



The Pakistan Credit Rating Agency Limited

## Rating Report

### Samba Bank Limited

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#### Rating History

| Dissemination Date | Long Term Rating | Short Term Rating | Outlook | Action  | Rating Watch |
|--------------------|------------------|-------------------|---------|---------|--------------|
| 06-Jul-2023        | AA               | A1                | Stable  | Initial | -            |

#### Rating Rationale and Key Rating Drivers

The ratings reflect the bank's very strong ownership structure. Samba is owned by The Saudi National Bank (SNB). SNB is the largest financial institution in Saudi Arabia, while having a strong lending position in the region. SNB was formed after the merger of two big banks; the National Commercial Bank and Samba Financial Group. The market cap of the bank is approx. 220bln SAR. Samba Bank intends to leverage its parental strength to penetrate into the local market. While the system share of the bank is humble, it plans profitable expansion, going forward. Lately, sizeable expansion is witnessed in deposits. The growth trajectory continued in CY22, reflecting a 33% expansion. ADR is high, though it has improved post-deposit growth. The deposit base reflects a high concentration of term deposits. The bank needs to enhance its outreach to attract a low-cost deposit base. The management has prudently recognized all infectious exposure. Consequently, there was an increase in the infection ratio (CY22: 6.5%; CY21: 5.3%). The comfort is drawn from the fact that all NPLs are provided for. The bank's investment book is majorly vested with government securities. During CY22, the investment portfolio portrayed a sizeable decline (CY22: PKR 76.9bln; CY21: PKR 93.9bln) attributable to a change in strategy to offload securities. Also, the duration was deliberately decreased in order to minimize the risk. The sizeable improvement in the coverage of NPLs is considered positive (CY22: 115.5%; CY21: 91%). The bank's risk absorption capacity is high: CAR is reported at 18.7% (CY21: 20.2%). The markup income witnessed an enormous increase clocking at PKR 22.5bln (CY21: PKR 13.9bln) attributable to a high contribution of markup from advances and investments. The bank recorded a net loss of PKR 428mln against the profitability of PKR 789mln during CY21. This was attributable to higher provisioning and squaring off of the bank's position on fixed investments. During 1QCY23, the bank's bottom line improved to PKR 280mln. The bank has a highly qualified and experienced management team to spearhead various departments. While the competitive landscape has been increasingly intensified, the bank is focused to enhance its digital footprint so that customers are provided with all "digital and online banking services". The country's economy has gone through several varied phases in the last few years. Looking ahead, the macroeconomic landscape is fraught with numerous challenges, including macroeconomic stability, elevated interest rates, demand tightening, sizable rupee depreciation, and heightened inflation, all of which reverberate across all sectors of the economy.

Ratings are dependent on the bank's ability to sustain and improve performance parameters. Meanwhile, upholding asset quality, enhancing its share of deposits in the banking sector, adding diversity to the income stream, maintaining a cushion in CAR and a strong governance framework are critical.

#### Disclosure

|                              |  |
|------------------------------|--|
| <b>Name of Rated Entity</b>  | Samba Bank Limited   |
| <b>Type of Relationship</b>  | Solicited  |
| <b>Purpose of the Rating</b> | Entity Rating  |
| <b>Applicable Criteria</b>   | Methodology   Financial Institution Rating(Jun-22),Methodology   Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology   Rating Modifiers(Jun-22) |
| <b>Related Research</b>      | Sector Study   Commercial Bank(Jun-23)   |
| <b>Rating Analysts</b>       | Sehar Fatima   sehar.fatima@pacra.com   +92-42-35869504  |



## Profile

**Structure** Samba Bank Limited ("Samba Bank" or the "Bank") is a banking company listed on Pakistan Stock Exchange. In 2007, Samba Financial Group (SFG) of the Kingdom of Saudi Arabia acquired 68.4% stake in Crescent Commercial Bank Limited (CCBL), CCBL was rebranded as Samba Bank Limited in 2008.

**Background** In 2021, Samba Financial Group (SFG) merged into the National Commercial Bank of Saudi Arabia. The merged entity was later named Saudi National Bank. SNB emerged as a banking champion of KSA (By virtue of this merger, SBL's shares held by SFG were transferred to SNB by operation of law).

**Operations** The bank is operating as a scheduled bank. The bank's registered office is located on the 1st Floor, 19 - Saleem Plaza, Blue Area, Jinnah Avenue, Islamabad. Currently, the bank is operating with 47 branches (CY21: 44 branches) in Pakistan.

