MARC RATING METHODOLOGY

RATING OF GOVERNMENT-RELATED ENTITIES

OVERVIEW

The methodology applies to all government-related entities (GRE) in the private or public sector. It describes the key areas that MARC considers when rating debt issued by GREs or assessing the credit quality of GRE payment counterparties (offtakers) in structured or project finance transactions. MARC has structured its GRE methodology around a five-factor support assessment framework which is highly skewed towards qualitative considerations to facilitate consistent application of the methodology.

In this methodology, MARC continues to differentiate implicit support from explicit support and binding from non-binding moral obligations as earlier highlighted in its July 2010 Commonly Asked Questions (CAQ) titled "The Role of Government Support in Corporate and Project Finance". (The CAQ describes the key analytical considerations that underpinned MARC's rating actions on a number of GREs and project debt.) This methodology integrates insights gained from the past as well as MARC's belief that governments could become more selective in providing extraordinary support to financially distressed GREs, hence the need to identify the particular characteristics of GREs that would likely be used to differentiate access to government support.

Definition of GRE

For the purposes of this methodology, a GRE is a government entity or an entity that is closely affiliated with the federal, state or local government, generally by majority government ownership or effective control. Effective control of a GRE (the power to govern its financial and operating policies) may be acquired with an outright ownership of less than 50% under situations which include dispersed

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ownership or a multiclass capital structure with unequal voting rights. GREs include government departments, statutory bodies, government agencies and government-linked companies (GLC) involved in commercial activity with or absent public policy functions. GREs also include entities over which a statutory body, a department, government agency or another GRE has control.

The GRE can be part of the government (a federal or state government department) or fully or partially owned by the government. Equity in the enterprise may be held directly by a federal government or state or indirectly through their agencies. Some GREs have considerable autonomy in the performance of their functions while those which are established to fulfil key public service activities are usually subjected to a significant degree of control given the high level of political sensitivity associated with the delivery of such services. Some may operate with or without a commercial focus. GREs that are not established under general business incorporation laws may have powers, governance regimes or bankruptcy provisions that differ from most other corporations and have a special defined role in implementing governmental policy.

In many emerging markets, GREs still play a critical role in industrial policy, regional development, the supply of public goods and the provision of essential infrastructure and services in areas considered to belong to the realm of natural monopoly. The rationale for state ownership of commercial enterprises varies among countries and industries and has typically comprised a mix of social, economic and strategic interests. The government may have assumed a direct role in initiating economic activities in strategically important economic sectors as a consequence of the inability of private enterprises to initiate such activity or to operate on a sufficiently extensive scale. GLCs are sometimes the result of corporatisation, a process in which government agencies and departments are reorganised as semi-autonomous corporate entities; sometimes partial listing of the enterprise is undertaken. GLCs are typically found in the competitive sectors of the economy and are often prevalent in the utilities, infrastructure, natural resource and financial sectors.

The diversity of GREs' business activities, legal statuses, organisational differences, policy roles, models of governance and accountability arrangements and relationships to government underscore the complexity of GRE analysis. Accordingly, MARC takes into consideration the unique circumstances of individual entities and the jurisdictions in which they operate.

Top-Down and Bottom-Up Rating Approaches

MARC employs a top-down approach in assigning ratings to GREs where there is a very high likelihood and predictability of timely government support based on the rating agency's evaluation of the GRE's ties with the government. The creditworthiness of the GRE is evaluated on the basis of the credit strength of the government and the ratings of the GRE are either aligned with those of the government (federal, state or local, as the case may be) or notched off the government's ratings. Where the rating of the GRE is equated with that of the government, MARC does not publish a granular analysis of the GRE's standalone and support assessments.

