



The Pakistan Credit Rating Agency Limited

## Rating Report

### Ismail Iqbal Securities (Pvt.) Limited

#### Report Contents

1. Rating Analysis
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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
27-Feb-2019	A-	A2	Stable	Maintain	-
29-Aug-2018	A-	A2	Stable	Upgrade	-
23-Jun-2017	BBB-	A3	Stable	Maintain	-

#### Rating Rationale and Key Rating Drivers

The ratings reflect the company's compliance against its investment policy and other agreed parameters by shareholders. Ismail Iqbal Securities has a clearly designed organizational structure with all departmental heads reporting to the CEO. The management intends to strengthen the board structure by increasing the size of the board and inducting independent director/s along with improving its risk management framework. Ismail Iqbal Securities (Pvt.) Ltd has a modest market share in the brokerage industry. The company's focus remains on high net-worth individuals and ancillary business from big brokerage firms. The assigned ratings take into account the company's high exposure to market risk due to its investment book, dominated by investments in quoted securities. This may lead to perception of conflict of interest but the management has put processes in place to manage it. The ratings incorporate the company's efforts to increase its foot print in the corporate finance and advisory domain. The performance of the company is under pressure due to operating losses, on the back of low volumes in equity market, eventually impacting its equity. Furthermore, the company has adequate capitalization levels with net capital balance of ~PKR 205mln at end Dec-18.

The ratings are dependent upon the management's ability to improve its operating revenues to stem the losses. Meanwhile, better governance framework, careful monitoring of market risk and conflict of interest remain critical. Retention of key personnel and continuous improvement in customer servicing tools will bode well for the company. Any significant drop in revenues leading or persistent losses will affect the ratings negatively.

#### Disclosure

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



## PROFILE

**Legal Structure** Ismail Iqbal Securities is a private limited company. The company is licensed for equity brokerage and Book Running.  
**Background** Ismail Iqbal Securities (Pvt.) Ltd was incorporated in 2004 and became corporate member of the Karachi Stock Exchange  
**Operations** With its head office based in Karachi, main activities include equity brokerage and research, corporate finance, financial advisory and fixed income activities.

## OWNERSHIP

**Ownership Structure** The company is owned by three individuals, 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%).  
**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** During CY18, company introduced 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 FY18.

## 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.  
**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 and Development. She is carrying nine years of professional experience in investment management.  
**Effectiveness** There are no management committees or formal system in place to record and address concerns of management.  
**Control Environment** The risk management system of the company is still in development phase. The company has KYC and client due diligence (CDD) policies in place. The risk management system revolves around the risk manager working with the CEO to ensure the adherence to published policy. Additionally, the company has 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.

## BUSINESS RISK

**Industry Dynamics** During CY18, the benchmark index (KSE-100) posted a negative return of ~8%, due to deteriorating economic indicators; where increasing current account deficit and depleting foreign exchange reserves caused concern among the investors. Moreover, persistent political noise and Government's less clarity on financing front created uncertainty which subdued investor's sentiment.  
**Relative Position** Ismail Iqbal Securities (Pvt.) Ltd is an emerging brokerage company. Currently, its market share is ~1%.  
**Revenue** The company's operating revenue comprises brokerage commission and gain/loss from trading in marketable securities. During 1HFY19, brokerage commission increased by ~37% to ~PKR 27.5mln, as compared to SPLY.  
**Profitability** The company made loss in its proprietary investments of ~PKR 12mln and at the same time company has booked deficit on Revaluation of Investments of ~PKR 17mln. This is mainly driven by the overall decline in the equity market.  
**Sustainability** Given the fluctuating stock market trend, the company is trying to improve its equity brokerage volumes and will continue the same strategy until June-19. If equity market volumes will not improve then management will start cost reduction in different ways depending on the need and situation.

