband subscribers, 2.8 million fixed access lines, and 4.4 million mobile subscribers. The company also undertakes property and tower management services and print and digital marketing services. Telkom generated annual revenues of South African rand (ZAR) 41 billion (about $3.4 billion) in 2017 and it is listed on the Johannesburg Securities Exchange with a current market capitalization of ZAR27 billion.

Peer comparison

Table 1

Telkom SA SOC Ltd.--Peer Comparison

Industry Sector: Diversified Telecom

	Telkom SA SOC Ltd.	MTN Group Ltd.	Rostelecom PJSC	Turkcell Iletisim Hizmetleri A.S.	Turk Telekom
Rating as of April 17, 2018	BB+/Stable/--	BB+/Negative/--	BB+/Stable/--	BBB-/Negative/--	BBB-/Negative/A-3
	--Fiscal year ended March 31, 2017--	--Fiscal year ended Dec. 31, 2016--			
(Mil. ZAR)					
Revenues	41,487.0	147,920.0	66,657.9	55,536.2	62,623.4
EBITDA	11,581.5	60,251.2	20,531.4	19,238.0	21,205.3
Funds from operations (FFO)	10,059.3	42,228.1	16,452.2	18,448.0	17,481.6
Net income from cont. oper.	3,797.0	(2,614.0)	2,633.4	5,964.5	(2,815.9)
Cash flow from operations	8,029.3	45,728.4	14,608.8	11,912.3	19,295.9
Capital expenditures	8,278.0	35,247.0	13,182.1	18,944.9	18,144.4
Free operating cash flow	(248.7)	10,481.4	1,426.7	(7,032.6)	1,151.6
Discretionary cash flow	(2,419.7)	(10,488.6)	(1,610.5)	(7,232.5)	(2,117.3)
Cash and short-term investments	1,612.0	35,233.0	2,156.7	23,529.0	10,171.1
Debt	8,610.5	164,455.0	43,551.2	32,771.6	58,918.6
Equity	27,906.0	105,231.0	55,718.9	62,467.1	13,165.7
Adjusted ratios					
EBITDA margin (%)	27.9	40.7	30.8	34.6	33.9
Return on capital (%)	15.6	12.8	6.2	12.0	11.7
EBITDA interest coverage (x)	11.4	4.3	4.4	8.0	8.1
FFO cash int. cov. (X)	17.8	11.3	4.4	10.5	12.0
Debt/EBITDA (x)	0.7	2.7	2.1	1.7	2.8
FFO/debt (%)	116.8	25.7	37.8	56.3	29.7
Cash flow from operations/debt (%)	93.3	27.8	33.5	36.3	32.8
Free operating cash flow/debt (%)	(2.9)	6.4	3.3	(21.5)	2.0
Discretionary cash flow/debt (%)	(28.1)	(6.4)	(3.7)	(22.1)	(3.6)

Business Risk: Fair

Our assessment of Telkom's business risk profile reflects its dominant position in the South African fixed-line business. This includes the structurally declining legacy voice business where it generates most of its revenues, its fixed-line data service offering, and its growing fiber network, which at Sept. 30, 2017 had passed 2.4 million premises. Fiber-to-the-home (FTTH) subscribers increased by 107% year on year, representing a significant share of the FTTH market. Telkom also has a limited but increasing exposure to higher margin mobile operations. Telkom's mobile market share as the No.4 player remains low, at around 5%. We view this level as sub-scale given high operating leverage, resulting in a drag on profitability that will take time to overcome. Telkom has good growth prospects in its broadband (both fixed and mobile) and ICT solutions businesses, which help offset losses in the traditional fixed-line voice business.

We believe that Telkom's commitment to directing its capex spend towards fiber and mobile, including long-term evolution rollouts, will likely enable a faster growth trajectory in the broadband business. We expect that Telkom's operating efficiency will continuously improve, as its slowly realizes value from the gradual shift towards the mobile business, robust cost-cutting initiatives, and the successful integration of the BCX business—-subject to materialization of an increasingly supportive economic environment.

