



The Pakistan Credit Rating Agency Limited

## Rating Report

### Asia Insurance Company 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
25-Aug-2023	A++ (ifs)	-	Stable	Maintain	Yes
26-Aug-2022	A++ (ifs)	-	Stable	Maintain	-
31-Mar-2022	A++ (ifs)	-	Stable	Harmonize	-
26-Aug-2021	A+	-	Stable	Upgrade	-
26-Aug-2020	A	-	Positive	Maintain	-
30-Aug-2019	A	-	Positive	Maintain	-
01-Mar-2019	A	-	Positive	Maintain	-
12-Dec-2018	A	-	Positive	Maintain	-
24-May-2018	A	-	Positive	Maintain	-
03-Oct-2017	A	-	Stable	Maintain	-

#### Rating Rationale and Key Rating Drivers

In terms of Gross Premium Written (GPW), the general insurance industry has a total size of ~PKR 41bln during 3MCY23 (3MCY22: ~PKR 34bln), exhibiting a growth of ~21%. Similarly, the underwriting performance of the industry also improved and reported at ~PKR 1.5bln during 3MCY23 witnessing an increase of ~25% (3MCY22: ~PKR 1.2bln). Improved underwriting and investment performance contributed to the industry's earnings reported at ~PKR 4.1bln during 3MCY23 (3MCY22: ~PKR 3.4bln). However, current economic conditions remain imperative for the overall performance of insurance industry.

The ratings reflect stable standing of Asia Insurance Company Limited ('Asia Insurance' or 'the Company') in the insurance sector. The Company gathers support from InsuResilience Investment Fund, which is funded by the German Developed Bank 'KfW' and controlled by the Swiss-based BlueOrchard Finance Ltd. The investor not only enhanced the equity base but also strengthened the governance framework of the Company, through representation of InsuResilience Investment Funds on the Board of Asia Insurance. Despite focus on IT integration and development of new products that supported limited growth in GPW, during CY22, profitability remained subdued due to consistent underwriting losses over the years. The Company's profitability has been challenged by equity market volatility, participation in some market level claims, and a hit to the agriculture portfolio in the 2022 nationwide floods. However, the Company has already put in place measures for loss mitigation and cost controls to boost its underwriting results. Coupled with increasing investment returns, this has led to a return to profitability in 2Q23. Financial risk, however, remains stretched due weak claim efficiency and limited liquidity. Capital structure, however, is adequate.

The rating is dependent on continued growth in core business of Asia Insurance as well as support from the Investment side to enhance profitability. Sustaining underwriting profitability will be crucial going forward.

#### Disclosure

<b>Name of Rated Entity</b>	Asia Insurance Company Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	IFS Rating
<b>Applicable Criteria</b>	Methodology   Rating Modifiers(Jun-22),Methodology   General Insurance Rating(Mar-23)
<b>Related Research</b>	Sector Study   General Insurance(Jun-23)
<b>Rating Analysts</b>	Faiqa Qamar   faiqa.qamar@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Asia Insurance Company Limited ('Asia Insurance' or 'the Company') was incorporated as a public listed company in Dec-79 as per Companies Act, 1913 (now Companies Act, 2017) and is listed on PSX since 1982.

**Background** Asia Insurance was established as a General Insurance Company. In 2002, the Company merged with Indus Insurance Company Limited in order to expand its operations. The Company commenced its Window Takaful Operations (WTO) in Aug-15.

**Operations** With its Head Office in Lahore, the Company operates a network of 28 branches across the country. The branch network includes specified branches with designated division for non-conventional avenues. Health, Travel and Agri-insurance divisions are based in Lahore, while Auto insurance division is based in Karachi.

## Ownership

**Ownership Structure** Major shareholding of the Company (~67.8%) resides with Mr. Ihtesham ul Haq Qureshi and his family. While, InsuResilience Investment Fund holds ~25.4% shareholding in the Company. Remaining (~5.2%) is held by general public and government holdings (~1.4%).

**Stability** The ownership structure of the Company seems stable as majority stake is held by the sponsoring family with clear succession plan.

**Business Acumen** The sponsors are well versed with industry and business dynamics. Mr. Ihtesham ul Haq, the driving force behind the business, started his career as an industrial engineer. Later on, he launched his own business in electrical and construction work by establishing Falcon Engineering. It is the main representative of FLSmith of Denmark, one of the leading cement plant manufacturers in Pakistan.

**Financial Strength** Mr. Ihtesham ul Haq has a number of varied businesses including the electrical and construction work business named Falcon Engineering. Moreover, sizeable investment in Asia Insurance comparative to other ventures, the Company has emerged as the core business. The Company has a strong sponsorship profile.

