



## The Pakistan Credit Rating Agency Limited

### Rating Report

#### FINCA Microfinance Bank Limited | PPTFC

#### 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
29-Apr-2019	A	-	Stable	Maintain	-
06-Nov-2018	A	-	Stable	Maintain	-
30-Apr-2018	A	-	Stable	Maintain	-
30-Dec-2017	A	-	Stable	Maintain	-
30-Oct-2017	A	-	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

The ratings reflect association of the bank with a global microfinance organization – FINCA International. This affiliation supports FINCA Microfinance Bank in terms of building a wholesome strategy and also in establishing robust systems and controls. FINCA is a mid-tier player in Pakistan's microfinance sector (Dec'18: ~8% share in total gross loan portfolio and ~11% share in total microfinance deposits). The bank intends to build a stable and diverse deposit base. Given that the current deposit landscape is very competitive, building a granular (as well as low cost) deposit base is challenging. Liquidity profile remained relatively stretched. FINCA's paramount focus remains on digitizing its operations and strengthening its technological infrastructure to expand its outreach. In this regard, the bank is upgrading its MIS and developing variant digital products to serve diversified market segments, including corporates. Digital banking mix is currently small. Asset health dwindled slightly to ~1.9% at End-Dec18 (CY17: 1.5%). Average loan size of the bank is on the higher side in relation to its peers, which needs to be in check amidst rising industry's infection ratio.

The ratings are dependent upon the bank's ability to sustain its profitability while building up market position. Maintenance of asset quality is also pertinent to the ratings. Successful establishment of foothold in digital banking remains critical amidst stiff competition.

#### Disclosure

<b>Name of Rated Entity</b>	FINCA Microfinance Bank Limited   PPTFC
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Debt Instrument Rating
<b>Applicable Criteria</b>	Methodology   Criteria   Rating Modifier(Jun-18),Methodology   Correlation Between Long-Term And Short-Term Rating Scale(Jun-18),Methodology   MFI (Jun-18)
<b>Related Research</b>	Sector Study   Microfinance Bank(Apr-19)
<b>Rating Analysts</b>	Muhammad Nadeem Sheikh   nadeem.sheikh@pacra.com   +92-42-35869504



FINCA MICROFINANCE BANK LIMITED	
<b>Incorporation</b>	2008 – as Kashf Microfinance Bank
<b>Legal status</b>	Microfinance Bank – Public Limited
<b>Outreach</b>	133 branches - nationwide
<b>Head Office</b>	DHA Phase 3, Lahore

PRIVATELY PLACED TERM FINANCE CERTIFICATE
FINCA had issued a privately placed Term Finance Certificates of PKR 500mln with a total value of PKR 1.5bln. The instrument had the option to be issued in three equal installments within the availability period of nine months ending in Aug'18. First tranche of PKR 500mln was issued in Nov'17. No further amount has been issued to date. The instrument has a tenor of 5 years from first installment and shall be redeemed in 16 equal quarterly installments starting from 15th month of the first draw-down. Profit is paid quarterly at a mark-up of 3 months KIBOR + 1.50%. The instrument is secured against first pari passu charge over all future and present current assets along with 25% margin.

## PROFILE

- FINCA Microfinance Bank Limited (“the Bank”) was incorporated as a public unlisted company in June, 2008, under section 32 of the Companies Ordinance, 1984 (now Companies Act, 2017). The bank operates with a nationwide network of 133 branches. Initially, Kashf Foundation established the bank in 2008. FINCA International acquired majority stake in the bank through dilution of Kashf Foundation shareholding in 2013.
- The bank offers a diversified range of financial products and services to low income wage earners as well as the self-employed community. Micro-lending products include (i) FINCA Karobari Karza – the premier lending product of FINCA Microfinance Bank (ii) FINCA Izafi Karza (iii) FINCA Kashtkar Kazra (only for farmers) (iv) FINCA Maweshi Karza (Livestock) & (v) FINCA Sonehri Karza (Gold-backed loans). The bank is also establishing its foothold in branchless banking operations.

