



The Pakistan Credit Rating Agency Limited

Rating Report

Askari General Insurance Company Limited

Report Contents

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Rating History

| Dissemination Date | IFS Rating | Outlook | Action | Rating Watch |
|--------------------|------------|---------|-----------|--------------|
| 07-Feb-2024 | AA+ (ifs) | Stable | Maintain | - |
| 14-Feb-2023 | AA+ (ifs) | Stable | Maintain | - |
| 31-Mar-2022 | AA+ (ifs) | Stable | Harmonize | - |
| 14-Feb-2022 | AA | Stable | Maintain | - |
| 16-Feb-2021 | AA | Stable | Maintain | - |
| 28-Feb-2020 | AA | Stable | Maintain | - |
| 28-Aug-2019 | AA | Stable | Maintain | - |
| 27-Feb-2019 | AA | Stable | Maintain | - |
| 30-Nov-2018 | AA | Stable | Upgrade | - |
| 29-Jun-2018 | AA- | Stable | Maintain | - |

Rating Rationale and Key Rating Drivers

Pakistan's general insurance industry has a total size of PKR 166bln during 9MCY23 (9MCY22: PKR 113bln), exhibiting a growth of ~47%, in terms of Gross Written Premium (GWP). The industry reported a growth of ~266% in underwriting results (9MCY23: PKR 9.9bln, 9MCY22: PKR 2.7bln). The net income of the industry also experienced an increase of ~170% to PKR 20bln during 9MCY22 (9MCY22: PKR 7.4bln). Overall, the industry overall outlook remains stable with substantial liquidity available with players.

Askari General Insurance Company Limited ('Askari General' or 'the Company') holds a stable risk profile. The Company's topline (GPW) gathered some support from business volumes, however, grew by inflationary impact. During 9MCY23, the Company earned GPW of ~PKR 4,241mln (incl takaful) owing ~36% growth on YoY basis (9MCY22: ~PKR 3,127mln). Accident and Health segment contributed ~51% followed by motor ~26%, fire and property ~19%, miscellaneous ~16% and marine and transport ~9% the total GPW. Underwriting performance showed a weak trend, despite a strategy revamp towards augmenting the bottom-line. The management efforts for sustaining the overall quality of the control environment are supported by the real-time operating software. This provides tools for holistic oversight and efficient decision-making. A subsidiary, AskTech, a venture focused on vehicle tracking solutions, has been set up to yield technological synergies; this is expected to create diversification by enhancing customer experience. The Company's fully functional android and IOS-based mobile app - Ask Health enhanced communication and coordination, facilitated through a 24/7 call center and brought a reduction in Turn Around Time (TAT) in claims processing; therefore, attracting a customer base. However, the impact did not trickle to Company's bottom-line in health segment. The sustained liquidity profile provides a cushion to the risk absorption capacity. Askari General continues to have a sound panel of reinsurers with favorable treaty terms. Going forward, the management intends to fortify the Company's position in non-conventional segments, while using alternative distribution channels. The rating, likewise, takes into account Askari General's association with Army Welfare Trust (AWT).

The rating is dependent on the Company's ability to sustain its market share and profitability from the core business along with stable investment income. At the same time, the proportional improvement must be recorded in its liquidity.

Disclosure

| | |
|------------------------------|---|
| Name of Rated Entity | Askari General Insurance Company Limited |
| Type of Relationship | Solicited |
| Purpose of the Rating | IFS Rating |
| Applicable Criteria | Methodology General Insurance Rating(Mar-23),Methodology Rating Modifiers(Apr-23) |
| Related Research | Sector Study General Insurance(Jun-23) |
| Rating Analysts | Nabia Rauf nabia.rauf@pacra.com +92-42-35869504 |



Profile

Legal Structure Askari General Insurance Company Limited ("Askari General" or "the Company") was incorporated in Apr-95, later it was listed on PSX in 1996.

Background The Company commenced commercial operations in Oct-95. The Company is owned by Army Welfare Trust ('the Trust'). The Trust was set up in 1971 by the Pakistan Army with the mandate of promoting the welfare of retired personnel and their families. The Company was granted license to work as Window Takaful Operator (WTO) in Aug-15 by the SECP under Takaful Rules, 2012.

Operations The Company mainly operates in Conventional and Takaful business domains. Within both, the Company is mainly engaged in fire, marine & transport, motor, health, bond, travel and crop segments. The Company operates through a network of 19 branches across Pakistan.

Ownership

Ownership Structure Major stake ~59% is held by Army Welfare Trust. While, Individuals hold (~31%), Financial Institutions and Mutual Funds hold (~1.09%) and Directors hold (~0.7%). The remaining stake is held by others (~8%).

Stability The ownership of the Company seems to remain stable as major stake resides with the Trust, having prominent position in various business.