## Governance

**Board Structure** Asia Insurance's Board comprises seven members - two Independent Directors, four Non-Executive Directors, one Executive Director. There is female presence on the BoD, along with a nominee director of InsuResilience Investment Fund.

**Members' Profile** The Board's Chairman, Mr. Ihtesham ul Haq, has establish and manage various businesses in construction and software (CSoft). He ventured into the insurance industry by setting Indus Insurance. Nominee director of foreign investment fund, Mr. Thibaud Ponchon, adds quality of the BoD.

**Board Effectiveness** The Board is assisted by three Committees: Audit (BAC), Investment (IC) and Ethics, Human Resource & Remuneration (E,HR&R). The BoD met 5 times during CY22 with full attendance. While, the committees met 4 times, with full attendance

**Transparency** The External Auditors, M/S BDO Ebrahim & Co. Chartered Accountants, has expressed unqualified opinion on financial statements of CY22. The firm is QCR rated and is on SBP's panel in Category 'A'.

## Management

**Organizational Structure** The organizational structure comprises Operations-Underwriting and Reinsurance, Claims, Sales and Marketing, Finance and Accounts, I.T. and Human Resources and Administration function. Each functional head reports to the CEO, who then reports to the BoD. However, Heads of Internal Audit and HR function reports the BoD audit and HR committee, respectively.

**Management Team** Mr. Zain ul Haq Qureshi, the CEO, has fourteen years of overall experience. He was appointed as the CEO in 2020. Mr. M. Ali Raza has been the CFO for last 9 years with an overall experience of 17 years.

**Effectiveness** The management is supported by four management Committees: Underwriting, Re-insurance & Co-insurance, Claims Settlement and Risk Management & Compliance Committee. The management committees met 4 times during CY22. Meeting were well attended with minutes being formally drafted.

**MIS** Asia Insurance has developed an in-house, centralized, real-time Oracle-based operating system. Key MIS reports used by the management includes Monthly Business Summary Reports; segment-wise and branch wise premium written and collected report, segment-wise and agent wise premium in comparison with last year, and branch wise report on premium written and outstanding.

**Claim Management System** The Company is working on digitizing claim system after which claim can be filed giving a call to any branch across the country. The appointed surveyors are licensed by SECP.

**Investment Management Function** Asia Insurance has a formal investment policy statement (IPS), approved by Board, providing fundamental guidelines and execution structure to the investment process at the Company.

**Risk Management Framework** The Company has implemented risk management policy which identifies major risks which may threaten the existence of the Company.

## Business Risk

**Industry Dynamics** During 3MCY23, GPW of General Insurance industry held a total size of PKR 41bln (3MCY22: PKR 34bln), posting growth of ~21%. Underwriting performance also improved by ~25% (3MCY23: PKR 1.5bln, 3MCY22: PKR 1.2bln). Improved underwriting and investment performance contributed to industry's earnings (3MCY23: PKR 4bln, 3MCY22: PKR 3bln). However, current economic conditions remain imperative for the overall performance of insurance industry.

**Relative Position** Asia Insurance, a small sized player, holds a market share of less than ~1%.

**Revenue** During CY22, GPW increased by ~10% (CY22: PKR 1.1bln, CY21: PKR 1bln). The major portion came from Conventional Business (~91%) and the rest ~9% from takaful window. Fire and Health segment contributed major portion in the GPW i.e., ~35% and ~26%, respectively. Net insurance premium grew by ~24% (CY22: PKR 764mln, CY21: PKR 617mln). During 3MCY23, GPW showed an increase of ~33% YoY (3MCY23: PKR 331mln, 3MCY22: PKR 222mln) and net insurance premium posted a slight increase (3MCY23: PKR 189mln, 3MCY22: PKR 168mln).

**Profitability** The Company reported a loss after tax of PKR 74mln (CY21: PAT of PKR 27mln) due to decrease in underwriting (CY22: PKR 65mln, CY21: PKR 17mln) and investment income (CY22: loss - PKR 26mln, CY21: PKR 21mln). During 3MCY23, the Company earned a profit of PKR 1mln (3MCY22: PAT PKR 4mln).

**Investment Performance** The Company has an investment book of PKR 856mln, comprising cash & bank (~65%), equity instruments (~22%), Govt. securities (~9%) and investment property (~5%) as of CY22. The Company reported a decrease in investment income (CY22: loss - PKR 26mln, CY21: PKR 21mln). Major concentration came from return on term deposits. Investment yield of Asia Insurance reduced to -2.9% during CY22 (CY21: 2.5%), owing to deficits on revaluation of equity investments. Similarly, there is a decrease in investment income during 3MCY23 (3MCY23: loss - PKR 3mln, 3MCY22: PKR 2mln).

