



The Pakistan Credit Rating Agency Limited

## Rating Report

### Kashf Foundation | PPTFC

#### 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
19-Jun-2019	A	-	Stable	Preliminary	-

#### Rating Rationale and Key Rating Drivers

Kashf Foundation is a renowned Microfinance Institution; it has been in operations since 1996. MFIs are governed by SECP regulations mainly NBFC (Establishment and Regulations) Rules, 2003, Non-Banking Finance Companies and Notified Entities Regulations 2008 and others. The key element is that MFIs are not permitted to mobilize deposits. While this provides funding constraints, it also delimits the boundaries of risk. Kashf Foundation is a not-for-profit organization. Hence, the source of funding comprises a) internal generation of profits, b) loans and c) grants. Profitability of the foundation is sanguine and hence integral generation of capital is occurring at a very good rate. Second major source of funding is borrowings. The foundation has diversified its borrowing to both local and foreign institutions and is additionally issuing a (PPTFC) of PKR 2bln with a green shoe option of PKR 1bln to fuel growth. Governance structure takes strength from the body of members and board of directors, who, in their own right, are reputable individuals. The induction process reflects alignment of the incumbent members to the institution itself, a self-propelling drive to contribute. The quality of board discussions is an evidence to this assertion. Design of the not-for profit MFI itself is the right recipe for longevity. There are examples in the world around, providing assurance. The ratings incorporate strong business profile of the foundation demonstrated by continued enhancement in business volumes. The foundation has been closely focusing on technological developments to uphold the growth with an integrated systems. Overall financial risk profile displays comfortable outlook.

The ratings are dependent on the foundation's aptness to sustain positive asset health indicators amidst growth in business volumes. Meanwhile, sustenance of improved margins are imperative. The ratings would also monitor the impact of technological advancement on the operational and risk efficacy of the foundation.

#### Disclosure

<b>Name of Rated Entity</b>	Kashf Foundation   PPTFC
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Debt Instrument Rating
<b>Applicable Criteria</b>	Methodology   Debt Instrument(Jun-18),Methodology   Correlation Between Long-Term And Short-Term Rating Scale(Jun-18),Methodology   MFI (Jun-18)
<b>Related Research</b>	Sector Study   Microfinance Bank(Apr-19)
<b>Rating Analysts</b>	Muhammad Nadeem Sheikh   nadeem.sheikh@pacra.com   +92-42-35869504



## Profile

**Structure** Kashf Foundation (“Kashf” or “Foundation”) is the first Microfinance Institution of the country. It is licensed by the Securities and Exchange Commission of Pakistan (SECP) under the Non-Banking Finance Companies Rules, 2003.

**Background** Kashf was established in 1996 and began operations as a Grameen replicator. It was incorporated with the SECP in 2007 as a public company limited by guarantee under Section 42 of the Companies Ordinance, 1984 (now Companies Act, 2017).

**Operations** Kashf operates at a national level with a network of 300 branches. The foundation extends small loans to under privileged community with a maturity of less than or equal to one year. Most of the foundation's portfolio is concentrated in urban areas of Punjab. Main product of the foundation is “Kashf Karobar Karza” loan which is provided to boost entrepreneurship in the country. Most of the foundation's clientele is female.

## Ownership

**Ownership Structure** Overall control of the foundation vests with 11 members. All members have deposited certain amount of guarantee in the foundation as per the Companies Act, 2017 requirements.

**Stability** Kashf has a proper succession plan in place which is expected to remain, going forward.

**Business Acumen** Members of the foundation are experienced professionals and have suitable skills to direct the foundation in achieving its objectives.

**Financial Strength** The probability of the foundation to get financial support from members is low, since the foundation is registered as a not-for-profit organization under section 42 of the Companies Ordinance 1984 (now Companies Act, 2017).

## Governance

**Board Structure** Kashf has eight-member board of directors (BODs). Dr. Attiya Inayatullah is the chairman of the board.

**Members' Profile** The board members are cherished with extensive experience in the related sector. Dr. Attiya Inayatullah is well known philanthropist of the country. She is the president of Society for the Protection of the Rights of the Child (SPARC) and other social development organizations. She is associated with Kashf sine 2007.

**Board Effectiveness** There are five sub-committees to assist the board, namely (i) Audit Committee, (ii) Credit, Program & Finance Committee (iii) Human Resource Committee (iv) Investment Committee and (v) Nomination Committee. Attendance during the meetings was good and minutes were properly documented.

