



## The Pakistan Credit Rating Agency Limited

### Rating Report

#### Ismail Iqbal Securities (Pvt.) Limited | BMR

##### Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

##### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
28-Aug-2019	BMR3	-	Stable	Maintain	-
20-May-2019	BMR3	-	Stable	Maintain	-
28-Dec-2018	BMR3	-	Stable	Initial	-

##### Rating Rationale and Key Rating Drivers

The ratings reflect the company's subdued performance due to operating losses on the back of low volumes and depressed return of the equity market. The company has a modest market share in the brokerage industry. The company's services mainly comprise equity brokerage. The ratings incorporate the company's diversified revenue streams followed by investment advisory assignments such as private placements, underwriting, mergers and acquisitions and privatization. The assigned rating takes into account the company's high exposure to market risk due to its proprietary book, which may indicate conflict of interest but the management has implemented adequate measures to cope with this risk. The company has lean organizational structure where all department heads are directly reportable to the CEO. The company's board is complying with the requirements of companies Act 2019 but can be strengthened by indulging an independent director. Furthermore, the company has adequate capitalization levels with the net capital balance of ~PKR 195mln at end Jun-19. The company has a moderate leveraged structure. The debt is well covered by liquid assets. However, the equity of the company eroded due to recent losses.

The ratings are dependent upon the management's efforts to improve market share in volume and value. Meanwhile, strong BoD framework, insightful monitoring of market risk and liquidity management remains imperative. Retention of key personnel and continuous improvement in customer servicing tools will bode well for the company. Recovering the company's equity base to agreed parameters will have a positive impact on ratings.

##### Disclosure

<b>Name of Rated Entity</b>	Ismail Iqbal Securities (Pvt.) Limited   BMR
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Broker Management Rating
<b>Applicable Criteria</b>	PACRA_Methodology_Security Broker_FY19(Jun-19)
<b>Related Research</b>	Sector Study   Brokerage & Security(Nov-18)
<b>Rating Analysts</b>	Shahzaib Khalid   shahzaib.khalid@pacra.com   +92-42-35869504



The Pakistan Credit Rating Agency Limited

# Brokerage & Securities

## Ownership

**Ownership Structure** The Ismail Iqbal Securities (Pvt.) Ltd. is a family owned business and the stakes are being divided into three siblings where the majority of shareholding lies with Mr. Ahfaz Mustafa (65%). The remaining stake is held by his elder brother Mr. Azhar Iqbal (17.5%) and sister Mrs. Ayesha Naseem (17.5%).

**Stability** Given the fluctuating stock market trend, the company is trying to improve its equity brokerage volumes

**Business Acumen** The company sponsors have relevant educational background and have vast experience in financial services sector.

**Financial Strength** The main sponsor, Mr. Ahfaz Mustafa has a sizeable net worth and has issued a personal guarantee in case of equity erosion in the company.

## Governance

**Board Structure** The company's board of directors comprises two experienced individuals including the CEO - Mr. Ahfaz Mustafa. The other director, Mr. Azhar Iqbal is a non-executive director and provides governance oversight.

**Members' Profile** Mr. Ahfaz Mustafa received his Bachelors of Science (Hons.) degree with majors in Economics from University of Toronto and started off with risk management and has steadily worked his way to the top position in the company. Mr. Azhar Iqbal earned his Bachelors in Economics from the prestigious University of Pennsylvania, and then went on to do his masters from NYU. He remained associated with the financial markets as a research analyst in New York for three years before returning to Pakistan and joining the Ismail Iqbal Group.

**Board Effectiveness** The company has established audit committee at the board level with proper TORs.

**Financial Transparency** Baker Tilly Mehmood Idrees Qamar are the external auditors and are ranked in the 'A' category in the State Bank's list of approved auditors. The auditor has expressed an unqualified opinion on the financial statements for FY19.

