



FRAMEWORK 2026



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Introduction

Intelligence Africa's (IA) credit rating framework offers a structured, consistent, and comprehensive framework for assessing the creditworthiness of debt issuers. Our approach uses a dual-factor scoring model centered around solvency and liquidity. Unlike other credit rating agencies, our scoring model does not rely on discrete ranges when applying scores to financial ratios but rather statistical techniques that identify the relative position of a value within a dataset of peers and applies a score. This approach allows for a more differentiated and precise assessment of an issuer's creditworthiness relative to its peers.

Additionally, while other credit rating agencies may need to recalibrate and redefine their discrete buckets to align with organizational and market changes, the IA framework is intrinsically adaptable. Our approach negates the necessity for recalibrations since our scoring isn't bound by pre-defined categories.

Exhibit 1: Our Approach Schematic

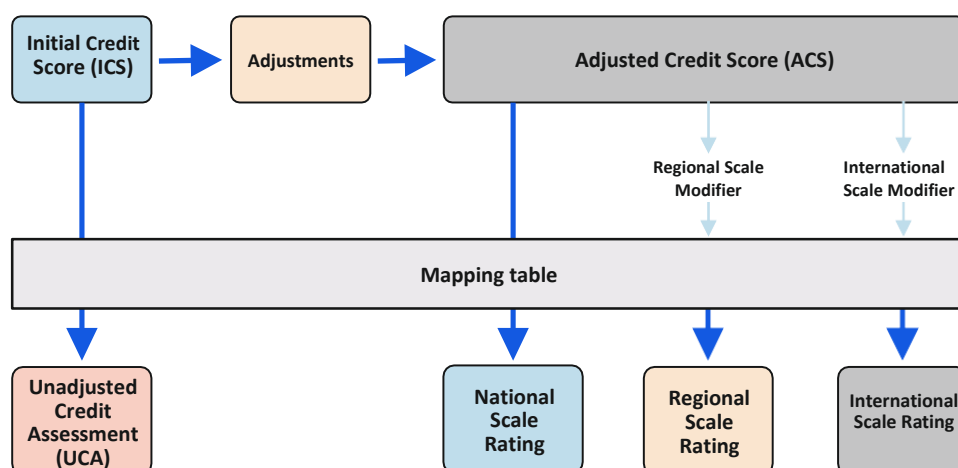


Exhibit 2: Mapping Table

| Initial Credit Score | Unadjusted Credit Assessment | Adjusted Credit Score (ACS) | Rating Category* |
|----------------------|------------------------------|-----------------------------|------------------|
| 8.25-10 | aaa | 8.25-10 | AAA |
| 6.25-8.25 | aa | 6.25-8.25 | AA |
| 5.5-6.25 | a | 5.5-6.25 | A |
| 4.5-5.5 | bbb-ccc | 4.5-5.5 | BBB |
| 3.75-4.5 | | 3.75-4.5 | BB |
| 1.75-3.75 | | 1.75-3.75 | B |
| 0-1.75 | | 0-1.75 | CCC,CC,C,D |

*Within each Rating Category (except AAA, CC, C and D), ratings may be further refined using symbolic modifiers: a "+" indicates the upper end of the category, no modifier indicates a midpoint, and a "-" indicates the lower end. Notwithstanding the outcome implied by the ACS, analysts may assign a final rating up to one notch above or below that indicated by the ACS mapping, where justified by qualitative considerations, forward-looking risks, or factors not fully captured in the framework.

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Initial Credit Score (ICS)

The ICS is the weighted total score of financial ratios that represent solvency and liquidity factors. The financial ratios are calculated using the latest publically available fiscal-year-end information and/or information provided by the issuer. Each financial ratio is given a score based on its relative position within a dataset of peers (see appendix for peer group construction). To allow for comparability across asset classes, solvency and liquidity factors will carry weights of 60% and 40%, respectively, across asset classes. A list of key credit risk ratios/metrics, by asset class, and their weights is shown, below. The ICS is the total weighted score of each financial ratio and it is between 0 and 10.

The ICS can be passed through the IA Mapping Table (Exhibit 2) to give an Unadjusted Credit Assessment (UCA) in the form of a lower-case alphabetic scale i.e. aaa – ccc. While the ICS and UCA provide a useful initial measure of credit risk, they are not considered credit ratings because they don't incorporate the comprehensive, multi-dimensional analysis that is characteristic of a credit rating. As such, the ICS and UCA should not be regarded as a final or definitive assessment of credit risk.

Issuers Exhibiting Cross-Asset Class Characteristics

IA recognises that certain issuers may exhibit characteristics that span more than one asset class. For example, a non-bank Financial Service Provider (FSP) may operate a material loan book and therefore display risk features typically associated with Financial Institutions (FIs), which are measured using metrics such as Non-Performing Loans (NPLs).

Where an issuer being assessed under one asset class framework is materially exposed to a credit risk factor that is ordinarily captured within another asset class framework, IA may incorporate that credit risk factor into the assessment. The financial ratio used to measure that credit risk factor in its native asset class framework may either be introduced as an additional factor or substituted for an existing ratio within the host framework. Ratios incorporated from another framework are referred to as “Borrowed Ratios.” Any risk factor adjustments associated with that ratio in its native framework may also be applied, where relevant, to preserve analytical consistency.

Where a Borrowed Ratio substitutes for an existing ratio, it assumes the same weighting as the ratio it replaces. Where a Borrowed Ratio is introduced as an additional factor, it retains the same proportional share of its risk factor bucket (solvency or liquidity) as in its native framework. The remaining ratios within the corresponding bucket of the host asset class framework are scaled proportionally so that the total weight of the bucket remains 60% for solvency or 40% for liquidity.

Adjustments to the ICS

ICS adjustments are a key part of our ratings process and are designed to ensure the resulting Adjusted Credit Score (ACS) reflects our forward-looking views and the true credit risk profile of each issuer. IA can make the following types adjustments to the ICS:

- Risk Factor adjustments (Not subject to adjustment limits)
- Business Profile adjustments (up to +/- 2 of the ICS)
- Environmental, Social, and Governance (ESG) Profile Adjustment (up to +/- 2 of the ICS)
- Industry Profile adjustments (up to +/- 2 of the ICS)
- Additional Risk adjustments (up to +/- 2 of the ICS)
- Support Profile adjustments (up to + 4 of the ICS)
- Country Risk adjustments

Adjustments can be applied in increments of 0.25. Once all adjustments that can be made have been applied to the ICS, we get to the Adjusted Credit Score (ACS). The ACS is constrained to 0 – 10. By putting the ACS through the mapping table, we are able to assign a National Scale Rating. The ACS can also be multiplied by a modifier in order to assign regional or international scale ratings (this is discussed further, below).

Risk Factor Adjustments (Not subject to adjustment limits)

The ICS involves scoring key credit risk ratios that are calculated using information from an entity's latest fiscal-year-end financial reports. However, this might not always provide a complete or representative forward-looking picture of the issuer's credit risk profile.



Risk Factor Adjustments are about bringing an element of qualitative judgment and/or forward-looking analysis into the scoring process, to complement the quantitative analysis of the latest financials and ensure that the scores truly reflect the issuer's forward-looking credit risk profile.

A forward-looking perspective involves consideration of potential future changes in credit risk ratios based on IA's evaluation of the issuer's future strategic plans, industry trends, economic forecasts, and any other relevant information. For example, if an issuer has recently been granted approval to raise share equity and significantly de-lever its balance sheet over the next year, this may lead to an upward adjustment to the issuer's ICS, reflecting the expected improvement in the issuer's leverage or capital ratio.

Similarly, Risk Factor Adjustments also help address instances where the designated financial ratio might not be representative of the risk factor it purports to reflect. For instance, an issuer's profitability might be temporarily inflated due to a one-off gain or depressed due to a non-recurring charge. In such cases, IA might adjust the issuer's ICS to better reflect the issuer's underlying operating profitability. Additionally, an issuer may have a historically strong liquidity position, but if we foresee major investments or debt repayments that could significantly weaken the issuer's liquidity in the future, we might adjust the ICS downward to reflect this risk.

Lastly, IA has the flexibility to make further adjustments to the ICS based on credit metrics and factors beyond those used in the calculation ICS. These supplementary credit metrics and factors provide further insights and enhance IA's credit risk assessment. By making adjustments based on these additional credit metrics and factors, IA ensures that all relevant risk factors are adequately considered in the credit rating process.

It is important to note that risk factor adjustments are attributed to either solvency or liquidity depending on the nature of the underlying risk. This ensures that all adjustments are mapped back to the relevant credit risk factor, allowing for comparability of solvency and liquidity scores across issuers and asset classes.

Business Profile Adjustments (up to +/- 2 of the ICS)

Business Profile Adjustments can be made to account for qualitative aspects of an issuer's business that may not be adequately captured by the quantitative factors evaluated in the ICS. This adjustment step is crucial because it captures elements that reflect the business's strategic positioning, risk appetite and management, competitive dynamics, scale, franchise strength and track record.

Strategic Positioning: If an entity demonstrates a clear and actionable strategic plan that sets it apart from competitors, this might warrant a positive adjustment. For example, an issuer that invests heavily in next-generation technology might be viewed as having a superior strategic position compared to its peers who are not making such investments.

Risk Appetite and Risk management: This refers to both the level of risk an organisation is willing to accept in pursuit of its objectives and the robustness of its frameworks for identifying, assessing, and mitigating those risks. A high risk appetite, when not supported by strong risk controls, may expose the entity to significant volatility in its credit risk profile, which could justify a negative adjustment to the ICS. For example, a real estate development company that frequently undertakes speculative projects in volatile markets—without demonstrably robust risk management processes—may be penalised for its risk-taking behaviour. Conversely, an entity with a moderate or even high risk appetite may avoid a negative adjustment, or potentially benefit from a positive one, if it demonstrates comprehensive and institutionalised risk governance practices that are proportionate to the risks undertaken.

Competitive Dynamics: An issuer with a unique product or service that gives it a strong competitive advantage could receive a positive adjustment. For instance, a software company with a patented technology that significantly outperforms competitor offerings may warrant a positive adjustment.

Scale and Franchise Strength: The size of an issuer's operations and balance sheet, alongside the strength of its franchise, are key determinants of its business profile. Larger entities typically benefit from diversification, stronger market positioning, and better funding access, supporting earnings stability and resilience. A well-established franchise, reflected in stable market share and recurring revenues, further enhances predictability and reduces business risk. Conversely, smaller entities with limited scale are more vulnerable to competitive pressures. This competitive fragility, combined with limited diversification and weaker shock-absorption capacity, may warrant a negative adjustment.



Track Record: The length of time an issuer has been in operation is an important factor when evaluating its business profile. A long track record can often equate to seasoned management, tested business strategies, and established customer and supplier relationships. In contrast, newer entities may not have demonstrated their resilience through varied economic cycles and could therefore be viewed as carrying higher operational risk. For example, a startup, despite having a promising business model, might see a negative adjustment due to its brief operational history and untested long-term viability, signifying an elevated risk when compared to well-established peers. This adjustment can be quite punitive if an entity has less than three years of audited financials.

