



The Pakistan Credit Rating Agency Limited

Rating Report

Allied Bank Limited

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Rating History

| Dissemination Date | Long Term Rating | Short Term Rating | Outlook | Action | Rating Watch |
|--------------------|------------------|-------------------|---------|----------|--------------|
| 24-Jun-2024 | AAA | A1+ | Stable | Maintain | - |
| 23-Jun-2023 | AAA | A1+ | Stable | Maintain | - |
| 23-Jun-2022 | AAA | A1+ | Stable | Maintain | - |
| 23-Jun-2021 | AAA | A1+ | Stable | Maintain | - |
| 30-Jun-2020 | AAA | A1+ | Stable | Maintain | - |
| 27-Dec-2019 | AAA | A1+ | Stable | Maintain | - |
| 27-Jun-2019 | AAA | A1+ | Stable | Maintain | - |
| 27-Dec-2018 | AAA | A1+ | Stable | Maintain | - |
| 06-Jul-2018 | AAA | A1+ | Stable | Upgrade | - |

Rating Rationale and Key Rating Drivers

The assigned ratings reflect Allied Bank Limited's ("ABL" or the "Bank") standing as one of the leading commercial banks nationally, with its robust technology infrastructure serving as a notable advantage. This has facilitated swift and efficient decision-making processes, enabling the delivery of high-quality counter-banking and e-banking services to its customers. The core strengths of the Bank are displayed in its key business activities of lending, mobilizing low-and-no-cost deposits, prudent investing and transactional banking. A more focused digital drive is one of the pillars of the envisaged strategy. Furthermore reflecting the quality of its advances portfolio and effective risk management practices, the Bank has one of the industry's lowest infection ratio at 1.64% in CY23. Additionally, the Bank improved its Coverage ratio to 96.2% by the end of CY23, (CY22: 90.4%). ABL's liquidity strength is its extensive branch network and expanding branchless banking touchpoints, enhancing its ability to attract deposits and maintain its market position. The bank's ability to generate deposits is evidenced by its funding costs. Over the years, the Bank's ability to handle risks, supported by its strong equity base, has steadily improved. The Bank has continued to make significant advancements in serving its customers using state-of-the-art technology and by enhancing its digital footprint so that customers are provided with all "digital and networked banking services" on the go. Driven by customer acquisition drives and marketing campaigns, the deposit base of the Bank increased by 10% in CY23. Focusing on low and no-cost deposits, CASA ratio of the Bank rose to 85% of total deposits as of CY23, (CY22: 79%). The Bank witnessed a significant growth of ~70% in the net markup income on the back of improved spreads, growth in earning assets, and effective investment duration management. The net profitability of the Bank reported a remarkable growth of 92% to ~PKR 41bln during CY23. The total equity of the Bank increased by 52% in CY23. Another reflection of this is ABL's significantly robust CAR of 26.2% as of CY23, the highest in the industry. The bank has achieved a significant milestone with over 1.6 mln myABL user registrations, indicating its dedication to offering modern and user-friendly banking solutions to the customers. Also, with a view to augment environmental safety Green Banking has remained an integral part of the Bank's long-term strategy directing its financing towards environment-friendly projects and activities within the country. An enhanced focus on digitalization and process automation to enhance efficiency and reduce cost would augment the banking's risk profile. Going forward, ABL is positioned to create long-term sustainable value for its stakeholders.

The management's ongoing concerted efforts towards enhancing diversification in its revenue stream, achieving reduction in overall concentration, higher penetration in retail deposits and continuous improvement in cost structure remain important.

Disclosure

| | |
|------------------------------|--|
| Name of Rated Entity | Allied Bank Limited |
| Type of Relationship | Solicited |
| Purpose of the Rating | Entity Rating |
| Applicable Criteria | Methodology Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology Financial Institution Rating(Oct-23),Methodology Rating Modifiers(Apr-24) |
| Related Research | Sector Study Commercial Banks(Jun-24) |
| Rating Analysts | Madiha Sohail madiha.sohail@pacra.com +92-42-35869504 |



Profile

Structure Allied Bank Limited (ABL), incorporated as a public limited company, commenced operations as a Scheduled Commercial Bank in 1942. The bank is quoted on the Pakistan Stock Exchange under the category of commercial banks.

