



The Pakistan Credit Rating Agency Limited

## Rating Report

### EFG Hermes Pakistan Limited

#### 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
27-Dec-2019	A-	A1	Stable	Maintain	-
28-Jun-2019	A-	A1	Stable	Maintain	-
28-Dec-2018	A-	A1	Stable	Maintain	-
30-Jun-2018	A-	A1	Stable	Maintain	-
23-Jun-2017	A-	A1	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

The ratings reflect the Company's association with an international financial services group, EFG Hermes, and its emerging position in Pakistan's brokerage industry. The ratings incorporate strong sponsor support, robust governance framework and internal control environment. Direct reporting to respective group heads and centralized research function augurs well for organizational structure. Due to lackluster market performance the profitability of the Company remains depressed. The Company has a modest equity base and leveraged capital structure. Sizable liquid assets and support from parent in the form of guarantees provide comfort to the ratings.

The ratings are dependent on the management's ability to retain its market share and enhance the volumes and diversity of revenue to improve its competitive position in the brokerage industry. Retention of key personnel, improvement in customer servicing tools and maintaining strong controls will remain critical.

#### Disclosure

<b>Name of Rated Entity</b>	EFG Hermes Pakistan Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	PACRA_Methodology_Security Broker_FY19(Jun-19)
<b>Related Research</b>	Sector Study   Brokerage & Securities(Jun-19)
<b>Rating Analysts</b>	Madiha Sohail   madiha.sohail@pacra.com   +92-42-35869504



### PROFILE

**Legal Structure** EFG Hermes Pakistan Limited ("The Company") is a Public Limited Company and holds Trading Rights Entitlement Certificate and listed on Pakistan Stock Exchange (PSX).

**Background** The Company was incorporated on September 27, 1999, as a private limited company, under the name Invest and Finance Securities. Later on, it was converted into public unquoted company on November 27, 2006. It was listed on the Pakistan Stock Exchange on March 20, 2008. On 18 May 2017, an Egyptian Financial Services Group, EFG Hermes Frontier Holdings LLC, acquired 51% stake in the Company.

**Operations** With its head office in Karachi, EFG Hermes Pakistan Limited's main activities include brokerage, research and investment banking advisory.

### OWNERSHIP

**Ownership Structure** EFG Hermes Pakistan Limited is a subsidiary of EFG Hermes Frontier Holdings LLC, which controls 51% stake in EFG Pakistan. The ultimate owner of the group is EFG Hermes Holding S.A.E (Egyptian Financial Group Hermes Holding Company). Directors, CEO, their spouse and minor children own ~ 9%, while the remaining ~40% stake is held by the general public.

**Business Acumen** EFG Hermes Holding S.A.E., established in 1984, is an Egyptian investment bank specializing in securities brokerage, asset management, investment banking and private equity. EFG Hermes is listed on the Egyptian Exchange (EGX) and London (LSE) Stock Exchange. EFG Hermes has offices in eleven countries including Pakistan and serve clients from the Middle East, North Africa, Europe and the United States showing very strong acumen of sponsor.

**Financial Strength** EFG Hermes Holding S.A.E. has strong financial muscle with its equity standing at ~EGP 14.4bln as at the end of 9MCY19. The group made net profit of ~EGP 1,034 mln in 9MCY19 (9MCY18 ~EGP 715 mln).

### GOVERNANCE

**Board Structure** The Company has a large board comprising fourteen members including the CEO. Nine out of fourteen members are non-executive and four are independent directors.

**Members' Profile** Mr. Murad Ansari is the Chairman of EFG Pakistan. He is also the co-head of the MENA financials team of EFG Hermes Frontier Holdings LLC. He holds an MBA from Institute of Business Administration and carries sixteen years of professional experience in equity research and sales.

**Board Effectiveness** EFG Pakistan has two board committees, namely i) Audit Committee and ii) HR and remuneration committee. TOR's for both committees are well defined. Audit committee meets on quarterly basis to review the financial statements and internal audit findings. Audit committee and HR and remuneration committee are chaired by independent directors.

**Financial Transparency** Internal audit function of EFG Pakistan is performed by the parent company. The Company's external auditors are Riaz Ahmad Saqib Gohar & Co, ranked under category "B" as per the SBP rankings. The auditor's issued an unqualified opinion on the financial statements of EFG Pakistan for the year ended CY18.

### MANAGEMENT

**Organizational Structure** For effective management integration, matrix reporting structure is in place. Key departmental heads have reporting line to respective functions at group level, in addition to reporting to the CEO. This structure provides better oversight while bringing broader exposure and experience to local operations.