## Management

**Management Team** Mr. Ahfaz Mustafa is the CEO of the company since 2008. He has nearly 12 years of experience in the equity market. Management team of the company comprises seasoned professionals with considerable financial services sector experience. During the year, Madiha Javed, CFA joined the company as a Head of Research. She is carrying nine years of professional experience in investment management.

**Organizational Structure** There are seven departments in the company, which directly report to the CEO. The company has created all requisite positions to ensure smooth operations.

**Client Servicing** The company offers multiple account opening mediums. As soon as a trade is executed, the client is notified via email and SMS. The company communicates account statements and market reports to the clients on regular basis.

**Complaint Management** The company has provided an electronic form on the face of its website to lodge online complaints and complaints can be made via e-mail and calls.

**Extent Of Automation / Integration** The company utilizes an ERP called "V Trade". The system is fully synchronized with the market and has complete integration with the back office functions.

**Continuity Of Operations** The company has a well-defined disaster recovery and business continuity plan.

**Risk Management Framework** The company has established adequate risk management framework and has implemented proper policies of KYC and client due diligence (CDD). The company has also formulated its Investment Policy Statement (IPS), underwriting, corporate finance and advisory policy, approved by the board. Investment and underwriting limits are clearly defined in related policies. The company has formal compliance department, headed by a well-qualified compliance manager. The department ensures that all the regulatory requirements are fulfilled on timely basis. However, no formal compliance manual is formed yet.

**Regulatory Compliance** Compliance Department ensures that all the regulatory requirements are adhered to. Compliance manager possesses more than 8 years of professional experience. Compliance department is also performing the internal audit function.

## Business Sustainability

**Business Risk** The company's primary function is brokerage and book running. During CY19, KSE-100 index posted a negative return of around ~19% (FY18: ~10%) due to uncertainty on economic front where delay in IMF bailout package, increasing interest rate environment and massive PKR depreciation against dollar ~30% in FY19 dented the investor sentiment. The index witnessed slight recovery after mini-budget of January 2019, though geo-political issues on indo-pak front further dampened the confidence in the market. The low trading volumes and depressed equity market conditions have put tremendous pressure on brokerage industry. The operating environment is expected to remain challenging in the near future until recovery is witnessed in equity market.

**Business Profile** Main activities of the company include brokerage, research and underwriting. In terms of value of traded shares, the company enjoys ~2% market share in the ready and futures equity market.

**Revenue And Profitability Analysis** The company's operating revenue comprises Commission Income, Capital Gains, Dividend Income, Un-Realized Gain/Loss on marketable securities. During FY19, brokerage commission increased by ~21% to ~PKR 48.63mln, (FY18: PKR 40.04mln), while the company has suffered ~PKR 19mln and ~PKR 17mln in terms of capital gain/loss and un-realized gain/loss during the year. The company made loss in its proprietary investments which impacted the company's profitability. The company booked the net loss of ~PKR 66mln for FY19.

## Financial Sustainability

**Credit Risk** For the assessment of client credit worthiness, the company has implemented due diligence procedures in addition to its KYC. Applicable policies and limits for leverage products have been adopted. An automated risk management system is in place that halts transactions for a particular client if margin falls below the allocated limit. Trade debts are low and their ageing is considered to be manageable.

**Market Risk** As at 30th June 2019, the size of the short term investment book was ~PKR 77mln (FY18: ~PKR 71mln), which comprises quoted securities. Proprietary listed securities as compared to company's equity comprises ~24.6% in FY19 (FY18: ~19%). Trading in proprietary book creates conflict of interest and exposes the investment portfolio to market risk. The company has formulated an investment policy to address the key issues like scrip level and sector level limits.

**Liquidity Profile** The liquidity risk for the company arises from T+2 settlement framework. At the end of FY19, the liquid assets were 0.57x of the total asset book (FY18: 0.27x). In case a need arises, the company has approved bank lines of ~PKR 535mln. Liquid assets in relation to total liabilities decreased to 1.14x (FY18: 1.3x). However, liquid assets are sufficient to cover the current liabilities of the company and is well covered by liquid investment and placements.

