



The Pakistan Credit Rating Agency Limited

**Rating Report**

**Alfalah CLSA Securities (Pvt.) Limited**

**Report Contents**

1. Rating Analysis
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**Rating History**

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
26-Dec-2019	A-	A1	Stable	Maintain	-
28-Jun-2019	A-	A1	Stable	Maintain	-
31-Dec-2018	A-	A1	Developing	Maintain	YES
30-Jun-2018	A-	A1	Stable	Maintain	-
23-Jun-2017	A-	A1	Stable	Upgrade	-
27-Jun-2016	BBB+	A2	Stable	Initial	-

**Rating Rationale and Key Rating Drivers**

The Ratings reflect the Company's ability to retain its market share in lackluster equity market. The company is expected to benefit from its association with CLSA -a wholly owned subsidiary of CITIC Securities, the largest investment bank in China-who acquired 24.9% stake in the company, especially for international exposure and business. The performance of the company has been under pressure recently due to lower volumes and trading activity in the market, resulting in net losses. However, the recent up surge in volumes in equity market is expected to stem this trend. The company strengthened its equity base with fund injection from CLSA and significantly reduced its leveraging. This has improved financial indicators and will reduce finance cost. The company has adequate level of capitalization with Net Capital Balance of ~PKR 154 mln, whereas Net Equity as at end Jun'19 stood at ~PKR 245 mln (Dec'18 ~PKR 134 mln).

The rating is dependent on the company's ability to leverage its association with CLSA and improve revenues and profitability. Financial Performance, Retention of key human resources and continuous risk monitoring will bode well for the Company. Sustained trend of losses resulting in equity erosion, and/or excessive leveraging will have negative rating implication.

**Disclosure**

<b>Name of Rated Entity</b>	Alfalah CLSA Securities (Pvt.) 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** Alfalah CLSA Securities ("The Company") is a Private Limited Company, holds Trading Rights Entitlement Certificate from Pakistan Stock Exchange - PSX.

**Background** The Company was incorporated on 23rd September 2003 under then Companies Ordinance, 1984 and commenced its operations on 25th March 2004.

**Operations** The Company is primarily engaged in the business of equity brokerage, research and investment advisory.

## Ownership

**Ownership Structure** Alfalah CLSA Securities is a subsidiary of Bank Alfalah Limited. Bank Alfalah holds ~61.2% stake in the Company. Bank Alfalah is a prominent bank, owned and managed by Abu Dhabi group. During CY18, CLSA Limited ("CLSA") acquired ~24.9% stake in the Company. The Chairman Mr. Aliuddin Ansari, holds ~10.6% . CEO Mr. Atif M. Khan holds ~2% shareholding in the Company. The Company has changed its name from Alfalah Securities (Pvt.) Ltd to Alfalah CLSA Securities (Pvt.) Ltd.

**Stability** The holding Company "Bank Alfalah" is the fifth largest private bank in Pakistan, listed on PSX and has a widespread network of 478 conventional banking branches. CLSA Institutional ownership bodes well for stability.

**Business Acumen** The Company's sponsors, Bank Alfalah Limited and CLSA are prominent institutions of financial service sector. CLSA is the leading investment group of East Asia. Mr. Ali Ansari is a seasoned professional having more than 30 years of experience in both local and international institutions. He is the former Chief Executive Officer of AKD Securities, Chief Operating Officer of (CLSA) and an Investment Manager at Bank of America in London.

**Financial Strength** Bank Alfalah has a long-term rating of AA+ and a short-term rating of A1+ and reported equity of ~PKR 82bln as at June-19.

## Governance

**Board Structure** Alfalah CLSA Securities board of directors comprises seven members, including the CEO. Four board members represent Bank Alfalah and Mr. Andrew Hartley, recently joined the Company's board as a non-executive director, represents CLSA. All the directors except CEO are non-executive. Mr. Aliuddin Ansari is entrusted with the responsibility of chairman of the board

**Members' Profile** The Board members have strong educational background and diversified experience which provides seasoned guidance to the Company. Mr. Faisal Rabbani and Mr. Anjum Hai has over twenty years of extensive banking experience with renowned financial institutions both locally and internationally.