## OWNERSHIP

- The bank is majorly owned by FINCA Microfinance Cooperatief U.A. (~86.4%), followed by Kashf Holding (Pvt) Ltd (~5.2%), International Finance Corporation (IFC) (~4.9%), Triodos Fair Share Fund (~2.7%) and Acumen Fund Pakistan (~0.8%). Ms. Zarlasht Wardak, representative of FINCA International, is the Chairperson of the Board. Simplified shareholding with one major shareholder represents a stable structure.
- Based in Amsterdam – FINCA Microfinance Cooperatief U.A. operates as a subsidiary of FINCA International, Inc. FINCA International, a not-for-profit organization located in Washington D.C., is a founder of 21 microfinance institutions across the globe. Financial muscle of the sponsors is deemed strong.

## GOVERNANCE

- The Board comprises nine (09) directors, including five (05) representatives of FINCA International, one is representative of Minority Shareholders and three (03) independent directors.
- Most of the board members have international exposure and carry diversified expertise. They have been associated with microfinance industry since long. The Board of Directors has four committees for oversight of responsibilities namely (i) HR Committee (ii) Risk Management Committee (iii) Audit Committee & (iv) Digital Financial Services (DFS) Committee – the DFS Committee is precisely formed to oversee operations and progress in the digital banking domain. The Audit Committee of the bank is headed by an independent director. The internal audit department directly reports to the Audit Committee ensuring independence from the rest of the organization. M/S KPMG Taseer Hadi & Co. Chartered Accountants are the External Auditors of the bank.

## MANAGEMENT

- FINCA Microfinance Bank has a horizontally spread organizational structure comprising of fourteen (14) departments. A total of eight (8) department heads, other than CFO and COO, report directly to the CEO, while performance of Four (4) departments is entirely overseen by the COO and one (1) by the CFO. Mr. Mudassar Aqil is the CEO of the bank since 2011. Mr. Aqil has ~20 years of experience in the banking and finance industry. Before joining FINCA, he was associated with a leading commercial bank in Pakistan. The CEO is assisted by an experienced management team.
- Four Management Committees are in place namely i) Board Management, ii) Asset Liability Management (ALCO) iii) Risk, and iv) IT steering to ensure operational efficiency and efficient decision making. To support the timely decision making of management, MIS system generates detailed reports containing details regarding disbursement, repayment, recoveries, deposits and compliance. The bank has in place a separate Risk Management department to oversee various risks including credit, operational, IT and market risks. Risk Management Committee meets on a regular basis to ensure that the risk profile of the bank remains within BoD's approved limit.
- Recently, management has taken numerous steps towards digitizing its processes. The management aims to scale up the IT infrastructure for future business growth and network expansion. All branches are expected to be migrated to the new technology of Autosoft software by April '19.

## BUSINESS RISK

- Pakistan Microfinance Industry comprises 45 microfinance providers including 11 Microfinance Banks (MFBs), 18 Microfinance Institutions (MFIs), 7 Rural Support Program (RSPs) and 9 others projects. MFBs dominate the Industry with a share in lending portfolio of ~69%. The bank catered ~7% borrowers of MFBs market as at End-Dec'18, grabbing an ~11% market share in terms of Gross Loan Portfolio which stood at PKR~20,868mln as at End-Dec'18 (End-Dec'17: PKR~15,110mln) recording a growth of ~38% period-on-period. Simultaneously, the bank secured a share of ~10% in total MFBs deposits as at End-Dec'18.
- Interest/ Mark up income of the bank increased to PKR~6,531mln during CY18 (CY17:PKR~4,809mln), a growth of ~36% YoY. During the year, the bank increased its portion of Livestock lending in total advances, while the ratio of Agri-Input loans declined in relation to previous years. Net interest mark up income increased to PKR~4,703mln during CY18 (CY17:PKR~3,553mln), a growth of ~32% YoY. Net income of the bank increased to PKR~956mln (CY17:PKR~855mln).
- The bank aims to maintain its status as a “Premier” microfinance bank in the country by concentrating on providing best customer services. Branchless banking and digital services remain to be the key driving factors on the bank's growth. The bank's flagship product SIMSIM is growing rapidly and has reached over ~282,000 individuals subscribers till now. Currently, the bank is gearing up on developing mobile-wallet platform for customers that can be retained for long term. These include individuals as well as corporates to which customized services such as salary transfer facility are provided.

