



The Pakistan Credit Rating Agency Limited

## Rating Report

### Standard Chartered Bank (Pakistan) Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
25-Jun-2022	AAA	A1+	Stable	Maintain	-
25-Jun-2021	AAA	A1+	Stable	Maintain	-
25-Jun-2020	AAA	A1+	Stable	Maintain	-
25-Dec-2019	AAA	A1+	Stable	Maintain	-
25-Jun-2019	AAA	A1+	Stable	Maintain	-
24-Dec-2018	AAA	A1+	Stable	Maintain	-
20-Jun-2018	AAA	A1+	Stable	Maintain	-
29-Dec-2017	AAA	A1+	Stable	Maintain	-
19-Jun-2017	AAA	A1+	Stable	Maintain	-

#### Rating Rationale and Key Rating Drivers

The ratings reflect the Standard Chartered Bank (Pakistan) Limited “SCBPL” association with a financially sound and reputed international bank - Standard Chartered PLC. This is supplemented by SCBPL's strategic and operational integration into the parent as the Bank continues to benefit from the technical resources and cumulative expertise developed at the Group level. Bank's market share in customer deposits remained largely the same at 3.0% as of end-Dec21 (end-Dec20: 3.1%). SCBPL's predominantly low-cost deposit base has enabled the bank to achieve one of the best CASA mix in the industry (CY21: 92.1%, CY20: 90.5%) while distinguishing it from its peer universe also facilitates core operating activities. The ratings incorporate the Bank's dominant position in its targeted niche market (MNCs, established domestic Corporates & affluent retail clients) through a comprehensive product suite and significant digital capabilities complemented by its international franchise and its extensive presence in tier-I cities. The strategy is to focus on all business segments through digitization along with traditional banking. The Bank is focused on enhancing yield, and cost efficiency, increasing client revenue, and growing customer assets. The bank's net mark-up income recorded attrition, during CY21, owing to declined key policy rate during the year. However, net mark-up income and profitability rebounded in 1QCY22 – the trend would sustain, given the high-interest rate environment prevailing at the moment. The advances of the Bank witnessed a sizable increase in CY21 and ADR clocked at 37.4% (CY20: 32%). The rating factor is sound management quality, healthy spreads, efficient operating structure, and ample liquidity of the Bank. The risk absorption capacity of the Bank, measured in terms of CAR, is robust (16.9%). Pakistan's economy has gone through several varied phases in the last two years due to the COVID19 pandemic. The banking sector continued to flourish with high profitability. Going forward, the macro-economic environment is beset with myriad challenges due to heightened interest rates, tightening of demand, rupee depreciation, and higher inflation. This has repercussions for the entire system including banking.

The ratings remain dependent on the Bank's ability to maintain its presence in profitable segments while remaining abreast of changing domestic operating environment. Meanwhile, maintaining spreads whilst not compromising on the asset quality is important for the Bank.

#### Disclosure

<b>Name of Rated Entity</b>	Standard Chartered Bank (Pakistan) Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Financial Institution Rating(Jun-21),Criteria   Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria   Rating Modifiers(Jun-21)
<b>Related Research</b>	Sector Study   Commercial Bank(Jun-22)
<b>Rating Analysts</b>	Sehar Fatima   sehar.fatima@pacra.com   +92-42-35869504

**Profile**

**Structure** Standard Chartered Bank (Pakistan) Limited was incorporated in 2006 and listed on Pakistan Stock Exchange Limited (PSX).

**Background** SCBPL is the oldest and largest international Bank in Pakistan. It is also the first international Bank to be awarded an Islamic banking license.

**Operations** The bank is mainly engaged in Commercial and Corporate & Institutional Banking (CCIB) and Consumer Private Business Banking (CPBB) activities. The bank is focused on providing premium digital banking services in the domestic market. The bank aims to serve a wide range of market segments via its existing network of 41 branches (Dec 2021).

**Ownership**

**Ownership Structure** Majority shareholding (98.99%) in SCBPL is owned by Standard Chartered PLC which is a British multinational banking and financial services company headquartered in London, England. The remaining share of SCBPL is owned by the general public and is tradeable on Pakistan Stock Exchange.

**Stability** Standard Chartered Group has a history of over 150 years in banking and operates through a network of more than 776 branches.

**Business Acumen** Standard Chartered Group has deep roots in Asian, African and Middle Eastern markets and is well established to capitalize on business opportunities.

**Financial Strength** Standard Chartered PLC is listed on the London, Hong Kong Stock Exchanges, Bombay, and National Stock Exchanges in India. Standard Chartered PLC has total assets of US\$ 838bn as of Dec 2021. Shareholders' equity improved further and rose to US\$ 52.6bn as of Dec 2021.

**Governance**

**Board Structure** SCBPL's seven-member Board comprises qualified and experienced professionals. The Board is composed of four members of the Standard Chartered (SC) Group, including SCBPL's CEO. Among the other three board members, two members are independent directors whilst one is a non-executive director.

