



The Pakistan Credit Rating Agency Limited

Rating Report

Optimus Capital Management (Pvt.) Limited

Report Contents

1. Rating Analysis
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3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
07-May-2020	A-	A2	Stable	Maintain	-
21-Nov-2019	A-	A2	Stable	Maintain	-
26-Jun-2019	A-	A2	Stable	Maintain	-
27-Dec-2018	A-	A2	Stable	Maintain	-
07-Jun-2018	A-	A2	Stable	Maintain	-
08-Dec-2017	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings of Optimus Capital reflect its well-conceived strategy to keep financial risk low. This mainly emanates from i) prohibition to perform proprietary exposure/trading in stocks and debt-free capital structure. The ratings of the Company demonstrate its strong position in mid-tier brokerage houses emanating from established institutional client relationships. The company has clearly defined its organizational structure with most of the heads reporting to CEO, seasoned top management, sound risk management and compliance procedures provides support to the rating. Whereas, the governance framework can be strengthened further. The Net Capital balance and equity of Company stood at ~PKR 208mln and ~PKR 317mln, respectively, as at 31st Dec'19.

The ratings are dependent on the company's ability to strengthen its emerging position and improve revenues. Retention of the key personnel, improvement in governance and sustainability of profits is critical for ratings. Meanwhile, upholding strong internal controls and diligent monitoring of risks is important.

Disclosure

Name of Rated Entity	Optimus Capital Management (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	PACRA_Methodology_Security Broker_FY19(Jun-19)
Related Research	Sector Study Brokerage & Securities(Jan-20)
Rating Analysts	Madiha Sohail madiha.sohail@pacra.com +92-42-35869504



Brokerage & Securities

The Pakistan Credit Rating Agency Limited

PROFILE

Legal Structure Optimus Capital Management (Pvt.) Limited ("Optimus Capital" or "The Company") is a Private Limited Company, and holds Trading Rights Entitlement Certificate from the Pakistan Stock Exchange (PSX).

Background The Company was incorporated in 2004 with the name of Millennium Capital Management (Pvt.) Ltd. and changed to Optimus Capital Management (Pvt.) Ltd in 2011.

Operations The Company services include economic and investment research, equity brokerage and corporate finance.

OWNERSHIP

Ownership Structure Optimus Capital Management (Pvt.) Ltd. is a wholly owned subsidiary of Optimus Holdings (Pvt.) Limited (Formerly Peabody Associates Pvt. Limited). Mr. Asif Ali Qureshi and Mr. Jawad Amjad own 80% and 20% of Optimus Holdings, respectively.

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

Financial Strength The Optimus Holdings (Pvt.) Ltd has reported equity of ~PKR 308mln at the end of June-19.

GOVERNANCE

Board Structure The board comprises two directors, Mr. Asif Ali Qureshi and Mr. Ovais Ahsan. Mr. Asif is the Executive Chairman and Mr. Ovais is the CEO of the Company.

Members' Profile Mr. Asif Ali Qureshi, CFA, has more than 20 years of professional experience in Pakistan's financial services sector with expertise in economic and investment research. He also holds MA in International Financial Analysis from Newcastle University (UK).

Board Effectiveness Two board meetings were held in 1HFY20 and discussions on risk management policies, infrastructure development and Financial Performance were undertaken. Audit Committee has been established with defined TOR's. Mr. Asif Ali Qureshi also chairs the audit committee.

Financial Transparency The Company has an in-house internal audit function that documents and reports its observations to the BoD. The external auditors of the Company are Riaz Ahmad, Saqib, Gohar and Co, a member firm of AGN International, and it falls under the 'B' category of SBP audit firms ranking.

MANAGEMENT

Organizational Structure The Company has a adequate organizational structure with experienced management team and a balanced mix of professional from finance industry. The functions of the Company are mainly divided into: 1) Sales, 2) Accounts, 3) Research, 4) Settlement, 5) IT and 6) Compliance. All the Head of Departments are directly reportable to CEO of the Company.

Management Team Mr. Ovais Ahsan is the CEO of the Company. He has nearly 15 years of professional experience in equity sales and trading. Before Joining Optimus Capital, he was serving in Renaissance Capital based in Dubai and oversaw the equity markets of MENA and Frontier Asia region. Mr. Mohsin Ahsan has recently rejoined as Managing Director of the Company and currently holding the charge of research department after the resignation of Mr. Faizan Ahmed from the post of Head of research. He is MBA from IBA and has over 20 years of experience in financial sector.