**Management Team** Mr. Saad Iqbal is the CEO of the Company. He is a CFA Charter holder and carries around a decade of experience in Pakistan Capital Market industry. Mr. Ahmad Zakir Hafeez is CFO of the Company. He has been associated with the Company since 1999. There has been turnover at top level in recent years. Retention of key management personnel to build continuity is critical.

**Effectiveness** The management of the Company focuses on streamlining the risk management architecture and internal control in line-with Parent-company guidelines

**Control Environment** EFG Hermes Pakistan has devised detailed policies, at group level, for operations, research, IT, trading and investment and risk among others. The risk department monitors the Company's exposures primarily to market risk, credit risk and liquidity risk.

### BUSINESS RISK

**Industry Dynamics** KSE-100 index recorded an overall oscillating trend during FY19. The start of FY19 witnessed the market gaining momentum, reaching the highest point of 43,557 on July 30, 2018, after which it started dropping and hit low of 33,166 on May 17, 2019. The KSE-100 index posted a negative return of around ~19% in FY19 compared to the negative return of ~10% in FY18. The lackluster performance can be attributable to slowing GDP, large fiscal and current account deficits and significant exchange rate depreciation. The index witnessed a rising trend in 4MFY20 as sentiments improved and certain key economic indicators started to stabilize. The market posted a positive return of 13% in 4MFY20. The overall trading volumes remained depressed in FY19 and averaged ~96mln putting pressure on brokerage income. However, the volumes have improved in 4MFY20. SECP has also taken certain initiatives, including introduction of minimum commission rates and relaxation in reporting and capital of brokers, to boost market activity.

**Relative Position** The Company remains one of the prominent players in the brokerage industry due to its association with the established foreign brokerage house. In equity trading, the Company enjoys ~5% market share. For international clientele, the Company has around 15-20% of system share.

**Revenue** The fee-based income of the Company for 9MCY19 declined by ~21% and clocked in at ~PKR 70mln as compared to ~PKR 96mln during SPLY. The decline can be mainly attributable to the lackluster performance of the stock market and lower trading volumes. The operating revenues are supplemented by non-fee based income. The Company posted gain on sale of investment amounting to ~PKR 25 mln for 9MCY19 (9MCY18 ~PKR 10 mln).

**Profitability** During 9MCY19, the Company recorded loss of ~PKR 57mln (9MCY18 ~PKR 29mln). The bottom line deteriorated mainly due to financial charges amounting to ~PKR 32 mln in 9MCY19 (9MCY18 ~PKR 20 mln) mainly on long term borrowings.

**Sustainability** The brokerage income is expected to improve as stock market performance gets better. Similarly recent initiatives from SECP to support the industry should be beneficial for industry players. The management intends to attract foreign investors to capitalize its strong international presence.

### FINANCIAL RISK

**Credit Risk** EFG Hermes Pakistan undertakes due diligence procedures, in addition to KYC, for the assessment of its client creditworthiness. The board has approved per party and per scrip limits, which are strictly adhered to by the management to minimize credit risk.

**Market Risk** In line with the EFG group's policy, the Company does not engage in proprietary trading thus limiting the market risk exposure. Funds have been deployed in government securities and shares of PSX as per the requirement of Stock Exchanges (Corporatization, Demutualization and Integration) Act 2012.

**Liquidity Risk** The trade related assets were 0.11x of the trade related liabilities as at 9MCY19 (CY18 ~0.16x). The Company retains the ability to borrow funds in the short term and liquidate investments if need arises.

**Coverages** The Company's coverage ratios were suppressed due to losses. However, sizable liquid investments provide cushion.

**Capitalization** The net capital balance of the Company stood ~PKR 367mln at end June-2019. The Company can take exposure up to 25 times of its NCB.



30-Sep-19  
3QCY19  
Audited

31-Dec-18  
CY18  
Audited

31-Dec-17  
CY17  
Audited

30-Jun-17  
FY17  
Audited

**A. EARNING ASSETS**

**a. Finances**

1. Margin Trading System
2. Margin Financing
3. Ready Futures

-	-	-	-
29	94	178	76
-	-	-	-
<b>29</b>	<b>94</b>	<b>178</b>	<b>76</b>

**b. Investments**

1. Deposits with Banks - Own Funds
2. Deposits with Banks - Client account
3. Govt. Securities and Money Market Fund
4. Debt Securities & Income Funds
5. Other Investments
  - i) Related Party
  - ii) Listed Equity Investments
  - iv) PSX shares and TREC
  - iii) Investment property