Environmental, Social, and Governance (ESG) Profile Adjustments (up to +/- 2 of the ICS)

IA recognises that Environmental, Social, and Governance (ESG) factors can have significant influence on an issuer's credit risk profile and, by extension, their credit rating. IA incorporates ESG factors into its credit risk framework, acknowledging that these factors can materially impact an issuer's ability to meet its financial commitments.

Environmental: This refers to how an issuer's performance can be impacted by its interactions with the environment and/or the impact that environmental factors and changes can have on the issuer's operations and profitability. Environmental risks can range from direct financial costs (like penalties for non-compliance with environmental regulations) to indirect impacts (such as reputational damage from environmentally harmful practices). Issuers in sectors like energy, mining, or manufacturing can face substantial environmental risks due to their high potential for environmental damage. Secondly, environmental changes and events can have implications for an issuer's operations and profitability. For instance, an issuer in the agricultural sector may be susceptible to changes in weather patterns, increased frequency of extreme weather events, or shifts in pest and disease patterns due to climate change.

Social: This factor involves the impact of an issuer on its employees, customers, and the communities in which it operates. Poor labor practices can lead to strikes and low productivity, while lack of customer care can lead to loss of sales, both of which can affect an issuer's financial performance. Negative social impacts can also lead to reputational damage, regulatory penalties, or litigation, which can increase costs and affect an issuer's creditworthiness.

Governance: Negative adjustments may be warranted for an issuer with a management team that lacks a strong track record of performance and strategy execution, demonstrates inadequate industry experience, or where board independence is limited, reducing the effectiveness of oversight. However, positive governance adjustments are rare in our methodology. Effective governance is viewed as a baseline requirement rather than a competitive advantage; as such, most entities meeting basic governance standards would not receive a positive adjustment. For further insight into how IA incorporates corporate governance considerations into its credit rating framework, please refer to 'Corporate Governance, A Credit Rating Perspective', [here](#).

Industry Profile Adjustments (up to +/- 2 of the ICS)

The Industry Profile Adjustment aims to capture credit risk factors that are related to the specific industry or sector in which an issuer operates. This adjustment takes into account the following considerations:

ESG factors: This looks at the degree to which an industry is exposed to environmental, social, and governance-related risks or opportunities. For instance, companies in the energy sector may face significant environmental risks related to greenhouse gas emissions and regulatory penalties, while a technology company may face social risks related to data privacy and cybersecurity. These risks, if not adequately managed, can impact an issuer's financial performance and hence its creditworthiness.

Regulatory and Legal Environment: Industries differ significantly in the degree to which they are regulated and the type of legal challenges they might face. Heavily regulated sectors, like utilities or healthcare, can face additional compliance costs, regulatory risks, and limitations on their operations, which may warrant a negative adjustment. Conversely, an industry with less regulatory risk or favourable regulations could warrant a positive adjustment.

Industry Structure: This encompasses the competitive landscape of the industry, barriers to entry, the level of industry consolidation, and the overall market dynamics. Industries with relatively high barriers to entry and lower competition can have more predictable revenues and profitability, potentially leading to positive adjustments.



Cyclical: This reflects the sensitivity of the industry to economic cycles. Industries highly sensitive to economic cycles (e.g. hospitality and construction companies) might warrant a negative adjustment during economic downturns due to the increased risk of lower revenues and earnings. Conversely, industries less sensitive to economic cycles (like utilities) could be more resilient during downturns, possibly warranting a positive adjustment.

Market Risk: Certain industries e.g., banking, mining and agriculture are inherently vulnerable to market risks, including foreign exchange and commodity price fluctuations. Such industries may need adjustments to reflect their vulnerability to market risks.

Other Factors: Industries can also be characterised by their levels of opacity and complexity. Some sectors may have intricate operational models, making their risk profiles hard to discern and evaluate. These complexities, coupled with a lack of transparency in certain industries, can necessitate specific adjustments when gauging credit risk.

Each of these elements provides crucial insights into the industry-specific risks and opportunities that an issuer faces, which are essential to forming a holistic view of an issuer's creditworthiness.

Additional Risk Adjustments (up to +/- 2 of the ICS)

Additional Risk adjustments allow IA to capture credit risks that may not be adequately represented by the conventional adjustment types, listed above. For example, unconventional issuers whose risk is disproportionately under/overscored by their financial ratios may require additional adjustments to their ICS. For instance, an issuer may exhibit strong financial ratios and receive a high ICS, yet its substantive risk, perhaps due to its diminutive size or limited track record, may not be sufficiently captured by other adjustments.

Support Profile Adjustments (up to +/- 4 of the ICS)

This adjustment captures the potential impact of external support, either as a source of strength or constraint, on the issuer's creditworthiness. Such support may originate from a parent company, a major shareholder, or a government entity. Depending on the nature and quality of the support relationship, this adjustment may be positive or negative.

In evaluating the potential for support, IA considers both the willingness and ability of the support provider to provide support. The following support factors are considered:

- The strategic importance of the issuer to the potential support provider.
- The financial strength of the potential support provider.
- The history of support provided.
- Legal obligations to provide support.
- The impact of providing support on the support provider's own credit profile.

A positive adjustment may be applied when external support is credible, readily accessible, and likely to enhance the issuer's ability to meet its obligations. Conversely, a negative adjustment may be made where group or shareholder relationships are deemed to be a constraint; such as where the parent's weaker credit profile may expose the issuer to contagion risk, or where the influence of a dominant shareholder poses governance or operational risks. In such cases, the support dynamic is not stabilising but instead may increase the issuer's risk profile.

Country Risk Adjustments for Entities With International Operations

Where the entity under review generates revenue or EBITDA from multiple jurisdictions, IA may adjust the ICS to reflect its blended operating environment. These adjustments aim to capture the macro-level risks tied to the countries in which the entity operates.

A Home Country is determined using analytical judgement and will typically be the jurisdiction contributing the largest proportion of revenue and/or EBITDA. Other considerations may include the location of management, regulatory oversight and other qualitative factors that IA considers relevant in determining the jurisdiction most representative of the entity's overall credit profile.

The Base ICS is calculated using peers in the home country.



IA then calculates a Weighted Country Risk Score (see Country Risk Score section, below) based on geographic exposure. Revenue will generally be used as the weighting factor, although IA may use EBITDA, assets, or other measures considered more representative.

Weighted Country Risk Score = \sum (Country Weight \times Country Risk Score)

Adjusted ICS for entities with international operations = Base ICS \times (Weighted Country Risk Score \div Home Country Risk Score)

An adjusted ICS above the Base ICS indicates that the entity's blended operating environment is stronger than its home country, while an adjusted ICS below the home ICS indicates exposure to weaker operating environments.

Country Risk Scores and Rating Scale Modifiers

IA applies Rating Scale Modifiers so ratings can be compared regionally and/or globally. Rating Scale Modifiers are not applied to National Scale Ratings.

- Rating Scale Modifier = Country Risk Score/10.
- ACS \times Rating Scale Modifier = Regional or International Scale Rating

We calculate the Country Risk Score by assigning a score of 0 -10 to the following indicators:

- Gross Domestic Product (GDP), International Monetary Fund (IMF) forecast, (Weighting: 15%): This metric represents the total value of all goods and services produced by a country in a year. It provides a broad measure of the overall size and health of an economy. A high GDP usually indicates a large, robust economy, which can indicate lower credit risk for businesses operating in that country.
- GDP Per Capita, IMF forecast, (Weighting: 45%): This figure is calculated by dividing a country's total GDP by its population. It is a common indicator of living standards or economic well-being. A high GDP per capita typically implies a higher standard of living, which is supportive of lower credit risk for businesses operating in that country.
- Real GDP Growth, IMF forecast, (Weighting: 15%): Real GDP growth takes into account the rate of inflation and gives a more accurate picture of a country's economic growth. This indicator is important because high or sustainable economic growth usually signifies a thriving, expanding economy. Rapid growth can provide businesses with more opportunities. Conversely, low or negative growth may indicate an economic slowdown or recession, which generally increases the credit risk of businesses.
- World Bank Governance Indicators (Weighting 25%): The World Bank's governance indicators are a set of six composite indicators that capture various dimensions of governance, including Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law, and Control of Corruption. Strong performance in these areas is usually associated with a lower risk business environment.

Each individual indicator score reflects the relative position of a value within a dataset of peers. The Country Risk is a weighted average of all indicator scores. For a regional rating scale, such as an African Rating Scale, the peers in the country risk dataset will be African countries. For an international rating scale, the peers in the country risk dataset will be all countries worldwide.

Adjustments to the Country Risk Score for Idiosyncratic Risk (up to +/- 4 of the country risk score)

It is important to recognize that every country carries unique characteristics that may not be fully captured by standardised indicators. To reflect these distinctions, Intelligence Africa allows for qualitative adjustments of the Country Risk Score, capturing idiosyncratic risks or opportunities that materially influence a country's credit risk profile.

For instance, in cases where an economy is heavily reliant on a single commodity (e.g., oil or copper), it may be vulnerable to global price volatility. A sustained downturn in commodity prices could trigger a fall in export revenues, weaken fiscal and external buffers, and exert pressure on the local currency—thereby increasing the operating and funding risk for issuers. In such cases, a negative adjustment to the country risk score may be appropriate.

Conversely, positive adjustments may be made where a country is endowed with a substantial stock of proven natural resources and where Intelligence Africa judges that, under realistic governance and investment assumptions, these resources can be monetised



within the outlook period. This is particularly relevant for African countries, where the translation of resource wealth into economic resilience is often overlooked in global credit assessments.

Additionally, human capital plays a critical role in shaping long-term credit outcomes. Countries with large, youthful, and increasingly educated populations may be well-positioned for future productivity gains and structural economic transformation—particularly where there is evidence of effective policy frameworks, labour market development, and skills alignment. Where such trends are expected to enhance the credit outlook within the rating horizon, a positive adjustment may be warranted. On the other hand, countries with significant brain drain, underinvestment in education, or high youth unemployment may face downward adjustments if these issues pose material downside risks to growth, governance, or social stability.

This approach underscores IA's commitment to a context-sensitive assessment of African credit risk, one that considers not just current constraints but also near-to-medium-term opportunities for structural uplift.

Appendix

Guarantors, related entities and IA's rating approach

At IA, our methodology for determining which entity to assess when assigning a credit rating reflects the unique characteristics of that entity within a broader group structure. Our approach can be categorized into the following approaches:

1. Credit analysis of a standalone entity:

Applicability: This approach is employed for entities that are relatively immaterial within a group i.e. constitute a small portion of a group, or are effectively shielded from the rest of the group via contractual or regulatory barriers.

Focus of Analysis: In this case, our analysis centers on the entity's individual operations and financial data, allowing us to gain a comprehensive understanding of its standalone creditworthiness.

However, we may still consider making adjustments to the entity's ICS on account of support, as per the Support Profile Adjustment section, above.

2. Credit analysis of a parent/group:

Applicability: This approach is employed where the rated entity is materially linked to a parent or wider group such that its standalone credit profile cannot be meaningfully separated from that of the group. This may arise where:

- The rated entity constitutes a significant proportion of the group's assets or revenues; or
- There is material financial interdependence, including related-party transactions; or
- There is operational integration through shared services or shared governance/management; or

Focus of Analysis: Our assessment here extends beyond the individual entity to encompass the broader group.