**Financial Risk** The debt structure is completely comprised of short-term borrowings which is ~48% in FY19 (FY18: ~2%). As at June-19, the Net capital Balance for the company stood at ~PKR 195mln (FY18: ~PKR 204mln). The company is allowed to take exposure of up to 25x of its NCB

ISMAIL IQBAL SECURITIES PRIVATE LIMITED  
BALANCE SHEET

As at

**A. EARNING ASSETS****a. Finances**

1. Margin Financing
2. Ready Futures (Spread Transactions)

**b. Investments**

1. Deposits with Banks and other institutions
2. Govt. Securities and Money Market Fund
3. Debt Securities & Income Funds
4. Long-Term
  - i) Listed Equities
  - ii) TREC
5. Short-Term
  - i) Listed Equities
  - i) Takaful

**Total Earning Assets****B. NON-EARNING ASSETS**

1. Cash and Bank Balances-Own Funds
2. Cash and Bank Balances-Client's Funds
3. Advance Tax
4. Accounts Receivable
5. Advances, Deposits and Other receivables
6. Fixed Assets

**Non-Earning Assets****C. TOTAL ASSETS****D. Funding****1. Commercial**

- i) Advances from Customers
- ii) Trade payables

**2. FIs**

- i) Short-term Borrowings
- ii) Current Maturity of Long Term Debt
- iii) Long-term Borrowings

**Current Liabilities****E. Other Liabilities**

1. Borrowings
2. Trade Payables
3. Other Liabilities (staff gratuity, Accrued mark-up)
4. Provision for Taxation

**Other Liabilities****F. EQUITY**

1. Share Capital
2. Reserves:
  - i. Statutory Reserve
  - ii. Capital Reserve
  - iii. Reserve for Bonus Shares
  - iv. Revenue Reserve
  - v. Unappropriated Profit

**Pure Equity**

3. Surplus/(Deficit) on Revaluation of Investments
3. Unclaimed dividend

**Total Equity****G. TOTAL LIABILITIES & EQUITY****H. CONTINGENT LIABILITIES**

30-Jun-19 FY19 Un-audited	30-Jun-18 FY18 Audited	30-Jun-17 FY17 Audited
---------------------------------	------------------------------	------------------------------

0	0	79
0	0	0
<b>0</b>	<b>0</b>	<b>79</b>

165	51	18
0	0	0
0	0	0
83	60	60
3	3	5
77	71	137
7.00	7.00	7.00
<b>335</b>	<b>191</b>	<b>226</b>

<b>335</b>	<b>191</b>	<b>306</b>
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0	0	0
66	72	50
0	0	0
36	83	43
100	117	297
22	21	24

<b>223</b>	<b>293</b>	<b>414</b>
------------	------------	------------

<b>558</b>	<b>485</b>	<b>720</b>
------------	------------	------------

0	0	0
71	91	116
<b>71</b>	<b>91</b>	<b>116</b>

149	6	134
0	2	0
2	0	0
<b>151</b>	<b>8</b>	<b>134</b>

<b>222</b>	<b>99</b>	<b>251</b>
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0	0	0
0	0	0
23	6	14
0	0	0
<b>23</b>	<b>6</b>	<b>14</b>

347	347	347
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0	0	0
0	0	0
0	0	0
0	0	0
(32)	34	109
(32)	34	109

<b>315</b>	<b>381</b>	<b>455</b>
------------	------------	------------

0	0	0
0	0	0

<b>315</b>	<b>381</b>	<b>455</b>
------------	------------	------------

<b>558</b>	<b>485</b>	<b>720</b>
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<b>0</b>	<b>0</b>	<b>0</b>
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**ISMAIL IQBAL SECURITIES PRIVATE LIMITED**

