



The Pakistan Credit Rating Agency Limited

## Rating Report

### EFG Hermes Pakistan Limited | BMR

#### 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
28-Jun-2019	BMR2+	-	Stable	Maintain	-
28-Dec-2018	BMR2+	-	Stable	Maintain	
02-Mar-2018	BMR2+	-	Stable	Initial	

#### Rating Rationale and Key Rating Drivers

Broker Management Rating of EFG Hermes Pakistan Limited represents its association with EFG Group, an international financial services group with presence in eleven countries, and its emerging position in Pakistan's brokerage industry. The rating reflects strong sponsor support and governance at all levels, growing market share, matrix reporting organizational structure and experienced management team of the company. EFG Hermes Pakistan has a well-developed organizational structure, with clear reporting lines for respective heads at the group level. It is the first brokerage house in the country with a designated foreign sales team operating from UAE office. The research department draws strength from the experience of EFG Group as the company emphasize on providing high quality market reports to its clients in a systematic way. The IT infrastructure allows full integration of the front and back office functions, allowing generation of real time reports. As a group policy, the company does not invest in equity market and all investments have been deployed in government backed debt securities.

The rating is dependent upon the company's management to retain market share, successfully materialize the brand name and retention of key human resource remains critical for the rating.

#### Disclosure

<b>Name of Rated Entity</b>	EFG Hermes Pakistan Limited   BMR
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Broker Management Rating
<b>Applicable Criteria</b>	Methodology   Broker Management Rating(Jun-18)
<b>Related Research</b>	Sector Study   Brokerage & Security(Nov-18)
<b>Rating Analysts</b>	Shahzaib Khalid   shahzaib.khalid@pacra.com   +92-42-35869504



# Brokerage & Securities

The Pakistan Credit Rating Agency Limited

## Ownership

**Ownership Structure** EFG Hermes Pakistan Limited is a subsidiary of EFG Hermes Frontier Holdings LLC, which controls 51% stake in EFG Pakistan. The ultimate owner of the group is EFG Hermes Holding S.A.E (Egyptian Financial Group Hermes Holding Company). A group of professionals including the ex-CEO, owns around 27%, while the remaining stake is held by the general public.

**Stability** The ownership structure is stable as the company is a subsidiary of EFG Hermes Frontier Holdings LLC, an EFG group company.

**Business Acumen** EFG Hermes Holding S.A.E., established in 1984, is an Egyptian investment bank specializing in securities brokerage, asset management, investment banking and private equity. EFG Hermes is listed on the Egyptian Exchange (EGX) and London (LSE) Stock Exchange. EFG Hermes has offices in eleven countries including Pakistan and serve clients from the Middle East, North Africa, Europe and the United States.

**Financial Strength** EFG Hermes Holding S.A.E.'s equity stood at ~EGP 14.4bln (~USD 0.9bln) as at the end of CY18. The group made net profit of ~EGP 1.1bln (~USD 0.1bln) in CY18.

## Governance

**Board Structure** EFG Pakistan has a 14 member board of directors. The Chairman and CEO included, six directors are key management personnel of EFG Group.

**Members' Profile** Mr. Murad Ansari is the Chairman of EFG Pakistan and he is also the co-head of the MENA financials team of EFG Hermes Frontier Holdings LLC. He holds a MBA from Institute of Business Administration and carried sixteen years of professional experience in equity research and sales. All other board members are highly qualified and professionally accomplished individuals.

**Board Effectiveness** EFG Pakistan has two board committees, namely i) Audit Committee and ii) HR and remuneration committee. TOR's for both committees are well defined. Audit committee meets on quarterly basis to review the financial statements and internal audit findings. Audit committee is chaired by an independent director.

**Financial Transparency** Internal audit function of EFG Pakistan is performed by the parent company. The company's external auditors are AGN Riaz Ahmad Saqib Gohar & Co, ranked under category "B" as per the SBP rankings. The auditor's issued an unqualified opinion on the financial statements of EFG Pakistan for the year ended CY17 and period ended 9MCY18.

## Management

**Management Team** Lately, Mr. Saad Iqbal, Head of Equities appointed as a CEO of the company. He is a CFA Charter holder and carries around a decade of experience in Pakistan Capital Market industry. Mr. Ahmad Zakir Hafeez is the current CFO of the company. He has been associated with the company since 1999. Retention and removal of key management personnel is critical.

**Organizational Structure** For effective management integration, matrix reporting structure is in place. Key departmental heads have reporting line to respective functions at group level, in addition to reporting to the CEO. This structure provides better oversight while bringing broader exposure and experience to local operations.