**Sustainability** Going forward, the Company envisions increase in its share and GPW, with a focus on innovation and development of new business channels as they forecast an increase in demand towards agriculture.

## Financial Risk

**Claim Efficiency** The claims outstanding days reduced to 189 as of CY22 (CY21: 275 days). The Company incurred claim expense amounting to PKR 573mln in CY22 (CY21: PKR 240mln). In 3MCY23, claims outstanding days increased to 393 (3MCY22: 169 days). Claim expense decreased to PKR 71mln (3MCY22: PKR 118mln).

**Re-Insurance** Asia Insurance has reinsurance arrangement with Trust Re ("A-" by S&P), Tunis Re ("B+" by A.M Best), Saudi Re ("A-" by S&P), Swiss Re ("AA-" by S&P), Kenya Re ("B" by A.M Best) and Timber Creek Surety ("A-" by A.M Best). Terrorism Treaty is from Hannover Re ("AA-" by S&P).

**Cashflows & Coverages** The Company has a liquid investment book of PKR 817mln as of CY22 (CY21: PKR 877mln). Currently the investment book stand at PKR 629mln as of 3MCY23 (3MCY22: PKR 802mln). The liquidity coverage ratio (outstanding claims including IBNR) stood at 1.6x as of CY22 (CY21: 3.8x). Reduction was on account of increased provision for outstanding claims.

**Capital Adequacy** The equity of Asia Insurance stands at PKR 900mln as of CY22 (CY21: PKR 990mln). Currently, the equity stands at PKR 901mln as of 3MCY23 (3MCY22: PKR 974mln). Whereas the paid-up capital of the Company has increased by ~10% (CY22: PKR 730mln, CY21: PKR 664mln).



PKR Mln

Asia Insurance Company Limited  
Public Listed Company

Mar-23	Dec-22	Mar-22	Dec-21	Dec-20
3M	12M	3M	12M	12M

#### A BALANCE SHEET

1 Investments	670	856	840	877	799
2 Insurance Related Assets	1,077	1,034	891	821	682
3 Other Assets	211	205	148	153	199
4 Fixed Assets	177	185	126	133	161
5 Window Takaful Operations	-	-	-	-	-
<b>Total Assets</b>	<b>2,135</b>	<b>2,280</b>	<b>2,005</b>	<b>1,984</b>	<b>1,841</b>
1 Underwriting Provisions	569	511	472	501	343
2 Insurance Related Liabilities	398	574	333	274	260
3 Other Liabilities	135	142	98	90	77
4 Borrowings	131	152	109	129	138
5 Window Takaful Operations	-	-	-	-	-
<b>Total Liabilities</b>	<b>1,234</b>	<b>1,380</b>	<b>1,011</b>	<b>994</b>	<b>818</b>
<b>Equity/Fund</b>	<b>901</b>	<b>900</b>	<b>994</b>	<b>990</b>	<b>1,024</b>

#### B INCOME STATEMENTS

##### CONSOLIDATED INCOME STATEMENT

1 Gross Premium Written/Gross Contribution Written	331	1,102	222	1,001	680
2 Net Insurance Premium/Net Takaful Contribution	201	803	177	649	523
3 Underwriting Expenses	(210)	(868)	(175)	(632)	(539)
<b>Underwriting Results</b>	<b>(10)</b>	<b>(65)</b>	<b>2</b>	<b>17</b>	<b>(16)</b>
4 Investment Income	(3)	(26)	2	21	113
5 Other Income / (Expense)	14	3	0	(1)	(7)
<b>Profit Before Tax</b>	<b>1</b>	<b>(88)</b>	<b>4</b>	<b>37</b>	<b>90</b>
6 Taxes	0	17	(0)	(11)	(46)
<b>Profit After Tax</b>	<b>1</b>	<b>(70)</b>	<b>4</b>	<b>27</b>	<b>43</b>

##### PARTICIPANTS' TAKAFUL FUND - PTF

1 Gross Contribution Written	25	100	20	77	73
2 Net Takaful Contribution	10	28	6	23	24
3 Net Takaful Claims	(3)	(28)	(3)	(25)	(24)
4 Direct Expenses Including Re-Takaful Rebate Earned	(0)	(0)	(0)	0	(0)
<b>Surplus Before Investment &amp; Other Income/(Expense)</b>	<b>7</b>	<b>(0)</b>	<b>2</b>	<b>(2)</b>	<b>0</b>
5 Investment Income	2	4	1	2	2
6 Other Income/(Expense)	-	-	-	-	-
<b>Surplus for the Period</b>	<b>10</b>	<b>3</b>	<b>3</b>	<b>(0)</b>	<b>2</b>