In our recent bulletin, "South Africa Ratings And Outlook Not Immediately Affected By Political Transition," published Feb. 15, 2018, on RatingsDirect, we indicated that the new political leadership under Cyril Ramaphosa could bring confidence and faster implementation of key reforms already undertaken. However, it was furthermore noted that the administration will require time to design and implement measures to improve economic growth and stabilize public finances, given the structural and institutional challenges that South Africa faces. Consequently, while some early signs of positive momentum in national sentiment are noted, our base case of relatively flat growth for Telkom reflects our expectation of low economic growth and subdued consumer spending and business confidence. Furthermore, regulatory uncertainty remains a constraining factor, with key themes including a potential open access network, spectrum availability, data pricing, and net neutrality expected to play out in the next three years.

Financial Risk: Modest

Our assessment of Telkom's financial risk profile reflects our view of its strong credit metrics and positive free cash flow generation, moderately offset by our expectation of higher capital intensity at about 18%-19% in fiscal 2018 (about 20% in fiscal 2017). Increased capital deployment is largely attributable to accelerated investment in fiber rollouts, network expansion, wireless base-station development, and IT system improvements. Thereafter, we anticipate that capital intensity will fall to historical levels of 15%-16% by fiscal 2019.

We expect Telkom will maintain a conservative capital structure, with mid-single-digit net revenue growth and average adjusted margins of 25%-27%, sustainably yielding adjusted debt to EBITDA of around 1x, and FFO to debt of above 70%; over our rating horizon of one to two years.

We view Telkom's revised dividend policy (distribution of about 60% of headline earnings) as more aggressive, resulting in our expectation of negative DCF generation in fiscal 2018. On the back of declining capital intensity from fiscal 2018, we expect DCF to return to positive during fiscal 2019. In the event of operational underperformance or sustained high capex, maintenance of the dividend would likely lead to downwards pressure on the rating, if leverage were to tip over 1.5x as a result of prolonged negative cash flows.

Financial Summary

Table 2

Telkom SA SOC Ltd.--Financial Summary					
Industry Sector: Diversified Telecom					
	--Fiscal year ended Mar. 31--				
	2017	**2016**	**2015**	**2014**	**2013**
(Mil. ZAR)					
Revenues	41,487.0	38,606.0	33,491.0	32,962.0	32,903.0
EBITDA	11,581.5	11,779.5	9,541.5	8,607.0	7,346.0
Funds from operations (FFO)	10,059.3	10,602.8	8,933.8	7,291.3	5,751.8
Net income from continuing operations	3,797.0	2,246.0	3,079.0	3,871.0	(11,622.0)
Cash flow from operations	8,029.3	8,603.8	6,783.8	6,680.3	7,914.8
Capital expenditures	8,278.0	5,838.0	4,977.0	6,277.0	5,627.0
Free operating cash flow	(248.7)	2,765.8	1,806.8	403.3	2,287.8
Dividends paid	2,171.0	1,402.0	121.0	124.0	177.0
Discretionary cash flow	(2,419.7)	1,363.8	1,685.8	279.3	2,110.8
Cash and short-term investments	1,612.0	2,548.0	3,616.0	1,842.0	2,387.0
Debt	8,610.5	6,774.4	4,997.6	5,044.9	7,199.1
Equity	27,906.0	25,724.3	25,736.8	24,775.2	19,856.2
Adjusted ratios					
Annual revenue growth (%)	7.5	15.3	1.6	0.2	(2.2)
EBITDA margin (%)	27.9	30.5	28.5	26.1	22.3
Return on capital (%)	15.6	18.8	12.6	9.0	4.0
EBITDA interest coverage (x)	11.4	14.3	11.3	9.9	9.1
FFO cash int. cov. (x)	17.8	13.1	16.7	12.0	9.8
Debt/EBITDA (x)	0.7	0.6	0.5	0.6	1.0
FFO/debt (%)	116.8	156.5	178.8	144.5	79.9
Cash flow from operations/debt (%)	93.3	127.0	135.7	132.4	109.9
Free operating cash flow/debt (%)	(2.9)	40.8	36.2	8.0	31.8
Discretionary cash flow/debt (%)	(28.1)	20.1	33.7	5.5	29.3

Liquidity: Adequate

We assess Telkom's liquidity as adequate. We anticipate that Telkom's strong cash generation and available facilities will exceed its commitments and obligations by more than 1.2x for the 12 months started Feb. 28, 2018.