**Client Servicing** EFG Pakistan offers multiple account opening mediums. A number of value added services are offered to clients including online trading, research portal and mobile app. To attract customers, investor awareness programs, including road shows in foreign countries, are conducted by the company. The company has a strong client reporting mechanism with account statements and market reports communicated to the clients on regular basis.

**Complaint Management** The company has sound complaint management system in place. Complaints can be made via email and phone call. The compliance department oversees the complaint handling process.

**Extent Of Automation / Integration** EFG Pakistan utilizes one of the best trading softwares "Trade Cast" available to the brokerage industry in the country. The front office software has real time synchronization with the back office ensuring timely reporting for users at all levels.

**Continuity Of Operations** To ensure business continuity in unforeseen circumstances, EFG Pakistan has formulated an intricate disaster recovery and continuity plan.

**Risk Management Framework** The group is implementing its policies and procedures at EFG Pakistan through multiple trainings. To avoid market risk, the company has devised a policy for not taking proprietary stock market exposure. Major developments in the KYC procedures minimizes the credit risk of the company.

**Regulatory Compliance** The company's regulatory compliance revolves around the group risk management and compliance policies in addition to the local legislative requirements. The risk management & compliance department ensures that all the regulatory requirements are fulfilled on timely basis.

## Business Sustainability

**Business Risk** During first five months of CY19, KSE-100 posted a negative return of ~3%. Trading activity remained low on the back of negative market sentiments due to uncertainty on market performance in the backdrop of an economic slowdown, rising interest rate environment and consistent drag on IMF front. Concerns on upcoming budgetary measures remained in limelight. The overall trading volumes in first five months of CY19 remained low, (5MCY19: 88mln, CY18: 97mln, CY17: 102mln) as compared to previous years. This put pressure on income of all brokerage entities.

**Business Profile** Primary activities of the company includes equity brokerage and research. In terms of value of traded shares, the company enjoys ~5% market share. On foreign front, company has around 15-20% of system share.

**Revenue And Profitability Analysis** The company's operating revenue mainly comprises equity brokerage income and inter-bank brokerage. During CY18, equity brokerage income increased by ~76% to ~PKR 134mln and operating expenses increased by ~114% to ~PKR 171mln as compared 6MCY17. Following the industry wide loss trend, the company suffered total comprehensive loss of ~PKR 60mln in CY18 and 16mln in 6MCY17.

## Financial Sustainability

**Credit Risk** EFG Pakistan has due diligence procedures in addition to KYC, for the assessment of its client creditworthiness. Applicable policies for leveraged products have been adopted and limits have been defined, which are strictly monitored.

**Market Risk** EFG Pakistan carries no market risk as the group policy prohibits it from having a proprietary book of listed equities. The investment book is completely deployed in government debt securities.

**Liquidity Profile** The company has a long term loan from a bank in the UAE. The funds have been primarily utilized to finance the investment book and the rest has been used in financing the leveraged products. The loan facility has been secured against an irrevocable and unconditional financial guarantees provided by the parent company to the bank. In addition, the company also has bank lines from local banks of ~PKR 650 million. The trade related assets are 0.16x of the trade related liabilities as at end Dec-18. The company retains the ability to borrow funds in the short term and liquidate investments in the financial assets if the need arises.

**Financial Risk** EFG Pakistan has a leveraged capital structure. However, guarantee provided by the parent company against the loan obtained from the foreign bank provides comfort. The company's Net Capital Balance stood at ~PKR 406mln as at end CY18. The company can carry an exposure of up to 25x of its NCB.



As at

31-Mar-19 1QCY19 UnAudited	31-Dec-18 CY18 Audited	31-Dec-17 6M CY17 Audited	30-Jun-17 FY17 Audited
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**A. EARNING ASSETS****a. Finances**

1. Margin Trading System
2. Margin Financing
3. Ready Futures

-	-	-	-
42	94	178	76
-	-	-	-
<b>42</b>	<b>94</b>	<b>178</b>	<b>76</b>

**b. Investments**

1. Deposits with Banks - Own Funds
2. Deposits with Banks - Client account
3. Govt. Securities and Money Market Fund
4. Debt Securities & Income Funds
5. Other Investments
  - i) Related Party
  - ii) Listed Equity Investments
  - iv) PSX shares and TREC
  - iii) Investment property

11	12	12	12
-	-	-	-
366	285	199	547
-	-	-	-
-	-	-	-
-	-	-	4
40	36	48	53
-	-	-	-
<b>418</b>	<b>333</b>	<b>259</b>	<b>616</b>

<b>Total Earning Assets</b>	<b>460</b>	<b>427</b>	<b>437</b>	<b>692</b>
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**B. NON-EARNING ASSETS**

