RATING METHODOLOGIES

Government Associated Entities

2025 – Public Version

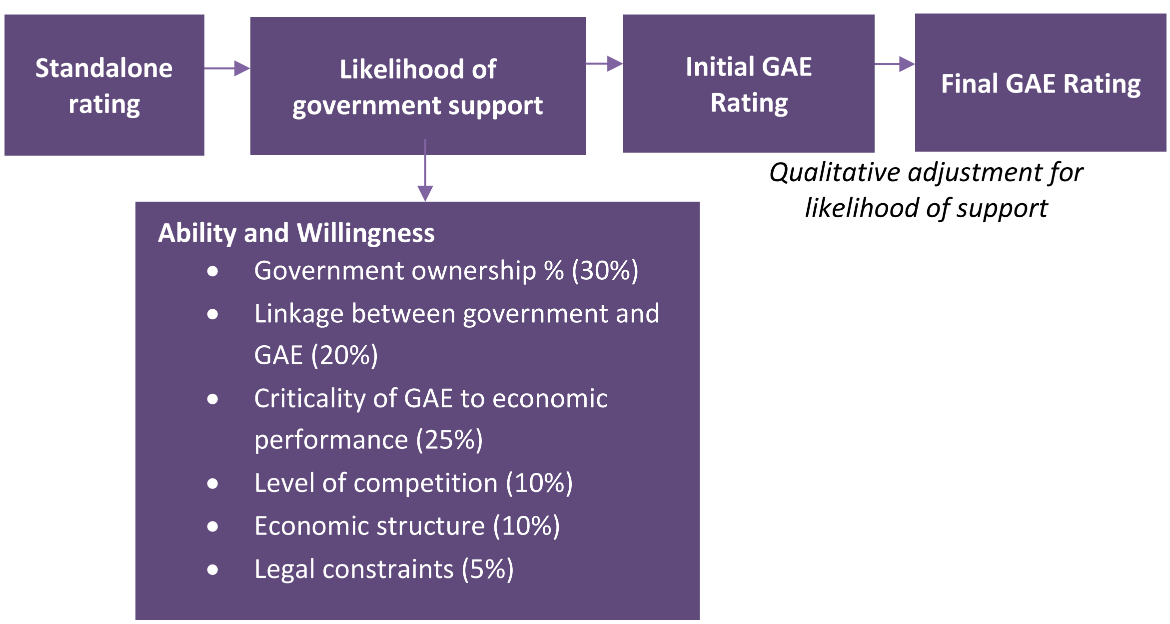
1. TASSNIEF'S Government Associated Entities Rating Methodology

1.1. Summary: A Simplified Sequential Approach

The rating methodology describes Tassnief's approach to assessing ratings of Government Associated Entities (GAEs). Tassnief has specific criteria to determine if an entity is a GAE, as stated below:

- In order to qualify as a GAE, an entity needs to have at-least 20% government shareholding.
- Secondly, the legal form of the entity is evaluated; legal structures such as government agency or statutory corporation may be strongly indicative of a GAE. On the other hand, a private limited liability company, viewed solely, is likely to not be classified as a GAE, unless other factors are considered.
- The statement of incorporation is studied for the purpose of the entity and its planned activities. If these are strongly related to provision of a public good or service, it is likely to support the categorization of the entity as GAE.
- The government's ability to exert control over the entity, as well as the linkage between the entity and the government, are additional factors that are considered.
- Depending on level of integration between government and GAE (along with other relevant factors), Tassnief may choose between deriving the GAE rating directly from the government rating or deriving the GAE rating based on standalone rating of an entity (and the likelihood of support from the government).

Figure 1. Summary of TASSNIEF'S Sequential Approach for Government Associated Entities Ratings



1.2. Standalone Rating of Government Associated Entities (SR.A)

1.2.1. Definition and General Principles

The GAE rating provides an assessment of the standalone rating of an entity and the likelihood of support from the government.

The standalone rating of an entity reflects its intrinsic financial strength, along with day to day support from the parent. It is Tassnief's opinion on an entity's capacity to face the drawbacks of the economic cycle as well as internal and external shocks prone to affect it. It is the starting point of analysis applicable to GAEs. Tassnief determines the rating based on rating factors across 3 broad categories: (i) the **Structural**; (ii) the **Qualitative**; and (iii) the **Financial**.

Once the standalone rating has been determined, the second step is to identify the **likelihood** of government support, through an evaluation of the **ability** and **willingness** of the government to support the entity in time of need and in a timely manner. This is then factored to a notching of the standalone rating of the GAE.

The **ability** and **willingness** of the government to provide support is analysed through an assessment of shareholding, economic significance, historical relationship between GAE and government, explicit legal statements of support and constraints on ability to provide support (such as legal factors).

1.2.2. Rating Factors

The ability and willingness of the government to provide support is categorised as either strong, moderate, low or weak.

The key factor for assessing the ability of the government to provide support, is the **credit rating of the country in which the entity is incorporated or the sovereign rating**. In domestic context, the government's ability to support the entity is considered strongest, indicating lowest expectation of default risk and a strong capacity for meeting financial obligations. The ability of the government to provide support to the GAE may be constrained on account of financial pressures, amount of debt, interest costs or limited financial cushion.

Tassnief also checks for **presence of legal clauses or statements** that constrain the ability of the government to provide support to the GAE. Such legal factors could limit the likelihood of support, even if the willingness of the government to provide support is strong.

To assess the willingness of the government to provide support when needed, Tassnief analyses the **extent of ownership that the government has in the GAE**. A high level of ownership indicates specific interest of the government in performance of the GAE and ties the government's financial position to that of the GAE.

The linkage between the government and GAE is also a positive driver, which is assessed through an evaluation of the extent to which the GAE supports the financial performance of the government in terms of revenue and tax contribution. On the other hand, the extent to which a default of the GAE adversely affects the fiscal position of the government is also indicative of a strong linkage between the government and the GAE.

Tassnief also analyses **the criticality of the GAE to the country's economic performance**. In cases where the GAE is providing a service or good (that is a requirement of the general public), the willingness of the government to provide support is likely to be higher. Entities which contribute to the social welfare of the economy, may also be considered positively in this area.

Presence of other similar players could reduce the economic influence of the GAE through higher competition and is likely to offset other positive drivers.

The economic structure is also a key factor. The general approach of the government towards supporting GAEs is evaluated based on its historical track record. The specific relationship between the GAE in consideration and government is also assessed, with previous instances of support considered to be positive rating drivers.

1.2.3. Determination of Final Rating

Once the factors of ability and willingness of the government to provide support are assessed as being either strong, moderate, low or weak, the likelihood of government support is then rated as being either strong, moderate, low or weak. The final rating is determined by notching the standalone rating upward based on the likelihood of government support.

Depending on the ability and willingness of the sovereign to support the GAE, Tassnief may apply either notching or equating of the sovereign to the GAE.

While the rating criteria is applied based on the specific criteria described in this methodology, Tassnief may also adjust the final rating based on qualitative considerations.

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