**Financial Transparency** Deloitte Yousuf Adil Chartered Accountants are the External Auditors of the foundation. They expressed an unqualified opinion on the financial statements for the year Ended June'18. Internal Audit Department of the foundation reports directly to the Audit Committee. Compliance department is also in place which conducts regular inspection of all relevant departments.

## Management

**Organizational Structure** Kashf operations are grouped under nine departments. Functions are distributed among head office and branches. Core lending activities are carried out at the branch level.

**Management Team** The foundation has a mix of diverse experience and skilled management. Ms. Roshaneh Zafar, the CEO, is one of the founding members of the foundation having an experience of over two decades. She is a renowned philanthropist and is assisted by an experienced management team.

**Effectiveness** The foundation has a systematic decision making process. There are no formal management committees in place. Each department head ensures smooth operations of their department and reports to the Chief Executive Officer on pertinent matters.

**MIS** Most of the departments are integrated which adds to effective decision making by the management.

**Risk Management Framework** Proper risk management policy to manage operational and credit risk is in place. Loan approval process is decentralized at the branch level. Recovery of all loans is being done through different agents.

**Technology Infrastructure** Kashf is continuously investing in its technological infrastructure to increase automation and efficiency in the departments which is a need of time in the microfinance industry. The increased automation would result in expediting the loan recovery process, providing good surveillance and helping to keep its infection ratio in-check.

## Business Risk

**Industry Dynamics** Pakistan Microfinance Industry (MFI) comprises 46 microfinance providers including 11 Microfinance Banks (MFBs), 18 Microfinance Institutions (NBMFCs), and 7 Rural Support Programmes (RSPs) and 10 others projects. MFI outreach hovers around ~6.9mln active borrowers at End-Dec-18, representing market penetration of ~34% of the total potential market. MFIs are second to MFBs, representing 19% in total Gross Loan Portfolio (PKR ~274,707mln) and ~35% of active borrowers as at End-Dec18. The Microfinance Industry is accelerating on a growth trajectory with a YoY increase in industry gross loan portfolio (GLP) of over ~38%.

**Relative Position** Considering the market share of ~5% in term of Gross Loan Portfolio of whole industry, the foundation is considered as a relatively mid-tier player in the Microfinance sector and one of the largest Microfinance Institution. It is the one of the oldest players in the MFIs industry which has enabled it to develop a strong relationship with the borrowers.

**Revenue** Kashf earned an interest income of PKR~3,401mln in FY18 with growth of ~43% YOY basis (FY17: PKR 2,382mln). The foundation earned PKR~3,520mln during 9MFY19. Revenue is growing due to enhanced business volumes.

**Profitability** The bank's business model emphasizes on keeping investments in non-earning assets as low as they could be to earn maximum returns from its asset base. During 9MFY19, Kashf's posted a profit of PKR~955mln (FY18: PKR~821mln). Going forward, spread is likely to be impacted by the increased policy rates because are log term liabilities of the foundation are KIBOR based.

**Sustainability** Kashf's primary objective is to strengthen its market position with the ultimate aim of financial inclusion in the country. To achieve the stated objective, Kashf has diversified its products base on a timeline basis. For geographical penetration, the foundation has already developed a goodwill to attract potential clients. Customer centric business approach has been adopted. Going forward, rising interest rates amidst macro-economic instability would be a key challenge for Kashf, going forward.

## Financial Risk

**Credit Risk** The foundation has properly designed loan approval and disbursement process. As mentioned earlier the loan approval process is de-centralized at branch level. Asset risk is low due to strong control & recovery mechanism. Infection ratio of the foundation sharply increased to ~0.8% during 9MFY19 but still well above industry average.

**Market Risk** Market risk is expected to be impacted by the increased policy rates and macro instability in the country. Increased policy rate will increase the financing cost of the foundation as all local long term borrowing carry floating interest rate. Kashf has a policy to hedge all foreign currency exposures which will be beneficial for the foundation in increasing interest rate environment.

**Funding** The foundation's funding mix mostly constitutes long term loans from both local and foreign borrowers. Total debt of the foundation as at End-March19 stood at PKR ~13,821mln. The foundation is in process to issue Privately Placed Term Finance Certificate of PKR 2,000mln with green shoe option of PKR 1,000 mln. to diversify its funding base.

**Liquidity** Kashf's liquidity position decreased during 9MFY19 as liquidity ratio stood at 22% at end of the period as compared to 26% in FY18. The growth in borrowing has outpaced the growth in liquid assets. Decreased liquidity position is also evident from increase in advances/borrowing ratio to above 100% during 9MFY19.

**Capital Adequacy** SECP has no minimum requirement for MFIs unlike SBP which require MFBs to maintain their CAR at 15%. Equity of the foundation stood at PKR~3,743 mln as at End-March 19.