## Ownership

**Ownership Structure** The majority of the bank's stake (84.51%) is held by Saudi National Bank (SNB) and the general public (10.24%). While the remaining stake vests with mutual funds (0.17%), public sector companies and corporations (0.26%), and others (4.82%).

**Stability** As the major shareholding of the Samba bank remains with a very strong sponsor (Saudi National Bank), the bank's shareholding pattern is expected to remain stable in the foreseeable future.

**Business Acumen** Saudi National Bank is the largest financial group in Saudi Arabia in the banking sector. It is owned by the Saudi Government with a global presence operating in eight countries.

**Financial Strength** SNB has a very strong presence in the diverse sectors. The subsidiaries of Saudi National Bank are SNB Capital Company (SNBC), NCB Capital Dubai Incorporation, NCB Capital Real Estate Investment Company (REIC), SNB Markets Limited, and Al-Ahli Insurance Services Marketing Company.

## Governance

**Board Structure** The board comprises nine members, including the Chairman and CEO. The presence of three independent directors portray a strong governance structure.

**Members' Profile** The profile of the members is considered very strong where the Chairman, Mr. Mustafa Ilyas serves as an advisor to the Saudi National Bank (SNB).

**Board Effectiveness** The board monitors the key functional and risk areas through its four committees; i) Audit Committee, ii) Nomination & Remuneration Committee, iii) Risk Committee, and iv) IT Committee.

**Financial Transparency** The bank has an internal audit function in place which reports directly to the Board Audit Committee. M/s. KPMG Taseer Hadi and Co. Chartered Accountants are the external auditors of the bank. They have expressed an unqualified opinion on the bank's financial statements for the year ended December 31, 2022.

## Management

**Organizational Structure** The bank operates through a well-defined organizational structure headed by the President and CEO, Mr. Ahmed Tariq Azam. The organization is structured along functional lines with the various department heads, along with the management committees, reporting directly to the President and CEO.

**Management Team** The President and CEO, Mr. Ahmad Tariq Azam has been associated with Samba Bank since December 2013. He brings with him an extensive experience of three decades in the banking sector, Non-Banking Financial Institutions, investment banks, and leasing companies. The Deputy CEO, Mr. Rashid Jahangir, and CFO (Acting), Mr. Basit Hamanyun are highly qualified and experienced professionals.

**Effectiveness** The bank has various committees in place at the management level to oversee its day-to-day operational matters and take decisions to implement the strategy outlined by the board. These include (i) Executive Team, (ii) Investment Committee, (iii) Asset and Liability Committee (iv) Management Credit Committee, (v) Real Estate Committee (vi) Remedial Assets Committee (vii) IT Steering Committee.

**MIS** Samba Bank Limited has deployed Temenos T24 as its centralized core banking system. It includes all the basic modules including branch banking, trade finance, corporate loans, and anti-money laundering. The frequency of the reports is daily, monthly, and quarterly. A presentation is given to the Board on a quarterly basis.

**Risk Management Framework** The board has formed special committees named Integrated Risk Management Committee (IRMC), Management Credit Committee (MCC), and Country Risk and Compliance Committee (CRCC) to manage the credit, market, operational and other risks.

## Business Risk

**Industry Dynamics** The country's economy has gone through several varied phases in the last few years. Looking ahead, the macroeconomic landscape is fraught with numerous challenges, including political instability, elevated interest rates, demand tightening, sizable rupee depreciation, and heightened inflation, all of which reverberate across all sectors of the economy. Pakistan posted a GDP growth rate of 1.69% in 9MFY23 and 4.71% in FY22 (GDP growth figures were revised after the base year was changed from FY05-06 to FY15-16). The banking sector continues to flourish with high profitability. Total banking assets posted growth of 18.5% YoY whilst investments surged by 25% YoY to PKR 18.0trln (end-Dec21: PKR 14.4trln). Gross Advances of the sector recorded growth (16%) to stand at PKR 12.6trln (end-Dec21: PKR 10.9trln). Non-performing loans witnessed an increase to PKR 924bln. The Capital Adequacy Ratio remained intact at 17% (regulatory requirement of 11.5%). However, declined in Mar-23 to 15%. During CY22, banking sector deposits enhanced to PKR 23.4trln. Hence, ADR rationalized to 50% (end-Dec21: 47%). CASA average, for the industry, stood at 74%. Net profitability of the sector was recorded at PKR 331bln (CY21: PKR 267bln); up 23% YoY. However, the growth of the equity base of the sector recorded a meager uptick of 7% YoY attributable to a handsome dividend payout.

