



The Pakistan Credit Rating Agency Limited

Rating Report

Arif Habib Limited | BMR

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Rating History

| Dissemination Date | Long Term Rating | Short Term Rating | Outlook | Action | Rating Watch |
|--------------------|------------------|-------------------|---------|----------|--------------|
| 20-Dec-2019 | BMR1 | - | Stable | Maintain | - |
| 20-Jun-2019 | BMR1 | - | Stable | Maintain | - |
| 20-Dec-2018 | BMR1 | - | Stable | Maintain | |
| 16-Jan-2018 | BMR1 | - | Stable | Initial | |

Rating Rationale and Key Rating Drivers

The rating reflects the Company's leading position in the brokerage industry emanating from strong ownership and governance framework, established franchise, robust operational control environment, IT infrastructure and customer services. Arif Habib Limited enjoys a strong brand name and has developed a diverse customer base over the years. The Company has achieved a distinct position in the corporate finance and advisory services, resulting in diversified revenue base and competitive advantage over peers. Recently, the profitability of the Company came under pressure due to lackluster performance of the equity market and low brokerage income. However, the recent up surge in equity market's performance is expected to bode well for the Company's profitability. The company is running a sizable proprietary book hence, largely exposed to market risk. The Company's association with the leading business group is incorporated in the rating. The Net Capital Balance of the company at Jun'19 stood at PKR ~398mln (Jun'18: PKR ~920mln).

The rating is dependent on upholding and strengthening strong governance and control framework, while effectively managing risks, particularly associated with proprietary investment book. Meanwhile, improving profitability and maintaining market share is critical.

Disclosure

| | |
|------------------------------|---|
| Name of Rated Entity | Arif Habib 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 Arif Habib Limited ("The Company") is a public listed company established in 2004. Arif Habib Corporation Limited is the major shareholder of the Company, holding ~73% stake in Arif Habib Limited. Mr. Arif Habib holds ~2% stake, whereas ~2% is kept by banks, DFI's, mutual funds and others while rest of ~22% is owned by the general public. Arif Habib Corporation Limited is the holding company of Arif Habib group.

Stability The Company continues to enjoy strong support from the sponsoring family.

Business Acumen Arif Habib Group has a diversified investment portfolio and has presence in fertilizer, power, cement, steel, real estate, and financial sectors. The sponsoring family has an established track record, demonstrating strong acumen.

Financial Strength Arif Habib Group has an equity base of ~PKR: 22.48 bln as of Sep 2019.

Governance

Board Structure The Company has a well-composed board. There are seven members, including the CEO Mr. Shahid Ali Habib. Two members are independent and four are non-executive. There is adequate female representation on board in compliance with Code of Corporate Governance.

Members' Profile Mr. Zafar Alam is the current Chairman of the board. He is a master's degree holder in Nuclear Physics and possesses decades of experience in Investment Banking. Mr. Shahid Ali Habib completed his MBA from IBA Karachi and has a certification in Finance from London School of Economics (LSE). He carries over 21 years of experience in the fields of Securities Brokerage, Banking, Asset Management and Investment Banking.

Board Effectiveness To support board functions, the Company has established Audit and HR & remuneration committees. Both committees are chaired by Mr. Muhammad Sohail Salat, an independent director.

Financial Transparency The Company has well established and independent internal audit function. Russell Bedford Rahman Sarfaraz Rahim Iqbal Rafiq (RSRIR) are the external auditors of the company. The audit firm incorporated key matters paragraph in audit report regarding i) First time application of IFRS 9 ii) Valuation of investment property and iii) Valuation of unquoted investments in equity securities. The auditors issued an unqualified opinion on the financial statements for the period ending FY19.

Management

Management Team The Company has a team of seasoned professionals. Mr. Taha Siddiqui (CFO) is an ACCA member and has diversified experience in the fields of Financial, Manufacturing, Trading and Services industries. Mr. Saad Bin Ahmed (Head of Sales) possess more than 17 years of international diversified experience in investment banking and financial services. The management staff turnover is low, indicating stability of the human resource.

Organizational Structure Arif Habib Limited has a functional organizational structure, with eight primary departments and six secondary departments. The primary departments include, i) international brokerage, ii) domestic brokerage, iii) inter-bank brokerage, iv) investment banking, v) compliance, vi) Marketing & business development, vii) IT and viii) Online sales. Heads of the primary departments report directly to the CEO. Clear departmentalization offers efficient use of resources.

Client Servicing The Company offers multiple account opening mediums. Similarly, various channels, including a mobile app, are available to customers to execute and monitor their transactions. The company has strong client reporting mechanism with account statements and market reports communicated to the clients on regular basis.