Business Acumen The Sponsors have strong acumen and diversified business portfolio providing significant support to the Company.

Financial Strength The Company gathers financial strength from the Trust, if needs be.

Governance

Board Structure The overall control of the Company lies with nine-members Board; out of which, five are Non -Executive Directors and one is an Executive Director (the CEO) and three are Independent Directors including one female Director. The Board is dominated by the Sponsors as five members represents the Trust.

Members' Profile Lt. Gen Nauman Mahmood (Retd.) is appointed as the Chairman of the Board since 17-Jan-24. He is associated with the Company since Dec-23. He holds an overall experience of more than four decades. Earlier, Lt. Gen Naveed Mukhtar (Retd) was serving as the Chairman. All other Board members possess diversified backgrounds and rich business acumen. They have served at leading positions throughout their professional career and provide their expertise in strategic decision-making process.

Board Effectiveness The Board met five times during CY23 and is assisted by six committees namely; (i) Audit Committee, (ii) Executive, Risk Management & Compliance Committee, (iii) Ethics, Human Resource and Remuneration Committee, (iv) Underwriting, Re-insurance & Co-insurance Committee (v) Claims Settlement Committee and (vi) Investment Committee. HR committee met thrice and all other committees met twice during CY23.

Transparency The External Auditors of the Company M/S Yousuf Adil Chartered Accountants has issued an unqualified audit report pertaining to the financial statements for CY22. The firm is QCR rated and on SBP's panel in category "A".

Management

Organizational Structure The Company has a defined organizational structure and operates through fourteen departments: (i) Underwriting (ii) Reinsurance, (iii) Claims, (iv) Health, (v) Finance, (vi) Management Information System, (vii) HR, (viii) Administration, (ix) Legal, (x) Internal Audit, (xi) Tracker, (xii) Marketing (xiii) Compliance & Grievance and (xiv) Strategic Business Planning & Relationship. The marketing function of the Company is further divided into three departments namely; corporate business, consumer business and defense business. All these departments are headed by Country Heads who report directly to the Chief Executive Officer (CEO), who then reports to the Board. Head of Audit department reports to Board Audit Committee.

Management Team Mr. Abdul Waheed serves as the CEO and is associated with the Company since 2013. He holds an overall experience of more than three decades. Mr. Suleman Khalid serves as the Chief Financial Officer (CFO) and is associated with the Company since 2021. He holds an overall professional experience of more than seventeen years. He is assisted by a team of professionals.

Effectiveness The operations of the Company are managed by each functional department reporting directly to the CEO. However, room for improvement exists as the presence of management committees will help to monitor effective running of the operations.

MIS The Company deploys real time web-based Insurance Management System (IMS) developed in-house. This has provided management with sophisticated management tools in structured MIS system, helping the company to bring operational efficiency.

Claim Management System Claims amounting less than PKR 20,000 are approved by the Branch Managers. However, in motor segment claims above PKR 125,000 and in other segments claims above PKR 0.2mln are approved by the CEO and above PKR 1mln are approved by the Claim Committee.

Investment Management Function The Board's investment committee oversees the investment function, with support being taken from the CFO and Head of Treasury.

Risk Management Framework The Company's risk management policies are established to identify and analyze the risks faced by the Company to set appropriate risk limits and controls also to monitor risks and adherence to limits. The system and policies are reviewed regularly to reflect changes in market conditions and the Company's activities.

Business Risk

Industry Dynamics Pakistan's general insurance industry has a total size of PKR 166bln during 9MCY23 (9MCY22: PKR 113bln), exhibiting a growth of ~47%, in terms of Gross Written Premium (GWP). The industry reported a growth of ~266% in underwriting results (9MCY23: PKR 9.9bln, 9MCY22: PKR 2.7bln). The net income of the industry also experienced an increase of ~170% to PKR 20bln during 9MCY22 (9MCY22: PKR 7.4bln). Overall, the industry overall outlook remains stable with substantial liquidity available with players.

Relative Position The Company operates as a medium tier player and holds a market share of ~2.5% in terms of GPW.

Revenue The Company generates revenue from Conventional and Window Takaful business. During 9MCY23, total GPW grew by ~36% and stood at ~PKR 4.2bln (9MCY22: ~PKR 3.1bln), due to value driven increase in the business. GPW generated from Conventional business grew ~37% and Window Takaful business increased ~51%. Accident & Health was the top performing segment generating ~31%, followed by motor ~26%, fire and property ~19%, miscellaneous ~16% and marine and transport ~9% generated of the total GPW.