**Relative Position** The bank's relative position in the banking industry in accordance with the deposit system share stands at 0.6% (end-Dec21: 0.6%).

**Revenues** During CY22, the markup earned recorded a sizeable increase on a YoY basis to stand at PKR 22.5bln (CY21: PKR 13.9bln). The bank's spread inched up to 2.5% (CY21: 2.4%). The bank witnessed an increase in markup expenses (CY22: PKR 17.8bln; CY21: PKR 9.6bln). The bank's net markup income displayed an increase on a YoY basis recorded at PKR 4.7bln (CY21: PKR 4.3bln). During 1QCY23, the net markup income clocked at PKR 1.5bln.

**Performance** The non-markup income recorded a sizeable decrease on a YoY basis to stand at PKR 244mln (CY21: PKR 1.4bln). The bank's foreign exchange income recorded a huge increase (CY22: PKR 1.0bln; CY21: PKR 396mln). The bank recorded a loss of PKR 1.2bln against the gain of PKR 515mln on the disposal of government securities attributable to the strategic decision of offloading fixed Income bonds. The bank booked a total provision of PKR 1.8bln (CY21: PKR 1.0bln). Consequently, the bank recorded net losses of PKR 428mln against the profitability of PKR 789mln YoY. During 1QCY23, the bank's bottom line increased and clocked at PKR 280mln.

**Sustainability** The bank is continuously right-sizing its earning assets mix vis-à-vis credit risk.

## Financial Risk

**Credit Risk** The gross performing advances decreased by 6.8% clocking in at PKR 75.2bln (end-Dec21: PKR 80.7bln). Subsequently, the ADR portrayed a sizable decrease to 70.7% (end-Dec21: 102.4%). The infection ratio inched up to 6.5% (end-Dec21: 5.3%). At end-Mar23, the gross performing advances recorded a decrease standing at PKR 72.2bln.

**Market Risk** At end-Dec22, the bank's investment portfolio illustrated a sizeable decrease on a YoY basis recorded at PKR 76.9bln (end-Dec21: PKR 93.9bln). The bank's exposure in PIBs has displayed a sizeable decline (end-Dec22: PKR 74.8bln; end-Dec21: PKR 90bln) attributable to a change in the strategy. At end-Mar23, the bank's investment book increased to PKR 80.3bln.

**Liquidity And Funding** At end-Dec22, the bank's deposit base recorded a healthy increase to stand at PKR 105.2bln (end-Dec21: PKR 79.2bln). CA and SA proportions stood at 22.4% (end-Dec21: 27.3%); and 28.1% (end-Dec21: PKR 24.2%). At end-Mar23, the bank's deposit base further increased to PKR 116.9bln. Hence, the bank's CASA was reported at 45.6%.

**Capitalization** At end-Dec22, the bank's equity base was recorded at PKR 14.6bln (end-Dec21: PKR 15.9bln). The bank reported CAR of 18.7% (end-Dec21: 20.2%).



PKR mln

**Samba Bank Limited**  
**Listed Public Limited**

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

**A BALANCE SHEET**

|  |                |                |                |                |
|--|----------------|----------------|----------------|----------------|
| 1 Total Finances - net                     | 72,266         | 75,268         | 80,773         | 65,878         |
| 2 Investments                              | 80,323         | 76,904         | 93,975         | 67,890         |
| 3 Other Earning Assets                     | 14,170         | 8,378          | 6,979          | 11,256         |
| 4 Non-Earning Assets                       | 29,682         | 19,338         | 19,008         | 14,216         |
| 5 Non-Performing Finances-net              | (561)          | (813)          | 404            | (242)          |
| <b>Total Assets</b>                        | <b>195,880</b> | <b>179,074</b> | <b>201,140</b> | <b>158,996</b> |
| 6 Deposits                                 | 116,970        | 105,244        | 79,267         | 78,426         |
| 7 Borrowings                               | 52,101         | 50,823         | 98,018         | 56,197         |
| 8 Other Liabilities (Non-Interest Bearing) | 12,820         | 8,354          | 7,954          | 9,057          |
| <b>Total Liabilities</b>                   | <b>181,891</b> | <b>164,421</b> | <b>185,239</b> | <b>143,679</b> |
| <b>Equity</b>                              | <b>13,989</b>  | <b>14,653</b>  | <b>15,900</b>  | <b>15,317</b>  |