We note that on March 22, 2018, Telkom repaid two commercial paper tranches of ZAR397 million and ZAR400 million respectively, in line with the provisions of these issues. These issues were refinanced by the issue of ZAR346 million due Sept. 18, 2018 and ZAR654 million due March 22, 2019. Because of issue oversubscription, Telkom elected to issue ZAR200 million in excess of the refinancing requirement. Furthermore, the cash balance reflected below in the principle liquidity sources does not include ZAR751 million utilized to repurchase 15.9 million shares (3% of Telkom's share capital) on Feb. 19, 2018.

Principal Liquidity Sources	Principal Liquidity Uses
• Unrestricted cash of about ZAR1.2 billion. We view Telkom's sizable amount of marketable securities positively, but we do not include them in our calculation because we only consider readily accessible cash. • Undrawn committed revolving credit facilities (RCF) totaling ZAR4.2 billion (we discount ZAR800 million issued under a commercial paper (CP) program, assuming the RCF is backstopping the CP). • Our expectation of cash FFO of about ZAR8.3 billion.	• Debt maturities of about ZAR730 million. • Negative (non-seasonal) working capital outflows of about ZAR800 million. • Capex of about ZAR7.9 billion. • A cash dividend of about ZAR1.5 billion (based on a ratio of 60% of headline earnings). • No planned acquisitions or mergers.

Covenant Analysis

We expect Telkom will maintain sufficient headroom under its financial covenant; with at least a 15% cushion on its interest coverage ratio (covenanted to remain above 3.5x), and on its net debt to EBITDA (covenanted to remain below 3.0x).

Group Influence

The Telkom SA SOC group comprises the parent company and its subsidiaries. In line with our criteria, we consider that an assumed group credit profile (GCP) is at parity with the issuer credit rating on the parent company. The assumed GCP is based on the scope of consolidated accounts.

Government Influence

We currently do not factor any support from the South African government into our rating. We continue to view Telkom as a government-related entity (GRE) as it is listed as a Schedule 2 public entity per the Public Finance Management Act (PFMA) of South Africa. However, in a Government Gazette issued on June 26, 2016, Telkom is exempted from the Preferential Policy Framework Act and other sections of the PFMA, shaping our view of the company as a self-governing GRE with minimal operational, social mandated, or strategic interaction with the South African government.

We see Telkom as having a limited link to the government, reflected by the government's minority shareholding (39.3%) and no history of interference in Telkom's operations. This assessment is reinforced by statements made by the South African finance ministry that it intends to dispose of a number of strategic investments, including a portion of its stake in Telkom, in pursuit of broader fiscal objectives. Initial statements made in the 2017 medium term budget policy statement in relation to a planned reduction in the government's Telkom stake, were underlined in South Africa's 2018 budget speech, which referenced plans to divest a number of strategic assets (including Telkom). We do not expect the recent cabinet shuffle, which included the appointment of Nhlanhla Nene as finance minister, to alter Telkom's importance to the government, nor the likelihood of a sale of part of the government's stake in the entity.

Furthermore, we assess Telkom's role to the government as being of limited importance, since the company is a for-profit enterprise, with operations that can be substituted by other forms of communication, or by other entities operating in the telecommunications sector.

In our view, there is therefore a low likelihood of Telkom receiving government support.