Effectiveness The management of the company continues its focus on streamlining the risk management architecture and internal control.

Control Environment The Company has formulated a comprehensive risk management policy. This includes exposure limits and margins, KYC/CDD, customer orders, execution and settlement. Proper KYC/CDD is conducted by the settlement department. Each customer is assigned a risk level from low to high. For high risk level customers, enhanced due diligence is conducted by monitoring transactions, fund transfers and frequency of investments.

BUSINESS RISK

Industry Dynamics Pakistan Stock Exchange (KSE-100 index) remained volatile during 9MFY20. The index started slowly but gained moment as macroeconomic indicators improved. The market recorded a return of 12% in 9MFY20, losing significant value towards end-March on the back of COVID-19 outbreak and country wide lockdown. However, the average traded volumes during 9MFY20 improved to 136mln shares (SPLY: 96mln) depicting robust activity. The volumes remained high in March-20 despite large market swings amidst COVID-19 implications and government's response to support economy. Recent rate cut of 425bps and support from multilateral agencies are positive signs but the market is expected to fluctuate due to prevailing uncertainty. Whereas, certain proactive measures taken by SECP of trading halts, circuit limits, relaxation in Base Minimum Capital (BMC) requirements, and linking of short sell with uptick/zero plus rule, are geared to provide respite to the market participants. However, high traded volumes bode well for brokerage firms.

Relative Position Optimus Capital is an emerging brokerage company. The Company's current market share stood at ~2.5% in FY19.

Revenue The Company's operating revenue mainly comprises equity brokerage and consultancy/commission income. During 1HFY20 the only source of revenue stemmed from equity brokerage clients. Equity brokerage revenue decreased by 37% to PKR 37mln (Dec-18 PKR 59million) which makes 100% of the total operating revenue compared to 82% in corresponding period last year. Similarly, the Company's commission income on foreign transaction decreased by 100% to nil as compared to PKR 13mln in SPLY. The combined effect resulted in a decrease of 49% in total operating revenue for 1HFY20 as compared to SPLY.

Profitability The Company reported Loss after tax of PKR ~0.1mln in 1HFY20 compared to a profit of PKR 23 mln in 1HFY19. Operating expenses also followed the downtrend and decreased by 14% to PKR ~50 mln in 1HFY20 (1HFY19: PKR ~58.5 mln), mainly due to 27% decrease in salaries and 10% increase in other expenses.

Sustainability In order to combat the potential economic slowdown resulting from the pandemic, it is expected that monetary easing and fiscal measures would be taken by the SBP to improve economic activity which would be beneficial for industry players. The management's ability to strengthen its supplementary income and maintain its niche will be important.

FINANCIAL RISK

Credit Risk For the assessment of client's credit worthiness, the Company has formulated detailed KYC/CDD policies. These policies entail customer identification, risk assessment, due diligence and compliance function. Exposure limits are properly assigned. An automated risk management system is in place that halts transactions for a particular client if margin falls below the allocated level.

Market Risk The Company doesn't hold proprietary trading book. The Company's short term investment comprises Pakistan Investment Bonds, limiting market risk. At the end of 1HFY20, these investments amounted to ~PKR 58mln, ~18% of net equity.

Liquidity Risk The liquidity profile of the Company is adequate. At the end of 1HFY20, the liquid assets were 0.21x of the total asset book (FY19: ~0.26x).

Coverages The Company has a zero leverage capital structure.

Capitalization At end 1HFY20, the Net Capital Balance (NCB) of the Company stood at ~PKR 201mln, which allows the Company to take exposure up to 25x of its NCB. The Company has an equity base of ~PKR 317mln.