**Kashf Foundation**

PKR Million

<b>BALANCE SHEET</b>	<b>31-Mar-19</b>	<b>30-Jun-18</b>	<b>30-Jun-17</b>	<b>30-Jun-16</b>
<b>Earning Assets</b>				
Advances	13,768	10,479	7,330	4,809
Investments	11	12	11	11
Deposits with Banks	2,820	2,671	2,599	1,574
	<b>16,600</b>	<b>13,161</b>	<b>9,940</b>	<b>6,393</b>
<b>Non Earning Assets</b>				
Non-Earning Cash	152	85	93	74
Net Non-Performing Finances	(120)	(91)	(50)	(31)
Fixed Assets & Others	1,718	1,234	986	965
	<b>1,750</b>	<b>1,228</b>	<b>1,029</b>	<b>1,009</b>
<b>TOTAL ASSETS</b>	<b>18,350</b>	<b>14,389</b>	<b>10,969</b>	<b>7,401</b>
<b>Interest Bearing Liabilities</b>				
Borrowings	13,387	10,798	8,316	5,461
	<b>13,387</b>	<b>10,798</b>	<b>8,316</b>	<b>5,461</b>
<b>Non Interest Bearing Liabilities</b>				
	946	579	429	336
<b>TOTAL LIABILITIES</b>	<b>14,333</b>	<b>11,376</b>	<b>8,744</b>	<b>5,797</b>
<b>EQUITY (including revaluation surplus)</b>	3,959	2,995	2,165	1,569
<b>Deferred Grants</b>	57	17	60	35
<b>Total Liabilities &amp; Equity</b>	<b>18,350</b>	<b>14,389</b>	<b>10,969</b>	<b>7,401</b>
<b>INCOME STATEMENT</b>	<b>31-Mar-19</b>	<b>30-Jun-18</b>	<b>30-Jun-17</b>	<b>30-Jun-16</b>
Interest / Mark up Earned	3,520	3,574	2,507	2,086
Interest / Mark up Expensed	(1,199)	(1,068)	(644)	(562)
<b>Net Interest / Markup revenue</b>	<b>2,321</b>	<b>2,506</b>	<b>1,863</b>	<b>1,524</b>
Other Operating Income	68	68	91	50
<b>Total Revenue</b>	<b>2,389</b>	<b>2,575</b>	<b>1,954</b>	<b>1,574</b>
Other Income	46	(54)	(88)	30
Non-Interest / Non-Mark up Expensed	(1,425)	(1,635)	(1,259)	(887)
Pre-provision operating profit	1,010	886	608	716
Provisions	(55)	(64)	(30)	25
Pre-tax profit	955	821	578	742
Taxes	-	-	-	-
<b>Net Income</b>	<b>955</b>	<b>821</b>	<b>578</b>	<b>742</b>
<b>Ratio Analysis</b>	<b>31-Mar-19</b>	<b>30-Jun-18</b>	<b>30-Jun-17</b>	<b>30-Jun-16</b>
<b>Performance</b>				
ROE	39%	35%	35%	54%
Cost-to-Total Net Revenue	60%	63%	64%	56%
Provision Expense / Pre Provision Profit	5%	7%	5%	-4%
<b>Capital Adequacy</b>				
Equity/Total Assets	20%	19%	18%	18%
<b>Loan Loss Coverage</b>				
Non-Performing Advances /Gross Advances	0.4%	0.3%	0.3%	0.3%
Loan Loss Provisions / Non-Performing Advances	-324%	-399%	-348%	-333%
<b>Funding &amp; Liquidity</b>				
Liquid Assets / Deposits and Borrowings	22%	26%	33%	30%
<b>Intermediation Efficiency</b>				
Asset Yield	32%	31%	31%	33%
Cost of Funds	13%	11%	9%	10%
Spread	18%	20%	21%	22%
<b>Outreach</b>				
Branches	300	291	260	187

Kashf Foundation

Jun-19



**Regulatory and Supplementary Disclosure**

Nature of Instrument	Size of Issue (PKR )	Tenor	Security	Book value of Assets	Quantum of Security	Trustee
Privately Placed Term Finance Certificate	Up to PKR 2,000 million	Up to 4 years from date of disbursement including grace period of 1 year	1. Hypothecation on all present and future current asset of the foundation along with 25% margin. 2. The foundation will ensure that during whole tenure of the instrument one installment will remain in redemption reserve account in favor of trustee.	PKR~16,131 million	PKR~16,207 million	Pak Oman Investment Company Limited