For other GREs, MARC employs a bottom-up rating approach that notches up the standalone rating of the GRE for government support where the government is the stronger of the two. MARC assesses the potential for extraordinary support from the government in the event of financial stress ('support assessment') and incorporates the support assessment as rating uplift. The extent of notching up will be a function of the support assessment and the distance of the GRE's rating from the government's rating. In most situations, the standalone rating serves as a floor or lower bound for the GRE's rating with potential support-driven uplift usually limited to one rating category or no more than three notches. The additional rating uplift from implicit support would be disclosed in MARC's analysis to provide clarity and transparency on the level of support incorporated into the GRE's rating. The standalone rating, meanwhile, conveys the GRE's intrinsic credit strength and accordingly its default vulnerability, taking into consideration the impact of the GRE's mandate on its credit fundamentals.

The rating approach for foreign GREs is the same for domestic GREs; nonetheless, circumstances vary in different jurisdictions and the factors affecting timely extraordinary support from the government may be unique to a particular jurisdiction. Where it is established that the particular government has no legal obligation to prevent a default on the part of the GRE, MARC will still make a qualitative assessment as to whether the government concerned may still be highly motivated to provide support and has the financial means to enable the GRE to meet its debt service obligations in a timely manner. In making such an assessment, MARC considers the government's stance towards distressed GREs in the past and policy signals, if any, regarding any potential changes in its capacity and willingness to extend extraordinary support if needed.

Where MARC is providing an opinion on the credit quality of the GRE's individual obligations or issues as opposed to an opinion of its general creditworthiness, the rating agency considers the nature of the obligation as well as the potential for rating differences even among similar obligations for the same GRE. Some obligations of a GRE may be rated higher than others on account of a change in the legal status of the GRE which affects the credit standing of securities issued after the change as compared to prior issuances, differences in the seniority, type of obligation or structural support and other factors. Senior GRE obligations may be secured by revenue pledges which may be backstopped by the government or other relevant governmental unit in the event revenues are insufficient.

Country Ceiling Considerations

A foreign GRE's rating will typically be constrained by the applicable country ceiling unless it is reasonably insulated from local economic and market circumstances and demonstrates superior financial strength and autonomy. Meaningful diversification outside the GRE's domestic economy would be critical to pierce the country ceiling. Additionally, MARC would have to consider a generalised foreign currency payments moratorium in the event of default by the government to be highly unlikely or the GRE's exemption from such a moratorium to be highly likely.

MARC expects few foreign GREs to be rated above their government. GREs which are policy-based institutions are almost always rated no higher than their government stakeholder. In the case of foreign commercial GREs, MARC's approach would be to incorporate the perceived risk of government intervention and any potential negative implications for their credit fundamentals. MARC considers the possibility that the GRE's credit strength could be affected by government's approach in matters concerning taxes, subsidies and dividend payouts.

TYPES OF GREs

MARC distinguishes GREs on the basis of their activities and the importance of these activities from a public policy perspective, and divides the GREs into three broad categories:

GREs which primarily perform public policy roles

They may be wholly or partially funded by the government through transfers and/or subsidies, capital injections or grants with mandates that prescribe a set of activities of a highly public nature. They exhibit lack of a profit motive and there is little or no potential for competition from the private "for profit" sector. The services provided by the GRE would not likely be undertaken by any private entity. These features fundamentally differentiate this category of GREs from semi-commercial or GREs with mainly commercial objectives.

As policy-based instruments, there is usually significant public expectation of support from the government for the liabilities of these GREs. The GRE's borrowings may benefit from a letter of comfort or guarantee from the government. GREs falling within this category typically include social public hospitals, public and nonprofit social housing providers, certain government-owned specialised lenders and special purpose financing entities. The most common forms of GREs in this category include government departments or government entities run as departments, semi-autonomous or autonomous public bodies and government agencies established as companies with limited or public limited company status but with public-sector ownership.

GREs which carry out mixed social or public and commercial objectives

Some of their objectives have a commercial character with the potential for competition with or from the private "for profit" sector. These entities may be partially funded by the government or self-funded by their own revenue sources without government assistance. GREs falling within this category typically include public power utilities, airport operators, port authorities, public sector-owned public transport providers, development financial institutions and public universities. In common with the first category of GREs, the most common forms of GREs in this category include semi-autonomous or autonomous public bodies and government agencies established as companies with limited or public limited company status but with public-sector ownership.