Complaint Management An adequate complaint management system is in place. Complaints can be made via e-mail, SMS, and calls.

Extent Of Automation / Integration Two database platforms are installed with full integration between back and front office. The system has the ability to generate timely reports. The system incorporates primary and secondary level protection.

Continuity Of Operations AHL has a detailed disaster recovery plan to ensure the business continuity at the time of disaster. Moreover, backups are maintained on daily basis.

Risk Management Framework The Company's risk management framework revolves around the risk committee. The committee is chaired by the Company's Chairman. Other members include the head of compliance, the CFO and risk officer/s. The main purpose of the committee is to monitor the risks faced by the company at all levels and enlist the observations for the senior management to review.

Regulatory Compliance Risk Management & Compliance Department ensures regular monitoring of controls and systems, which ensures all functions are inline with the applicable policies and procedures. No observations were reported by the regulators in 1QFY20.

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 and hit low of 33,166 on May 17, 2019. The 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 ~96mln putting pressure on brokerage income. However, the volumes have improved in 4MFY20. SECP has also taken certain initiatives, including introduction of minimum commission rates and relaxation in reporting and capital requirement of brokers, to boost market activity.

Business Profile The Company possess ~10% market share in equity broking, and has a strong relationship with leading foreign broker/dealers. It has a diversified revenue stream. The Company's branch network is limited compared to other major players. It has a good mix of foreign, local institutional and high net worth individual clients. Retail penetration needs attention. Historically, the Company had a distinct edge over its competitor's by having a strong foothold in investment banking and advisory business. However, in recent times the competition is catching up. One of the revenue streams of the company pertains to proprietary investments, which make the Company more exposed to market risk.

Revenue And Profitability Analysis The Company posted revenues of ~PKR: 679 mln in FY19, (FY18: ~PKR 547mln) and in 1QFY20 commission/fee-based income stood at ~PKR 82 mln. The Company managed to curtail admin and operating expenses by ~19% to ~PKR: 68 mln (SPLY: ~PKR: 84 mln). On the back of lackluster equity market performance and dwindling volumes, the profitability remained under pressure. The company posted a loss of ~PKR: 186 mln in 1QFY20 (SPLY: Net Profit ~PKR: 149 mln). The loss can be attributable to capital loss on sale of investment (~PKR: 95 mln) and unrealized loss on re-measurement of short term investment (~PKR: 162 mln). However, the gain on sale and re-measurement of investment property has mitigated the effect to an extent.

Financial Sustainability

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

Market Risk The Company maintains a proprietary book for investment in different asset classes and all of the investments are properly managed and monitored according to the Company's investment policy. A proper dedicated team (including CEO) manages the investments. Cut-off limits have been defined and are properly adhered to. Additionally, the Company has a firm commitment from its Sponsor to buy back strategic investment from short-term portfolio at a time of liquidity needs. The investment book has the risk of conflict of interest, though measures have been taken to mitigate it.

Liquidity Profile At end 1QFY20, liquid assets of the Company comprised ~0.34x of the total assets, (FY19: ~0.5x). The Company has cumulative bank lines of ~PKR 4.7bln available in case a need arises. The utilized lines were ~PKR 3 bln, leaving ample room to borrow.

Financial Risk The company's Net Capital Balance for FY19 stood at ~PKR 398mln (FY18: ~PKR 920 mln). The company finances its investments through short term debt and internally generated cash-flows.



| 30-Sep-19 1QFY20 | 30-Jun-19 FY19 | 30-Jun-18 FY18 | 30-Jun-17 FY17 |
|---------------------|-------------------|-------------------|-------------------|
| Un-audited | Audited | Audited | Audited |

A. EARNING ASSETS

a. Finances

| | | | | |
|--------------------------|-----------|------------|------------|------------|
| 1. Margin Trading System | - | - | - | - |
| 2. Margin Financing | 53 | 114 | 257 | 559 |
| 3. Ready Futures | - | - | 94 | 344 |
| | 53 | 114 | 351 | 903 |

b. Investments

| | | | | |
|---|--------------|--------------|--------------|--------------|
| 1. Deposits with Banks - Client's Fund | 445 | 596 | 662 | 789 |
| 2. Govt. Securities and Money Market Fund | - | - | - | - |
| 2. Debt Securities & Income Funds | - | 322 | 188 | 201 |
| Other Investments | - | - | - | - |
| i) Related Party | - | - | 1,141 | 1,445 |
| ii) Listed Equity Investments | 3,823 | 2,089 | 1,249 | 1,273 |
| iv) Others | - | 13 | 27 | 26 |
| iii) Investment property | 1,848 | 1,867 | 1,514 | 516 |
| | 6,116 | 4,888 | 4,780 | 4,251 |