**Board Effectiveness** The board meets on quarterly basis to evaluate the performance of the Company. The diversified experience of the board members provide useful insight in governing Company's affairs. Four board meetings were held in 1HCY19. All board members attended the meetings and the minutes reflects active participation of the board members.

**Financial Transparency** Alfalah CLSA Securities has outsourced the internal audit function to an independent audit firm. The internal auditors quarterly report their findings to the audit committee. The audit committee has properly defined TORs and comprises three members. Mr. Anjum Hai, a non-executive director chairs the audit committee. Ernst & Young are the external auditors of the Company and are ranked in the 'A category' on the State Bank's list of approved auditors. They formed an unqualified opinion on the financial statements of year end CY18

## Management

**Organizational Structure** The has a multi-tier functional organization structure, all departments are led by experienced professionals. A management committee is constituted to assist the CEO in multiple business matters. There may be changes in organizational structure and/or reporting lines to leverage CLSA's experience and established presence in many countries.

**Management Team** The Company's experienced management team includes nine members who are directly reportable to the CEO. Mr. Atif Muhammad Khan is the CEO of the Company and has over two decades of experience in the capital markets. Mr. Imran Sherani is the head of investment banking and has vast experience in the relevant field. Mr. Bilal Athar is the head of Equity and has over 22 years experience in securities brokerage and private wealth management.

**Effectiveness** Entity has a well built and well developed organizational structure as well as research function, stock coverage comprises around 80% of the KSE-100 market capitalization. A strong client reporting mechanism is in place with account statements and market reports to clients on regular basis.

**Control Environment** Alfalah CLSA Securities has deployed a good information system. Multiple reports are generated for the key management personnel on regular basis. The ability of the Company to produce information in report form helps in the decision-making process.

**Risk Management Framework** A well formulated risk management policy is implemented throughout the Company, to provide trading services in ready and future markets through cash. The Company has a separate risk management department with a designated Risk Manager who reports directly to the CEO. The board is responsible for developing and monitoring the risk management policies of Alfalah CLSA Securities. Management has established code of conduct and trading hall SOPs, to identify and monitor potential risks at operational level.

## 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 hit low of 33,166 on May 17, 2019. In line with the trend in the preceding period, 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 ~PKR 96mln putting pressure on brokerage income. However, the volumes have improved in 4MFY20, in line with better market performance. 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 volumetric market share of the Company remained at ~3.3% while value-wise ~5% in 1HFY19. On the back of CLSA acquisition, the Company successfully captured ~20% of the market, on account of its foreign business.

**Revenue** At end Jun'19, the equity brokerage income of the Company stood at ~PKR 55mln (SPLY: ~PKR 62mln). Non-fee based income over 1HCY19 is ~PKR 1mln (CY18: Nil).

**Profitability** During 1HCY19, Company's losses declined to ~PKR 21mln (SPLY: ~PKR 39mln).

**Sustainability** On the back of improved performance of the equity market, the Company is expecting a healthy growth in brokerage income. Management is continually concentrating on investment banking and investing resources to expand its footprints.

## Financial Risk

**Credit Risk** The Company has devised and implemented, detailed KYC/AML and client due diligence policies, to assess customer creditworthiness and due diligence. The Company provides MTS facility, SOP's on margin maintenance are fully defined.

**Market Risk** Alfalah CLSA securities exposure to market risk is relatively less as the Company is not maintaining proprietary investment portfolio, therefore no conflict of interest arises within organisation.

**Liquidity Profile** The liquidity risk for the Company arises from the T+2 settlement framework. The Company's trade related assets are 1.02 x of its trade related liabilities as at 30 June, 2019 as compared to 1.05 x as at 31 December, 2018. The liquid assets were 0.5x of the trade related liabilities for 1HCY19 (CY18: 0.3x).