3. Credit analysis of a guarantor

Applicability: Utilized when an entity's creditworthiness hinges upon that of a third party; in this case a guarantor that effectively underwrites 100% of the debt issuance or relevant debt obligations of the entity. Eligible guarantees can force IA to take a credit substitution approach to assessing the credit rating of an entity or debt issuance i.e. the credit rating will reflect that of the guarantor.

Focus of Analysis: Pivots on the guarantor's creditworthiness, recognizing that the financial robustness of the guarantor directly influences the entity it guarantees.

For IA to take a credit substitution approach, a guarantee must exhibit the following things:



- I. The guarantor must have a higher rating than that of the Issuer, otherwise IA will assign the higher of the Issuer/Issuance rating.
 - II. Irrevocability: Guarantee contracts must sufficiently curtail the termination or amendment of the agreement by the guarantor.
 - III. Unconditional and Timely Commitment: Guarantors must commit to all obligations under the guarantee unconditionally and timeously.
-

Adjustment Categories

0 (Immaterial and/or non-discernable differentiator): No adjustment signifies that the adjustment factor in question holds no material influence on the relative credit assessment of the entity. It indicates that the adjustment factor does little in differentiating the entity from its peers.

+/- 0.25-0.5 (Meaningful enough to highlight as part of the differentiation narrative): A 0.25-0.5 adjustment indicates that the adjustment factor, while not a major differentiator of an entity's relative credit risk profile, is noteworthy in the narrative in our credit assessment.

+/- 0.5-1.75 (Material differentiator amongst peers within a rating category): Adjustments in the range of 0.5 to 1.75 suggest that the adjustment factor in question is a material differentiator among entities within a risk/rating category.

+/- 2 (Indicates qualitative outlier): These adjustments are reserved for situations where the adjustment factor's influence on the ICS is exceptional. The use of this magnitude of adjustment can be justified when IA's rating committee believes that the adjustment factor highlights a difference in the credit risk profile of that entity that puts it in a different risk/rating category from its peers.

Peer group construction

As mentioned, IA's scoring model does not rely on discrete ranges when applying scores to financial ratios. Instead, an issuer's credit ratios are assessed relative to those of a dataset of comparable peers. The construction of an appropriate peer group is therefore an important component of the analytical process.

In the simplest terms, a peer is defined as an entity that shares the issuer's asset class and jurisdiction of incorporation. The peer group represents the set of entities against which the issuer's financial metrics are evaluated in order to determine its relative credit positioning.

When constructing a peer group, IA seeks to ensure that the dataset reflects a meaningful range of credit profiles within the relevant asset class. In practice, this means that the peer group should include entities that demonstrate relatively strong credit characteristics as well as those that exhibit comparatively weaker profiles. The presence of a reasonable spread of credit profiles within the peer group strengthens the analytical scale used to evaluate issuers, allowing IA to assess an issuer's relative credit strength effectively.

Where the available peer universe within a jurisdiction is limited or does not provide a sufficiently representative range of credit outcomes, IA may supplement the dataset with additional peers from jurisdictions with comparable country risk scores (within a two-point range). In certain cases, analysts may introduce stylized credit metrics where the available peer dataset is limited, ensuring that the resulting analytical scale is sufficiently robust to produce meaningful relative assessments.

Comprehensive details regarding the construction of the peer group are disclosed in the credit rating report of each rated entity to ensure transparency regarding the analytical context in which the issuer is assessed.



Short-term ratings mapping table

| Long-term Rating | Short-term Rating |
|------------------|-------------------|
| AAA | A1 |
| AA | |
| A | A2 |
| BBB | |
| BB | B |
| B | |
| CCC-D | C-D |



Key risk factors, ratios and weights

| Asset Class | Risk Factor | Key Financial Ratios | Weighting |
|---|-------------|--|-----------|
| Financial Institutions | Solvency | Tier 1 Ratio (or equivalent) | 20% |
| | | NPLs (or equivalent) | 20% |
| | | ROA (Return on Assets) | 20% |
| | Liquidity | Liquidity Ratio (Liquid assets/Liabilities) | 25% |
| | | Loans/Deposits | 15% |
| Corporates | Solvency | Debt/EBITDA | 30% |
| | | EBITDA Margin | 30% |
| | Liquidity | Operating Cash Flow/Current Liabilities | 20% |
| | | Current ratio (Current Assets/Current Liabilities) | 20% |
| Insurance | Solvency | Tangible Common Equity/ Tangible Assets | 20% |
| | | Total Liabilities / Total Assets | 20% |
| | | Return on capital | 20% |
| | Liquidity | Current ratio (Current Assets/Current Liabilities) | 40% |
| Financial Service Providers (non-bank) | Solvency | Debt/EBITDA | 30% |
| | | EBITDA Margin | 30% |
| | Liquidity | Operating Cash Flow/Current Liabilities | 25% |
| | | Current ratio (Current Assets/Current Liabilities) | 15% |
| States and Municipalities | Solvency | Debt/Revenue | 30% |
| | | Interest expense/Revenue | 30% |
| | Liquidity | Operating cash flow/ Debt | 20% |
| | | Liquidity Ratio (Liquid assets/Liabilities) | 20% |
| Commercial property funds and companies (including REITs) | Solvency | (Total Debt + Preferred stock) / Gross Assets | 20% |
| | | Debt/EBITDA | 20% |
| | | Operating income/Net interest | 20% |
| | Liquidity | Liquidity Ratio (Liquid assets/Liabilities) | 40% |
| Open End Fund Ratings | Solvency | WA Credit quality | 60% |
| | Liquidity | WA maturity & duration | 20% |
| | | Liquidity [(Cash + Gov sec)/(AUM)] | 20% |
| Closed End Fund Ratings | Solvency | Risk Adjusted MV of assets / Nominal value of debt and preferred stock | 20% |
| | | WA Credit quality | 20% |
| | | Fixed charge coverage (Net investment income/financing costs) | 20% |
| | Liquidity | Liquidity (% government securities) from a MV volatility perspective | 40% |
| IHC | Solvency | Equity/Assets | 60% |
| | Liquidity | Operating Cash Flow/Current Liabilities | 20% |
| | | Current ratio (Current Assets/ Current Liabilities) | 20% |



Financial Institutions Methodology

This credit rating methodology outlines Intelligence Africa’s approach to assessing the credit risk of financial institutions. Our Financial Institutions Methodology also facilitates the credit risk assessments of credit instruments such as financial institutions’ fixed income issuances.

The methodology offers sufficient flexibility to be applied to commercial banks, credit guarantors, export finance entities, and development finance institutions; where the business model and risk profile align more closely with banking-sector dynamics than with non-bank financial service providers.

For non-bank entities with fundamentally different risk structures, IA applies a dedicated Non-Bank Financial Services Providers Methodology.

The financial ratios used in determining a financial institution’s ICS are as follows:

| Asset Class | Risk factor | Key Financial Ratios | Weighting |
|------------------------|-------------|---|-----------|
| Financial Institutions | Solvency | Tier 1 Ratio (or equivalent) | 20% |
| | | NPLs (or equivalent) | 20% |
| | | ROA (Return on Assets) | 20% |
| | Liquidity | Liquidity Ratio (Liquid assets/Liabilities) | 25% |
| | | Loans/Deposits | 15% |

Solvency Ratios:

Tier 1 Ratio (or equivalent)

The Tier 1 Ratio is a measure of a financial institution’s core capital in proportion to its risk-weighted assets (or equivalent). This metric evaluates the strength of a financial institution's capital position, indicating its ability to absorb potential losses. A higher Tier 1 Ratio suggests greater resilience against losses from adverse economic conditions and shocks.

Non-Performing Loan (NPL) Ratio % (or equivalent)

NPLs represent loans (or equivalent) that are impaired or delinquent, indicating potential credit risks. Monitoring NPLs is crucial in assessing the quality of a financial institution's loan portfolio. Elevated NPL levels can signify weaknesses in a financial institution’s lending practices and/or a low borrower creditworthiness. NPLs can lead to credit losses and thus have negative implications for financial institution profitability and capital.

Return on Assets (ROA) %

ROA is a profitability measure reflecting a financial institution's ability to generate earnings from its assets and thus absorb credit losses emanating from its assets (loans in the case of banks) and/or generate capital organically i.e., through retained earnings.

Liquidity Ratios:

Liquidity Ratio (Liquid Assets/Liabilities) %

The Liquidity Ratio assesses a financial institution's capability to meet short-term obligations using available liquid assets. Maintaining adequate liquidity is vital to address unexpected liabilities (e.g. withdrawals), market disruptions, or shifts in financial conditions. A high Liquidity Ratio may imply that the financial institution can fulfill its liabilities without resorting to distress sales or unfavorable borrowing terms.



Loan to Deposit Ratio

A financial institution's loan to deposit ratio offers insights into its funding structure and liquidity resilience. If a financial institution exhibits a high loan to deposit ratio, this could signal a timing misalignment wherein the financial institution might face difficulties in fulfilling withdrawal requests during market disruptions. A high loan to deposit ratio also highlights the financial institution's reliance on confidence-sensitive market funding.

FI Solvency Risk Factor Adjustments

Tangible Common Equity Ratio

The Tangible Common Equity (TCE) Ratio holds significance in evaluating a financial institution's solvency due to its focus on tangible assets, which are more reflective of a financial institution's true credit strength. This ratio excludes intangibles and preferred stock, providing a clearer picture of the core equity available to absorb losses. Compared to the Tier 1 Capital Ratio, which includes various forms of hybrid capital, TCE is a more accurate measure of a financial institution's capacity to withstand adverse shocks. For example, if Bank ABC's forward-looking Tier 1 ratio is above its peer average but its forward-looking TCE Ratio falls below the peer average then a downward adjustment to the ICS is applied.

Foreign Currency Net Open Position

A financial institution's net open foreign currency position can materially influence its solvency profile. A significant net short position, where foreign currency liabilities exceed foreign currency assets, exposes the institution to depreciation risk, potentially weakening its capital base as local currency earnings and assets lose value relative to foreign obligations. Alternatively, a net long position may carry revaluation risk in the event of local currency appreciation. In either case, substantial open positions heighten capital volatility and may warrant a negative solvency adjustment. Conversely, a well-managed and modest net open position, supported by effective hedging strategies, could justify a positive adjustment, reflecting reduced vulnerability to currency shocks.

Contingent Convertibles

The presence of going concern loss bearing capital instruments such as Additional Tier 1 instruments (AT1s) and contingent convertibles (CoCos) can lead to adjustments to the financial institution's ICS if the trigger levels for write-down or conversion of the instruments into capital are close to the level of non-viability.

Capital Fungibility

Capital fungibility gauges a financial institution's flexibility in allocating capital across its organisational structure. Regulatory restrictions on capital transfers between subsidiaries or jurisdictions can influence a financial institution's overall capital strength and its ability to maintain adequate capital levels. For instance, if Bank ABC faces limitations on moving capital among its subsidiaries, an adjustment may be introduced to capture the potential impact on its ICS.

Bail-Inable Securities in Resolution Regimes

Bail-inable securities can be converted to equity or written down in resolution scenarios, affecting a financial institution's capital position. Adjustments here account for the potential effect of these mechanisms on a financial institution's capital adequacy during resolution situations. A positive adjustment can be made to a financial institution's ICS based on the presence of bail-inable securities that result in going concern loss absorbing capital buffers.