**INCOME STATEMENT**

For the period ended

	<b>30-Jun-19 FY19 Un-audited</b>	<b>30-Jun-18 FY18 Audited</b>	<b>30-Jun-17 FY17 Audited</b>
<b>1. Fee-Based Income</b>			
a. Advisory Fees	0	0	0
b. Commission / Underwriting	0	0	0
c. Brokerage	49	40	66
d. Others (including MFS)	7	9	1
	56	49	67
<b>2. Operating Expenses</b>			
a. Personnel Expenses*	(29)	(31)	(34)
b. Other Non-interest/Mark Up Expenses*	(40)	(41)	(25)
	(69)	(72)	(59)
<b>3. Brokerage Income / (Loss)</b>	<b>(14)</b>	<b>(24)</b>	<b>8</b>
<b>4. Non Fee-Based Income</b>			
a. Finances	0	0	0
a. Placements (including Reverse REPO/COI/CFS)	0	0	0
b. Bank Deposits and Margin finance	0	9	0
	0	9	0
<b>5. Other Income</b>			
c. Dividend Income	4	9	0
d. Gain on Sale of Investments	(19)	(33)	172
e. Surplus/(Deficit) on Revaluation of Investments	(17)	(10)	15
f. Share of profit of subsidiaries/associates	0	0	0
g. Others	0	0	0
	(32)	(34)	186
<i>Non-fee based + Other Income</i>	(32)	(25)	186
<b>6. Total Operating Income / (Loss)</b>	<b>(46)</b>	<b>(49)</b>	<b>194</b>
<b>7. Financial Charges</b>	(15)	(9)	(15)
<b>8. Other Income / (Loss)</b>	0	0	19
<b>9. Profit / (Loss) Before Tax</b>	<b>(61)</b>	<b>(58)</b>	<b>199</b>
<b>10. Taxes</b>	(4)	(17)	(15)
<b>11. Net Income</b>	<b>(66)</b>	<b>(75)</b>	<b>184</b>
<b>12. Unappropriated Profit / (Loss) Brought Forward</b>	34	109	(75)
<b>13. Adjustments</b>	0	0	0
Available for Appropriations	(32)	34	109
<b>14. Unappropriated Profit/(Loss) Carried Forward</b>	<b>(32)</b>	<b>34</b>	<b>109</b>
<i>* Proportionated in FY18</i>			


**ISMAIL IQBAL SECURITIES PRIVATE LIMITED**  
**RATIO ANALYSIS**

	<b>30-Jun-19</b>	<b>30-Jun-18</b>	<b>30-Jun-17</b>
	<b>FY19</b>	<b>FY18</b>	<b>FY17</b>
	<b>Audited</b>	<b>Audited</b>	<b>Audited</b>
<b>A. PERFORMANCE</b>			
1. ROE	-22.41%	-15.85%	48.37%
a Net Profit Margin	-118.7%	-154.1%	275.5%
b Asset Turnover	10.6%	8.1%	11.1%
c Financial Leverage	1.77	127.4%	1.58
2. ROA	-11.8%	-15.4%	25.6%
3. Cost-to-Fee Income	-150.5%	-148.5%	30.3%
4. Cost-to-Total Operating Income	298.2%	306.2%	23.3%
5. Taxes / Pre-Tax Profit	-7.3%	-29.0%	7.5%
6. Net Non-Earning Assets / Assets net of Non-Interest Liabilities	37.5%	60.0%	56.7%
<b>B. FINANCIAL EXPOSURE</b>			
1. Short Term Proprietary Listed Securities / Equity	24.6%	18.5%	30.0%
2. Total Investments / Equity	54.1%	36.9%	45.8%
3. Fixed Income / Total Capital	0.0%	0.0%	0.0%
4. NCB / Equity	62.3%	53.6%	34.0%
<b>C. LIQUIDITY</b>			
1. Trade Related Assets / Trade Related Liabilities	0.50	0.91	0.37
2. Liquid Assets/ Short Term Borrowings + Creditors	1.14	1.30	0.64
3. Liquid Assets / Total Assets	0.45	0.27	0.22
4. Liquid Assets / Trade Related Liabilities	3.53	1.41	1.39
5. Liquid Assets / (Short term Borrowings + Advances from Customers + Accounts Payable)	1.14	1.30	0.64
6. Adjusted Liquid Assets / (Short term Borrowings + Advances from Customers + Accounts payable)	1.14	1.30	0.64
7. Liquid Investments / Equity	0.79	0.34	0.35
<b>D. COVERAGE RATIOS</b>			
1. EBITDA/Gross Interest	-5.14	-7.42	12.54
<i>Debt Payback Analysis</i>			
2 Long-term Debt/FCFO	-2%	0%	0%
3 Total Debt / FCFO	-168%	-9%	63%
<b>E. CAPITAL ADEQUACY</b>			
1. Equity / Total Assets	56.4%	78.5%	63.3%
2. Total Equity (including surplus on revaluation) / Total Assets	56.4%	78.5%	63.3%
3. Total Debt / Equity	47.9%	2.0%	29.5%
4. Dividend Payout Ratio	0.0%	0.0%	0.0%
<b>F. GROWTH</b>			
1. Total Assets	15.0%	-32.6%	49.3%
2. Investments	75.2%	-37.4%	36.7%
3. Equity	-17.3%	-16.4%	67.8%
4. Brokerage Revenue	21.5%	-39.4%	42.2%
5. Investment Yield	-12.2%	-10.1%	70.4%
6. Revenue	14.2%	-27.2%	41.2%
a. Advisory Fees	nill	nill	nill
b. Brokerage	21.5%	-39.4%	42.2%