GREs with mainly commercial objectives operating in a commercial environment

These entities are not funded by the government and are self-supporting with their own revenue sources and have a profit maximisation role. They are expected to be profitable and provide dividends for the government and the latter would have the right to appoint members of the GRE's board. GREs falling within this category typically include sovereign-owned investment vehicles, government-owned or majority government-owned commercial banks, and national oil or energy producers, shipping and airline companies.

Government Departments, Statutory Bodies and Government Agencies

MARC considers government departments as administrative units of the government and not separate legal entities. As they are fully controlled by the ministries which are responsible for their particular sphere of activity and fully funded by the government, MARC regards government department offtaker and counterparty-related credit exposures as the equivalent of government exposures in analysing project or structured finance transactions. MARC employs a top-down approach to rate statutory bodies established under statute and controlled by ministries or departments (for example, port authorities in Malaysia) and statutory federal or state-owned corporations (a domestic example would be state development authorities founded under their respective state development corporation enactment.) The enabling legislation of the statutory body sets out its purpose, autonomy and accountability. MARC considers these entities to be closely integrated with the government and its finances.

MARC does not automatically equate the rating of entities controlled by statutory bodies with that of the statutory bodies unless there is a statutory or specific guarantee. Consistent with the analytical approach outlined in this methodology, MARC's starting premise would be its support assessment, which would determine whether the primary driver in the determination of the GRE's rating would be its intrinsic credit profile or that of the statutory body. When evaluating the likelihood of the government providing required support to government agencies, MARC will consider, amongst others, the positioning of these organisations in the context of the government's policy priorities, the extent to which the agencies' founding objectives have been achieved, and the likelihood of a change in these policy priorities in the foreseeable future, whether related or unrelated to a change in the government. A decline in policy importance may signal a potential change in the government's stance on support and the need to give more emphasis to the GRE's standalone creditworthiness in the final rating determination.

Malaysia's government-linked companies (GLC) would fall within the third broad category of GREs mentioned above. Incorporated under the Companies Act 1965, the GLCs have a primary commercial objective and the Malaysian Government has a controlling stake either directly or through government-linked investment companies such as the Employees Provident Fund, Khazanah Nasional Berhad, Minister of Finance (Incorporated) and Permodalan Nasional

Berhad. The government has the authority to appoint members of the board and senior management, make major decisions (award contracts, strategy, restructuring and financing, acquisitions and divestments, etc.

Government-Linked Companies

Also belonging to the same category of GREs are state government-controlled commercial enterprises. Wholly owned government corporations often benefit from high perceived implicit support, notwithstanding the lack of a binding legal obligation on the part of the government.

ANALYTICAL FRAMEWORK

I. Support Assessment

In the absence of more explicit contractual or statutory support mechanisms, MARC will look at the nature and value of implied credit support. The government support assessment is the starting point in the assignment of non-guaranteed ratings to GREs or GRE debt as this determines whether MARC will employ a top-down or a bottom-up rating approach.

From a credit perspective, the likelihood of sufficient and timely extraordinary government support is a function of the government's willingness to extend such extraordinary support to the GRE as well as its capacity to provide such support. The main drivers of the first component of the support assessment, i.e. the government's willingness to provide extraordinary support, are:

- the GRE's role within the country's development strategy and national priorities, as well as the GRE's effectiveness in discharging its mandate;
- the GRE's form and legal status, the government's level of control and oversight, the feasibility and likelihood of privatisation or part-privatisation in the near to intermediate term;
- the government's track record for extraordinary support for the GRE or GREs with public policy roles (where relevant) and any past and present explicit support provided by the government for obligations of the GRE;
- the GRE's operating and financial linkages with the government; and
- potential reputational costs or other considerations that could motivate the government to extend support in order to avoid default at the GRE.