## FINANCIAL RISK

**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 1HFY19, the size of the short term investment book was ~PKR 53mln (FY18: ~PKR 71mln), which comprises quoted securities. Proprietary listed securities as compared to company's equity comprises ~16% in 1HFY19 (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 Risk** The liquidity risk for the company arises from T+2 settlement framework. At the end of 1HFY19, the liquid assets were 0.6x of the total asset book (FY18: 0.5x). In case a need arises, the company has approved bank lines of ~PKR 535mln. Liquid assets in relation to total liabilities decreased to 1.7x (FY18: 2.6x) due to immense increase in short term borrowings. However, liquid assets are still more than sufficient to cover the current liabilities of the company.  
**Coverages** The coverages of the company are currently under pressure due to operating losses.  
**Capitalization** The company's total debt stood at ~28% of its equity at end Dec-18. The debt comprises short-term borrowings only. At end Dec-18, the Net capital Balance (NCB) of the company stood at ~PKR 205mln (FY18: ~PKR 204mln). The company is allowed to take exposure of up to 25x of its NCB.



**ISMAL IQBAL SECURITIES PRIVATE LIMITED**  
**BALANCE SHEET**

As at

	<u>31-Dec-18</u> <u>1H FY19</u>	<u>30-Jun-18</u> <u>FY18</u>	<u>30-Jun-17</u> <u>FY17</u>	<u>30-Jun-16</u> <u>FY 16</u>
	<u>Un-audited</u>	<u>Audited</u>	<u>Audited</u>	<u>Audited</u>
<b>A. EARNING ASSETS</b>				
<b>a. Finances</b>				
1. Margin Financing	0	0	0	0
2. Ready Futures (Spread Transactions)	0	0	0	0
	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>b. Investments</b>				
1. Deposits with Banks and other institutions				
a. Own Funds	138	51	18	56
b. Client Funds	47	72	50	0
2. Govt. Securities and Money Market Fund	0	2	3	3
3. Debt Securities & Income Funds	0	0	0	1
4. Long-Term				
i) Listed Equities	61	60	60	47
ii) Unlisted Equities				
iii)TREC	0	0	0	0
iv)Takaful	7	7	7	7
5. Short-Term				
i) Listed Equities	53	71	137	104
ii) Unlisted Equities				
iii)TREC				
iv)Takaful				
	<b>307</b>	<b>263</b>	<b>275</b>	<b>217</b>
<i>Total Earning Assets</i>	<b>307</b>	<b>263</b>	<b>275</b>	<b>217</b>
<b>B. NON-EARNING ASSETS</b>				
1. Cash and Bank Balances				
a. Own Funds	0	0	0	0
b. Client Funds	0	0	0	0
2. Advance Tax	46	0	0	0
3. Accounts Receivable	70	83	122	124
4. Advances, Deposits and Other receivables	83	115	294	112
5. Fixed Assets	24	24	29	29
	<b>223</b>	<b>222</b>	<b>445</b>	<b>265</b>
<i>Non-Earning Assets</i>	<b>223</b>	<b>222</b>	<b>445</b>	<b>265</b>
<b>C. TOTAL ASSETS</b>	<b>529</b>	<b>485</b>	<b>720</b>	<b>482</b>
<b>D. Funding</b>				
<b>1. Commercial</b>				
i) Advances from Customers	0.00	0	0	0
ii) Trade paybales	79.57	90	119	62
	<b>79.57</b>	<b>90</b>	<b>119</b>	<b>62</b>
<b>2. FIs</b>				
i) Short-term Borrowings	92.93	4	130	139
ii) Current Maturity of Long Term Debt	0.00	2	4	3
iii) Long-term Borrowings	0.00	0	0	0
	<b>92.93</b>	<b>6</b>	<b>134</b>	<b>142</b>
<i>Total Funding</i>	<b>172.50</b>	<b>96</b>	<b>254</b>	<b>204</b>
<b>E. Other Liabilities</b>				
1. Borrowings	0.00	0	0	0
2. Trade Paybales	0.00	0	0	0
3. Other Liabilities (staff gratuity, Accrued mark-up)	18.66	8	8	6
4. Provision for Taxation	0.15	1	2	0
	<b>18.82</b>	<b>9</b>	<b>11</b>	<b>7</b>
<i>Other Liabilities</i>	<b>18.82</b>	<b>9</b>	<b>11</b>	<b>7</b>
<b>F. EQUITY</b>				
1. Share Capital	346.82	347	347	347
2. Reserves:				
i. Statutory Reserve	0.00	0	0	0
ii. Capital Reserve	0.00	0	0	0
iii. Reserve for Bonus Shares	0.00	0	0	0
iv. Revenue Reserve	0.00	0	0	0
v. Unappropriated Profit	(8.74)	34	109	(75)
	<b>(8.74)</b>	<b>34</b>	<b>109</b>	<b>(75)</b>
<i>Pure Equity</i>	<b>338</b>	<b>381</b>	<b>455</b>	<b>271</b>
3. Surplus/(Deficit) on Revaluation of Investments	0	0	0	0
3. Unclaimed dividend	0	0	0	0
<i>Total Equity</i>	<b>338</b>	<b>381</b>	<b>455</b>	<b>271</b>
<b>G. TOTAL LIABILITIES &amp; EQUITY</b>	<b>529</b>	<b>485</b>	<b>720</b>	<b>482</b>
<b>H. CONTINGENT LIABILITIES</b>	0	0	0	0