**Capitalization** The Company's Net Capital Balance stood at ~PKR 154mln at end June-19 whereas, Net Equity stood at ~PKR 244mln



**The Pakistan Credit Rating Agency Limited**

Alfalah Securities (Pvt.) Limited

**BALANCE SHEET**

As at 31-Mar-2019

	30-Jun-19 1HCY19	31-Dec-18 CY18	31-Dec-17 CY17	31-Dec-16 CY16
	Management	Audited	Audited	Audited
<b>A. EARNING ASSETS</b>				
<b>a. Finances</b>				
1. Margin Trading System	0	0	0	0
2. Ready Futures	0	0	0	0
	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>b. Investments</b>				
1. Cash at Banks - S A/c - Own Funds	28	22	19	0
2. Cash at Banks - S A/c - Client's Funds	59	35	215	79
3. Govt. Securities and Money Market Fund	0	0	0	0
4. Debt Securities & Income Funds	0	0	0	0
Other Investments	0	0	0	0
i) Related Party	0	0	0	0
ii) Listed Equity Investments	0	0	0	0
iii) Others	0	0	0	0
iv) Unlisted	21	22	36	24
	<b>80</b>	<b>57</b>	<b>251</b>	<b>103</b>
<b>Total Earning Assets</b>	<b>108</b>	<b>79</b>	<b>270</b>	<b>103</b>
<b>B. NON-EARNING ASSETS</b>				
1. Cash In hand	0	0	0	0
2. Cash at Banks - C A/c - Own Funds	0	25	10	32
3. Cash at Banks - C A/c - Client's Funds	0	0	0	33
4. Accounts Receivable	125	134	233	466
5. Advances, Deposits and Other receivables	170	307	392	445
6. Fixed Assets	16	19	23	71
<b>Non-Earning Assets</b>	<b>311</b>	<b>486</b>	<b>659</b>	<b>1,047</b>
<b>C. TOTAL ASSETS</b>	<b>419</b>	<b>565</b>	<b>929</b>	<b>1,151</b>
<b>D. Funding</b>				
<b>1. Commercial</b>				
i) Advances from Customers	0	0	0	0
ii) Payables to Customers	123	127	341	450
	<b>123</b>	<b>127</b>	<b>341</b>	<b>450</b>
<b>2. FIs</b>				
i) Short-term Borrowings	28	279	343	400
ii) Current Maturity of Long Term Debt	0	0	0	0
iii) Long-term Borrowings	0	0	0	50
	<b>28</b>	<b>279</b>	<b>343</b>	<b>450</b>
	<b>150</b>	<b>407</b>	<b>685</b>	<b>900</b>
<b>E. Other Liabilities</b>				
1. Due to Associates	0	0	0	0
2. Other Liabilities (staff gratuity, Accrued mark-up)	24	24	13	16
3. Provision for Taxation	0	0	0	6
<b>Other Liabilities</b>	<b>24</b>	<b>24</b>	<b>13</b>	<b>23</b>
<b>F. EQUITY</b>				
1. Share Capital	400	250	250	1,150
2. Reserves:				
i. Statutory Reserve	(18)	0	0	0
ii. Capital Reserve	0	0	0	0
iii. Reserve for Bonus Shares	0	0	0	0
iv. Revenue Reserve	0	0	0	0
v. Unappropriated Profit	(143)	(122)	(43)	(958)
	(160)	(122)	(43)	(958)
<b>Pure Equity</b>	<b>240</b>	<b>128</b>	<b>207</b>	<b>192</b>
3. Surplus/(Deficit) on Revaluation of Investments	5	6	25	36
<b>Total Equity</b>	<b>245</b>	<b>134</b>	<b>232</b>	<b>228</b>
<b>G. TOTAL LIABILITIES &amp; EQUITY</b>	<b>419</b>	<b>565</b>	<b>929</b>	<b>1,151</b>
<b>H. CONTINGENT LIABILITIES</b>				
	0	0	0	0