12	12	12	12
-	-	-	-
365	285	199	547
-	-	-	-
-	-	-	-
-	-	-	4
27	36	48	53
-	-	-	-
<b>404</b>	<b>333</b>	<b>259</b>	<b>616</b>

**Total Earning Assets** **433** **427** **437** **692**

**B. NON-EARNING ASSETS**

1. Cash and Bank Balances - Own Funds
2. Cash and Bank Balances - Client account
3. Accounts Receivable
4. Advances, Deposits and Other receivables
5. KSE Shares
6. Fixed Assets

2	5	99	99
58	70	-	-
9	11	51	86
119	434	191	197
29	30	41	35

**Non-Earning Assets** **217** **550** **382** **417**

**C. TOTAL ASSETS**

**D. Funding**

**650** **977** **820** **1,109**

**1. Commercial**

- i) Advances from Customers
- ii) Payables to Customers\*

-	-	-	-
77	70	67	90
<b>77</b>	<b>70</b>	<b>67</b>	<b>90</b>

**2. FIs**

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

0	290	93	63
-	-	-	-
375	375	379	655
<b>375</b>	<b>665</b>	<b>472</b>	<b>718</b>

**Total Funding**

**452** **735** **539** **807**

**E. Other Liabilities**

1. Borrowings
1. Due to Associates
2. Other Liabilities (staff gratuity, Accrued mark-up)
3. Provision for Taxation

-	-	-	-
83	62	41	44
-	-	-	1
<b>83</b>	<b>62</b>	<b>41</b>	<b>46</b>

**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

<b>200</b>	<b>200</b>	<b>200</b>	<b>200</b>
-	-	-	-
-	-	-	-
-	-	-	-
(84)	(28)	18	29
<b>(84)</b>	<b>(28)</b>	<b>18</b>	<b>29</b>

**Pure Equity** **116** **172** **218** **229**

3. Surplus/(Deficit) on Revaluation of Investments

(1) 8 22 27

**Total Equity** **115** **180** **240** **256**

**G. TOTAL LIABILITIES & EQUITY**

**650** **977** **820** **1,109**

**H. CONTINGENT LIABILITIES**



EFG Hermes Pakistan Limited

INCOME STATEMENT

For the period ended

	30-Sep-19 3QCY19 Audited	31-Dec-18 CY18 Audited	31-Dec-17 CY17 Audited	30-Jun-17 FY17 Audited
<b>1. Fee Based Revenue</b>				
a. Advisory Fees	0	-	-	-
b. Commission / Underwriting	-	-	-	-
c. Brokerage	70	134	76	124
d. Others	-	-	-	-
	<b>70</b>	<b>134</b>	<b>76</b>	<b>124</b>
<b>2. Operating Expenses</b>				
a. Personnel Expenses*	(64)	(90)	(42)	(75)
b. Other Non-interest/Mark Up Expenses	(57)	(81)	(39)	(55)
	<b>(120)</b>	<b>(171)</b>	<b>(80)</b>	<b>(129)</b>
<b>3. Brokerage Income / (Loss)</b>	<b>(50)</b>	<b>(38)</b>	<b>(4)</b>	<b>(6)</b>
<b>4. Non Fee-Based Income</b>				
a. Finances	3	12	8	-
a. Placements (including Reverse REPO/COI/CFS)	-	-	-	-
b. Bank Deposits and others	-	-	-	-
	<b>3</b>	<b>12</b>	<b>8</b>	<b>-</b>
<b>3 Other Income</b>				
c. Dividend Income	1	1	1	2
d. Gain on Sale of Investments	25	17	4	56
e. Surplus/(Deficit) on Revaluation of Investments	5	(14)	(3)	-
f. Share of profit of subsidiaries/associates	-	-	-	-
g. Others	-	-	-	-
	<b>34</b>	<b>16</b>	<b>9</b>	<b>58</b>
<b>5. Total Operating Income / (Loss)</b>	<b>(17)</b>	<b>(21)</b>	<b>5</b>	<b>52</b>
<b>6. Financial Charges</b>	<b>(32)</b>	<b>(29)</b>	<b>(16)</b>	<b>(9)</b>
<b>7. Other Income</b>	<b>3</b>	<b>6</b>	<b>3</b>	<b>3</b>
<b>8. Profit / (Loss) Before Tax</b>	<b>(46)</b>	<b>(45)</b>	<b>(8)</b>	<b>45</b>
<b>9. Taxes</b>	<b>(11)</b>	<b>(15)</b>	<b>(8)</b>	<b>(8)</b>
<b>10. Net Income</b>	<b>(57)</b>	<b>(60)</b>	<b>(16)</b>	<b>37</b>