**B INCOME STATEMENT**

|                                   |              |              |              |              |
|-----------------------------------|--------------|--------------|--------------|--------------|
| 1 Mark Up Earned                  | 6,348        | 22,545       | 13,983       | 13,575       |
| 2 Mark Up Expensed                | (4,791)      | (17,811)     | (9,676)      | (9,876)      |
| 3 Non Mark Up Income              | 100          | 244          | 1,471        | 1,341        |
| <b>Total Income</b>               | <b>1,657</b> | <b>4,978</b> | <b>5,777</b> | <b>5,040</b> |
| 4 Non-Mark Up Expenses            | (1,103)      | (4,059)      | (3,424)      | (3,018)      |
| 5 Provisions/Write offs/Reversals | (52)         | (1,845)      | (1,049)      | (354)        |
| <b>Pre-Tax Profit</b>             | <b>502</b>   | <b>(926)</b> | <b>1,304</b> | <b>1,668</b> |
| 6 Taxes                           | (222)        | 498          | (515)        | (657)        |
| <b>Profit After Tax</b>           | <b>280</b>   | <b>(428)</b> | <b>789</b>   | <b>1,012</b> |

**C RATIO ANALYSIS**

**1 Performance**

|                                     |       |       |       |       |
|-------------------------------------|-------|-------|-------|-------|
| Net Mark Up Income / Avg. Assets    | 3.3%  | 2.5%  | 2.4%  | 2.6%  |
| Non-Mark Up Expenses / Total Income | 66.6% | 81.5% | 59.3% | 59.9% |
| ROE                                 | 7.8%  | -2.8% | 5.1%  | 6.9%  |

**2 Capital Adequacy**

|                               |       |       |       |       |
|-------------------------------|-------|-------|-------|-------|
| Equity / Total Assets (D+E+F) | 7.1%  | 8.2%  | 7.9%  | 9.6%  |
| Capital Adequacy Ratio        | 16.7% | 18.7% | 20.2% | 18.2% |

**3 Funding & Liquidity**

|   |       |       |        |       |
|---|-------|-------|--------|-------|
| Liquid Assets / (Deposits + Borrowings Net of Repo) | 46.3% | 41.6% | 32.0%  | 43.7% |
| (Advances + Net Non-Performing Advances) / Deposits | 61.3% | 70.7% | 102.4% | 83.7% |
| CA Deposits / Deposits                              | 23.3% | 22.4% | 27.3%  | 21.9% |
| SA Deposits / Deposits                              | 22.3% | 28.1% | 24.2%  | 24.8% |

**4 Credit Risk**

|  |       |       |      |       |
|--|-------|-------|------|-------|
| Non-Performing Advances / Gross Advances | 7.1%  | 6.5%  | 5.3% | 3.9%  |
| Non-Performing Finances-net / Equity     | -4.0% | -5.5% | 2.5% | -1.6% |

### Credit Rating

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.

| Scale | Long-term Rating Definition   |
|-------|---|
| AAA   | <b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments  |
| AA+   |   |
| AA    | <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.   |
| AA-   |   |
| A+    |   |
| A     | <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.  |
| A-    |   |
| BBB+  |   |
| BBB   | <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.   |
| BBB-  |   |
| BB+   |   |
| BB    | <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.                           |
| BB-   |   |
| 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-    |   |
| CCC   |   |
| CC    | <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. |
| C     |   |
| D     | Obligations are currently in default.   |

| Scale | Short-term Rating Definition  |
|-------|---|
| A1+   | The highest capacity for timely repayment.  |
| A1    | A strong capacity for timely repayment.   |
| A2    | A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.                  |
| A3    | An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.                |
| A4    | The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient. |



\*The correlation shown is indicative and, in certain cases, may not hold.

**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 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.

**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) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults, or/and e) 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.

**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):

- a) Broker Entity Rating
- b) Corporate Rating
- c) Debt Instrument Rating
- d) Financial Institution Rating
- e) Holding Company Rating
- f) Independent Power Producer Rating
- g) Microfinance Institution Rating
- h) Non-Banking Finance Companies Rating

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### **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

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(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 | 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)

### **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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