## FINANCIAL RISK

- The Bank's loan book is primarily concentrated in non-collateralized loans while advances continued to be dominated by Agri Input Loan (End-Dec18:~37%), followed by Livestock Loan (End-Dec18: ~35%) and Micro-Enterprise loan (End-Dec18:~26%). During the period under review, the bank's NPLs ratio hiked to ~1.9% (End-Dec'17: ~1.5%). The bank has write off advances of PKR~394mln during CY18 (CY17:PKR~286mln). The increase is backed on account of non-payments by some sugarcane farmers. Curtailment of NPLs is essential to the profitability of the bank. Short term investments during CY18 decreased to PKR~3,827mln (CY17:PKR~5,209mln). This majorly included diminished investment in government securities.
- The bank's funding is majorly fueled through deposits, which primarily consisted of time deposits (~70%). Out of the total deposit base of the bank amounting to PKR~23.7bln. The bank had issued PPTFC in 2017 which will be fully redeemed by End-2022. The bank's advances to deposits ratio (ADR) increased during the period the as it stood at ~87% at the end Dec-18 (CY17:~77%). Liquidity profile decreased during the period under review as the bank's liquid assets-to-deposits and borrowings ratio dropped to ~29% at End-Dec18 (End-Dec17: ~37%). Reduction in investment in government securities led to a decrease in liquid assets on overall basis.
- Capital Adequacy ratio (CAR) dropped to ~16% as at End-Dec'18 (End-Dec'17:~19%), due to steady growth in unsecured lending. CAR, though above the SBP's defined threshold in Prudential Regulations, remained on the edge necessitating an immediate action to prevent further decline. The management is, therefore in the process of raising Tier-II capital in the form of subordinated loan to keep the CAR intact.



	PKR mln		
BALANCE SHEET	31-Dec-18	31-Dec-17	31-Dec-16
	Annual	Annual	Annual
<b>Earning Assets</b>			
Total Finances	20,477	14,886	10,094
Investments	3,827	5,209	1,885
Deposits with Banks	2,489	1,557	1,248
	<b>26,794</b>	<b>21,652</b>	<b>13,228</b>
<b>Non Earning Assets</b>			
Non-Earning Cash	1,639	976	810
Net Non-Performing Finances	104	(23)	(12)
Fixed Assets & Others	3,743	2,536	1,592
	<b>5,486</b>	<b>3,490</b>	<b>2,390</b>
<b>TOTAL ASSETS</b>	<b>32,280</b>	<b>25,142</b>	<b>15,618</b>
<b>Interest Bearing Liabilities</b>			
<b>Deposits</b>			
CASA	7,052	5,717	3,394
Time Deposits	16,690	13,467	7,675
	<b>23,742</b>	<b>19,184</b>	<b>11,070</b>
<b>Borrowings</b>	3,319	1,669	1,350
<b>Non Interest Bearing Liabilities</b>	1,187	1,006	766
<b>TOTAL LIABILITIES</b>	<b>28,247</b>	<b>21,859</b>	<b>13,185</b>
<b>EQUITY (including revaluation surplus)</b>	4,030	3,275	2,420
<b>Deferred Grants</b>	2	8	13
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>32,280</b>	<b>25,142</b>	<b>15,618</b>
<b>INCOME STATEMENT</b>	<b>31-Dec-18</b>	<b>31-Dec-17</b>	<b>31-Dec-16</b>
	Annual	Annual	Annual
Interest / Mark up Earned	6,531	4,809	2,986
Interest / Mark up Expensed	(1,828)	(1,256)	(648)
<b>Net Interest / Markup revenue</b>	<b>4,703</b>	<b>3,553</b>	<b>2,338</b>
Other Operating Income	676	564	441
<b>Total Revenue</b>	<b>5,379</b>	<b>4,117</b>	<b>2,780</b>
Other Income	126	129	110
Non-Interest / Non-Mark up Expensed	(3,490)	(2,461)	(1,683)
Pre-provision operating profit	2,015	1,785	1,207
Provisions	(435)	(407)	(219)
Pre-tax profit	1,580	1,378	988
Taxes	(623)	(523)	(357)
<b>NET INCOME</b>	<b>956</b>	<b>855</b>	<b>631</b>
<b>Ratio Analysis</b>	<b>31-Dec-18</b>	<b>31-Dec-17</b>	<b>31-Dec-16</b>
	Annual	Annual	Annual
<b>Performance</b>			
ROE	26%	30%	29%
Cost-to-Total Net Revenue	63%	58%	58%
<b>Capital Adequacy</b>			
Equity/Total Assets	12%	13%	15%
Capital Adequacy Ratio as per SBP	16%	19%	21%
<b>Loan Loss Coverage</b>			
Impaired Lending / Gross Finances	2%	1%	1%
Loan Loss Provisions / Non-Performing Advances	74%	110%	110%
<b>Funding &amp; Liquidity</b>			
Liquid Assets / Deposits and Borrowings	29%	37%	32%
Finances / Deposits	87%	77%	91%
CASA deposits / Total Customer Deposits	30%	30%	31%
<b>Intermediation Efficiency</b>			
Asset Yield	27%	28%	30%
Cost of Funds	8%	8%	7%
Spread	19%	20%	23%