Background ABL was re-capitalized under a scheme of reconstruction by the State Bank of Pakistan in 2004 and thereafter renamed Allied Bank Limited (ABL) in 2005. Since then, the bank has taken significant growth and is one of the largest banks in terms of deposit market share among large banks of Pakistan, at end-Dec23. Its head office is located in Lahore

Operations ABL operates with 1,481 branches including 127 Islamic banking branches & 14 Digital Self Service Branches (end-Dec22: 1,451 branches including 117 Islamic banking branches) in Pakistan and 2 overseas branches.

Ownership

Ownership Structure Ibrahim Group (IG), through Ibrahim Holdings (Pvt.) Limited owns 90% of shareholding in ABL. Previously, the same had been owned through Ibrahim Fibers Limited and sponsor family members. The rest is dispersed between individuals and corporates.

Stability Ownership structure of the bank is seen stable as no ownership changes are expected in near future. Majority stake will rest with the Ibrahim Group.

Business Acumen The business acumen is considered strong as the sponsors has diversified interests in various sectors since many years. Apart from interest in financial sector; IG is engaged in manufacturing of yarn and polyester staple fiber.

Financial Strength The willingness towards the business is evident from the steadfast approach used by the management.

Governance

Board Structure The eight-member BoD includes the CEO, three sponsors/non-executive directors, three independent directors, and one non-executive director. Mr. Aizid Razzaq Gill has been designated as the CEO since Jan-21.

Members' Profile In accordance with requirements of Listed Companies (Code of Corporate Governance) Regulations, 2019, six members of BoD are "Certified Directors". Two directors are exempted from this requirement having prescribed education and experience by Chapter VI, Regulation 19 (2) of the Code of Corporate Governance Regulations, 2019. The participation of all board members has remained high, as reflected by attendance in CY23.

Board Effectiveness The board is currently assisted by five board committees. Namely, the Audit Committee of the Board (ACOB); Board Risk Management Committee (BRMC); e-Vision Committee; Strategic Planning & Monitoring Committee (SPMC), and Human Resource & Remuneration Committee (HR&RC).

Financial Transparency M/S EY Ford Rhodes Chartered Accountants classified in category 'A' by SBP and having a satisfactory QCR rating was the external auditors. They expressed an unqualified opinion on the financial statement for the year ended 31st December 2023. M/s EY Ford Rhodes Chartered Accountants, being eligible for re-appointment, have submitted their consent to continue as statutory auditors of the Bank for the year ending December 31, 2024.

Management

Organizational Structure ABL is functionally divided into sixteen groups, each governed by a respective chief reporting to the CEO except for the Chief Audit & Risk Review reporting directly to the Audit Committee of the Board & Corporate Affairs Group headed by the Company Secretary reporting to BoD.

Management Team Mr. Aizid Razzaq Gill carries 26 years of experience in Financial Management, Risk Analysis, and Research and expertise in Portfolio Management of Corporate and Commercial Banking obligors, and has been appointed as CEO since Jan21. ABL has a management team of experienced executives.

Effectiveness The management operates through five committees at the management level including 1) Management Committee (MANCO), 2) Assets & Liabilities Committee (ALCO), 3) Risk Management Committee (RMC), 4) Compliance Committee (CC), 5) Fair Treatment Committee (FTC). MANCO is further assisted by Human Resource Committee (HRC) & IT Steering Committee (ITSC). HRC is further assisted by the Central Administrative Action Committee (CAAC).

MIS Comprehensive MIS reports are generated on a daily, weekly, and monthly basis and are viewed by management on a regular basis. During CY21, a major highlight in this specific area was the development of cross-platform Android & IOS-based mobile applications that have the capability to monitor ATM networks in real-time.

Risk Management Framework ABL conducts various security assessment exercises including vulnerability assessments, penetration testings' and technical risk assessments together with compromise assessment activity as mandated by SBP. PCI DSS Certification was also achieved; depicting a major security milestone along with compliance to SWIFT customer security program as mandated by SWIFT International.