**ISMAL IQBAL SECURITIES PRIVATE LIMITED**  
**INCOME STATEMENT**

For the period ended

	<b>31-Dec-18</b>	<b>30-Jun-18</b>	<b>30-Jun-17</b>	<b>30-Jun-16</b>
	<b>1H FY19</b>	<b>FY18</b>	<b>FY17</b>	<b>FY 16</b>
	<b>Un-audited</b>	<b>Audited</b>	<b>Audited</b>	<b>Audited</b>
<b>1. Fee-Based Income</b>				
a. Brokerage	28	40	66	47
b. Advisory Fees	0	0	0	0
c. Commission / Underwriting	0	9	1	0
d. Others (including MFS)	0	0	0	0
	28	49	67	47
<b>2. Operating Expenses</b>				
a. Personnel Expenses*	28	31	34	27
b. Other Non-interest/Mark Up Expenses*	7	41	25	21
	(35)	(72)	(59)	(48)
<b>3. Brokerage Income / (Loss)</b>	(7)	(23)	8	(0)
<b>3 Non Fee-Based Income</b>				
a. Gain on Sale of Investments	(12)	(33)	172	31
b. Surplus/(Deficit) on Revaluation of Investments	(17)	(10)	15	1
	(29)	(43)	186	32
<b>Other Income</b>				
a. Dividend Income	3	9	14	6
b. Share of profit of subsidiaries/associates	0	0	0	0
c. Exchange Gain/(Loss)	0	0	0	0
d. Net Profit/(Loss) on sale of fixed assets	0	0	0	0
e. Rental Income	0	0	0	0
f. Mark up Exposure deposit	0	2	2	1
g. Mark up on MF	0	7	2	0
h. Others income	3	0	1	2
	5	18	19	9
<b>5. Total Operating Income / (Loss)</b>	<b>(31)</b>	<b>(48)</b>	<b>213</b>	<b>40</b>
<b>6. Financial Charges</b>	(6)	(9)	(15)	(10)
<b>8. Profit / (Loss) Before Tax</b>	(37)	(58)	199	30
<b>9. Taxes</b>	(6)	(17)	(15)	(6)
<b>10. Net Income</b>	<b>(43)</b>	<b>(75)</b>	<b>184</b>	<b>24</b>
<b>12. Unappropriated Profit / (Loss) Brought Forward</b>	34	109	(75)	(99)
<b>12. Adjustments</b>	0	0	0	0
Available for Appropriations	(9)	34	109	(75)
<b>13. Appropriations</b>				
a. Statutory Reserve	0	0	0	0
b. Share buy back	0	0	0	0
c. Revenue Reserve	0	0	0	0
c. Cash Dividend	0	0	0	0
d. Bonus Dividend	0	0	0	0
	0	0	0	0
<b>14. Unappropriated Profit/(Loss) Carried Forward</b>	<b>(9)</b>	<b>34</b>	<b>109</b>	<b>(75)</b>
<i>* Proportionated in FY18</i>				