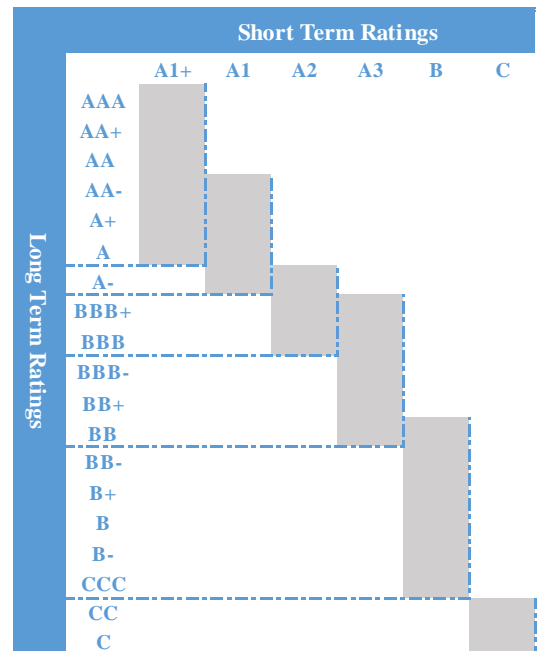
## RATIO ANALYSIS

	30-Sep-19	31-Dec-18	31-Dec-17	30-Jun-17
	3QCY19	CY18	CY17	FY17
	Audited	Audited	Audited	Audited
<b>A. PERFORMANCE</b>				
1. ROE	(72.8%)	(37.2%)	(7.5%)	21.1%
a Net Profit Margin	(80.9%)	(44.7%)	(21.2%)	29.8%
b Asset Turnover	16.0%	15.3%	10.4%	16.4%
c Financial Leverage	564.3%	542.7%	341.7%	433.3%
2. ROA	(8.7%)	(6.1%)	(2.0%)	3.3%
3. Cost-to-Fee Income	116.2%	114.3%	94.2%	71.3%
4. Cost-to-Total Operating Income	(718.6%)	(798.8%)	1,637.7%	248.1%
5. Taxes / Pre-Tax Profit	(23.7%)	(33.4%)	(98.3%)	18.7%
6. Net Non-Earning Assets / Assets net of Non-Interest Liabilities	23.7%	53.3%	43.8%	34.9%
<b>B. FINANCIAL EXPOSURE</b>				
1. Investments / Equity	348.9%	193.2%	118.7%	269.4%
2. Fixed Income / Total Capital	315.3%	165.5%	91.5%	239.2%
3. NCB / Equity	317.3%	235.6%	207.1%	308.0%
<b>C. LIQUIDITY</b>				
1. Trade Related Assets / Trade Related Liabilities	0.11	0.16	0.77	0.96
2. Liquid Assets / Total Assets	0.60	0.32	0.44	0.68
3. Liquid Assets / Trade Related Liabilities	5.06	4.51	5.40	8.37
4. Liquid Assets / (Short term Borrowings + Advances from Customers + Accounts Payable)	5.03	0.87	2.26	4.90
5. Liquid Investments / Equity	3.25	1.72	0.97	2.46
<b>D. COVERAGE RATIOS</b>				
1. EBITDA/Gross Interest	(0.28)	0.14	0.85	14.78
2. FCFO/Gross Interest	(0.15)	(0.60)	0.05	0.92
3. TCF/Gross Interest	(0.15)	(0.60)	0.05	0.92
4. FCFO/Gross Interest+CMLTD	(0.15)	(0.60)	0.05	0.92
5. FCFO/Gross Interest+CMLTD+Uncovered Short Term Borrowings	(0.15)	(0.60)	0.05	0.92
6. TCF/Gross Interest+CMLTD+Uncovered Short Term Borrowings	(0.15)	(0.60)	0.05	0.92
<i>Debt Payback Analysis</i>				
7 Long-term Debt/FCFO	(79.72)	(21.57)	449.84	74.91
8 Total Debt / FCFO	(79.82)	(38.27)	565.68	82.74
<b>E. CAPITAL ADEQUACY</b>				
1. Equity / Total Assets	17.8%	17.6%	26.6%	20.6%
2. Total Equity (including surplus on revaluation) / Total Assets	17.7%	18.4%	29.3%	23.1%
3. Total Debt / Equity	326.0%	369.5%	196.6%	280.5%
<b>F. GROWTH</b>				
1. Total Assets	(6.0%)	19.2%	197.4%	302.4%
2. Equity	(26.8%)	(20.9%)	13.6%	19.2%
3. Brokerage Revenue	164.4%	75.9%	1.1%	64.7%

## 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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