The GRE will be given a score on a scale of 1 (most favourable) to 5 (least favourable) on each of the following support assessment factors: (i) the GRE's economic and strategic importance to the country and government; (ii) the GRE's legal ties with the government; (iii) the government's track record of providing support or tendency towards intervening; (iv) the GRE's operating and financial linkages with the government; and (v) the potential consequences of the GRE's default. The scores are totalled and the average of the scores (with equal weight given to each individual score) is taken as the overall "propensity to support" assessment which will then be expressed on a scale of GS 1 (highest) to GS 5 (lowest).

	Composite Score	"Propensity to Support" Assessment	Typical Rating Approach
GS1	1.0-1.5	Very High	The rating of the GRE would normally be equated with the government's rating.
GS2	1.6-2.1	High	The rating of the GRE would be determined using a top-down approach.
GS3	2.2-2.7	Moderately High	The rating of the GRE would be determined using a bottom-up approach.
GS4	2.8-3.3	Moderate	The rating of the GRE would be determined using a bottom-up approach.
GS5	>3.4	None to Low	No uplift will be applied for implicit government support.

The second component of the assessment, an evaluation of the government's capacity to provide extraordinary support, draws on the credit profile of the government or relevant government entity. Government ratings are determined in accordance with MARC's Sovereign Rating Methodology and State Rating Methodology. The key rating driver for GREs which are weaker relative to their government and receive support assessments of "GS1" or "GS2" will be the government's rating. The rating differentiation between the government and the GRE will usually not exceed three notches.

For the remaining GREs, their standalone profiles are the primary rating driver and support uplift is normally limited to one rating category or three notches (two to three notches for "GS3" and one notch for "GS4") even if the government displays a strong financial profile and commitment to supporting the GRE. Over time, MARC's rating of a GRE that is rated using a bottom-up approach could remain stable, fall, or rise based on the rating transitions of the GRE and the government and MARC's view of implicit government support. GREs with standalone ratings below BB- and a support assessment below GS1 will not qualify for any rating uplift from government support under MARC's support assessment framework.

A GRE's relationship to a government can vary over time. Over the last few decades, governments have been urged to step up the reforms of government-controlled commercial enterprises, introduce private sector ownership, open up government-owned monopolies to competition and implement improved governance structures at GREs. Where the sale of state assets and privatisation appears to be part of the government's agenda to ensure the sustainability of public finances, there would be some corresponding uncertainty regarding the level of the government's commitment over a longer period. Hence, MARC views that a high government ownership stake alone should not translate automatically into a high expectation of support from the government. Conversely, the renationalisation or partial renationalisation of former state-owned industries may occur when privatisation fails to deliver their promised benefits.

MARC places significant emphasis on the qualitative dimension and dynamic application of the guidelines within this methodology as an enterprise can cease to be a GRE or be renationalised over time. Corporatisation and/or privatisation, meanwhile, may contribute to lower confidence in extraordinary government support over time.

Support Assessment Factor 1: Operating Mandate and/or Scope of Operations

MARC assesses the strategic importance of the GRE's operations to the country's economy overall, which is also influenced by the size of its operations. GREs vary in their structures and activities, and systemic importance and the impact of their failure can vary significantly across sectors. A key rating factor for public sector entities will be their mandate, as established by the entity's enabling legislation in the case of statutory body or an agency that is incorporated by its own incorporation Act.

MARC believes that the quality of government support and the overall credit profile of an entity that is primarily involved in non-market governmental activities is highly influenced by its mandate. If the GRE is one of several entities providing the same public service, MARC typically assesses the GRE's relative importance compared to these other entities. MARC performs a case-by-case assessment of the likely magnitude of spillovers and economic consequences of a GRE's financial distress or default. The greater this is, all other things being equal, the higher the likelihood of government support to maintain the GRE as a going concern.