The Pakistan Credit Rating Agency Limited

Optimus Capital Management
BALANCE SHEET As at

PKR mln 31-Dec-19 1HFY20 Unaudited	PKR mln 30-Jun-19 FY19 Unaudited	PKR mln 30-Jun-18 FY18 Audited	PKR mln 30-Jun-17 FY17 Audited
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A. EARNING ASSETS

a. Finances

1. Margin Trading System
2. Ready Futures
3. Receivable from NCCPL - net

0	0	0	0
0	0	0	0
0	0	0	0
0	0	0	0

b. Investments

1. Deposits with Banks-Own funds
2. Govt. Securities
3. Debt Securities & Mutual Funds
4. Other Investments
 - i) Related Party
 - ii) Long Term Deposits
 - iii) Listed Equity Investments - Long Term
 - iv) Listed Equity Investments - Short Term
 - v) Unlisted

60	96	33	26
58	18	0	0
0	0	0	0
0	0	0	0
0	0	0	0
0	0	7	0
13	14	32	41
0	0	0	0
0	0	0	0
131	129	72	67

Total Earning Assets

131	129	72	67
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B. NON-EARNING ASSETS

1. Cash and Bank Balances - Own Funds
2. Cash and Bank Balances - Client Funds
3. Accounts Receivable
4. Due from related party
5. Other receivables
6. Advances, Deposits and Other receivables
7. Fixed Assets

0	1	0	1
245	119	221	122
9	4	7	7
14	16	9	0
0	0	4	0
143	155	208	209
22	15	17	14

Non-Earning Assets

434	310	466	353
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C. TOTAL ASSETS

565	438	538	420
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D. Funding

1. Commercial

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

0	0	0	0
245	119	221	122
245	119	221	122

2. FIs

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

0	0	0	0
0	0	0	0
0	0	0	0
0	0	0	0

245	119	221	122
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E. Other Liabilities

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

Other Liabilities

0	0	0	0
3	4	2	3
0	0	0	0
3	4	2	3

F. EQUITY

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

100	100	100	100
0	0	0	0
0	0	0	0
0	0	0	0
217	216	215	195
0	0	0	0
217	216	215	195

Pure Equity

317	316	315	295
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3. Surplus/(Deficit) on Revaluation of Investments

0	0	0	0
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Total Equity

317	316	315	295
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G. TOTAL LIABILITIES & EQUITY

565	438	538	420
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H. CONTINGENT LIABILITIES

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Optimus Capital Management

INCOME STATEMENT

For the period ended

	31-Dec-19 1HFY20 Unaudited	30-Jun-19 FY19 Unaudited	30-Jun-18 FY18 Audited	30-Jun-17 FY17 Audited
1. Fee-Based Income				
a. Advisory Fees	0	12	3	18
b. Commission / Underwriting	0	13	0	0
c. Brokerage	37	80	143	92
d. Others	0	0	0	0
	37	106	146	110
2. Operating Expenses				
a. Personnel Expenses	(29)	(72)	(62)	(68)
b. Other Non-interest/Mark Up Expenses	(21)	(38)	(42)	(34)
	(50)	(110)	(104)	(102)
3. Brokerage Income / (Loss)	(13)	(5)	42	7
4. Non Fee-Based Income				
a. Finances	12	1	10	8
b. Placements (including Reverse REPO/COI/CFS)	0	0	0	0
c. Bank Deposits and others	0	0	0	0
	12	1	10	8
5. Other Income				
a. Dividend Income	0	0	0	1
b. Gain on Sale of Investments	0	0	(8)	43
c. Surplus/(Deficit) on Revaluation of Investments	0	0	0	0
d. Share of profit of subsidiaries/associates	0	0	0	0
e. Others	0	0	(7)	44
	12	1	3	51
6. Total Operating Income / (Loss)	(1)	(4)	44	58
7. Financial (Charges) / Income	0	20	(0)	(1)
8. Other Income / (Loss)	1	1	1	0
9. Profit / (Loss) Before Tax	0	17	46	58
10. Taxes	(0)	(7)	(19)	(8)
11. Net Income	(0)	10	27	50
12. Unappropriated Profit / (Loss) Brought Forward	0	0	0	0
13. Adjustments	0	0	0	0
Available for Appropriations	(0)	10	27	50
14. Appropriations				
a. Statutory Reserve	0	0	0	0
b. Capital Reserve	0	0	0	0
c. Revenue Reserve	0	0	0	0
	0	0	0	0
15. Unappropriated Profit/(Loss) Carried Forward	(0)	10	27	50



