



ANNUAL REPORT OF SOVEREIGN AFRICA RATINGS

31 AUGUST 2024

SECTION A: EXECUTIVE SUMMARY

We value the unwavering commitment provided by all our stakeholders and especially appreciate our dedicated and diligent personnel for their hard work during the year. We are grateful for the support and direction provided by the board and its subcommittees on this journey to establish SAR as the premier and preferred rating agency in the region. SAR continues to establish key relationships with like-minded stakeholders to ensure the provision of fair, unbiased and scientifically sound research and creditworthiness assessments.

As part of our ongoing efforts to improve governance and compliance, we have strengthened internal control procedures by implementing integrated risk management and compliance function processes to ensure that SAR effectively manages conflicts of interest, safeguards sensitive and confidential information and maintains full compliance with regulatory authorities.

The year 2023 has been focused on expanding SAR's service offering and presence in various regions and industries. The rating methodologies and models, including non-creditworthiness assessment tools, have been developed in consultation with industry experts in various fields to ensure the highest degree of scrutiny and review. This is in line with our commitment to providing quality insights with unerring market relevance and statistical and economic accuracy.

SAR remains committed to providing valuable sovereign rating insights with a special focus on infrastructure development and natural resource beneficiation initiatives. Africa and other emerging markets present numerous opportunities, both for sovereigns and corporates, as Africa is a continent with vast natural resources, albeit one fraught with challenges. Corporate activity in emerging markets depends on a keen understanding of political and socioeconomic dynamics, analysing the macroeconomic environment, pure business transactions, due diligence, and binding contracts. In this regard, all economic policy, political risk, and socioeconomic issues are monitored to ensure meaningful insights at any given time.

We are optimistic in our mission to increase SAR's market presence in several industries including insurance, financial institutions and non-financial corporates. We remain committed to supporting sustainability development goals, not only internally, but those of our clients in various industries. We are therefore pleased to have completed the SAR ESG methodology, which is a tool applicable across all rating categories. SAR's ESG offering is of unerring relevance due to its tailored design that considers the operations of the entity under review to ensure meaningful assessment outcomes.

SECTION B: INFORMATION AS PER SECTION 13 AND 15 OF THE ACT

1. Detailed Information on Legal Structure and Ownership

Name of Shareholder	% shareholding	Country
Sifiso Falala	55%	South Africa
Plus 94 Research (With Sifiso Falala holding 77% of company shares)	35%	South Africa
Takalani Nicolette Mudau	5%	South Africa
Sean Barnard	5%	South Africa

2. Description of Internal Control Mechanisms

SAR has implemented and maintained internal control mechanisms in accordance with item 2(1)(a) and 2(1)(k) of Notice Board 168 of 2013, and these internal control mechanisms detailed below.

2.1. The governance of risk and opportunities

The management structure of SAR is carefully designed to ensure the proper allocation of resources and responsibilities within the organisation. It incorporates appropriate delegations of authority to establish effective internal controls.

To address day-to-day risks, SAR has a dedicated Risk and Governance Manager who reports identified risks to the Audit and Risk Committee. This Committee is responsible for identifying and managing risks that arise in the normal course of business operations. Furthermore, this Committee oversees risk management throughout the organisation. The Audit and Risk Committee provides regular reports and updates to the Board of Directors.

This management structure promotes effective risk management and internal controls. It facilitates clear lines of communication, reporting, and accountability, ensuring that risks are properly identified, assessed, and addressed to protect the agency's interests.

SAR acknowledges and actively manages a range of risks, including but not limited to:

- i. Industry Associated Risks
- ii. Business and Personal Ethical Risks
- iii. Conflicts of Interest and Appropriate Disclosures
- iv. Operational and Reputational Risk
- v. Information and Communication Technology (ICT) and Business Continuity Management
- vi. Legal and Regulatory Risks
- vii. Protection of Personal Information

3. Outcome of the Annual Internal Review undertaken by Compliance Unit

- i. The credit ratings that SAR issued were determined to be of quality, procedurally fair and transparent.

- ii. The methodologies, models and rating assumptions employed by the Ratings function were reviewed.
- iii. Conflicts of interest were adequately disclosed and managed and were accounted through annual disclosures that were circulated in January 2023, and on a quarterly basis amongst the Board during board and committee meetings.
- iv. The compliance culture is strong, and this is emphasised through compliance training. Employees at SAR are encouraged to disclose any perceived problems or issues to the compliance function.

4. Description of Record Keeping Policy

Sovereign Africa Ratings adheres to the Companies Act 71 of 2008 and relevant archiving legislation by implementing the following frameworks and procedures:

- i. Document Retention and Age Analysis

SAR has established document retention policies that align with the Companies Act and the prescribed period in the Credit Ratings Act as well as the Board Notice 228. These policies ensure that records are retained for the required periods as mandated by the law.

- ii. Information Management System

SAR maintains an effective information management system to organise and store data. Regular comprehensive backups are performed to safeguard critical files, especially those that are irreplaceable or hold high replacement value. This backup system is a vital measure to ensure data integrity and availability.

- iii. IT Compliance Framework

SAR maintains a robust information technology compliance framework that adheres to relevant laws and regulations. This framework encompasses aspects such as the protection of confidential and personal information, cybersecurity measures, and cyber resilience.