1. Cash and Bank Balances - Own Funds
2. Cash and Bank Balances - Client account
3. Accounts Receivable
4. Advances, Deposits and Other receivables
5. KSE Shares
6. Fixed Assets

1	5	99	99
68	70	-	-
10	11	51	86
124	434	191	197
27	30	41	35

<b>Non-Earning Assets</b>	<b>231</b>	<b>550</b>	<b>382</b>	<b>417</b>
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**C. TOTAL ASSETS****D. Funding****1. Commercial**

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

-	-	-	-
77	70	67	90
<b>77</b>	<b>70</b>	<b>67</b>	<b>90</b>

**2. FIs**

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

0	290	93	63
-	-	-	-
375	375	379	655
<b>375</b>	<b>665</b>	<b>472</b>	<b>718</b>

**Total Funding**

<b>452</b>	<b>735</b>	<b>539</b>	<b>807</b>
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**E. Other Liabilities**

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

-	-	-	-
69	62	41	44
-	-	-	1
<b>69</b>	<b>62</b>	<b>41</b>	<b>46</b>

**Other Liabilities****F. EQUITY**

1. Share Capital
2. Reserves:

- i. Statutory Reserve
- ii. Capital Reserve
- iii. Reserve for Bonus Shares
- iv. Revenue Reserve
- v. Unappropriated Profit

-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
(42)	(28)	18	29
<b>(42)</b>	<b>(28)</b>	<b>18</b>	<b>29</b>

<b>Pure Equity</b>	<b>158</b>	<b>172</b>	<b>218</b>	<b>229</b>
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3. Surplus/(Deficit) on Revaluation of Investments

12	8	22	27
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<b>Total Equity</b>	<b>170</b>	<b>180</b>	<b>240</b>	<b>256</b>
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**G. TOTAL LIABILITIES & EQUITY**

<b>691</b>	<b>977</b>	<b>820</b>	<b>1,109</b>
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**H. CONTINGENT LIABILITIES**

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INCOME STATEMENT

For the period ended

	31-Mar-19 1QCY19 UnAudited	31-Dec-18 CY18 Audited	31-Dec-17 6M CY17 Audited	30-Jun-17 FY17 Audited
<b>1. Fee Based Revenue</b>				
a. Advisory Fees	-	-	-	-
b. Commission / Underwriting	-	-	-	-
c. Brokerage	26	134	76	124
d. Others	-	-	-	-
	<b>26</b>	<b>134</b>	<b>76</b>	<b>124</b>
<b>2. Operating Expenses</b>				
a. Personnel Expenses*	(22)	(90)	(42)	(75)
b. Other Non-interest/Mark Up Expenses	(20)	(81)	(39)	(55)
	<b>(41)</b>	<b>(171)</b>	<b>(80)</b>	<b>(129)</b>
<b>3. Brokerage Income / (Loss)</b>	<b>(15)</b>	<b>(38)</b>	<b>(4)</b>	<b>(6)</b>
<b>4. Non Fee-Based Income</b>				
a. Finances	1	12	8	-
a. Placements (including Reverse REPO/COI/CFS)	-	-	-	-
b. Bank Deposits and others	-	-	-	-
	1	12	8	-
<b>3 Other Income</b>				
c. Dividend Income	-	1	1	2
d. Gain on Sale of Investments	5	17	4	56
e. Surplus/(Deficit) on Revaluation of Investments	8	(14)	(3)	-
f. Share of profit of subsidiaries/associates	-	-	-	-
g. Others	-	-	-	-
	<b>14</b>	<b>16</b>	<b>9</b>	<b>58</b>
<b>5. Total Operating Income / (Loss)</b>	<b>(0)</b>	<b>(21)</b>	<b>5</b>	<b>52</b>
<b>6. Financial Charges</b>	<b>(10)</b>	<b>(29)</b>	<b>(16)</b>	<b>(9)</b>
<b>7. Other charges</b>	<b>3</b>	<b>6</b>	<b>3</b>	<b>3</b>
<b>8. Profit / (Loss) Before Tax</b>	<b>(7)</b>	<b>(45)</b>	<b>(8)</b>	<b>45</b>
<b>9. Taxes</b>	<b>(2)</b>	<b>(15)</b>	<b>(8)</b>	<b>(8)</b>
<b>10. Net Income</b>	<b>(10)</b>	<b>(60)</b>	<b>(16)</b>	<b>37</b>
<b>12. Unappropriated Profit / (Loss) Brought Forward</b>	<b>(76)</b>	<b>(16)</b>	<b>29</b>	<b>(8)</b>
<b>12. Adjustments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Available for Appropriations	<b>(86)</b>	<b>(76)</b>	<b>13</b>	<b>29</b>
<b>13. Appropriations</b>				
a. Statutory Reserve	-	-	-	-
b. Capital Reserve	-	-	-	-
c. Cash Dividend	-	-	-	-
d. Bonus Dividend	-	-	-	-
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>14. Unappropriated Profit/(Loss) Carried Forward</b>	<b>(86)</b>	<b>(76)</b>	<b>13</b>	<b>29</b>