In assessing the importance of the GRE's role to the government, MARC considers the essentiality, nature and extent of activities performed by the entity, as well as the length of time it has remained in existence. Some GREs may operate programmes with very long-term horizons. The GRE's political and public visibility, and its public policy implementation capacity would also be pertinent to the analysis of this particular linkage given that its inability to fulfil its mandate can create some level of political uncertainty. An increase in "political headline" risk would usually be accompanied by lower predictability of government support in a GRE financial distress scenario.

MARC is mindful that fiscal challenges might persuade the government to take a more selective approach to the provision of support in the case of GREs playing a useful but non-essential role in economic development or social policy. Operational continuity of the services provided by a GRE could likely take precedence over the full and timely payment of bondholders in the aforementioned circumstances. Furthermore, GREs' policy roles, and the relative importance of individual policies, can and do shift.

Support Assessment Factor 2: GRE's Legal Form and Extent of Government Control and/or Supervision

The legal form of a GRE affects both the actual and perceived distance between the government and the GRE, and perceived government commitment to bondholders. It also has a bearing on whether a GRE can own assets in its own right, is able to incur liabilities, enter into contracts, is responsible at law for its actions, and can be subject to privatisation and bankruptcy proceedings. Of particular interest is the GRE's ability to continue as a going concern in the event it encounters financial difficulties and the likelihood its main functions and service delivery commitments will be transferred to successor entities and its assets and liabilities be liquidated or transferred. The extent to which the government has a residual financial interest in the net assets of the GRE, in particular its exposure to the residual liabilities of the GRE or its right to receive the residual net assets if the GRE is dissolved, will be an important consideration.

The legal form of the GRE together with the government's level of ownership in the GRE often determines the degree and type of government oversight it will be subject to. While owning more than half the shares of a corporation is usually sufficient to control a corporation, it is noted that the "golden share" that some governments may retain in strategically important GREs post-privatisation entitles them to the right to veto transactions on the grounds of national security. It is observed that in some countries the legality of the golden share has been challenged. The European Commission has, in recent years, instigated proceedings against Italy, Portugal, France, Spain, the UK and Germany in relation to their golden shares in privatised businesses, referring them to the European Court of Justice. Any change in a GRE's legal form which could potentially lead to a dilution of the overall level of support from the government will constitute sufficient grounds for MARC to revisit its support assessment.

If the government is the only owner or owns a majority of the shares in the GRE (through a single government entity or more than one government entity/GRE acting in concert), control can be exerted directly by the government. For analytic reasons, MARC believes that it is important to distinguish the government's general regulatory powers from control over the GRE. MARC considers the following characteristics to be highly suggestive of control by the government: (i) the GRE's budget is approved by a government; (ii) the GRE's financial results are subject to a government audit; (iii) the results of the GRE are included in government financial reports; (iv) the employees of the GRE are considered government employees; and (v) the GRE performs a regulatory function.

MARC takes note of the GRE's reporting and accountability arrangements, and the government's control over the GRE in terms of power to direct the entity's governing body or management to achieve government objectives, approval power over key business initiatives and budgets, ability to appoint or remove the majority of the members of a board (or equivalent governing body of the entity) or to cast the majority of votes at a meeting of the board or the equivalent.

All other things being equal, the greater the control, the greater will be the government's implied or "moral" obligation to provide assistance, if needed. The government may even have a formal legal obligation to take actions to maintain the GRE's solvency and timely honouring of the GRE's debt commitments.

Support Assessment Factor 3: Past and Present Explicit Support

MARC considers the government's track record of providing timely assistance to a GRE as well as any direct support mechanisms through which the government is committed to intervene. Support might be difficult to predict even if the related government has a track record of increasing aid for operations but does not have a historical record of providing an extraordinary bail out to the GRE or other GREs of similar importance to the government. Where a historical record of non-intervention or inaction is apparent, MARC will take the view that the relevant government cannot be relied upon to provide support.