5. Revenue Sources

Revenue Source	Rands
Credit Rating Services	R0.00
Non-Credit Rating Services	R0.00
Ancillary Services	R0.00
Other Permissible Services	R0.00
Total Revenue	R0.00

SECTION C: INFORMATION AS PER BOARD NOTICE 168 OF 2013

1. Details of Methodologies, Models and Key Assumptions Reviewed

The sovereign and sub-sovereign methodologies employed by Sovereign Africa Rating are developed by the Ratings function and are reviewed and approved by the Methodology Review Committee. The Ratings function plays a crucial role by providing analytical resources, overseeing the end-to-end process, and assuming direct accountability for credit rating methodology development, application and publication. In this reporting period, the Ratings function amended the Sovereign ratings methodology, and this was reviewed and approved by the Methodology Review committee.

The Methodology Review Committee, which operates under the Board, holds the following responsibilities:

- i. Approving new and revised credit rating methodologies.
- ii. Reviewing credit rating model specifications to ensure consistency with published credit rating methodologies.
- iii. Conducting an annual review of the suitability of existing credit rating methodologies.
- iv. Evaluating the application of published credit rating methodologies through the review of credit rating actions.

The credit rating methodologies developed are publicly available on the SAR website (www.saratings.com). These methodologies undergo continuous refinement and are subject to at least annual reviews.

Following the publication of a credit rating, SAR engages in ongoing monitoring and conducts annual reviews until the credit rating is eventually withdrawn.

2. Details of Analyst Rotation

In the effort of mitigating potential or existing conflicts of interest, analysts are rotated. This eliminates the occurrence of bias due to familiarity with the rated entity. SAR has a analysts rotation policy which it adheres to. Lead analysts are rotated every 5 years to avoid conflict of interest with a 2-year “cool-off” period prior to being eligible to rate the entity they were initially rating.

3. Details of Staff Allocated to Ratings

Sovereign Africa Ratings’ Ratings function consists of three analysts and the function is headed by the Chief Ratings Officer

Full Name and Surname of Analyst	Qualifications and Experience	Line of Business	Date Appointed
David Daniel Mosaka	Bachelor of Commerce (University of South Africa) Bachelor of Commerce (Honours) (University of South Africa)	Credit rating	19/06/2019
Bekithemba Ndimande	Bachelor of Science (University of South Africa)	Credit rating	10/08/2021

Lomanja Malaba	BSc Statistics (Honours) (University of Zimbabwe) BSc Statistics (University of South Africa) Masters of Statistics (University of South Africa)	Credit rating	02/08/2021
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4. Information On Credit Ratings by Category

During the reporting period Sovereign Africa Ratings issued four credit ratings. The details of these ratings are provided below:

Credit Rating Category	Affirmation	New	Withdrawal	Total
Sovereign	1	2	0	3
Sub-sovereign	0	1	0	1
Total	1	3	0	4

5. List of Ancillary Services

Sovereign Africa Ratings currently does not offer any ancillary services.

6. List of Members of the Board of Directors and Senior Management

Full Name and Surname	Qualifications and Experience	Committee Membership	Date Appointed
Sifiso Falala	PhD in Management of Technology Innovation Master of Science (Population studies) Doctor of Philosophy (PhD) degree (Da Vinci Institute) Bachelor of Business Studies with Honours	Executive Director Chief Executive Officer	19/06/2019
Elizabeth Mabena	BSc (Hons.) Statistics, University of Limpopo Bachelor of Science (University of Limpopo)	Independent Non-Executive Director	15/12/2021
Portia Ravhuhali*	Certified Public Accountant (CPA) exams in New Jersey in the United States of America	Independent Non-Executive Director	14/12/2022

	Bachelor of Accounting with Honours CA (SA) Certificate of Theory in Accounting		
Kevin Malunga	PhD Judicial Science LLB Admitted Advocate of the High Court in South Africa	Independent Non-Executive Director	27/05/2021
David Daniel Mosaka	Bachelor of Commerce (Honours) (University of South Africa)	Executive Director Chief Rating Officer	19/06/2019
Sipho Cyprian Ngidi	Bachelor of Commerce (Honours) (University of Natal) Industrial Relations Certificate (University of Stellenbosch) Bachelor of Administration (University of Zululand)	Independent Non-Executive Director	06/05/2019
Wayne Hugh Irving Phillips	Bachelor of Commerce (University of Natal) Diploma in Marketing Management (Institute of Marketing Management) Chartered Marketer (SA)	Independent Non-Executive Director Chairperson of the Board	01/05/2024

*Has since resigned as a board member.

7. Details of Policies and Initiatives in Adopting the King Code

SAR embraces the principles of King IV and its accompanying code, demonstrating a commitment to good corporate governance.

The Charter of SAR's Board of Directors references the principles of King IV and is beckoned by its principles. This integration underscores SAR's commitment to adopting best practices in corporate governance, accountability, transparency, and stakeholder engagement, as advocated by King IV.

8. Status Report on the Investor Education Initiatives

SAR has not engaged in any investor education initiatives in the reporting year.

9. Historical Default Rates of the Past 10 Years per Category

SAR does not have historical default rates of the past 10 years for its sovereign and sub-sovereign ratings as it has only commenced the issuance of ratings in 2022.

10. Adherence to the Prescribed Code of Conduct

The Code of Conduct is aligned with the provisions that are set out by the International Organisation of Securities Commissions (“IOSCO”) in the Code of Conduct Fundamentals for credit Rating Agencies. In this reporting period, SAR has not amended its code of conduct, and this code has been published as prescribed.



Rendani Nemavhulani
Compliance Officer