Total Earning Assets **6,170** **5,002** **5,132** **5,154**

B. NON-EARNING ASSETS

| | | | | |
|---|------------|------------|------------|------------|
| 1. Cash and Bank Balances - Own Fund | 28 | 31 | 25 | 43 |
| 2. Accounts Receivable | 40 | 31 | 24 | 75 |
| 3. Advances, Deposits and Other receivables | 598 | 533 | 246 | 370 |
| 4. Fixed Assets | 44 | 46 | 46 | 51 |
| | 711 | 641 | 342 | 539 |

Non-Earning Assets **711** **641** **342** **539**

C. TOTAL ASSETS

6,880 **5,642** **5,473** **5,693**

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D. Funding

1. Commercial

| | | | | |
|---------------------------------|--------------|------------|------------|------------|
| i) Advances from Customers | 438 | 652 | 576 | 870 |
| ii) Payables against securities | 842 | 31 | 115 | 34 |
| | 1,279 | 683 | 691 | 904 |

2. FIs

| | | | | |
|--|--------------|--------------|--------------|--------------|
| i) Short-term Borrowings | 2,954 | 1,909 | 1,473 | 1,408 |
| ii) Current Maturity of Long Term Debt | - | - | - | - |
| iii) Long-term Borrowings | - | - | - | 0 |
| | 2,954 | 1,909 | 1,473 | 1,408 |

Total Funding **4,233** **2,593** **2,163** **2,313**

E. Other Liabilities

| | | | | |
|--|------------|------------|------------|------------|
| 1. Due to Associates | - | - | - | - |
| 2. Other Liabilities (staff gratuity, Accrued mark-up) | 147 | 132 | 123 | 179 |
| 3. Provision for Taxation | - | - | - | - |
| | 147 | 132 | 123 | 179 |

Other Liabilities **147** **132** **123** **179**

F. EQUITY

| | | | | |
|-------------------------------|--------------|--------------|--------------|--------------|
| 1. Share Capital | 594 | 660 | 550 | 550 |
| 2. Reserves: | | | | |
| i. Statutory Reserve | - | - | - | - |
| ii. Capital Reserve | - | - | - | - |
| iii. Reserve for Bonus Shares | - | - | - | - |
| iv. Revenue Reserve | - | - | - | - |
| v. Unappropriated Profit | 1,891 | 2,242 | 2,622 | 2,636 |
| | 1,891 | 2,242 | 2,622 | 2,636 |

Pure Equity **2,485** **2,902** **3,172** **3,186**

| | | | | |
|--|----|----|----|----|
| 3. Surplus/(Deficit) on Revaluation of Investments | 15 | 15 | 15 | 15 |
|--|----|----|----|----|

Total Equity **2,500** **2,918** **3,187** **3,201**

G. TOTAL LIABILITIES & EQUITY

6,880 **5,642** **5,473** **5,693**

H. CONTINGENT LIABILITIES



Arif Habib Limited

INCOME STATEMENT

For the period ended Mar 2019

| | 30-Sep-19 1QFY20 Un-audited | 30-Jun-19 FY19 Audited | 30-Jun-18 FY18 Audited | 30-Jun-17 FY17 Audited |
|--|-----------------------------------|------------------------------|------------------------------|------------------------------|
| 1. Fee Based Revenue | | | | |
| a. Advisory Fees* | 33 | 376 | 218 | 365 |
| b. Commission / Underwriting * | - | - | - | - |
| c. Brokerage | 49 | 303 | 329 | 402 |
| d. Others | - | - | - | - |
| | 82 | 679 | 547 | 767 |
| 2. Operating Expenses | | | | |
| a. Personnel Expenses* | (39) | (239) | (188) | (207) |
| b. Other Non-interest/Mark Up Expenses | (29) | (164) | (193) | (187) |
| | (68) | (403) | (381) | (394) |
| 3. Brokerage Income / (Loss) | 14 | 276 | 166 | 373 |
| 4. Non Fee-Based Income | | | | |
| a. Finances | - | - | - | - |
| c. Dividend Income | - | 88 | 110 | 91 |
| d. Gain on Sale of Investments | (95) | (171) | 5 | 895 |
| e. Surplus/(Deficit) on Revaluation of Investments | (29) | (486) | 5 | (375) |
| f. Share of profit of subsidiaries/associates | - | - | - | - |
| g. Others | - | 370 | 385 | 32 |
| | (124) | (199) | 505 | 643 |
| 5. Total Operating Income / (Loss) | (110) | 77 | 670 | 1,017 |
| 6. Financial Charges | (107) | (218) | (185) | (138) |
| 7. Other Income | 44 | 154 | 167 | 263 |
| 8. Profit / (Loss) Before Tax | (173) | 12 | 653 | 1,141 |
| 9. Taxes | (13) | (75) | (117) | (260) |
| 10. Net Income | (186) | (62) | 536 | 881 |