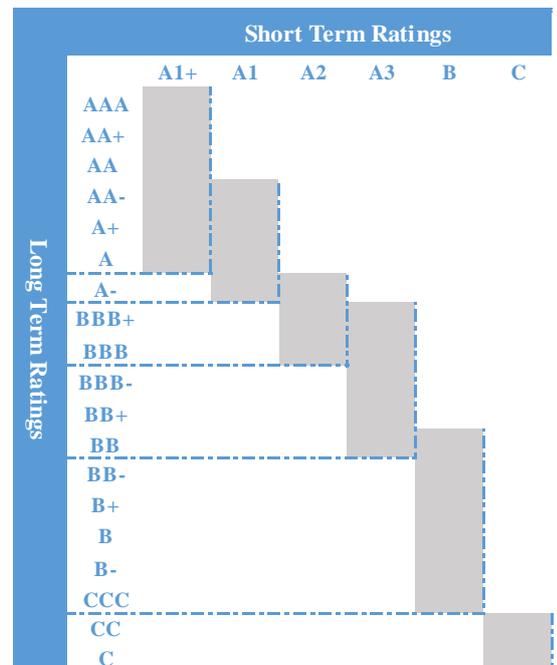
**ISMAL IQBAL SECURITIES PRIVATE LIMITED**  
**RATIO ANALYSIS**

	<b>31-Dec-18</b>	<b>30-Jun-18</b>	<b>30-Jun-17</b>	<b>30-Jun-16</b>
	<b>1HFY19</b>	<b>FY18</b>	<b>FY17</b>	<b>FY 16</b>
	<b>Un-audited</b>	<b>Audited</b>	<b>Audited</b>	<b>Audited</b>
<b>A. PERFORMANCE</b>				
1. ROE	-13.2%	-4.7%	80.8%	17.6%
a Net Profit Margin	-155.3%	-152.5%	275.5%	50.6%
b Asset Turnover	5.4%	2.4%	18.6%	19.6%
c Financial Leverage	156.6%	127.3%	158.0%	177.6%
2. ROA	-8.1%	-15.4%	25.6%	5.0%
3. Cost-to-Fee Income	126.5%	147.9%	88.1%	100.7%
4. Cost-to-Total Operating Income	327.6%	187.4%	72.4%	98.9%
5. Taxes / Pre-Tax Profit	15.7%	29.2%	-7.5%	-20.3%
6. Net Non-Earning Assets / Assets net of Non-Interest Liabilities	39.9%	44.8%	61.3%	54.3%
<b>B. FINANCIAL EXPOSURE</b>				
1. Short Term Proprietary Listed Securities / Equity	15.8%	18.5%	30.0%	38.4%
2. Total Investments / Equity	90.7%	69.0%	60.3%	80.0%
3. Fixed Income / Total Capital	0.0%	0.6%	0.7%	1.1%
4. NCB / Equity	60.7%	53.6%	34.0%	38.1%
<b>C. LIQUIDITY</b>				
1. Trade Related Assets / Trade Related Liabilities	0.9	0.9	1.0	2.0
2. Liquid Assets / Total Assets	0.5	0.4	0.3	0.3
3. Liquid Assets / Trade Related Liabilities	3.0	2.2	1.7	2.6
4. Liquid Assets / (Short term Borrowings + Advances from Customers + Accounts Payable)	1.4	2.0	0.8	0.8
5. Liquid Investments / Equity	0.7	0.5	0.5	0.6
<b>B. COVERAGE RATIOS</b>				
1. EBITDA/Gross Interest	n/m	n/m	14.7	6.4
<b>C. CAPITAL ADEQUACY</b>				
1. Equity / Total Assets	63.9%	78.5%	63.3%	56.3%
2. Total Equity (including surplus on revaluation) / Total Assets	63.9%	78.5%	63.3%	56.3%
3. Total Debt / Equity	27.5%	1.5%	29.5%	52.3%
4. Dividend Payout Ratio	N/A	N/A	N/A	N/A
<b>D. GROWTH</b>				
1. Total Assets	9.2%	-32.6%	49.3%	-86.4%
2. Investments	16.7%	-4.3%	26.5%	-85.3%
2. Equity	-11.2%	-16.4%	67.8%	-90.6%
3. Brokerage Revenue	37.5%	-39.4%	39.8%	-89.6%
4. Investment Yield	-7.7%	-9.3%	83.6%	4.8%
5. Revenue	12.6%	-26.8%	41.2%	3.0%

## 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)

### **Proprietary Information**

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