The historical evidence of provided support is examined, in particular past incidents in which the GRE has approached the government for financial assistance. Support mechanisms used by the government in an extraordinary intervention may range from direct loans to the GRE to debt guarantees and other unfunded credit enhancements and callable capital. Continuing support mechanisms such as subsidies, grants and tax breaks, meanwhile, will be ordinarily incorporated in MARC's intrinsic assessment of the GRE.

National bank regulators in some countries impose lower capital charges on banks and other financial institutions for holdings of GRE obligations compared to that for non-GRE corporate obligations to facilitate the GREs' access to public capital markets. The form and value of these explicit support mechanisms vary widely; the support could effectively reduce the likelihood of payment ever being missed or it may just provide assurance of ultimate payment of the GRE's obligations.

When guarantees or credit support mechanisms extend only to specific obligations of the GRE, the support uplift will be given at the issue level and not the issuer. Some GREs may benefit from statutory guarantees which hold the government ultimately liable for the GRE's obligations. MARC will only assign issue ratings that are at the same level as the government's rating to obligations that benefit from a direct government irrevocable and unconditional guarantee or credit support of similar effect that provides for punctual payment of debt service. Such government guarantees or credit support should be designed to survive any future change in government to justify alignment of the GRE's ratings with those of its sovereign.

Support Assessment Factor 4: Operating and Financial Linkages

As legal independence is not synonymous with operational autonomy, MARC considers operational autonomy separately. MARC examines the operating framework that the GRE is subject to in its day-to-day operations, noting the extent to which significant components of the GRE's operating environment are influenced or determined by the government via legislation, policies and regulations. MARC will also examine the government's funding regime for the GRE and be attentive to political considerations and fiscal developments that may affect the stability of funding and affect the GRE's operating flexibility.
Government entities and non-profit entities controlled and mainly financed by the government are generally viewed by MARC as having stronger operational and financial linkages with the government relative to GREs which act as independent commercial enterprises and exhibit low funding dependence on the government. In general, MARC views the government entities and non-profit entities as being closely tied to the creditworthiness of their government funder.

The ability of the GRE to earn a reasonable return on assets while meeting socio-political objectives may also depend on the existence of a supportive rate-setting regime and/or financial compensation for subsidised rates in the case of wholly-owned government-owned providers of utility and public transportation services and port authorities.

Apart from funding dependence on the government, MARC also analyses the GRE's financial autonomy in the context of (i) activities of the GRE included in the government's budget; (ii) its discretion over the level and composition of its expenditure and planned investments or capital spending programme; (iii) the availability of direct revenue sources such as earmarked taxes; and (iv) the sustainability of the GRE's debt burden. Of credit significance will be the manner in which the GRE is treated for financial and accounting purposes. Generally, a GRE's accounts are only consolidated with that of the government where the latter has the ability to direct their financial and operating policies.

Support Assessment Factor 5: Potential Consequences of the GRE's Default

Understanding the conditions under which the government will intervene to prevent a GRE default is central to MARC's ability to evaluate the likelihood of an extraordinary bail-out. MARC believes there is a higher propensity for a government to intervene when the perceived benefits outweigh the perceived costs of not intervening. A nation's pension funds and banks, for example, may be major GRE debtholders, and may even be encouraged to hold such obligations. The GRE may be a frequent borrower in the international capital markets. The default of a high profile GRE might entail severe reputation risk for the government to the extent that key overseas investors hold securities of the GRE and the GRE's failure could adversely affect foreigners' willingness to hold direct government or government-related debt. Where default and/or a debt restructuring would not be a political acceptable possibility, there is a high likelihood that the government may intervene to enable the GRE to avoid a default on its debt obligations.

In certain cases, MARC may ascribe rating uplift that is lower than that suggested by its standard notching rules or may conclude that support is infeasible. MARC may elect not to apply a top-down rating approach when rating financially weak GREs which it believes to be currently experiencing financial distress. If MARC is aware that a privatisation of the GRE is being contemplated, it will review the support assumptions embedded in its rating once clarity is available in respect of the magnitude, timing and nature of any potential disposal of a stake in the GRE by the government concerned.