Profitability During 9MCY23, underwriting results decreased ~44% and reported at ~PKR 103mln (9MCY22: ~PKR 184mln), owing to relatively high underwriting expenses. Underwriting expenses increased ~11% and reported at ~PKR 2bln (9MCY22: ~PKR 1.8bln). Investment income supplemented the bottom-line and the Company secured profit after tax of ~PKR 283mln (9MCY22: ~PKR 381mln), showing a dip of ~25%.

Investment Performance During 9MCY23, investment income rose ~29% and reported at ~PKR 344mln (9MCY22: ~PKR 266mln), due to higher interest rates on government and debt securities.

Sustainability Going forward, the Company is planning to expand operations, adding value in operations through process automation.

Financial Risk

Claim Efficiency As of 9MCY23, the claims outstanding days slightly improved and stood at 140days (9MCY22: 145days), due to timely settlement of claims. Premium outstanding days improved and stood at 99days (9MCY22: 103days)

Re-Insurance The Company has reinsurance agreements on excess of loss (XoL) and quota basis with; Scor Re (rated `A`), Trust Int'l (rated `A`), Malaysian Re (rated `A`), Korean Re (rated `A`), Swiss Re (rated `AA-`), Hannover Re (AA-) and Pak Re (rated locally AA).

Cashflows & Coverages As of 9MCY23, liquid ratio of the Company slightly increased and stood at 1.4x (9MCY22: 1.3x), owing to increased liquid assets and net premium. Liquid assets increased ~29% and stood at ~PKR 4.4bln (9MCY22: ~PKR 3.4bln).

Capital Adequacy As of 9MCY23, total equity increased ~8% and stood at ~PKR 2.6bln (9MCY22: ~PKR 2.4bln), due to increased unappropriated profit. Unappropriated profit increased ~10% and stood at ~PKR 1.7bln (9MCY22: ~PKR 1.5bln). Admissible assets to total liabilities ratio stood at 4.4x (9MCY22: 4.5x), depicting adequate capital adequacy.



PKR Min

Askari General Insurance Company Limited
Public Listed Company

| Sep-23 | Dec-22 | Sep-22 | Dec-21 | Dec-20 |
|--------|--------|--------|--------|--------|
| 9M | 12M | 9M | 12M | 12M |

A BALANCE SHEET

| | | | | | |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|
| 1 Investments | 4,512 | 4,011 | 3,630 | 3,556 | 3,345 |
| 2 Insurance Related Assets | 4,116 | 2,710 | 2,394 | 2,496 | 2,195 |
| 3 Other Assets | 784 | 533 | 506 | 473 | 456 |
| 4 Fixed Assets | 353 | 406 | 408 | 406 | 385 |
| 5 Window Takaful Operations | - | - | - | - | - |
| Total Assets | 9,765 | 7,660 | 6,937 | 6,931 | 6,381 |
| 1 Underwriting Provisions | 2,823 | 2,157 | 1,855 | 2,008 | 1,773 |
| 2 Insurance Related Liabilities | 3,457 | 2,216 | 2,013 | 1,894 | 1,817 |
| 3 Other Liabilities | 662 | 532 | 406 | 393 | 363 |
| 4 Borrowings | 172 | 200 | 215 | 213 | 209 |
| 5 Window Takaful Operations | - | - | - | - | - |
| Total Liabilities | 7,114 | 5,105 | 4,489 | 4,508 | 4,163 |
| Equity/Fund | 2,652 | 2,554 | 2,448 | 2,368 | 2,219 |

B INCOME STATEMENTS

CONSOLIDATED INCOME STATEMENT

| | | | | | |
|--|------------|------------|------------|------------|------------|
| 1 Gross Premium Written/Gross Contribution Written | 4,241 | 4,500 | 3,127 | 4,009 | 3,331 |
| 2 Net Insurance Premium/Net Takaful Contribution | 2,163 | 2,676 | 2,046 | 2,434 | 2,115 |
| 3 Underwriting Expenses | (2,061) | (2,444) | (1,862) | (2,202) | (1,842) |
| Underwriting Results | 103 | 232 | 184 | 232 | 273 |
| 4 Investment Income | 344 | 328 | 266 | 284 | 299 |
| 5 Other Income / (Expense) | 42 | 22 | 15 | 3 | 0 |
| Profit Before Tax | 488 | 582 | 465 | 519 | 572 |
| 6 Taxes | (205) | (193) | (157) | (137) | (165) |
| Profit After Tax | 283 | 388 | 308 | 381 | 408 |