Rating Above The Sovereign

Based on our assessment of Telkom's limited link with and limited importance to the South African government, the rating on Telkom is not capped by the foreign currency rating on South Africa. However, due to the ease with which the exemptions that Telkom currently enjoys can be revoked by the national treasury, we limit the differential to one notch after conducting a stress test on Telkom to assess the company's resilience under a hypothetical sovereign default scenario, which includes a stress on earnings (20% haircut) and a 50% ZAR devaluation.

Ratings Score Snapshot

Corporate Credit Rating

BB+/Stable/--

Business risk: Fair

- **Country risk:** Moderately high
- **Industry risk:** Intermediate
- **Competitive position:** Fair

Financial risk: Modest

Anchor: bbb-

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Fair (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : bbb-

- **Likelihood of government support:** Low (no impact)

Reconciliation

Table 3

Reconciliation Of Telkom SA SOC Ltd. Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. ZAR)

	--Fiscal year ended Mar. 31, 2017--								
Telkom SA SOC Ltd. reported amounts									
	Debt	**Shareholders' equity**	**Revenues**	**EBITDA**	**Operating income**	**Interest expense**	**EBITDA**	**Cash flow from operations**	**Capital expenditures**
Reported	6,378.0	27,569.0	41,704.0	10,875.0	5,214.0	618.0	10,875.0	7,665.0	8,431.0
S&P Global Ratings' adjustments									
Interest expense (reported)	--	--	--	--	--	--	(618.0)	--	--
Interest income (reported)	--	--	--	--	--	--	219.0	--	--
Current tax expense (reported)	--	--	--	--	--	--	(741.0)	--	--
Operating leases	2,757.2	--	--	708.5	196.0	196.0	512.5	512.5	--
Postretirement benefit obligations/deferred compensation	624.2	--	--	(7.0)	(7.0)	50.0	(40.2)	(43.2)	--
Surplus cash	(1,209.0)	--	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	--	153.0	(153.0)	(153.0)	(153.0)
Share-based compensation expense	--	--	--	222.0	--	--	222.0	--	--
Nonoperating income (expense)	--	--	--	--	219.0	--	--	--	--
Noncontrolling interest/minority interest	--	337.0	--	--	--	--	--	--	--
Debt - Accrued interest not included in reported debt	60.0	--	--	--	--	--	--	--	--
Revenues - Profit on disposals	--	--	(217.0)	(217.0)	(217.0)	--	(217.0)	--	--
OCF - Other	--	--	--	--	--	--	--	48.0	--
Total adjustments	2,232.5	337.0	(217.0)	706.5	191.0	399.0	(815.7)	364.3	(153.0)
S&P Global Ratings' adjusted amounts									
	Debt	**Equity**	**Revenues**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**	**Capital expenditures**
Adjusted	8,610.5	27,906.0	41,487.0	11,581.5	5,405.0	1,017.0	10,059.3	8,029.3	8,278.0

Related Criteria

- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Telecommunications And Cable Industry, June 22, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- South Africa Ratings And Outlook Not Immediately Affected By Political Transition, Feb. 15, 2018
- South Africa's Telkom SA SOC Ltd. Downgraded to 'BB+' After Sovereign Downgrade; Outlook Stable, Dec. 4, 2017
- South Africa Ratings Lowered On Weakening Economic And Fiscal Trajectory; Outlook Stable, Nov. 24, 2017

Regulatory Disclosures

- Regulatory disclosures applicable to the most recent credit rating action can be found at "South Africa's Telkom SA SOC Ltd. Downgraded to 'BB+' After Sovereign Downgrade; Outlook Stable" , published Dec. 4, 2017, on RatingsDirect.

Glossary

- Anchor: The starting point for assigning a long-term rating, based on economic and industry risk.
- Business risk profile: This measure comprises the risk and return potential for a company in the market in which it participates (its industry risk), the country risks within those markets, the competitive climate, the company's competitive advantages and disadvantages (its competitive position).