Business Risk

Industry Dynamics CY23 remained a challenging year for the economy inclusive of a drop in exchange reserves, currency devaluation, and peak inflation. To combat inflation and curb aggregate demand, the Central Bank maintained a tight monetary policy stance. Despite these challenges, CY23 was a remarkably successful year for the banking industry. The sector outperformed historical statistics, with two-thirds of net markup income coming from investments in government securities and the remainder from advances. During the year, Pakistan's banking sector's total assets posted growth of ~30% YoY whilst investments surged by ~42% to PKR ~25.6trln (end-Dec22: PKR ~18trln). Gross Advances of the sector recorded growth of ~4% to stand at PKR ~13.101trln (end-Dec22: PKR ~12.645trln). Non-performing loans witnessed an increase of 8.3% YoY to PKR ~881bln (end-Dec22: ~812bln). The CAR averaged at 18.5% (end-Dec22: 15.5%). Looking ahead, with the expected monetary rate cut, banks are likely to sustain some dilution in profitability by CY24.

Relative Position ABL, a large-sized bank, holds a strong position in the industry with a customer deposit base of 1,615bln at end-Dec 23 (Dec 22: PKR 1,481bln). ABL holds 5.9% of the total market share at end-Dec23.

Revenues During CY23, ABL's markup earned increased by 65.8% on a YoY basis to PKR 357.3bln (CY22: PKR 215.5bln) owing to enhanced markup earned from investments. Mark-up expenses increased by 64% during CY23. Despite the increase in markup expenses, the net markup income of the bank inclined to PKR 133.3bln (CY22: PKR 66.7bln).

Performance During CY23, non-mark-up income recorded an increase of 18.1% YOY to stand at PKR 24.4bln (CY22: PKR 20.7bln) mainly emanating from sizeable increase in Fee and Commission Income and Foreign Exchange Income. The incline in non-mark-up expense by 19.4%, which includes the amount of penalty from SBP. Due to the super tax, the tax of the Bank increased by 77%. Hence, net profitability stood at PKR 40.7bln (CY22: PKR 21.2bln). Furthermore, in CY23, pre-tax profit stood at PKR 85.7bln (CY22: PKR 46.6bln).

Sustainability Going forward, ABL is positioned for creating long-term sustainable value for its stakeholders. The Bank is also determined to provide customer-centric innovative digital financial solutions to its diverse customer base together with committing to agility, resilience, a high level of ethics, governance, and professionalism.

Financial Risk

Credit Risk At end-Dec23, ABL's net advances have decreased by 7.5% to stand at PKR 781bln (end-Dec22: 845.6bln). The bank's ADR was reported at 46.6% (end-Dec22: 55.6%). The infection ratio slightly increased to 1.6% (end-Dec22: 1.5%). During CY23, the NPLs of the bank decreased by 0.5% (CY23: PKR 13bln; CY22: PKR 13.1bln).

Market Risk At the end-Dec23, the investment portfolio of the Bank reflected a slight increase of 5.6% to stand at PKR 1,124bln (end-Dec22: PKR 1,096bln). Government securities constitute 98.3% of total investments (end-Dec22: 98.4%).

Liquidity And Funding During CY23, ABL's customer deposits increased to PKR 1,615bln (CY22: PKR 1,481bln). The (Liquid Assets / Deposits and Borrowings) ratio has improved (CY23: 56.6%; CY22: 47.2%). The CA stood at 40.3% (end-Dec22: 37.8%) and SA stood at 42.8% (end-Dec22: 38.9%). However, ABL achieved an impressive CASA ratio of 85% at the end of 2023.

Capitalization The bank has consistently upheld an admirable Capital Adequacy Ratio (CAR) surpassing regulatory standards, thereby ensuring a stable financial standing. ABL's Capital Adequacy Ratio (CAR) is robust (CY23: 26.2%; CY22: 19.7%), and herein dominant portion is Tier-I (CY23: 19.8%; CY22: 18.5%).



PKR mln

Allied Bank Ltd.
Listed Public Limited

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

A BALANCE SHEET

| | | | | |
|--|------------------|------------------|------------------|------------------|
| 1 Total Finances - net | 806,447 | 870,923 | 677,620 | 517,344 |
| 2 Investments | 1,124,970 | 1,096,579 | 1,039,015 | 808,290 |
| 3 Other Earning Assets | 21,637 | 28,511 | 55,294 | 32,872 |
| 4 Non-Earning Assets | 375,764 | 253,704 | 237,477 | 231,533 |
| 5 Non-Performing Finances-net | 498 | 1,256 | 750 | 419 |
| Total Assets | 2,329,317 | 2,250,973 | 2,010,156 | 1,590,458 |
| 6 Deposits | 1,676,623 | 1,522,297 | 1,413,295 | 1,216,678 |
| 7 Borrowings | 373,674 | 530,414 | 420,006 | 193,928 |
| 8 Other Liabilities (Non-Interest Bearing) | 84,765 | 70,449 | 49,610 | 48,292 |
| Total Liabilities | 2,135,062 | 2,123,161 | 1,882,911 | 1,458,898 |
| Equity | 194,254 | 127,811 | 127,245 | 131,560 |