| | 30-Sep-19 1QFY20 Un-audited | 30-Jun-19 FY19 Audited | 30-Jun-18 FY18 Audited | 30-Jun-17 FY17 Audited |
|---|-----------------------------------|------------------------------|------------------------------|------------------------------|
| A. PERFORMANCE | | | | |
| 1. ROE | 3.9% | (1.5%) | 31.7% | 51.2% |
| a Net Profit Margin | (227.8%) | (9.2%) | 98.1% | 114.8% |
| b Asset Turnover | (0.6%) | 8.6% | 18.8% | 25.1% |
| c Financial Leverage | 275.2% | 193.4% | 171.7% | 177.8% |
| 2. ROA | (2.8%) | (1.1%) | 9.6% | 15.6% |
| 3. Cost-to-Fee Income | (161.2%) | 84.0% | 36.2% | 27.9% |
| 4. Cost-to-Total Operating Income | (61.7%) | 526.4% | 56.8% | 38.7% |
| 5. Taxes / Pre-Tax Profit | (7.4%) | 608.6% | 17.9% | 22.8% |
| 6. Net Non-Earning Assets / Assets net of Non-Interest Liabilities | 8.4% | 9.2% | 4.1% | 6.5% |
| B. FINANCIAL EXPOSURE | | | | |
| 1. Investments / Equity | 246.1% | 168.4% | 150.7% | 133.4% |
| 2. Short Term Investments / Equity | 153.8% | 72.0% | 39.4% | 40.0% |
| 3. Fixed Income / Total Capital | - | 11.1% | 5.9% | 6.3% |
| 4. NCB / Equity | 16.0% | 13.7% | 29.0% | 55.7% |
| C. LIQUIDITY | | | | |
| 1. Trade Related Assets / Trade Related Liabilities | 0.03 | 0.05 | 0.04 | 0.08 |
| 2. Liquid Assets / Total Assets | 34% | 50% | 44% | 27% |
| 3. Liquid Assets / Trade Related Liabilities | 3.36 | 4.47 | 4.76 | 4.18 |
| 4. Liquid Assets / (Short term Borrowings + Advances from Customers + Accounts Payable) | 1.01 | 1.18 | 1.52 | 1.63 |
| 5. Liquid Investments / Equity | 2.46 | 1.68 | 1.14 | 0.87 |
| D. COVERAGE RATIOS | | | | |
| 1. EBITDA/Gross Interest | 0.50 | 1.06 | 1.87 | 10.19 |
| 2. FCFO/Gross Interest | 0.34 | 0.59 | (2.87) | 9.24 |
| 3. TCF/Gross Interest | 0.38 | 1.00 | (2.25) | 9.24 |
| 4. FCFO/Gross Interest+CMLTD | 0.34 | 0.59 | (2.87) | 9.24 |
| 5. FCFO/Gross Interest+CMLTD+Uncovered Short Term Borrowings | 0.34 | 0.59 | (2.87) | 9.24 |
| 6. TCF/Gross Interest+CMLTD+Uncovered Short Term Borrowings | 0.38 | 1.00 | (2.25) | 9.24 |
| <i>Debt Payback Analysis</i> | | | | |
| 7 Long-term Debt/FCFO | 0.00 | 0.00 | 0.00 | 0.00 |
| 8 Total Debt / FCFO | 81.90 | 14.93 | (2.77) | 1.10 |
| E. CAPITAL ADEQUACY | | | | |
| 1. Equity / Total Assets | 36.1% | 51.4% | 58.0% | 56.0% |
| 2. Total Equity (including surplus on revaluation) / Total Assets | 36.3% | 51.7% | 58.2% | 56.2% |
| 3. Total Debt / Equity | 118.1% | 65.4% | 46.2% | 44.0% |
| F. GROWTH | | | | |
| 1. Total Assets | 4.8% | 3.1% | (3.9%) | 2.3% |
| 2. Equity | (19.3%) | (8.5%) | (0.4%) | 18.4% |
| 3. Brokerage Revenue | (77.1%) | (7.7%) | (18.3%) | 45.1% |
| 4. Asset Yield | (4.4%) | (7.4%) | 22.3% | 42.7% |

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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