## Regulatory and Supplementary Disclosure

Nature of Instrument	Size of Issue	Tenor	Security	Quantum of Security	Nature of Assets	Trustee	Book Value of Assets (PKR mln)
Privately Placed Term Finance Certificate	Tranche I - PKR 500 mln	Tranche I - 5years	1. The instrument is secured against first pari passu charge over all future and present current assets along with 25% margin. 2. Establishment and creation of lien over the debt payment account.	25% of the Current Assets	All future and present current asset including but not limited to investments and advances portfolio of the bank.	Pak Oman Investment Company Limited	PKR~30,508

FINCA Microfinance Bank Limited   PPTFC   Nov'17	
Name of Issuer	FINCA Microfinance Bank Limited
Issue size	PKR 500mln
Issue Date	Nov'17
Tenor	5 years
Maturity	Nov'22
Profit Rate	3 M KIBOR + 1.5%
Principal Repayment	16 equal installments of PKR 31.25mln commencing from 2-Feb-19
Security	1. The instrument is secured against first pari passu charge over all future and present current assets along with 25% margin. 2. Establishment and creation of lien over the debt payment account.

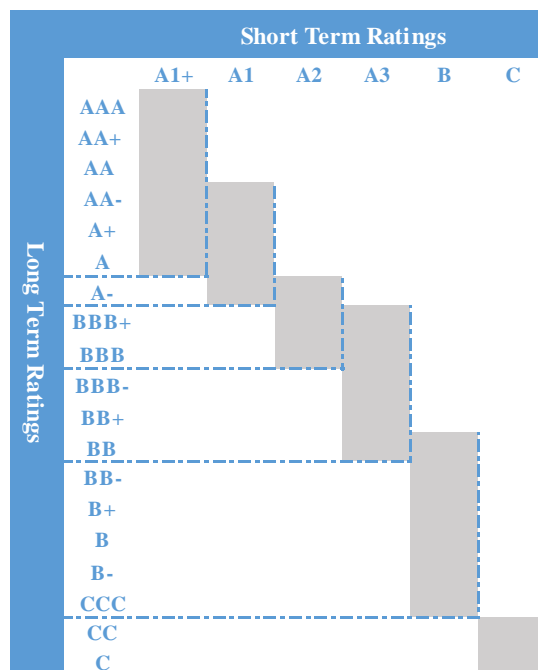
## Finca Microfinance Bank Limited | Privately Placed Term Finance Certificate | Redemption Schedule