Risk of Regulatory Intervention

This factor assesses the potential for regulatory actions to adversely affect a financial institution's credit risk profile. While regulatory frameworks are designed to protect financial stability and, by extension, depositors, certain interventions, particularly when an institution operates close to capital or liquidity thresholds, may impair creditors' interests. As such, proximity to regulatory breach points, or a history of intervention, may warrant a negative solvency adjustment.



Unfunded Benefits

Unfunded employee benefits, like pensions, can impact a financial institution's capital position over the long term. Adjustments in this area evaluate the potential future capital requirements needed to fulfill these obligations. For example, if Bank ABC has substantial unfunded pension liabilities that could strain its capital adequacy in the future, then a negative adjustment can be made to its ICS.

Dividend Policy

A financial institution's dividend policy impacts its earnings retention and ability to build capital buffers. Adjustments in this category assess whether dividend payouts are sustainable and whether they impact capital adequacy. If Bank ABC consistently retains very little of its earnings, its ICS may be adjusted downwards.

Stability of Earnings

The stability of a financial institution's earnings has implications for our assessment of a financial institution's solvency. Volatile earnings impact the financial institution's ability to generate capital organically and consistently. One-off charges, divestments, or unusual gains distort the true operating performance of a financial institution. If Bank ABC's recent earnings are driven by non-recurring items, a negative adjustment to its ICS might be in order.

Diversity of Income Streams

A diversified income stream can enhance a financial institution's solvency by reducing its reliance on specific revenue sources. Adjustments evaluate the extent to which a financial institution's income is concentrated in particular sectors or products. For example, if Bank ABC relies heavily on a single income source, then there is heightened vulnerability to the financial institution should the business relating to that revenue stream come under pressure. In the aforementioned scenario, a negative adjustment to the ICS may be warranted.

Proportion of Revenue that are Core Earnings

The proportion of a financial institution's revenue derived from core earnings, like net interest income, reflects its ability to generate consistent income streams. This adjustment evaluates the reliance on volatile revenue sources, such as trading or investment gains. If Bank ABC's core earnings constitute a smaller share of its total revenue, it faces greater risk in times of market volatility. An adjustment to the ICS is introduced to account for this vulnerability.

Loan Loss Reserve Coverage

Loan loss reserve coverage examines the adequacy of provisions in offsetting credit losses. The level of loan loss reserves is compared to the size of the financial institution's impaired assets. If Bank ABC maintains loan loss reserves significantly below its impaired assets i.e., projected credit losses, then a negative adjustment is considered.

Cost-to-Income Ratio

A financial institution's cost-to-income ratio measures its operational efficiency and cost management. Higher ratios can indicate inefficiencies that might affect the financial institution's ability to generate capital; especially in adverse conditions. If Bank ABC's cost-to-income ratio surpasses the industry average, it may lead to a downward adjustment in its ICS.

Adjustment Factor – Loan Book Concentrations

IA considers the degree of loan book concentration a key solvency risk factor. Elevated exposure to single obligors or specific sectors may amplify loss severity in the event of borrower default or sectoral downturn. IA evaluates borrower and sectoral concentrations against peers, with negative adjustments applied where lending is deemed relatively undiversified or overly exposed to correlated risk. Conversely, a relatively well-diversified loan portfolio with granular exposures and low single-obligor concentrations may attract a positive adjustment to reflect reduced capital volatility under stress.



FI Liquidity Risk Factor Adjustments

Wholesale Funds Ratio

The Wholesale Funds Ratio indicates the proportion of a financial institution's total assets funded by wholesale sources, such as interbank obligations, debt issuances and other borrowings. The Wholesale Funds Ratio highlights the financial institution's reliance on confidence-sensitive market funding. A higher ratio raises concerns about liquidity risk, particularly during market disruptions or periods of increased funding costs.

Type of Creditors

The composition of a financial institution's creditors can significantly influence its liquidity resilience, particularly during challenging market conditions. IA considers various categories of creditors, including Development Financial Institutions (DFIs) and other lenders.

DFIs often play a unique role in the financial landscape by providing funding for developmental projects and initiatives. They are characterized by their long-term perspective and developmental objectives. Adjustments consider how DFIs might behave differently from other lenders. During periods of market stress, DFIs, owing to their developmental mandate, are more likely than other types of creditors (e.g., commercial banks or non-bank financial) to provide refinancing options, thereby easing liquidity pressures.

For example, consider Bank ABC, which has a significant portion of its debt owed to DFIs (relative to peers) due to its focus on funding developmental projects. A positive ICS adjustment acknowledges that the presence of DFIs in the creditor mix can enhance the financial institution's liquidity resilience during turbulent periods.

Type of Deposits (where applicable)

The composition of a financial institution's deposit base plays a crucial role in assessing its liquidity risk. Adjustments in this category delve into the distinction between institutional and retail deposits, considering the stickiness and withdrawal patterns associated with each type. Institutional deposits, typically held by corporate clients and financial institutions, tend to be less sticky during market turbulence. In contrast, retail deposits, held by individual customers, are granular and often more stable and less prone to sudden withdrawal. If Bank ABC relies predominantly on stable retail deposits, a positive adjustment to its ICS could be warranted.

Depositor or Creditor Concentrations

Concentration risk within a financial institution's funding base can significantly affect its liquidity profile. When a material portion of funding is sourced from a small number of depositors or creditors, the institution becomes more vulnerable to sudden withdrawals or non-renewals, particularly under stressed conditions. In contrast, a diversified funding base, where no single creditor accounts for a dominant share, enhances stability. For example, if Bank ABC's top five funding providers contribute a substantial share of total liabilities, a negative adjustment to its ICS may be warranted.

Debt Covenant Risks

This adjustment assesses the risks associated with breaching debt covenants and the potential impact on liquidity. If Bank ABC's debt covenants are onerous and could lead to early repayment demands or other adverse consequences, its ICS could be adjusted downwards to reflect this risk.

Asset-Liability Gap Analysis

Conducting an asset-liability gap analysis is essential for evaluating potential mismatches between maturing assets and liabilities. Adjustments examine the implications of these mismatches on liquidity risk. If Bank ABC's analysis reveals significant gaps that could affect its ability to meet obligations, its ICS could be adjusted downwards to account for this vulnerability. This adjustment underscores the importance of aligning maturing assets and liabilities to ensure liquidity resilience.



Quality of Liquid Assets

Intelligence Africa assesses the quality of liquid assets with reference to their currency denomination, marketability, and potential convertibility risks, while maintaining a strong emphasis on peer comparability within a given jurisdiction. IA applies adjustments only where liquidity risks materially differentiate an issuer from its peers, and avoids standardised adjustments that would undermine peer comparability. The objective is to reflect genuine differences in liquidity risk without penalising issuers for accounting or reporting practices that are common within their peer group.

Transferability of liquidity

The ease with which liquidity can be shared within a group is a crucial factor to consider. If there are any regulatory obstacles or limitations that could hinder the transfer or utilization of liquidity resources within the group, IA may apply a downward adjustment to a financial institution's ICS to reflect this potential constraint. This adjustment aims to capture the degree to which a financial institution's ability to access and deploy liquidity might be restricted due to regulatory factors, thus affecting its overall capacity to manage liquidity risk effectively.

Off-Balance Sheet Liabilities

Off-balance sheet liabilities, such as contingent liabilities or commitments, can impact liquidity during challenging periods. Adjustments evaluate the potential liquidity implications of these off-balance sheet items. If Bank ABC holds substantial off-balance sheet liabilities that could be drawn upon under certain circumstances, its ICS is adjusted downwards to reflect this risk. This adjustment acknowledges the potential impact of off-balance sheet obligations on the financial institution's overall liquidity resilience.



FI Instrument (Issue Rating) notching from an Issuer Rating

Senior/Preferred Obligations

+1

These are obligations include payment obligations associated with senior/preferred deposits, secured transactions (e.g. covered bonds), trustee responsibilities, derivatives, letters of credit, servicing and other obligations. IA believes senior obligations will likely be preserved in order to minimize contagion and limit disruption of a financial institution's important functions. Where the aforementioned relates to a non-debt obligation, the output of our assessment of these obligations is a Counterparty Assessment (denoted by a "CA" on our scale e.g. AAA_(CA)).

Senior Unsecured debt

0

Issuer ratings are a proxy for the rating of a plain vanilla senior unsecured debt issuance; hence no notching.

Subordinated debt

-1

Often considered contractually subordinated debt (e.g. tier two capital instruments).

Junior Subordinated debt

-1 or -2

Usually contractually subordinated debt (e.g. tier two capital instruments with non-payment and/or conversion/write-down clauses).

Hybrids

-3 to -5

For example, additional tier one capital instruments. They are usually non-cumulative and like tier 2 capital instruments can come with non-payment and/or conversion/write-down clauses. The severity of notching will depend on the distance of capital and/or liquidity metrics from their write-down trigger points.



Bank Holding Company Structures

IA recognises that, in certain cases, a banking holding company (“HoldCo”) may be structurally subordinated to its main operating banking subsidiary. This reflects the fact that the HoldCo may rely materially on dividends and other cash flows from the operating bank and subsidiaries to meet its own financial obligations. During periods of financial stress, these cash flows may be restricted by regulatory intervention.

IA may apply a one-notch downward adjustment to the HoldCo’s issuer rating relative to the main operating banking subsidiary /consolidated group credit profile where:

- the operating bank is regulated and represents a material proportion of the Group’s assets, earnings or risk profile;
 - the HoldCo depends materially on dividends or cash flows from the operating bank; and
 - the HoldCo does not benefit from explicit guarantees or direct support arrangements from the operating bank.
-



Corporates Methodology

IA's credit rating methodology serves as a comprehensive guide to our approach in evaluating credit risk of corporates globally.

The factors used in determining a corporates' s ICS are as follows:

| Asset Class | Risk factor | Key Financial Ratios | Weighting |
|-------------|-------------|---|-----------|
| Corporates | Solvency | Debt/EBITDA | 30% |
| | | EBITDA Margin | 30% |
| | Liquidity | Operating Cash Flow/Current Liabilities | 20% |
| | | Current ratio (Current Assets/ Current Liabilities) | 20% |

Solvency Ratios:

Debt/EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization)

Debt/EBITDA measures a corporation's leverage or indebtedness relative to its earnings. A higher Debt/EBITDA ratio indicates higher leverage, which can increase the corporation's credit risk as it implies that an issuer might have limited capacity to service its debt.

EBITDA Margin

EBITDA margin is a profitability metric that measures a corporation's earnings before interest, taxes, depreciation, and amortization as a percentage of its total revenue. The EBITDA margin provides insights into the corporation's profitability and efficiency in generating earnings from its operations. A higher EBITDA margin indicates stronger profitability, which enhances a corporates ability to service debt. A healthy EBITDA margin often reflects effective cost management and operational efficiency. A high EBITDA margin is viewed positively because it suggests that there is more headroom for revenues to decline without the issuer incurring losses.

Liquidity Ratios:

Operating Cash Flow/Current liabilities

Operating Cash Flow/Current liabilities is a liquidity metric that assesses a corporation's ability to generate cash from its core operations relative to its total current liabilities. This ratio measures whether the corporation generates sufficient cash from its operations to cover current liabilities i.e. without relying heavily on external financing. A high Operating Cash Flow/current liabilities ratio indicates strong liquidity and financial flexibility.