B INCOME STATEMENT

| | | | | |
|-----------------------------------|----------------|---------------|---------------|---------------|
| 1 Mark Up Earned | 357,307 | 215,469 | 118,649 | 110,547 |
| 2 Mark Up Expensed | (244,028) | (148,750) | (73,062) | (62,126) |
| 3 Non Mark Up Income | 24,427 | 20,675 | 15,938 | 12,542 |
| Total Income | 137,706 | 87,394 | 61,525 | 60,963 |
| 4 Non-Mark Up Expenses | (48,972) | (41,030) | (33,946) | (30,604) |
| 5 Provisions/Write offs/Reversals | (2,977) | 262 | 811 | (844) |
| Pre-Tax Profit | 85,757 | 46,626 | 28,391 | 29,515 |
| 6 Taxes | (45,074) | (25,432) | (11,077) | (11,486) |
| Profit After Tax | 40,683 | 21,194 | 17,314 | 18,029 |

C RATIO ANALYSIS

1 Performance

| | | | | |
|-------------------------------------|-------|-------|-------|-------|
| Net Mark Up Income / Avg. Assets | 4.9% | 3.1% | 2.5% | 3.2% |
| Non-Mark Up Expenses / Total Income | 35.6% | 46.9% | 55.2% | 50.2% |
| ROE | 25.3% | 16.6% | 13.4% | 14.6% |

2 Capital Adequacy

| | | | | |
|-------------------------------|-------|-------|-------|-------|
| Equity / Total Assets (D+E+F) | 8.3% | 5.7% | 6.3% | 8.3% |
| Capital Adequacy Ratio | 26.2% | 19.7% | 22.3% | 25.2% |

3 Funding & Liquidity

| | | | | |
|---|-------|-------|-------|-------|
| Liquid Assets / (Deposits + Borrowings Net of Repo) | 56.7% | 47.2% | 56.3% | 64.1% |
| (Advances + Net Non-Performing Advances) / Deposits | 46.6% | 55.6% | 46.2% | 40.8% |
| CA Deposits / Deposits | 40.3% | 37.8% | 40.8% | 38.4% |
| SA Deposits / Deposits | 42.8% | 38.9% | 41.2% | 46.9% |

4 Credit Risk

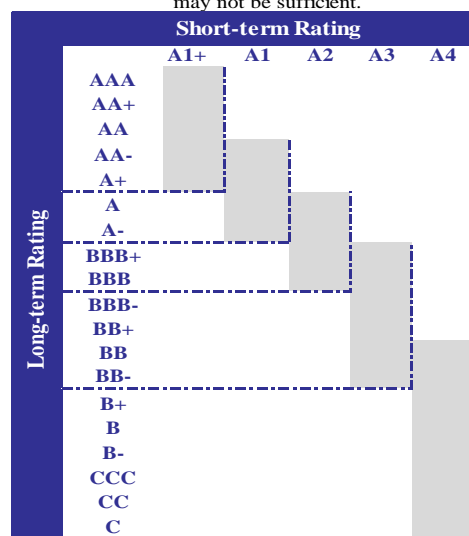
| | | | | |
|--|------|------|------|------|
| Non-Performing Advances / Gross Advances | 1.6% | 1.5% | 2.0% | 2.8% |
| Non-Performing Finances-net / Equity | 0.3% | 1.0% | 0.6% | 0.3% |

Credit Rating

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

| Scale | Long-term Rating Definition |
|-------|---|
| AAA | Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments |
| AA+ | |
| AA | Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events. |
| AA- | |
| A+ | |
| A | High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions. |
| A- | |
| BBB+ | |
| BBB | Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity. |
| BBB- | |
| BB+ | |
| BB | Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met. |
| BB- | |
| B+ | |
| B | High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment. |
| B- | |
| CCC | |
| CC | Very high credit risk. Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default. |
| C | |
| D | Obligations are currently in default. |

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



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

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults, or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

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

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Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
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- (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 | 17-(a)
- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

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