



The Pakistan Credit Rating Agency Limited

Rating Report

Alfalah CLSA Securities (Pvt.) Limited | BMR

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
26-Dec-2019	BMR2+	-	Stable	Upgrade	-
28-Jun-2019	BMR2	-	Positive	Maintain	-
31-Dec-2018	BMR2	-	Developing	Maintain	YES
30-Jan-2018	BMR2	-	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

Name of Rated Entity	Alfalah CLSA Securities (Pvt.) Limited BMR
Type of Relationship	Solicited
Purpose of the Rating	Broker Management Rating
Applicable Criteria	PACRA_Methodology_BMR(Jun-19)
Related Research	Sector Study Brokerage & Securities(Jun-19)
Rating Analysts	Madiha Sohail madiha.sohail@pacra.com +92-42-35869504



Ownership

Ownership Structure Alfalah CLSA Securities is a subsidiary of Bank Alfalah Limited. Bank Alfalah holds ~61.2% of 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% stake in the Company. The remaining stake is held by the CEO Mr. Atif M. Khan (~2%). 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 and representing 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

Management Team Alfalah CLSA Securities 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.

Organizational Structure 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.

Client Servicing The Company has well developed research department, 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 communicated to the clients on regular basis.

Complaint Management Though, the Company does not maintain the complaint log since, most of the complaints are received through phone calls and emails. The Company is in usual practice to address the complaints within 24 hours.

Extent Of Automation / Integration Single ERP platform installed with full integration of trading, accounting, operations and client servicing module.

Continuity Of Operations Detailed business continuity and disaster recovery plan has been developed. Communication channels are monitored on monthly basis.

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.

Regulatory Compliance To ensure better system and control testing, the Company outsourced its internal audit department to BDO Ebrahim & Co, which is in 'A' category of SBP rankings. No, non compliant matters were raised by the regulator during 1HCY19.

Business Sustainability

Business Risk 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.

Business Profile 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 And Profitability Analysis The equity brokerage income of Alfalah CLSA Securities stood at ~PKR 55mln, for the period ended Jun'19 as compared to ~PKR 62mln for the same period last year. Non-fee based income over 1HCY19 is ~PKR 1mln (CY18: Nil). During 1HCY19, Company's loss declined to ~PKR 21mln as compared to net loss of ~PKR 39mln in same period last year.

Financial Sustainability

Credit Risk The Company has devised and implemented, detailed KYC and client due diligence policies, to assess customer creditworthiness. Client compliance to AML policy is strictly monitored.

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).

Financial Risk The Company's Net Capital Balance stood at ~PKR 154mln at end June-19.



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
A. EARNING ASSETS				
a. Finances				
1. Margin Trading System	0	0	0	0
2. Ready Futures	0	0	0	0
	0	0	0	0
b. Investments				
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
	80	57	251	103
Total Earning Assets	108	79	270	103
B. NON-EARNING ASSETS				
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
Non-Earning Assets	311	486	659	1,047
C. TOTAL ASSETS	419	565	929	1,151
D. Funding				
1. Commercial				
i) Advances from Customers	0	0	0	0
ii) Payables to Customers	123	127	341	450
	123	127	341	450
2. FIs				
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
	28	279	343	450
	150	407	685	900
E. Other Liabilities				
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
Other Liabilities	24	24	13	23
F. EQUITY				
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)
Pure Equity	240	128	207	192
3. Surplus/(Deficit) on Revaluation of Investments	5	6	25	36
Total Equity	245	134	232	228
G. TOTAL LIABILITIES & EQUITY	419	565	929	1,151
H. CONTINGENT LIABILITIES				
	0	0	0	0

Alfaluh Securities (Pvt.) Limited
INCOME STATEMENT

For the period ended

	30-Jun-19 1HCY19 Management	31-Dec-18 CY18 Audited	31-Dec-17 CY17 Audited	31-Dec-16 CY16 Audited
1. Fee-Based Income				
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
2. Operating Expenses				
a. Personnel Expenses	(41)	(97)	(75)	(69)
b. Other Non-interest/Mark Up Expenses	(37)	(88)	(75)	(55)
	(78)	(185)	(150)	(124)
3. Brokerage Income / (Loss)	(17)	(54)	(1)	(33)
4. Non Fee-Based Income				
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
5. Total Operating Income / (Loss)	(16)	(54)	43	(32)
6. Financial Charges	(4)	(8)	(12)	(4)
7. Other Income / (Loss)	0	0	0	0
8. Profit / (Loss) Before Tax	(20)	(62)	31	(36)
9. Taxes	(1)	(13)	(12)	(1)
10. Net Income	(21)	(76)	20	(37)
12. Unappropriated Profit / (Loss) Brought Forward	0	0	0	0
12. Adjustments	0	0	0	0
Available for Appropriations	(21)	(76)	20	(37)
13. Appropriations				
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
14. Unappropriated Profit/(Loss) Carried Forward	(21)	(76)	20	(37)



RATIO ANALYSIS	30-Jun-19 1HCY19 Management	31-Dec-18 CY18 Audited	31-Dec-17 CY17 Audited	31-Dec-16 CY16 Audited
A. PERFORMANCE				
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. FINANCIAL EXPOSURE				
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	-	-	-	-
C. LIQUIDITY				
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
D. COVERAGE RATIOS				
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)
E. CAPITAL ADEQUACY				
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	-	-	-	-
F. GROWTH				
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%

Broker Management Rating Scale & Definitions

An independent opinion on the quality of management and services provided by the broker

Long Term Ratings

BMR 1A	Excellent. Excellent regulatory compliance, control environment, and financial management; governance and risk management frameworks are extremely effective; HR, IT, and customer services are strongly proactive.
BMR 1++ BMR 1+ BMR 1	Strong. Strong regulatory compliance, control environment, and financial management; governance and risk management frameworks are highly effective; HR, IT, and customer services are highly proactive.
BMR 2++ BMR 2+ BMR 2	Sound. Sound regulatory compliance, control environment, and financial management; governance and risk management frameworks are effective; HR, IT, and customer services are proactive.
BMR 3++ BMR 3+ BMR 3	Adequate. Adequate regulatory compliance, control environment, and financial management; governance and risk management frameworks are satisfactory; HR, IT, and customer services are adequate.
BMR 4++ BMR 4+ BMR 4	Inadequate. Inadequate regulatory compliance, control environment, and financial management; governance and risk management frameworks need improvements; HR, IT, and customer services are insufficient.
BMR 5	Weak. Weak regulatory compliance and business practices.

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

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 rating remains suspended for six months, or/and d) 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.

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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

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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