**Alfaluh Securities (Pvt.) Limited**  
**INCOME STATEMENT**

For the period ended

	<b>30-Jun-19</b> <b>1HCY19</b> <b>Management</b>	<b>31-Dec-18</b> <b>CY18</b> <b>Audited</b>	<b>31-Dec-17</b> <b>CY17</b> <b>Audited</b>	<b>31-Dec-16</b> <b>CY16</b> <b>Audited</b>
<b>1. Fee-Based Income</b>				
a. Advisory Fees	0	1	12	0
b. Commission / Underwriting	0	0	2	0
c. Brokerage	55	124	124	81
d. Others	6	6	11	9
	61	131	148	91
<b>2. Operating Expenses</b>				
a. Personnel Expenses	(41)	(97)	(75)	(69)
b. Other Non-interest/Mark Up Expenses	(37)	(88)	(75)	(55)
	(78)	(185)	(150)	(124)
<b>3. Brokerage Income / (Loss)</b>	<b>(17)</b>	<b>(54)</b>	<b>(1)</b>	<b>(33)</b>
<b>4. Non Fee-Based Income</b>				
a. Placements (including Reverse REPO/COI/CFS)	0	0	0	0
b. Bank Deposits and others	0	0	0	0
c. Dividend Income	0	0	1	1
d. Gain on Sale of Investments	0	0	0	1
e. Surplus/(Deficit) on Revaluation of Investments	1	(1)	44	0
f. Share of profit of subsidiaries/associates	0	0	0	0
g. Others	0	0	0	0
	1	(0)	44	2
<b>5. Total Operating Income / (Loss)</b>	<b>(16)</b>	<b>(54)</b>	<b>43</b>	<b>(32)</b>
6. Financial Charges	(4)	(8)	(12)	(4)
7. Other Income / (Loss)	0	0	0	0
<b>8. Profit / (Loss) Before Tax</b>	<b>(20)</b>	<b>(62)</b>	<b>31</b>	<b>(36)</b>
9. Taxes	(1)	(13)	(12)	(1)
<b>10. Net Income</b>	<b>(21)</b>	<b>(76)</b>	<b>20</b>	<b>(37)</b>
12. Unappropriated Profit / (Loss) Brought Forward	0	0	0	0
12. Adjustments	0	0	0	0
Available for Appropriations	(21)	(76)	20	(37)
<b>13. Appropriations</b>				
a. Statutory Reserve	0	0	0	0
b. Capital Reserve	0	0	0	0
c. Cash Dividend	0	0	0	0
d. Bonus Dividend	0	0	0	0
	0	0	0	0
<b>14. Unappropriated Profit/(Loss) Carried Forward</b>	<b>(21)</b>	<b>(76)</b>	<b>20</b>	<b>(37)</b>