PARTICIPANTS' TAKAFUL FUND - PTF

| | | | | | |
|---|------------|-----------|-----------|-----------|-----------|
| 1 Gross Contribution Written | 497 | 458 | 330 | 403 | 376 |
| 2 Net Takaful Contribution | 73 | 78 | 58 | 103 | 107 |
| 3 Net Takaful Claims | (110) | (98) | (69) | (123) | (124) |
| 4 Direct Expenses Including Re-Takaful Rebate Earned | 34 | 39 | 30 | 24 | 19 |
| Surplus Before Investment & Other Income/(Expense) | (2) | 19 | 19 | 4 | 2 |
| 5 Investment Income | 17 | 24 | 10 | 8 | 8 |
| 6 Other Income/(Expense) | 8 | (2) | 5 | 2 | 2 |
| Surplus for the Period | 23 | 42 | 35 | 14 | 12 |

OPERATOR'S TAKAFUL FUND - OTF

| | | | | | |
|--|-----------|-----------|-----------|-----------|-----------|
| 1 Wakala Fee Income | 151 | 170 | 126 | 158 | 148 |
| 2 Management, Commission & Other Acquisition Costs | (124) | (144) | (105) | (124) | (109) |
| Underwriting Income/(Loss) | 27 | 26 | 20 | 35 | 39 |
| 3 Investment Income | 36 | 30 | 21 | 18 | 21 |
| 4 Other Income/(Expense) | 5 | 6 | 4 | 2 | 4 |
| Profit Before tax | 68 | 61 | 45 | 55 | 63 |
| 5 Taxes | (30) | (19) | (17) | (15) | (17) |
| Profit After tax | 38 | 42 | 28 | 39 | 45 |

C RATIO ANALYSIS

| | | | | | |
|--|--------|--------|--------|--------|--------|
| 1 Profitability | | | | | |
| Loss Ratio - Net Insurance & Takaful Claims / Net Insurance Premium or Takaful | 62.9% | 61.5% | 59.3% | 61.6% | 58.7% |
| Combined Ratio (Loss Ratio + Expense Ratio) | 95.3% | 91.3% | 91.0% | 90.5% | 87.1% |
| 2 Investment Performance | | | | | |
| Investment Yield | 10.8% | 8.7% | 9.9% | 8.2% | 9.4% |
| 3 Liquidity | | | | | |
| (Liquid Assets - Borrowings) / Outstanding Claims Including IBNR | 2.0 | 4.1 | 3.4 | 4.2 | 3.5 |
| 4 Capital Adequacy | | | | | |
| Liquid Investments / Equity (Funds) | 166.6% | 153.6% | 139.5% | 145.1% | 142.2% |

Insurer Financial Strength (IFS) Rating

Insurer Financial Strength (IFS) rating reflects forward-looking opinion on relative ability of an insurance company to meet policy holders and contractual obligations.

| Scale | Definition |
|---|---|
| AAA (ifs) | Exceptionally Strong. Exceptionally Strong capacity to meet policy holders and contract obligations. Risk factors are minimal, and the impact of any adverse business and economic factors is expected to be extremely small. |
| AA++ (ifs) AA+ (ifs) AA (ifs) | Very Strong. Very Strong capacity to meet policy holders and contract obligations. Risk factors are very low, and the impact of any adverse business and economic factors is expected to be very small. |
| A++ (ifs) A+ (ifs) A (ifs) | Strong. Strong capacity to meet policy holders and contract obligations. Risk factors are low, and the impact of any adverse business and economic factors is expected to be small. |
| BBB++ (ifs) BBB+ (ifs) BBB (ifs) | Good. Good capacity to meet policy holders and contract obligations. Risk factors are moderate, and the impact of any adverse business and economic factors is expected to be manageable. |
| BB++ (ifs) BB+ (ifs) BB (ifs) | Modest. Modest capacity to meet policy holders and contract obligations. Though positive factors are present, risk factors are relatively high, and the impact of any adverse business and economic factors is expected to be significant. |
| B++ (ifs) B+ (ifs) B (ifs) | Weak. Weak capacity to meet policy holders and contract obligations. Risk factors are high, and the impact of any adverse business and economic factors is expected to be very significant. |
| CCC (ifs) CC (ifs) C (ifs) | Very Weak. Very weak capacity to meet policy holders and contract obligations. Risk factors are very high, and the impact of any adverse business and economic factors may lead to insolvency or liquidity impairment |
| D (ifs) | Distressed. Extremely weak capacity with limited liquid assets to meet policy holders and contract obligations, or subjected to some form of regulatory intervention or declared insolvent by the regulator. |

| | | | | |
|---|---|--|---|---|
| <p>Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.</p> | <p>Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.</p> | <p>Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.</p> | <p>Withdrawn A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.</p> | <p>Harmonization A change in rating due to revision in applicable methodology or underlying scale.</p> |
|---|---|--|---|---|

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s): General Insurance & Takaful Operator, Life Insurance & Family Takaful Operator.

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2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).
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- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
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- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 17-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 17-(d)

Probability of Default

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e., probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past; | Chapter III | 14-3(f)(vii)

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