Current Ratio (Current Asset/Current Liabilities)

The Current Ratio assesses an issuer's ability to meet its short-term financial obligations using its current assets, which include cash and assets expected to be converted into cash within one year, such as accounts receivable and inventory. The Current Ratio provides a snapshot of a corporation's liquidity position. It evaluates whether an issuer can readily cover its current liabilities, which often include short-term debt, accounts payable, and other obligations due within one year.



Corporates Solvency Risk Factor Adjustments

EBITDA/Net Interest

EBITDA to Net Interest ratio measures an issuer's ability to cover its interest expenses with earnings. A higher ratio indicates lower credit risk. If ABC Ltd has a relatively strong EBITDA/Net Interest ratio, its ICS may be positively adjusted, reflecting the increased likelihood that ABC Ltd will meet its interest obligations relative to peers.

Stability of Earnings

The stability of an issuer's earnings has implications for our assessment of its solvency. Volatile earnings impact the issuer's ability to generate capital organically and consistently. One-off charges, divestments, or unusual gains distort the true operating performance of the corporate. If ABC Ltd's recent earnings are driven by non-recurring items, a negative adjustment to its ICS might be in order.

FX Exposure

FX Exposure assesses the extent to which a corporate is vulnerable to foreign exchange fluctuations. This adjustment factor is particularly relevant when there are currency mismatches between a corporate's assets and liabilities. For example, when a corporate borrows in a foreign currency while earning revenue in the local currency, it faces the risk of increased debt servicing costs if the local currency weakens against the foreign currency. For example, suppose ABC Ltd, a domestic manufacturing company, borrowed a significant amount of funds in U.S. dollars (USD) to finance its expansion plans. However, the issuer primarily generates revenue in the local currency. If the local currency weakens significantly against the USD, ABC Ltd's debt burden in local currency terms would increase, making it more challenging to service the debt. In such a scenario, a negative solvency adjustment may be applied to ABC Ltd's ICS, reflecting the heightened credit risk due to unfavorable currency movements.

Hybrid Capital

This adjustment factor assesses the proportion of an issuer's capital structure that consists of hybrid instruments, such as convertible bonds. These instruments have both debt and equity characteristics. This adjustment factor recognizes the favorable impact of hybrid capital on a corporate's credit risk profile. Hybrid instruments offer the potential for conversion into equity. These instruments are initially treated as debt in the ICS and, as such, the subsequent recognition of their equity conversion feature can lead to positive adjustments.

For example, suppose ABC Ltd issues convertible bonds as a part of its capital structure. Initially, these bonds are considered debt in ABC Ltd's ICS assessment. However, these instruments can strengthen the issuer's equity base in the future, thereby enhancing solvency. In this case, a positive adjustment to ABC Ltd's ICS could be applied.

Diversification of Income Streams/Revenue Concentrations

Diversification of income streams refers to the variety of revenue sources contributing to a corporate's earnings. Diversified income sources reduce reliance on a single revenue stream, mitigating concentration risk and lowering credit risk. If revenue sources are sufficiently diversified then a positive ICS adjustment could be warranted.

Conversely, IA will also assess the extent to which a significant portion of a corporate's revenue comes from just a few clients or a single business line. For example, if the bulk of ABC Ltd's revenue comes from one client a negative adjustment to solvency could be warranted given the vulnerability of ABC Ltd's credit risk profile to the financial standing of its client.

Flexibility of Cost Structure

Flexibility of cost structure evaluates how a corporate can adjust its cost base to align with changing market dynamics and conditions. A flexible cost structure can allow a corporate to maintain profitability during adverse conditions, reducing credit risk.

A relatively flexible cost structure could lead to a positive solvency adjustment. Conversely, corporates with relatively high fixed costs are considered to have an inflexible cost structure and thus a negative adjustment to the ICS could be warranted.



Expected Retained earnings/Net income (retention rate)

This metric is used because it helps to measure the organic capital generation of a Corporate. A higher ratio strengthens deleveraging capacity, while higher dividend payouts will reflect weak earnings retention and may result in negative solvency adjustments. For example, if ABC Ltd has a relatively high retention ratio, this would imply it has a strong ability to de-lever when required and as such, the ICS could be positively adjusted.

Corporates Liquidity Risk Factor Adjustments

Diversity of Funding Base

This adjustment factor assesses a corporates ability to access various funding sources, reducing reliance on a single channel. Diverse funding sources enhance financial resilience by increasing the likelihood of a corporate accessing liquidity when needed.

If ABC Ltd has relatively well diversified funding sources, the ICS could be positively adjusted.

Committed Credit Facilities

Committed Credit Facilities provide a safety net during liquidity crises, ensuring a corporate can meet short-term obligations. Access to credit facilities enhances liquidity resilience, reducing the risk of liquidity shortages.

If ABC Ltd has readily available credit facilities, its ICS could be positively adjusted.

Asset Encumbrance/Pledging

Asset encumbrance assesses the extent to which a corporate's assets are pledged or otherwise restricted as collateral for existing obligations. High levels of encumbrance can constrain financial flexibility by limiting the pool of unencumbered assets available to secure additional funding or to be monetised in a stress scenario. As a result, elevated asset encumbrance can weaken a corporate's ability to respond effectively to short-term liquidity needs.

Conversely, a low level of asset encumbrance enhances liquidity resilience by preserving balance-sheet flexibility and maintaining access to funding sources.

Where a corporate exhibits relatively high asset encumbrance compared to peers, a negative adjustment to the ICS may be applied to reflect the associated liquidity risk.

Other Liquid Assets

This adjustment factor considers other non-cash assets a corporate may hold that can provide quick access to funds when needed e.g. listed investments.

If ABC Ltd possesses significant listed equity holdings, the ICS could be positively adjusted, signifying enhanced liquidity.

Asset-Liability Gap Analysis

Conducting an asset-liability gap analysis is essential for evaluating potential mismatches between assets and maturing liabilities. Adjustments examine the implications of these mismatches on liquidity risk. If ABC Ltd's analysis reveals significant gaps that could affect its ability to meet obligations, its ICS could be adjusted downwards to account for this vulnerability. This adjustment underscores the importance of aligning assets and maturing liabilities to ensure liquidity resilience.

Debt Covenant Risks

Debt covenant risks pertain to the risks associated with a corporate entity potentially breaching the agreed-upon terms set by lenders, embedded within debt agreements.



Breaching a covenant can trigger numerous unfavorable conditions imposed by creditors, such as accelerated repayment schedules, increased interest rates, or the requirement to maintain certain financial ratios. Such conditions can weaken the issuer's liquidity profile, as it might have to redirect resources to adhere to these new stipulations.

Let's consider ABC Ltd, a corporate entity which is closely bordering on a breach of its debt covenants. The issuer's ICS may be adjusted downwards to capture the escalating implications from potential covenant violations.



Insurance Companies Methodology

This methodology is designed to assess an insurer’s Financial Strength, reflecting its ability and willingness to meet policyholders and senior unsecured creditor obligations in full and on time.

The methodology outlines Intelligence Africa’s analytical approach to assessing the credit risk of insurance companies. It applies to:

- Short-term (non-life) insurers
- Long-term (life) insurers
- Multi-line insurers
- Reinsurers

| Asset Class | Risk factor | Key Financial Ratios | Weighting |
|-------------|-------------|--|-----------|
| Insurance | Solvency | Tangible Common Equity/ Tangible Assets | 20% |
| | | Total Liabilities / Total Assets | 20% |
| | | Return on capital | 20% |
| | Liquidity | Current ratio (Current Assets/Current Liabilities) | 40% |

Solvency Ratios:

Tangible Common Equity / Tangible Assets (%)

This ratio measures the proportion of an insurer’s balance sheet funded by loss-absorbing common equity, excluding goodwill and other intangibles. A higher ratio indicates stronger capitalisation and greater capacity to absorb underwriting losses, investment volatility, or shocks.

Total Liabilities / Total Assets (%)

Total Liabilities / Total Assets is incorporated within the Initial Credit Score (ICS) as a core solvency metric, providing a high-level, peer-relative assessment of balance-sheet leverage and capital headroom. When applied within a defined peer group, the ratio helps differentiate insurers operating with relatively thinner capital buffers from those demonstrating stronger balance-sheet resilience.

IA recognises that structural differences exist across insurance sub-sectors. Life insurers typically carry substantial long-duration policyholder reserves, reflecting the present value of future contractual obligations, which results in structurally higher liability proportions relative to total assets. In contrast, non-life insurers’ shorter-tailed underwriting liabilities are more sensitive to annual claims experience and pricing cycles.

Additionally, balance-sheet leverage metrics such as Total Liabilities / Total Assets are assessed alongside capital-to-risk indicators, most notably Shareholders’ Funds / Net Written Premium, to ensure underwriting intensity, earnings volatility, and risk absorption capacity are appropriately captured within the overall solvency assessment.

Return on Capital (%)

Return on capital measures the insurer’s ability to generate earnings relative to its capital base. Sustainably strong returns support internal capital generation and reduce reliance on external capital, strengthening creditworthiness/financial strength.

Liquidity Ratio:

Current Ratio (Current Assets / Current Liabilities)

This ratio assesses an insurer’s ability to meet short-term obligations using assets expected to be realised within the same period. A higher ratio indicates a stronger capacity to cover near-term liabilities without relying on external funding or asset sales, thereby



supporting liquidity resilience during periods of elevated claims or market disruption. While the ratio focuses on short-term balance sheet strength, IA recognises that liability structures differ across insurer types. In particular, life insurers often carry a larger share of long-dated policy liabilities, meaning the ratio may be complemented by qualitative assessment of liability duration and asset-liability matching practices.

Insurance Solvency Risk Factor Adjustments

Shareholders' Funds / Net Written Premium (%)

This ratio measures the level of shareholders' funds available to support the volume of underwriting risk assumed by the insurer. It provides a direct assessment of capital adequacy relative to risk exposure, as net written premium serves as a forward-looking proxy for claims volatility and underwriting risk.

IA considers this ratio to be a core insurance-specific solvency metric, as it links loss-absorbing capital directly to the scale of risk being written. A low ratio may indicate thin capital buffers relative to underwriting activity, heightened vulnerability to adverse claims experience, or aggressive premium growth not supported by capital formation, and vice versa.

For example, if ABC Insurance Ltd has relatively low shareholders' funds to net premium, IA may view its capital buffer as thin relative to underwriting risk, increasing vulnerability to adverse claims experience and as such, its ICS may be adjusted downward.

Reserving Adequacy (x)

Insurance contract reserves represent the primary liability of an insurance company and a critical determinant of solvency. This factor assesses the sufficiency and quality of technical reserving relative to Net Written Premiums, including the robustness of actuarial methodologies. It considers historical reserving, the frequency of reserve releases or strengthening, and the extent of independent actuarial review.

Relatively conservative reserving practices, a strong track record of reserve adequacy, and transparent actuarial governance may support neutral or modestly positive adjustments.

Statutory Solvency (x)

Statutory solvency reflects an insurer's compliance with minimum regulatory capital requirements as prescribed by the relevant supervisory authority. IA assesses the level and stability of regulatory capital buffers, the quality of capital recognised for statutory purposes, and the sensitivity of solvency margins to adverse underwriting, market, or catastrophe risk. Operating below regulatory minimums does not, in isolation, warrant a negative solvency risk factor adjustment, particularly where regulatory measures such as dividend restrictions or capital conservation requirements are expected to support capital retention and balance-sheet stabilisation. Such measures may be credit-neutral or credit-positive over the medium term.