##### OPERATOR'S TAKAFUL FUND - OTF

1 Wakala Fee Income	12	39	9	32	28
2 Management, Commission & Other Acquisition Costs	(6)	(23)	(5)	(20)	(18)
<b>Underwriting Income/(Loss)</b>	<b>6</b>	<b>16</b>	<b>3</b>	<b>12</b>	<b>10</b>
3 Investment Income	-	-	-	-	-
4 Other Income/(Expense)	1	3	1	2	3
<b>Profit Before tax</b>	<b>7</b>	<b>19</b>	<b>4</b>	<b>15</b>	<b>12</b>
5 Taxes	-	-	-	-	-
<b>Profit After tax</b>	<b>7</b>	<b>19</b>	<b>4</b>	<b>15</b>	<b>12</b>

#### C RATIO ANALYSIS

<b>1 Profitability</b>					
Loss Ratio - Net Insurance & Takaful Claims / Net Insurance Premium or Takaful	33.2%	40.0%	29.9%	29.6%	32.3%
Combined Ratio (Loss Ratio + Expense Ratio)	104.8%	108.2%	98.8%	97.4%	103.1%
<b>2 Investment Performance</b>					
Investment Yield	-1.7%	-2.9%	0.9%	2.5%	14.1%
<b>3 Liquidity</b>					
(Liquid Assets - Borrowings) / Outstanding Claims Including IBNR	1.8	1.6	2.9	3.8	3.2
<b>4 Capital Adequacy</b>					
Liquid Investments / Equity (Funds)	69.9%	90.8%	82.1%	88.6%	78.0%

### Insurer Financial Strength (IFS) Rating

Insurer Financial Strength (IFS) rating reflects forward-looking opinion on relative ability of an insurance company to meet policy holders and contractual obligations.

Scale	Definition
<b>AAA (ifs)</b>	<b>Exceptionally Strong.</b> Exceptionally Strong capacity to meet policy holders and contract obligations. Risk factors are minimal, and the impact of any adverse business and economic factors is expected to be extremely small.
<b>AA++ (ifs)</b> <b>AA+ (ifs)</b> <b>AA (ifs)</b>	<b>Very Strong.</b> Very Strong capacity to meet policy holders and contract obligations. Risk factors are very low, and the impact of any adverse business and economic factors is expected to be very small.
<b>A++ (ifs)</b> <b>A+ (ifs)</b> <b>A (ifs)</b>	<b>Strong.</b> Strong capacity to meet policy holders and contract obligations. Risk factors are low, and the impact of any adverse business and economic factors is expected to be small.
<b>BBB++ (ifs)</b> <b>BBB+ (ifs)</b> <b>BBB (ifs)</b>	<b>Good.</b> Good capacity to meet policy holders and contract obligations. Risk factors are moderate, and the impact of any adverse business and economic factors is expected to be manageable.
<b>BB++ (ifs)</b> <b>BB+ (ifs)</b> <b>BB (ifs)</b>	<b>Modest.</b> Modest capacity to meet policy holders and contract obligations. Though positive factors are present, risk factors are relatively high, and the impact of any adverse business and economic factors is expected to be significant.
<b>B++ (ifs)</b> <b>B+ (ifs)</b> <b>B (ifs)</b>	<b>Weak.</b> Weak capacity to meet policy holders and contract obligations. Risk factors are high, and the impact of any adverse business and economic factors is expected to be very significant.
<b>CCC (ifs)</b> <b>CC (ifs)</b> <b>C (ifs)</b>	<b>Very Weak.</b> Very weak capacity to meet policy holders and contract obligations. Risk factors are very high, and the impact of any adverse business and economic factors may lead to insolvency or liquidity impairment
<b>D (ifs)</b>	<b>Distressed.</b> Extremely weak capacity with limited liquid assets to meet policy holders and contract obligations, or subjected to some form of regulatory intervention or declared insolvent by the regulator.

<p><b>Outlook (Stable, Positive, Negative, Developing)</b> 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'.</p>	<p><b>Rating Watch</b> Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. 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 rating outlook of the respective opinion.</p>	<p><b>Suspension</b> 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.</p>	<p><b>Withdrawn</b> 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.</p>	<p><b>Harmonization</b> A change in rating due to revision in applicable methodology or underlying scale.</p>
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**Surveillance.** Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

**Note.** This scale is applicable to the following methodology(s): General Insurance & Takaful Operator, Life Insurance & Family Takaful Operator.

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(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

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- (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)

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- (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 | Clause 11-(A)(p).
- (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)

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- (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)
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- (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)

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- (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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