<b>Kashf Foundation   PPTFC   June-19</b>	
Name of Issuer	Kashf Foundation
Issue size	PKR 2,000 million
Issue Date	Not issued yet
Tenor	4 years from date of disbursement with grace period of 1 year
Maturity	N/A
Profit Rate	3 M KIBOR + 2..25%
Principal Repayment	12 equal quarterly installments
Security	As mentioned above

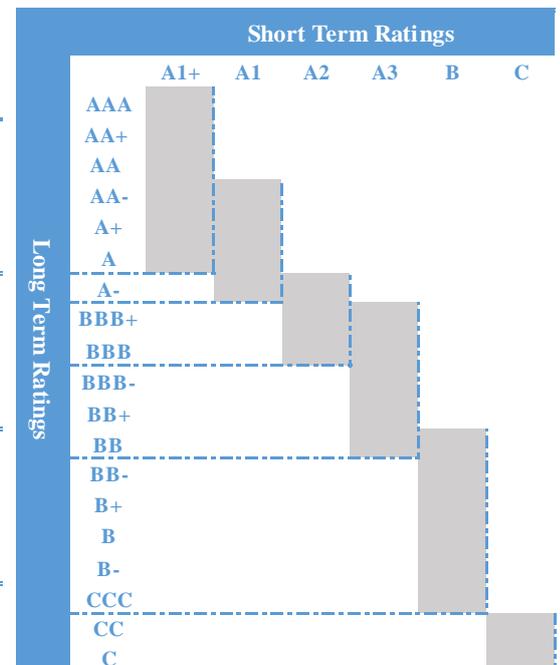
**Kashf Foundation | Privately Placed Term Finance Certificate | Redemption Schedule**

Due Date Principal	Opening Principal	Principal Repayment	Due Date Markup/ Profit	Markup/Profit Rate		Profit Payment	Instalment Payable	Principal Outstanding
				Base	Spread			
PKR in mln								
1-Jul-19	2,000							
1-Oct-19	2,000		1-Oct-19	3M Kibor	225bps	76	76	2,000
1-Jan-20	2,000		1-Jan-20	3M Kibor	225bps	76	76	2,000
1-Apr-20	2,000		1-Apr-20	3M Kibor	225bps	75	75	2,000
1-Jul-20	2,000		1-Jul-20	3M Kibor	225bps	75	75	2,000
1-Oct-20	2,000	167	1-Oct-20	3M Kibor	225bps	76	243	1,833
1-Jan-21	1,833	167	1-Jan-21	3M Kibor	225bps	70	236	1,667
1-Apr-21	1,667	167	1-Apr-21	3M Kibor	225bps	62	229	1,500
1-Jul-21	1,500	167	1-Jul-21	3M Kibor	225bps	56	223	1,333
1-Oct-21	1,333	167	1-Oct-21	3M Kibor	225bps	51	217	1,167
1-Jan-22	1,167	167	1-Jan-22	3M Kibor	225bps	44	211	1,000
1-Apr-22	1,000	167	1-Apr-22	3M Kibor	225bps	37	204	833
1-Jul-22	833	167	1-Jul-22	3M Kibor	225bps	31	198	667
1-Oct-22	667	167	1-Oct-22	3M Kibor	225bps	25	192	500
1-Jan-23	500	167	1-Jan-23	3M Kibor	225bps	19	186	333
1-Apr-23	333	167	1-Apr-23	3M Kibor	225bps	12	179	167
1-Jul-23	167	167	1-Jul-23	3M Kibor	225bps	6	173	-

## Credit Rating Scale & Definitions

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

Long Term Ratings		Short Term Ratings	
<b>AAA</b>	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	<b>A1+</b>	The highest capacity for timely repayment.
<b>AA+</b> <b>AA</b> <b>AA-</b>	<b>Very high credit quality.</b> Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	<b>A1</b>	A strong capacity for timely repayment.
<b>A+</b> <b>A</b> <b>A-</b>	<b>High credit quality.</b> Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.	<b>A2</b>	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<b>Good credit quality.</b> Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.	<b>A3</b>	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
<b>BB+</b> <b>BB</b> <b>BB-</b>	<b>Moderate risk.</b> Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.	<b>B</b>	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
<b>B+</b> <b>B</b> <b>B-</b>	<b>High credit risk.</b> A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.	<b>C</b>	An inadequate capacity to ensure timely repayment.
<b>CCC</b> <b>CC</b> <b>C</b>	<b>Very high credit risk.</b> Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.		
<b>D</b>	Obligations are currently in default.		



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

**Rating Watch** Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.

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

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

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

**Disclaimer:** PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

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(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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- (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)

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- (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.
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- (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)
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- (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)

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- (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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