## Broker Management Rating Scale & Definitions

An independent opinion on the quality of management and services provided by the broker

### Long Term Ratings

<b>BMR 1A</b>	<b>Excellent.</b> Excellent regulatory compliance, control environment, and financial management; governance and risk management frameworks are extremely effective; HR, IT, and customer services are strongly proactive.
<b>BMR 1++</b> <b>BMR 1+</b> <b>BMR 1</b>	<b>Strong.</b> Strong regulatory compliance, control environment, and financial management; governance and risk management frameworks are highly effective; HR, IT, and customer services are highly proactive.
<b>BMR 2++</b> <b>BMR 2+</b> <b>BMR 2</b>	<b>Sound.</b> Sound regulatory compliance, control environment, and financial management; governance and risk management frameworks are effective; HR, IT, and customer services are proactive.
<b>BMR 3++</b> <b>BMR 3+</b> <b>BMR 3</b>	<b>Adequate.</b> Adequate regulatory compliance, control environment, and financial management; governance and risk management frameworks are satisfactory; HR, IT, and customer services are adequate.
<b>BMR 4++</b> <b>BMR 4+</b> <b>BMR 4</b>	<b>Inadequate.</b> Inadequate regulatory compliance, control environment, and financial management; governance and risk management frameworks need improvements; HR, IT, and customer services are insufficient.
<b>BMR 5</b>	<b>Weak.</b> Weak regulatory compliance and business practices.

**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'.

**Rating Watch** Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. 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

**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.

**Withdrawn** A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the rating remains suspended for six months, or/and d) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

**Harmonization** A change in rating due to revision in applicable methodology or underlying scale.

**Disclaimer:** The rating is based on information that is obtained from the client and sources we consider to be reliable but its accuracy and completeness are not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. Our rating and related analyses are statements of opinions about the relative standing of the company and its affairs as of the date they are expressed. These are not recommendations to buy or subscribe/unsubscribe any services. None of the information in this document may be copied or otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's written consent. This disclaimer is in accordance with Section 14(3)(x) of the Credit Rating Companies Regulations, 2016.

### **Rating Team Statements**

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

### **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

### **Restrictions**

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

### **Conduct of Business**

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (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.
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

### **Independence & Conflict of interest**

- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA’s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (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)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

### **Monitoring and review**

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(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 | 18-(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 | 18-(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-(f-VII)

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