A negative solvency adjustment may be considered where sub-threshold capitalisation is accompanied by factors that materially increase creditor risk e.g. loss of reinsurance or funding access, or regulatory actions that could impair debt-servicing capacity.

Market Risk Profile

The investment portfolio is a key driver of capital volatility for insurers. IA evaluates asset allocation, credit quality, duration risk, currency exposure, and reliance on illiquid or volatile instruments.

Insurers with relatively aggressive investment strategies, such as high exposure to speculative assets, significant asset-liability mismatches, or concentrated holdings, may be subject to negative solvency adjustments. Relatively conservative, well-matched investment portfolios aligned with liability profiles support capital stability and may mitigate solvency risk and could result in a positive risk factor adjustment.



Earnings Stability and Capital Generation

Sustainable underwriting profitability and stable investment income support organic capital generation and earnings quality. IA assesses the volatility and persistence of earnings, with particular focus on the durability of underwriting margins and the degree to which profitability is supported by core insurance operations rather than irregular or non-recurring items, including one-off investment gains or valuation effects.

Relatively weak or volatile earnings, where profitability relies heavily on non-recurring investment gains, may result in negative solvency adjustments. If ABC Insurance Ltd persistently posts underwriting losses, and reports profits mainly due to one-off investment gains, its ICS may be adjusted downwards to reflect weaker underlying earnings quality and reduced loss-absorbing capacity.

Catastrophe and Concentration Risk

Insurance companies exposed to low-frequency, high-severity events, such as natural catastrophes, pandemics, or large single-risk concentrations, are assessed for the adequacy of capital buffers and risk-mitigation mechanisms.

Where catastrophe exposure is elevated relative to peers and not sufficiently mitigated through reinsurance, diversification, or capital buffers, IA may apply a negative solvency adjustment. While insurers with well-structured catastrophe risk management frameworks, prudent risk retention, and diversified portfolios may benefit from a positive one.

Reinsurance Dependence and Counterparty Risk

Reinsurance is a core risk-transfer mechanism for insurers but introduces counterparty exposure. IA assesses the scale of reinsurance recoverables relative to capital, the credit quality of reinsurers, and the degree of concentration among counterparties.

A diversified reinsurance programme with highly rated counterparties and conservative retention levels is favourably viewed.

Hybrid Capital

This adjustment factor assesses the proportion of an insurer's capital structure that consists of hybrid instruments. These instruments have both debt and equity characteristics. This adjustment factor recognizes the favorable impact of hybrid capital on an insurer's credit risk profile. Hybrid instruments offer the potential for conversion into equity, and may support positive adjustment to the ICS where they meaningfully strengthen capital buffers. For example, if ABC Insurance Ltd issues long-dated subordinated hybrid capital, IA may apply an upward ICS adjustment to reflect improved financial flexibility and loss absorption capacity.

Capital Quality and Susceptibility to Volatility

IA assesses the quality and stability of an insurer's capital base, with particular focus on susceptibility to large valuation changes. Capital structures heavily reliant on revaluation reserves, unrealised investment gains, deferred tax assets, or other volatile components may be subject to negative solvency adjustments, as such capital may erode rapidly under stressed scenario. High-quality capital dominated by retained earnings and paid-in equity is viewed more favourably due to its stronger and more predictable loss-absorption capacity.

Capital Fungibility

Capital fungibility reflects the extent to which capital can be freely transferred between intra-group balance sheets, for example to support stressed entities or meet obligations. IA considers legal, regulatory, and practical constraints on capital mobility, including ring-fencing of policyholder funds, subsidiary restrictions, and cross-border regulatory barriers. Limited fungibility may constrain group-level support and may result in negative adjustments, particularly where capital is concentrated in entities unable to upstream resources when needed.



Additional Funding Sources

IA evaluates the availability, reliability, and sustainability of an insurer's ability to access additional capital or funding sources beyond core capital and operating cash flows. Our analysis considers access to diversified funding channels including committed credit lines, reinsurance financing arrangements, or access to capital markets. Strong, demonstrable access to diversified funding sources may mitigate liquidity or solvency risk, and may attract positive adjustments.

Foreign Exchange Risk

IA assesses the scale of FX exposure, the degree of natural or contractual hedging, and the insurer's risk management practices. Material unhedged FX mismatches may result in negative solvency or liquidity adjustments due to potential capital erosion under currency stress.

Covenant Risk

Covenant risk reflects the potential for financial, operational, or regulatory covenants to constrain an insurer's financial flexibility. IA assesses the presence, tightness, and headroom of covenants associated with debt, hybrid instruments, and reinsurance arrangements. Limited covenant headroom or complex covenant structures that could be breached under moderate stress may result in negative adjustments, particularly where breach could trigger accelerated obligations or loss of funding access.

Insurance Liquidity Risk Factor Adjustments

Asset-Liability Gap Analysis:

Liquidity risk is heightened where there are mismatches between the timing of asset cash flows and expected liability outflows. IA assesses surrender risk (for life insurers), claims volatility (for non-life insurers), and the predictability of cash flows.

Significant mismatches or reliance on asset sales to meet near-term obligations may warrant negative liquidity adjustments.

Cash / Technical Reserves Coverage

Cash and near-cash assets relative to technical reserves provide an indicator of an insurer's ability to meet policyholder obligations. IA assesses this ratio with reference to the nature, timing, and volatility of liabilities, recognising differences between life and non-life insurance business models.

For non-life insurers, where claims payments can be volatile and short-dated following adverse events, relatively low cash coverage of technical reserves may indicate elevated liquidity risk and may warrant a negative liquidity adjustment. If ABC Insurance Ltd consistently reports relatively low cash coverage, this may indicate constrained liquidity and could warrant a negative adjustment to its ICS.

For life insurers, liquidity risk is assessed with greater emphasis on prematurity behaviour, liability duration, and asset-liability matching. Lower cash coverage may be more tolerable where liabilities are long-dated and predictable, provided surrender risk is well managed. However, relatively weak cash coverage combined with elevated termination risk may result in negative liquidity adjustments.

Quality of Liquid Assets

IA evaluates not only the volume but also the quality of liquid assets, considering their market depth, price volatility (market risk), foreign exchange risk, and convertibility under stressed conditions. Assets subject to capital controls, thin trading, foreign exchange repatriation/convertibility constraints or material valuation uncertainty may be discounted for liquidity purposes. In addition, heavy reliance on illiquid or encumbered assets can constrain liquidity and financial flexibility, particularly for non-life insurers, and may lead to negative adjustment versus peers.



Insurance Instrument notching from a Financial Strength Rating

Senior/Preferred Obligations

+1

Includes secured obligations and other obligations likely to be preserved to maintain policyholder protection and continuity of core insurance functions.

Senior Unsecured debt

0

The Financial Strength Rating is a proxy for senior unsecured obligations.

Subordinated debt

-1

Often considered contractually subordinated debt (e.g. tier two capital instruments).

Junior Subordinated debt

-1 or -2

Usually contractually subordinated debt (e.g. tier two capital instruments with non-payment and/or conversion/write-down clauses).

Hybrids

-3 to -5

For example, additional tier one capital instruments. They are usually non-cumulative and like tier 2 capital instruments can come with non-payment and/or conversion/write-down clauses. The severity of notching will depend on the distance of capital metrics from their write-down trigger points.



Financial Services Providers Methodology

This methodology outlines IA's rating approach for a financial service provider (FSP) or 'the Institution' which includes asset managers, brokerages, payments firms, advisory firms, or non-deposit-taking financial intermediaries.

The key credit metrics used for FSPs:

| Asset Class | Risk factor | Key Financial Ratios | Weighting |
|--|-------------|--|-----------|
| Financial Service Providers (non-bank) | Solvency | Debt/EBITDA | 30% |
| | | EBITDA Margin | 30% |
| | Liquidity | Operating Cash Flow/Current Liabilities | 25% |
| | | Current ratio (Current Assets/Current Liabilities) | 15% |

Solvency Ratios:

Debt/EBITDA %

Debt/EBITDA measures an FSP's leverage or indebtedness relative to its earnings. A higher Debt/EBITDA ratio indicates higher leverage, which can increase the FSP's credit risk as it implies that the entity might have limited capacity to service its debt.

EBITDA Margin %

EBITDA margin is a profitability metric that measures a FSP's earnings before interest, taxes, depreciation, and amortization as a percentage of its total revenue. The EBITDA margin provides insights into the FSP's profitability and efficiency in generating earnings from its operations. A higher EBITDA margin indicates stronger profitability, which enhances the FSP's ability to service debt. It may also indicate effective cost management and operational efficiency. A high EBITDA margin is viewed positively as it suggests that the FSP has a larger buffer against revenue volatility without immediately eroding profitability.

Return on Assets (ROA) %

ROA assesses the institution's capacity to generate earnings from its asset base, which is a key determinant of its ability to absorb losses and replenish capital organically through retained earnings.

Liquidity Ratios:

Operating Cash Flow/Current liabilities

Operating Cash Flow/Current liabilities is a liquidity metric that assesses an FSP's ability to generate cash from its core operations relative to its total current liabilities. This ratio measures whether the Institution generates sufficient cash from its operations to cover current liabilities i.e. without relying heavily on external financing. A high Operating Cash Flow/current liabilities ratio indicates strong liquidity and financial flexibility.

Current Ratio (Current assets/ current liabilities) %

Current Ratio is another measure of liquidity for an FSP because it measures an institution's ability to meet its short-term obligations using available liquid assets. A relatively high current ratio may imply that, relative to peers, the FSP can better fulfill its liabilities without resorting to distress sales or unfavorable borrowing terms. On the contrary, a relatively low current ratio may signal a poor liquidity position, relative to peers, which may imply an inability to meet short-term obligations.



FSP Solvency Risk Factor Adjustments

EBITDA/Net Interest

EBITDA to Net Interest ratio measures an issuer's ability to cover its interest expenses with earnings. A higher ratio indicates lower credit risk. If ABC Financial Services Ltd has a relatively strong EBITDA/Net Interest ratio, its ICS may be positively adjusted, reflecting the increased likelihood that ABC Financial Services Ltd will meet its interest obligations relative to peers.

Earnings Stability and Revenue Volatility

For this adjustment, IA will assess the following:

- Dependence on performance fees vs recurring management fees
- Sensitivity of revenues to market cycles and Assets under management (AUM) volatility
- Track record of earnings through stressed market periods

For example, in assessing ABC Financial Services Limited, if IA identifies that earnings are predominantly driven by volatile, market-dependent income streams such as asset revaluation gains, a negative risk factor adjustment may be warranted to reflect weaker earnings stability and predictability. Conversely, where the Company demonstrates relatively stable, recurring, and diversified fee-based income, this may support a positive adjustment, given the enhanced relative resilience and sustainability of its earnings profile.