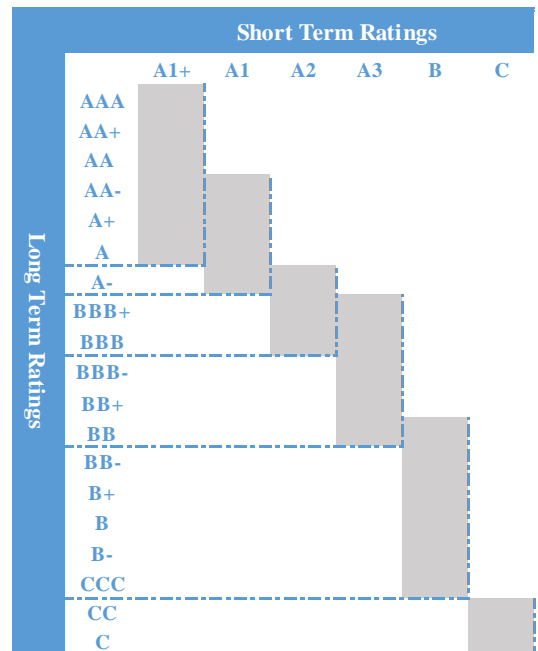
RATIO ANALYSIS

	31-Dec-19	30-Jun-19	30-Jun-18	30-Jun-17
	1H FY20	FY19	FY18	FY17
	Unaudited	Unaudited	Audited	Audited
A. PERFORMANCE				
1. ROE	(0.0%)	3.3%	8.8%	25.0%
a Net Profit Margin	(0.1%)	9.8%	18.7%	45.9%
b Asset Turnover	8.7%	24.3%	27.7%	38.3%
c Financial Leverage	178.4%	139.0%	170.8%	142.2%
2. ROA	(0.0%)	2.4%	5.1%	12.0%
3. Personnel Expenses-to-Total Operating Income	(4,936.3%)	(1,948.9%)	139.3%	116.1%
4. Personnel Expenses-to-Fee Income	78.1%	68.5%	42.4%	62.0%
5. Net Non-Earning Assets / Assets net of Non-Interest Liabilities	76.6%	70.4%	86.6%	83.9%
B. FINANCIAL EXPOSURE				
1. Short Term Proprietary Listed Securities / Total Equity	-	-	-	-
2. Total Investments / Equity	41.5%	40.8%	22.8%	22.7%
3. Equities / Total Capital	-	-	-	-
4. NCB / Equity	63.6%	67.8%	67.2%	60.4%
C. LIQUIDITY				
1. Trade Related Assets / Trade Related Liabilities	0.0	0.0	0.0	0.1
2. Liquid Assets / Total Assets	0.21	0.26	0.06	0.1
3. Liquid Assets / Trade Related Liabilities	0.5	1.0	0.1	0.2
4. Liquid Assets / (Short term Borrowings + Accounts Payable)	0.5	1.0	0.1	0.2
5. Liquid Investments / Equity	0.4	0.4	0.2	0.2
D. COVERAGE RATIOS				
1. EBITDA/Gross Interest	15.2	1.0	(629.3)	(32.5)
2. FCFO/Gross Interest	15.2	0.4	(417.3)	(0.3)
3. TCF/Gross Interest	15.2	0.4	(417.3)	(0.3)
<i>Debt Payback Analysis</i>				
4 Long-term Debt/FCFO	0.0	0.0	0.0	0.0
5 Total Debt / FCFO	0.0	0.0	0.0	0.0
E. CAPITAL ADEQUACY				
1. Equity / Total Assets	0.6	0.7	0.6	0.7
2. Total Equity (including surplus on revaluation) / Total Assets	0.6	0.7	0.6	0.7
3. Total Debt / Equity	0.0	0.0	0.0	0.0
F. GROWTH				
1. Total Assets	28.8%	(18.5%)	28.0%	39.5%
2. Equity	0.3%	0.2%	6.6%	250.6%
3. Brokerage Revenue	(53.6%)	(44.3%)	56.4%	#DIV/0!
4. Asset Yield	9.4%	0.8%	3.8%	44.0%

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	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
AA+ AA AA-	Very high credit quality. 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.	A1	A strong capacity for timely repayment.
A+ A A-	High credit quality. 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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
BBB+ BBB BBB-	Good credit quality. 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.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
BB+ BB BB-	Moderate risk. 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	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
B+ B B-	High credit risk. 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.	C	An inadequate capacity to ensure timely repayment.
CCC CC C	Very high credit risk. 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.		
D	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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