- Capital: The sum of equity and debt.
- Comparable rating analysis: This involves taking a holistic review of a company's stand-alone credit risk profile (SACP), because each of the subfactors that ultimately generate the SACP can be at the upper or lower end, or at the mid-point, of such a range. It may also touch upon the overall comparative assessment of an issuer in relation to its peers across industry and jurisdiction and may capture some factors not (fully) covered, such as a short operating track record, entities in transition, unusual structures, or contingent risk exposures.
- Competitive advantage: The strategic positioning and attractiveness to customers of the company's products or services, and the fragility or sustainability of its business model.
- Competitive position: Our assessment of a company's: competitive advantage; operating efficiency; scale, scope, and diversity; and profitability.
- Country risk: This measures a country's influence on the overall credit risks for a rated company with regards to a country's economic, institutional and governance effectiveness, financial system, and payment culture/rule of law risks.
- Creditworthiness: Ability and willingness of a company to meet its debt and debt-like obligations; measured by assessing the level current and future resources relative to the size and timing of its commitments.
- Diversification/portfolio effect: Applicable to conglomerates. An assessment of the extent to which an entity's multiple core business lines are correlated and whether each contributes a material source of earnings and cash flow.
- Earnings: Proxy for profit or surplus yielded by an entity after production and overhead costs have been accounted for in a given period.
- EBITDA margin: This is EBITDA as a fraction of revenues.
- EBITDA: This is earnings before interest, tax, depreciation, and amortization.
- Economies of scale: This is the cost advantage that arises with increased size or output of a product.
- Efficiency gains: Cost improvements.
- Financial headroom: Measure of deviation tolerated in financial metrics without moving outside or above a predesignated band or limit typically found in loan covenants (as in a debt-to-EBITDA multiple that places a constraint on leverage) or set for the respective rating level. Significant headroom would allow for larger deviations.
- Financial risk profile: This measure comprises our assessment of a company's cash flow/leverage analysis. It also takes into account the relationship of the cash flows the organization can achieve given its business risk profile. The measure is before assessing other financial drivers such as capital structure, financial policy, or liquidity.
- Free operating cash flow: Cash flow from operations minus capital expenditure.
- Funds from operations: EBITDA minus interest expense minus current tax.
- Funding and liquidity: A combined assessment of the strength and stability of a bank's funding mix and its ability to manage its liquidity needs in adverse market and economic conditions over an extended period.
- Government-related entity (GRE) support: An assessment of the likelihood that the government would provide extraordinary support to a bank that is a government-related entity.
- Group rating methodology: The assessment of the likelihood of extraordinary group support (or conversely, negative group intervention) that is factored into the rating on an entity that is a member of a group.

- Industry risk: This addresses the major factors that affect the risks that companies face in their respective industries.
- Issuer credit rating: This is a forward-looking opinion of an obligor's overall creditworthiness.
- Leverage: The level of a company's debt in relation to its earnings before interest, tax, depreciation, and amortization.
- Liquidity: This is the assessment of a company's monetary flows, assessed over a 12 to 24 month period. It also assesses the risk and potential consequences of a company's breach of covenant test, typically tied to declines in EBITDA.
- Management and governance: This addresses how management's strategic competence, organizational effectiveness, risk management, and governance practices shape the issuer's competitiveness in the marketplace, the strength of its financial risk management, and the robustness of its governance.
- Operating efficiency: The quality and flexibility of the company's asset base and its cost management and structure.
- Outlook: This is the assessment of the potential direction of a long-term issuer rating over the short to intermediate term (typically six months to two years).
- Rating above the sovereign assessment: Our assessment of whether an entity can be rated above the sovereign rating on a jurisdiction it has a material exposure to.
- Scale, scope, and diversity: The concentration or diversification of business activities.
- Sovereign support: An assessment of the likelihood that the government would provide extraordinary support to a GRE.
- Stand-alone credit profile (SACP): An interim step in assessing a bank's overall creditworthiness. It includes government support, but not extraordinary government support.

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	**Modest**	Intermediate	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	**bbb-**	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

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