Hybrid instruments/ loss bearing instruments

This adjustment factor assesses the extent to which hybrid or loss-bearing instruments included in a Financial Service Provider's capital structure may cause reported leverage (Debt/EBITDA) to overstate the issuer's effective financial risk. Certain deeply subordinated, long-dated or perpetual instruments with deferrable coupons and equity-conversion features may exhibit equity-like characteristics despite being classified as debt. Where such instruments materially reduce refinancing risk and enhance financial flexibility, IA may apply a positive solvency adjustment to reflect that the reported Debt/EBITDA ratio is not fully representative of the issuer's true leverage profile. For example, if ABC Financial Services Limited reports include perpetual subordinated hybrid notes with no near-term redemption pressure in its Debt/EBITDA ratio, IA may determine that effective leverage is lower than reported and apply a modest positive adjustment.

Foreign Currency Mismatch

This adjustment factor assesses the extent to which a Financial Service Provider's solvency profile is exposed to foreign currency mismatch risk arising from a divergence between revenue generation currency and foreign currency-denominated liabilities. Where an issuer earns predominantly in local currency but carries material USD or other foreign currency obligations, depreciation of the local currency may increase debt servicing requirements in local currency terms, thereby weakening profitability. IA evaluates the proportion of foreign currency debt relative to foreign currency earnings, the availability of natural hedges, access to foreign currency liquidity buffers, and the presence of formal hedging arrangements. For example, if ABC Financial Services Ltd generates substantially all of its EBITDA in naira but holds relatively high USD borrowings without corresponding USD revenue or effective hedging, a sharp naira depreciation could materially increase interest and principal repayment burdens, warranting a negative adjustment. IA recognises that this adjustment can also be viewed as a liquidity profile adjustment.

AUM Concentration

IA considers the following under this:

- Concentration in single funds, strategies, or mandates
- Reliance on a small number of institutional clients
- Exposure to large, potentially confidence-sensitive redemptions

The credit implications for this are that a high AUM or client concentration may justify a negative adjustment, reflecting vulnerability to sudden fee compression or liquidity strains. For example, if ABC Financial Services Ltd has 70-80% of its assets funded by one or



two funds made up of institutional investors, this would expose the Company to concentration risks and large redemptions which would warrant a negative solvency factor adjustment.

Investment Portfolio Concentration

This adjustment factor may be applied where an issuer's investment/treasury portfolio is materially concentrated in a limited number of instruments, counterparties, or asset classes. From a solvency perspective, such concentration heightens the risk of outsized losses, as adverse performance or impairment of a single exposure could materially weaken the issuer's capital position. While primarily a solvency consideration, concentration also has liquidity implications, particularly where the issuer relies on these investments as a source of contingent liquidity. In stressed conditions, concentrated positions may prove difficult to realise in a timely manner or without significant value erosion. As such, elevated investment concentration may warrant a negative adjustment to reflect both increased capital volatility and reduced liquidity flexibility.

Expected Retained earnings/Net income (retention rate)

This metric is used because it helps to measure the organic capital generation of an FSP. A higher ratio strengthens deleveraging capacity, while higher dividend payouts will reflect weak earnings retention and may result in negative solvency adjustments. For example, if ABC Financial Services Limited has a relatively high retention ratio, this would imply it has a strong ability to de-lever when required and as such, the ICS could be positively adjusted.

FSP Liquidity Risk Factor Adjustments

Asset/liability mismatches (ALM risk)

This adjustment assesses whether there are any mismatches in an FSP's balance sheet that could introduce liquidity stress beyond what the base ICS captures. Where these imbalances materially elevate liquidity stress under plausible scenarios, IA may apply a negative risk factor adjustment.

Asset Encumbrance/Pledging

IA will assess the level of encumbrances of an FSP by analysing which of its assets have been pledged as collateral, restricted due to contractual arrangements or unavailable due to creditor claims. For example, if ABC Financial Services Ltd exhibits a relatively high encumbrance of liquid assets, this could warrant a negative adjustment to the ICS.

Debt Covenant Risks

Debt covenant risks pertain to the risks associated with an FSP potentially breaching the agreed-upon terms set by lenders, embedded within debt agreements.

Breaching a covenant can trigger numerous unfavorable conditions imposed by creditors, such as accelerated repayment schedules, increased interest rates, or the requirement to maintain certain financial ratios. Such conditions can weaken the issuer's liquidity profile, as it might have to redirect resources to adhere to these new stipulations. Let's consider ABC Financial Services Ltd, an FSP entity which is closely bordering on a breach of its debt covenants. The issuer's ICS may be adjusted downwards to capture the escalating implications from potential covenant violations.

Cash-flow coverage of fixed costs

This adjustment assesses the adequacy and flexibility of an FSP's operating cash flows relative to its fixed cost base, including staff, technology, and other recurring operating expenses.

A flexible cost structure can allow an FSP to maintain profitability during adverse conditions, thereby reducing credit risk. A relatively flexible cost structure could lead to a positive solvency adjustment. Conversely, corporates with relatively high fixed costs versus cash-flow are considered to have an inflexible cost structure and thus a negative adjustment to the ICS could be warranted.



Funding Type

This adjustment factor assesses the composition, stability, tenor, and market sensitivity of a FSP's funding base, recognising that core liquidity metrics may not fully capture differences in funding reliability under stress. IA considers whether funding is predominantly stable and relationship-based, such as long-tenor committed facilities, diversified bank lines, or retained earnings, or more confidence-sensitive and dependent on continued market access, such as short-term wholesale borrowings or commercial paper. Greater reliance on short-dated or market-dependent funding, particularly where refinancing is critical to operations, may warrant a negative adjustment due to elevated refinancing and funding-volatility risk. Conversely, a diversified, stable, and well-tenored funding profile with demonstrated refinancing capacity and access to contingency liquidity may support a positive adjustment reflecting stronger funding resilience.



States and Municipalities Methodology

This credit rating methodology sets out Intelligence Africa’s approach to evaluating the credit risk of states and municipalities (sub-national governments).

| Asset Class | Risk factor | Key Financial Ratios | Weighting |
|---------------------------|-------------|---|-----------|
| States and Municipalities | Solvency | Debt/Revenue | 30% |
| | | Interest expense/Revenue | 30% |
| | Liquidity | Operating cash flow/ Debt | 20% |
| | | Liquidity Ratio (Liquid assets/Liabilities) | 20% |

Solvency metrics:

Debt/Revenue

Debt to Revenue measures a state’s leverage relative to its income base. A higher Debt to Revenue ratio indicates weaker debt service capacity, increasing credit risk by constraining the issuer’s financial flexibility and ability to absorb shocks.

Interest expense/Revenue

The Interest expense/Revenue ratio measures the share of a state’s revenue that is used to pay interest on its debt. It reflects how much of the state’s income is consumed by debt servicing. A high ratio indicates that a significant share of revenue is absorbed by interest payments, which may constrain the issuer’s capacity to meet its financial obligations and increase vulnerability to revenue or cost shocks.

Conversely, a low ratio suggests that interest obligations consume a smaller portion of revenue, supporting stronger debt servicing capacity and greater resilience in meeting financial commitments.

Liquidity metrics:

Operating cash flow/Debt

The operating cash flow to debt ratio measures a state’s ability to meet its debt obligations using cash generated from regular operations, rather than relying on new borrowing. A relatively high ratio indicates relatively strong liquidity, implying the state can comfortably service its debt from operational cash. However, a relatively low ratio implies heightened credit risk and can signal potential liquidity constraints, suggesting the state may struggle to cover debt without additional financing.

Liquidity ratio (Liquidity assets/Liabilities)

The liquid assets to liabilities ratio assesses a state’s capacity to meet short-term obligations using assets that can be quickly converted into cash. These liquid assets typically include cash & cash equivalents, tax & grant receivables, short-term investments, and readily marketable securities, which provide immediate resources to cover critical financial commitments. A high ratio indicates strong liquidity, implying the state has ample readily available resources to cover liabilities. A low ratio signals potential short-term financial stress, suggesting the state may struggle to meet obligations without additional financing.



States and Municipalities Solvency Factor Adjustments

Internally Generated Revenue (IGR) profile

IGR typically comprises revenues that are largely within the direct control of a state government, including income taxes, property taxes, levies, fees, charges, and other internally administered revenues. As such, it reflects financial autonomy and revenue mobilization capacity. Where ABC State Government generates a high proportion of its operating revenue from IGR, this may positively influence its ICS. A strong IGR base enhances revenue predictability, reduces reliance on externally determined transfers, and strengthens the state's ability to manage its debt obligations through internally controlled fiscal measures.

However, heavy dependence on revenues that are not within the direct control of the state may warrant a negative adjustment. Such revenues may include central government transfers, revenue sharing allocations, or ad hoc grants. These inflows are typically subject to national fiscal policy decisions, macroeconomic conditions, commodity price volatility, and revenue frameworks. High reliance on such externally determined revenues can constrain financial flexibility and heighten vulnerability to economic or policy changes, thus weakening the state's credit profile. Additionally, where the IGR of ABC State Government is concentrated to a small number of taxpayers or a single urban centre, its ICS may be negatively adjusted.

Cost structure

The cost structure of a state is a key consideration in assessing its solvency, as it directly affects its financial flexibility and ability to meet debt obligations under stress. A high fixed cost base, particularly driven by personnel and other statutory expenditures, reduces financial flexibility.

For ABC State Government, a relatively high level of personnel and statutory spending relative to operating revenue may warrant a negative adjustment to its ICS. This is because such expenditures are typically inflexible in the short to medium term, limiting the state's ability to redirect resources toward debt servicing when revenues come under pressure.

Conversely, a lower and more flexible cost base supports stronger credit quality, as it enhances ABC State Government's ability to adjust expenditures and maintain debt servicing capacity under adverse conditions.

FX exposure

FX exposure adjustment reflects the additional risk that states face from obligations denominated in foreign currency. While state revenues are typically based in local currency, external debt service requires foreign currency. Unfavourable exchange rate movements increase the local-currency cost of these obligations, heightening credit risk. Therefore, ABC State Government may receive a downward adjustment to its ICS if it has high foreign exchange exposure relative to peers.

States and Municipalities Liquidity Factor Adjustments

Operating cash flow/Net Interest

While the operating cash flow to debt ratio provides a broad indication of a state's capacity to meet its overall debt obligations, it does not explicitly capture the cost of servicing that debt. In particular, it may understate risk in cases where interest costs are high relative to the debt stock.

The operating cash flow to net interest ratio addresses this limitation by assessing the extent to which a state can cover its interest obligations using internally generated cash flows. If ABC State Government exhibits a relatively strong operating cash flow to net interest ratio, this may support a positive adjustment to its ICS, reflecting a robust capacity to meet interest obligations from operating cash flows, even in the presence of increasing borrowing costs.

Conversely, a relatively weak ratio for ABC State Government may warrant a negative adjustment, as it indicates that interest expenses absorb a significant portion of operating cash flow. This reduces financial resilience and increases vulnerability to adverse movements in interest rates or revenue performance



Contingent Liabilities

This captures the risk posed by potential obligations that may crystallize into cash outflows, often unexpectedly, and strain a state's credit profile. Key examples include unfunded pension and gratuity arrears, guarantees (e.g. associated with public-private partnerships) and legal or contractual obligations. These liabilities are frequently off-balance-sheet and may not be fully reflected in official accounts, which can lead to an underestimation of the state's true liquidity risk.