	31-Mar-19 1QCY19 UnAudited	31-Dec-18 CY18 Audited	31-Dec-17 6MCY17 Audited	30-Jun-17 FY17 Audited
<b>A. PERFORMANCE</b>				
1. ROE	(8.9%)	(37.2%)	(7.5%)	21.1%
a Net Profit Margin	(37.1%)	(44.7%)	(21.2%)	29.8%
b Asset Turnover	5.9%	15.3%	10.4%	16.4%
c Financial Leverage	406.1%	542.7%	341.7%	433.3%
2. Net Profit (before tax) Margin	(28.1%)	(33.5%)	(10.7%)	36.7%
3. ROA	(1.4%)	(6.1%)	(2.0%)	3.3%
4. Personnel Expenses-to-Total Operating Income	(4,922.4%)	(422.0%)	846.1%	143.2%
5. Personnel Expenses-to-Fee Income	82.5%	67.7%	54.6%	60.3%
6. Cost-to-Fee Income	101.1%	114.3%	94.2%	71.3%
7. Cost-to-Total Operating Income	(9,316.1%)	(798.8%)	1,637.7%	248.1%
8. Taxes / Pre-Tax Profit	(32.1%)	(33.4%)	(98.3%)	18.7%
9. Net Non-Earning Assets / Assets net of Non-Interest Liabilities	26.0%	53.3%	43.8%	34.9%
10. Net Non-Earning Assets / Equity	95.2%	271.0%	142.2%	145.1%
<b>B. WORKING CAPITAL</b>				
1. Accounts Receivable / (Short Term Borrowings + Customer Advances + Accounts Payable)	12.8%	3.2%	32.2%	56.4%
<b>B. FINANCIAL EXPOSURE</b>				
1. Investments / Equity	264.7%	193.2%	118.7%	269.4%
2. Equities / Total Capital	-	-	-	-
3. Fixed Income / Total Capital	232.0%	165.5%	91.5%	239.2%
4. NCB / Equity	0.0%	0.0%	207.1%	308.0%
<b>C. LIQUIDITY</b>				
1. Trade Related Assets / Trade Related Liabilities	0.13	0.16	0.77	0.96
2. Liquid Assets / Total Assets	0.56	0.32	0.44	0.68
3. Liquid Assets / Trade Related Liabilities	5.06	4.51	5.40	8.37
4. Liquid Assets / (Short term Borrowings + Advances from Customers + Accounts Payable)	5.03	0.87	2.26	4.90
6. Liquid Investments / Equity	2.39	1.72	0.97	2.46
<b>D. COVERAGE RATIOS</b>				
1. EBITDA/Gross Interest	"n.a"	0.14	0.85	33.35
2. FCFO/Gross Interest	"n.a"	"n.a"	0.05	19.49
3. TCF/Gross Interest	"n.a"	"n.a"	0.05	19.49
4. FCFO/Gross Interest+CMLTD	"n.a"	"n.a"	0.05	19.49
5. FCFO/Gross Interest+CMLTD+Uncovered Short Term Borrowings	"n.a"	"n.a"	0.05	19.49
6. TCF/Gross Interest+CMLTD+Uncovered Short Term Borrowings	"n.a"	"n.a"	0.05	19.49
<i>Debt Payback Analysis</i>				
7 Long-term Debt/FCFO	"n.a"	"n.a"	449.84	3.52
8 Total Debt / FCFO	"n.a"	"n.a"	565.68	3.89
<b>E. CAPITAL ADEQUACY</b>				
1. Equity / Total Assets	22.8%	17.6%	26.6%	20.6%
2. Total Equity (including surplus on revaluation) / Total Assets	24.6%	18.4%	29.3%	23.1%
3. Total Debt / Equity	220.6%	369.5%	196.6%	280.5%
4. Dividend Payout Ratio	-	-	-	-

## Broker Management Rating Scale & Definitions

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

### Long Term Ratings

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

**Disclaimer:** The rating is based on information that is obtained from the client and sources we consider to be reliable but its accuracy and completeness are not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. Our rating and related analyses are statements of opinions about the relative standing of the company and its affairs as of the date they are expressed. These are not recommendations to buy or subscribe/unsubscribe any services. None of the information in this document may be copied or otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA’s written consent. This disclaimer is in accordance with Section 14(3)(x) of the Credit Rating Companies Regulations, 2016.

### **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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