II. Factoring in the Intrinsic Assessment under the Bottom-Up Rating Approach

GREs with clear public sector mandates

GREs with clear public sector mandates have closer financial, economic and legal ties as well as moral links with the government compared to the majority of profit-oriented GREs operating in a commercial environment. That said, the GRE's success in meeting its policy goals is also pertinent to MARC's support assessment in that GREs that are discharging their policy implementation roles well and/or own strategically important assets are more likely to be supported. On a related note, the higher the degree of a GRE's funding or subsidisation by the government and/or its orientation toward public sector policy, the stronger will be the links between the GRE and the government. MARC believes there is a higher likelihood that the government would act proactively to support such GREs in a financial distress scenario.

MARC's intrinsic assessment of this category of GREs is based on an evaluation of the GRE's operating environment, its operating and financial risk profiles, and its management. The key credit factors which are common across all public sector entities are:

- Demand fundamentals affecting the GRE, the competitive landscape and regulatory regime; depending on the sector, there could be potential competitive threat from new entrants from the private "for profit" sector for similar services;
- The operational record of the GRE, its assets and programmes. This assessment will be informed by MARC's analysis of the GRE's mandate and economic importance. MARC will be attentive to operating risks such as issues of efficiency, service quality and infrastructure adequacy that could harm the GRE's public policy implementation capacity.
- The state of the GRE's finances. The primary objective of MARC's analysis of the GRE's revenue sources as well as their sufficiency, trend and sustainability is to evaluate the strength of the GREs' revenues relative to the GRE's expense levels and trends in expense levels. The size and stability past surpluses or deficits provide a basis for assessing the GRE's prospective

surplus/profit and cash flow generation ability and future debt service capacity. A track record of recurring deficits would be a credit concern. The GRE's near-term capital needs and the discretionary component of the GRE's planned investments will be examined to assess the flexibility retained by the GRE to react to adverse unforeseen economic and financial conditions, including government cuts in funding.

- Management and governance. MARC assesses the ability of the management team to manage the operations of the GRE within its means while fulfilling its mission. Management's ability to take proactive action to mitigate risks and plan for challenges will also be considered.

The above list is not exhaustive; it is intended to provide some guidance on the qualitative and quantitative considerations that are/will usually be most significant in arriving at the GRE's intrinsic assessment.

Commercial-orientated GREs

Commercial-orientated GREs are analysed first as business enterprises on their own merits using sector-specific methodology as appropriate, taking into consideration their operating environment, individual characteristics and other factors most relevant to their fundamental credit quality, including their public policy roles where applicable. For example, a GRE's strong business profile may be the result of a monopoly or near-monopoly position with modest competition. MARC's analytical focus will be on the industry-specific business risk factors in addition to the entity-specific financial considerations and metrics (past as well as expected future metrics) relevant to evaluating the GRE's financial risk profile. For a more comprehensive understanding of MARC's approach to analysing non-financial GRE corporates, please refer to MARC's Corporate Rating Methodology and Corporate Credit: Rating Outcomes Grid, which are available on the rating agency's corporate website.

Non-domestic commercial-orientated GREs which possess stronger credit profiles than their sovereigns may be rated above the government on the national rating scale to reflect their stronger credit quality. However, in certain instances, it may be appropriate to limit the credit rating differential between the GRE and the government in such instances to reflect the latter's potential to create a ratings drag.

Apart from superior intrinsic credit quality, the GRE must demonstrate meaningful insulation from post-default domestic macroeconomic and financial disruption which generally accompanies a sovereign default to be rated significantly above the sovereign. This is because potential credit stress may arise from the non-domestic GRE's material exposure to domestic business, local banks and counterparties, respective key channels for the propagation of shocks to the GRE's economy. Consequently, a non-domestic GRE's rating normally does not exceed the rating associated with the risk that the sovereign might limit access to foreign exchange needed for debt service, which in most cases is the same as the sovereign's foreign currency rating on MARC's national scale.

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