Cash Encumbrance/Pledging

Cash encumbrance can affect a state's liquidity position by restricting access to funds that would otherwise be available to meet obligations. For example, where ABC State Government has pledged a significant portion of its cash balances as security for borrowings or ring-fenced specific revenue streams for debt repayment, those funds are no longer freely available to service other obligations or needs. Although such balances may appear as cash on the balance sheet, their restricted nature reduces true liquidity flexibility. High levels of encumbered cash may therefore weaken a state's capacity to respond to its financial obligations. If ABC State Government faces a relatively high cash encumbrance, the ICS could be reduced.

Debt covenant risks

Debt covenant risk assesses the potential consequences of a state breaching the terms and conditions attached to its borrowing arrangements. Covenants may require the state to maintain certain financial ratios, limit additional borrowing, or meet specified revenue or financial thresholds. If ABC State Government breaches these conditions its ICS may be negatively adjusted. This is because a covenant breach could trigger accelerated repayment obligations, higher interest rates, restrictions on further borrowing, all of which could heighten liquidity risk.

Debt concentration

Liquidity risk rises where a large portion of a state's debt is owed to a single lender. For example, if ABC State Government has a significant share of its total debt held by one financial institution, it may heighten vulnerability should that funding source become constrained. However, a diversified funding base across multiple sources reduces reliance on a single channel and enhances financial resilience by increasing the likelihood of accessing liquidity when needed. If ABC State Government has a well-diversified funding base, it may contribute positively to its ICS and vice versa.

Type of borrower

The type of lender can influence a state's liquidity risk profile. Typically, loans from the national government and development financial institutions are extended on concessional terms, at lower interest rates relative to market rates. Such facilities are also more likely to exhibit supportive characteristics during periods of stress compared to purely commercial funding sources. These features mitigate near term refinancing pressure and reduce debt service burdens, thereby strengthening liquidity flexibility. If a material portion of ABC State Government's debt is owed to such lenders, a positive ICS adjustment may be warranted to reflect the enhanced liquidity resilience associated with these funding characteristics.



The Asset Management Assessment (AMA)

The Asset Management Assessment (“AMA”) provides institutional investors and other market participants with an independent, forward-looking evaluation of the quality and effectiveness of an asset manager’s business profile, operational structure, governance practices, investment processes, and risk-management capabilities. The AMA is *not* a credit rating and does not express an opinion on an entity’s ability or willingness to meet its financial obligations. Rather, it provides a standalone assessment of institutional strength and operating effectiveness within the asset-management environment.

While the AMA incorporates relevant quantitative indicators, such as the expected financial resilience of the business, the assessment places greater emphasis on qualitative analytical factors. The AMA evaluates the strength and effectiveness of an asset manager across the core analytical dimensions of the Intelligence Africa framework, with the following weightings:

1. **ESG**
Governance [25%]
2. **Business Profile**
Strategic positioning [25%]
Risk Management (investment process, systems, controls, portfolio management) [25%]
3. **Financial Profile** [25%]

Unlike the ratings framework where the ICS is derived from the financial profile and qualitative adjustments are made to the ICS, AMA is reached via the weighted average total score of the four factors, above. These factors are scored out of 10 and carry a weight of 25% each.

AMA Unsupported Definitions*

| | | |
|---------|--|---------------------|
| aaa.AMA | Best in class asset management and risk controls | Track record needed |
| aa.AMA | | |
| a.AMA | Relatively good asset management and risk controls | |
| bbb.AMA | Average asset management and risk controls | |
| bb.AMA | Modest asset management and risk controls | |
| b.AMA | Weak asset management and risk controls | |
| ccc.AMA | | |

1. ESG (Governance Assessment)

Governance represents a core pillar within the Asset Management Assessment (AMA) and evaluates the robustness, transparency, and effectiveness of an asset manager’s organisational oversight and leadership structures. The assessment focuses on how governance frameworks support disciplined investment management, protect client interests, and ensure sustainable long-term operations.

The governance review encompasses organisational structure, ownership and parental relationships, board and management quality, reporting lines, independence of key functions, and the adequacy of policies, controls, and fiduciary safeguards.

1.1 Organisational Structure and Governance Framework

The AMA begins with an evaluation of the asset manager’s organisational design, including the clarity of decision-making hierarchies, operational responsibilities, and the overall effectiveness of the control environment.



The assessment considers:

- The governance bodies in place (e.g., board, investment committees, risk committees), their composition, independence, expertise, and reporting duties;
- The allocation of responsibilities allocated across business units;
- The quality of oversight mechanisms across the organisation.

1.2 Ownership and Support

Asset managers may operate as standalone entities or as part of a broader financial services group. The AMA analyses how ownership arrangements influence governance effectiveness and overall operating independence.

Key considerations include:

- The financial strength, governance standards, and regulatory environment of the parent entity;
- The parent's demonstrated willingness and capacity to provide operational, financial, or reputational support where required;

1.3 Board and Management Quality, Independence, and Reporting Structure

Leadership capability and organisational independence form a critical component of the governance assessment. The AMA evaluates the experience, professional track record, integrity, and organisational influence of board members, senior management, portfolio managers, and key control-function heads. The assessment considers:

- Depth and relevance of experience relative to the manager's investment strategy and business model;
- Stability and cohesion of the leadership team, including risks associated with key-person reliance;
- The adequacy of succession planning and talent-development frameworks to ensure leadership continuity and institutional resilience.

The AMA also reviews the clarity, independence, and effectiveness of reporting lines, particularly the authority and autonomy of the compliance, risk-management, and internal-audit functions. Independent escalation channels and clearly defined lines of accountability are essential to identifying and addressing operational, compliance, and investment risks.

A governance structure that suppresses escalation, concentrates decision-making without appropriate checks and balances, or limits the independence of control functions is assessed as weaker.

2. Business Profile

The Business Profile assessment evaluates the asset manager's strategic positioning within its operating environment and the strength of its investment and risk-management architecture. The analysis considers how clearly defined the organisation's strategy is, how effectively it is executed, and whether the firm's systems, controls, and processes support resilient and repeatable investment outcomes.

2.1 Strategic Positioning

Strategic positioning reflects how clearly the asset manager defines its place in the market and how effectively it aligns its operating model with the characteristics of its customer base. This includes an understanding of who the manager serves, how those clients behave, and how the organisation presents its identity and value proposition through its brand.

A key consideration is the profile and behaviour of the client base. Retail clients may require a broad and diverse set of engagement and servicing requirements, while institutional clients can introduce more concentrated and potentially volatile fund flows. Where exposure to institutional mandates is significant, IA evaluates whether the manager has developed appropriate processes, liquidity planning, and operational safeguards to manage large inflows or redemptions without compromising investment execution.



2.3 Risk Management (Investment Process, Systems, Controls, Portfolio Management)

The AMA evaluates the strength, discipline, and reliability of the asset manager's investment and risk-management framework. The emphasis is on the quality of the processes that drive investment outcomes rather than the outcomes themselves, recognising that consistent performance is rooted in robust decision-making, sound controls, and effective operational support.

Investment Approach and Decision Framework

IA first reviews the core philosophy and decision architecture guiding investment activities. This involves assessing how the organisation sets investment objectives, formulates strategies, and ensures that decisions are executed in a manner consistent with its stated approach. IA places weight on whether the investment process is coherent, repeatable, and resilient to changes in market conditions. Evidence of persistent strategy drift or inconsistent implementation prompts deeper scrutiny.

Portfolio Construction and Oversight

The assessment considers how strategies translate into actual portfolio positions. IA examines liquidity management, portfolio composition, turnover behaviour, and how shifts in fund size or investor mix affect investment execution. IA also reviews the use of leverage, derivatives, or other techniques, focusing on whether associated risks are fully understood, appropriately measured, and tightly controlled.

A key objective is determining whether portfolio characteristics remain aligned with stated objectives, and whether the firm has effective mechanisms for detecting, escalating, and addressing deviations.

Information Support

IA evaluates the quality of information inputs supporting investment decisions. This includes internal research teams, external research sources, modelling tools, and access to timely issuer or market information. The assessment considers how information is integrated into the workflow and how effectively insights are shared across teams to support disciplined, well-informed decision-making.

Risk Governance and Control Environment

A central part of the AMA is assessing whether the organisation can identify, measure, and manage risks across its activities. IA evaluates the independence and authority of risk, compliance, and internal audit functions, and the extent to which they can escalate issues and challenge investment decisions without undue influence.

The analysis also assesses the presence and integrity of Chinese walls; particularly in organisations where asset management is part of a broader financial group that includes banking, brokerage, advisory, or securities-trading activities. IA assesses whether these boundaries are formalised, consistently applied, and effective in preventing conflicts of interest or the inappropriate flow of information.

Regulatory compliance forms another part of this assessment. IA reviews the clarity of internal policies, the organisation's regulatory track record, and its responsiveness to breaches or regulatory interventions.

Operational Infrastructure and Technology

IA reviews whether the operational and technological environment is capable of supporting investment activities on a sustained basis. This includes system sophistication and integration across front-, middle-, and back-office functions; data-management practices; cybersecurity protections; business-continuity arrangements; and the quality of internal reporting and communication. Operational weaknesses can translate directly into investment or fiduciary risk, making this an essential component of the AMA.



3. Financial Profile

The Financial Profile assessment evaluates the asset manager's capacity to support ongoing operations, absorb stress, and maintain stability across market cycles. Although the AMA is not a credit rating, financial strength remains an important indicator of an organisation's ability to sustain investment capabilities, retain key staff, invest in systems, and meet operational commitments without compromising client interests.

The analysis draws directly from Intelligence Africa's Financial Services Providers (Non-Bank) methodology and applies a consistent set of credit-based financial metrics relevant to asset-managers.

3.1 Solvency

IA evaluates the manager's solvency via assessing leverage through Debt/EBITDA ratio, recognising that excessive indebtedness can constrain operational flexibility and introduce refinancing risk even for non-lending institutions.

A strong solvency position supports the manager's ability to withstand earnings volatility, invest in technology and risk-management infrastructure, and continue operating effectively during periods of revenue pressure.

Profitability and Earnings Sustainability

Profitability is assessed using the EBITDA margin. IA considers whether the firm generates sufficient, stable operating earnings to cover costs and provide a buffer during market downturns.

The analysis places greater weight on consistency than on absolute levels. Highly volatile profitability, or profitability driven by one-off events, may indicate weakness in the firm's underlying business model.

3.2 Liquidity and Cash-Flow Strength

Liquidity assessment draws on two core measures:

- Operating Cash Flow / Current Liabilities, which indicates the firm's ability to meet short-term obligations through internal cash generation; and
- The Current Ratio, which assesses balance-sheet liquidity and near-term financial flexibility.

IA places emphasis on the quality and sustainability of liquidity sources. Heavy reliance on unpredictable or non-recurring cash flows is considered weak.



Generic Instrument (Issue Rating) notching from an Issuer Rating

Secured transactions

+1

Senior Unsecured debt

0

Issuer ratings are a proxy for the rating of a plain vanilla senior unsecured debt issuance; hence no notching.

Subordinated debt

-1

Often considered contractually subordinated debt.

Junior Subordinated debt

-1 or -2

Usually contractually subordinated debt with non-payment and/or conversion/write-down clauses.

Hybrids

-3 to -5

They are usually non-cumulative and perpetual instruments that can come with non-payment and/or conversion/write-down clauses. The severity of notching will depend on the distance of capital and/or liquidity metrics from their write-down trigger points.





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