Due Date Principal	Opening Principal	Principal Repayment	Due Date Markup/ Profit	Markup/Profit Rate		Profit Payment	Instalment Payable	Principal Outstanding
	PKR in mln			Base	Spread	PKR in mln		
2-Nov-17	500	0	2-Nov-17					
2-Feb-18	500	0	2-Feb-18	3M Kibor	150bps	9.63	9.63	500.00
2-May-18	500	0	2-May-18	3M Kibor	150bps	9.31	9.31	500.00
2-Aug-18	500	0	2-Aug-18	3M Kibor	150bps	9.63	9.63	500.00
2-Nov-18	500	0	2-Nov-18	3M Kibor	150bps	9.63	9.63	500.00
2-Feb-19	500	31	2-Feb-19	3M Kibor	150bps	9.63	40.88	468.75
2-May-19	469	31	2-May-19	3M Kibor	150bps	9.31	40.56	437.50
2-Aug-19	438	31	2-Aug-19	3M Kibor	150bps	9.03	40.28	406.25
2-Nov-19	406	31	2-Nov-19	3M Kibor	150bps	8.42	39.67	375.00
2-Feb-20	375	31	2-Feb-20	3M Kibor	150bps	7.82	39.07	343.75
2-May-20	344	31	2-May-20	3M Kibor	150bps	7.06	38.31	312.50
2-Aug-20	313	31	2-Aug-20	3M Kibor	150bps	6.62	37.87	281.25
2-Nov-20	281	31	2-Nov-20	3M Kibor	150bps	6.02	37.27	250.00
2-Feb-21	250	31	2-Feb-21	3M Kibor	150bps	5.42	36.67	218.75
2-May-21	219	31	2-May-21	3M Kibor	150bps	4.66	35.91	187.50
2-Aug-21	188	31	2-Aug-21	3M Kibor	150bps	4.21	35.46	156.25
2-Nov-21	156	31	2-Nov-21	3M Kibor	150bps	3.61	34.86	125.00
2-Feb-22	125	31	2-Feb-22	3M Kibor	150bps	3.01	34.26	93.75
2-May-22	94	31	2-May-22	3M Kibor	150bps	2.33	33.58	62.50
2-Aug-22	63	31	2-Aug-22	3M Kibor	150bps	1.81	33.06	31.25
2-Nov-22	31	31	2-Nov-22	3M Kibor	150bps	1.20	32.45	0.00
2-Feb-22	125	31	2-Feb-22	3M Kibor	150bps	3.01	34.26	93.75
2-May-22	94	31	2-May-22	3M Kibor	150bps	2.33	33.58	62.50
2-Aug-22	63	31	2-Aug-22	3M Kibor	150bps	1.81	33.06	31.25
2-Nov-22	31	31	2-Nov-22	3M Kibor	150bps	1.20	32.45	0.00

## Credit Rating Scale & Definitions

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long Term Ratings		Short Term Ratings	
<b>AAA</b>	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	<b>A1+</b>	The highest capacity for timely repayment.
<b>AA+</b> <b>AA</b> <b>AA-</b>	<b>Very high credit quality.</b> Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	<b>A1</b>	A strong capacity for timely repayment.
<b>A+</b> <b>A</b> <b>A-</b>	<b>High credit quality.</b> Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.	<b>A2</b>	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<b>Good credit quality.</b> Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.	<b>A3</b>	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
<b>BB+</b> <b>BB</b> <b>BB-</b>	<b>Moderate risk.</b> Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.	<b>B</b>	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
<b>B+</b> <b>B</b> <b>B-</b>	<b>High credit risk.</b> A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.	<b>C</b>	An inadequate capacity to ensure timely repayment.
<b>CCC</b> <b>CC</b> <b>C</b>	<b>Very high credit risk.</b> Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.		
<b>D</b>	Obligations are currently in default.		



**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 settled. Rating Watch may accompany Outlook of the respective opinion.

**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 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.

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

**Disclaimer:** PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

### **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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