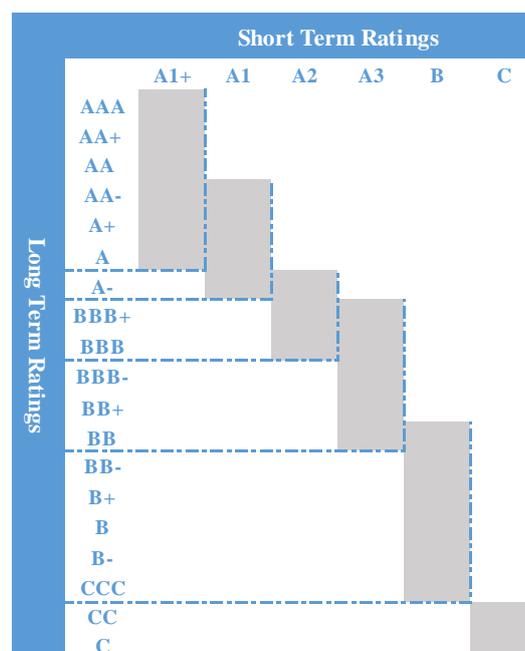


RATIO ANALYSIS	30-Jun-19 1HCY19 Management	31-Dec-18 CY18 Audited	31-Dec-17 CY17 Audited	31-Dec-16 CY16 Audited
<b>A. PERFORMANCE</b>				
1. ROE	(8.7%)	(56.1%)	11.0%	(16.4%)
a Net Profit Margin	(34.5%)	(57.6%)	13.2%	(40.6%)
b Asset Turnover	14.8%	23.2%	20.8%	8.0%
c Financial Leverage	171.1%	420.2%	401.0%	504.4%
2. ROA	(5.0%)	(10.1%)	1.9%	(4.7%)
3. Personnel Expenses-to-Total Operating Income	253.7%	178.3%	(174.8%)	219.2%
4. Personnel Expenses-to-Fee Income	68.2%	73.8%	50.7%	76.5%
5. Cost-to-Fee Income	126.4%	141.5%	77.7%	134.3%
6. Cost-to-Total Operating Income	(478.6%)	(341.2%)	348.3%	(391.9%)
7. Taxes / Pre-Tax Profit	(5.2%)	(21.6%)	37.1%	(2.6%)
8. Net Non-Earning Assets / Assets net of Non-Interest	72.7%	85.4%	70.5%	90.9%
<b>B. FINANCIAL EXPOSURE</b>				
1. Investments / Equity	33.4%	44.4%	121.4%	53.8%
2. Equities / Total Capital	8.7%	17.0%	17.3%	12.5%
3. Fixed Income / Total Capital	-	-	-	-
<b>C. LIQUIDITY</b>				
1. Trade Related Assets / Trade Related Liabilities	1.02	1.05	0.68	1.03
2. Liquid Assets / Total Assets	0.19	0.10	0.27	0.09
3. Liquid Assets / Trade Related Liabilities	0.48	0.28	0.63	0.18
4. Liquid Assets / (Short term Borrowings + Advances f	0.39	0.09	0.31	0.09
5. Adjusted Liquid Assets / (Short term Borrowings + A	0.53	0.14	0.37	0.12
6. Liquid Investments / Equity	0.33	0.44	1.21	0.54
7. Accounts Receivable / (Short Term Borrowings + Cu	0.83	0.33	0.34	0.55
<b>D. COVERAGE RATIOS</b>				
1. EBITDA/Gross Interest	(3.40)	0.43	2.88	(7.71)
2. FCFO/Gross Interest	(4.61)	(1.26)	1.76	(10.87)
3. TCF/Gross Interest	(4.61)	(1.26)	1.76	(10.87)
4. FCFO/Gross Interest+CMLTD	(4.61)	(1.26)	1.76	(10.87)
5. FCFO/Gross Interest+CMLTD+Uncovered Short Te	(4.61)	(1.26)	1.76	(10.87)
6. TCF/Gross Interest+CMLTD+Uncovered Short	(4.61)	(1.26)	1.76	(10.87)
<i>Debt Payback Analysis</i>				
7 Long-term Debt/FCFO	0.00	0.00	0.00	(1.09)
8 Total Debt / FCFO	(1.66)	(28.11)	16.27	(9.81)
<b>E. CAPITAL ADEQUACY</b>				
1. Equity / Total Assets	57.2%	22.7%	22.3%	16.7%
2. Total Equity (including surplus on revaluation) / Tota	58.5%	23.8%	24.9%	19.8%
3. Total Debt / Equity	11.2%	208.0%	148.2%	197.1%
4. Dividend Payout Ratio	-	-	-	-
<b>F. GROWTH</b>				
1. Total Assets	(29.4%)	(39.2%)	(19.3%)	174.7%
2. Equity	(3.7%)	(38.1%)	8.0%	(16.3%)
3. Brokerage Revenue	91.1%	(0.3%)	52.9%	-
4. Asset Yield	0.7%	(0.2%)	23.8%	2.6%

## 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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