**Members' Profile** Mr. Ian Bryden, the Chairperson of the Board is currently the Regional CRO for Africa and the Middle East and has previously served in India (as Country CRO). He has done Master's in Law and carries around 40 years of international banking experience. Other members of the Board having extensive experience in financial services and varied backgrounds remain crucial in providing key insights and valuable guidance to the Bank's management.

**Board Effectiveness** The Bank has a robust process in place to evaluate and enhance the overall effectiveness of the Board, its Committees, and individual directors on an annual basis. During the year, five board meetings were held. Attendance of board members in these meetings remained satisfactory.

**Financial Transparency** The Bank's auditors, EY Ford Rhodes, Chartered Accountants, have expressed an unqualified opinion on the Bank's financial statements for the year ended December 2021.

**Management**

**Organizational Structure** The Bank operates through a well-defined organizational structure with fourteen different departments. The Bank operates along with a matrix organizational structure whereby all departmental heads report to the CEO along with a reporting line to the regional heads based in Singapore and Dubai. The regional heads in turn report to the Global head based in London.

**Management Team** SCBPL's senior management team comprises experienced bankers having multinational and international exposure. Mr. Rehan Sheikh has broad and diversified experience of over 35 years in banking including the areas of Corporate Relationship Management, Risk Management, Remedial Management, International Trade Finance, Islamic Banking and Branch Management.

**Effectiveness** The Country Management Team (CMT), comprising of the CEO, CFO, COO, CCRO, and heads of various business units, products, and support functions are responsible for the supervision and control of the bank's business.

**MIS** SCBPL has developed Internal Controls over Financial Reporting (ICFR) / COSO as per guidelines of SBP, with the support of external consultants. The Standard Chartered Group, through a well-coordinated program.

**Risk Management Framework** The Bank has put in place an Enterprise Risk Management Framework (ERMF), to implement the guidelines and regulations, related to Risk Management. This framework sets out the principles and standards for risk management across the Bank. The ultimate responsibility for the oversight of the risk management function rests with the Bank's Board of Directors.

**Business Risk**

**Industry Dynamics** Pakistan's economy has gone through several varied phases in the last two years. It was deeply impacted by the magnitude of the COVID19 pandemic. The economic activity revived afterward and Pakistan posted a GDP growth rate of ~4.0% in FY21 after a contraction in the economy of -0.4% in FY20 (GDP growth figures were revised after the base year was changed from FY05-06 to FY15-16). The banking sector continues to flourish with high profitability. Total banking assets posted growth of ~19% YoY whilst investments surged by 21% YoY to PKR ~14.4trln (end-Dec20: PKR ~11.9trln). Gross Advances of the sector recorded growth (23%) to stand at PKR ~10.9trln (end-Dec20: PKR ~8.8trln). Non-performing loans witnessed a slight uptick of 4% to PKR ~860bln. Capital Adequacy Ratio stood at 16.7% (regulatory requirement of 11.5%). During CY21, banking sector deposits enhanced to PKR ~21.6trln (grew by ~17%). Net profitability of the sector was recorded at PKR ~267bln (CY20: PKR ~244bln); up 9% YoY. However, growth of the equity base of the sector recorded a meager uptick of 0.8% YoY attributable to a handsome dividend payout.

**Relative Position** SCBPL, a medium-sized bank, has witnessed an increase of 14.3% in its customer deposits to largely maintain its system share at 3.0% during CY21 (CY20: 3.1%)

**Revenues** During CY21, mark-up earned was lower at 46.8bn as compared to 52.2bn due to lower average interest rates throughout the year. Mark-up from investments contributed 58% of the mark-up earned (CY21 27.32bn; CY20 28.77bn). Net mark-up earned declined to PKR 26.2bn (CY20: PKR 24.0bn). Hence, net mark-up income to total income accumulated to 70.2% (CY20: 68.7%). Asset yield declined to 7.1% (CY20: 9.4%) in line with the industry trend. The spread of the bank accumulated to 3.8% (4.9%). During 1QCY22, asset yield and spread improved by 8.9% and 4.2% respectively.

**Performance** Non-mark-up income of the bank clocked in at PKR 11.1bln (CY20: PKR 12.8bln) with healthy contribution from fees and commission (CY21: PKR 3.1bln, CY20: PKR 4.0bln) and foreign exchange income (CY21: PKR 4.5bln, CY20: PKR 3.9bln). Non-mark-up expenses remained in check at PKR 12.1bln (CY20: PKR 12.3bln) attributable to a decrease in the branch's network. After recording the provisioning expense of PKR 495mln (CY20: PKR 4.9bln), net profitability remained largely the same YoY (CY21: PKR 13.7bln, CY20: PKR 13.1bln). During 1QCY22, net mark-up income and net profitability clocked into PKR 8.2bln and PKR 7.0bln respectively.

**Sustainability** SCBPL is committed to its customer's needs with investment in the digital infrastructure. The Bank intends to focus on providing superior banking solutions to its individual clients and good Corporate / Commercial clientele. Going forward, the Bank continues to prioritize growth with a focus on income whilst keeping strong monitoring on risk management and cost-efficiency.

**Financial Risk**

**Credit Risk** Net advances of the bank enhanced to PKR 234.1bln as at end-Dec21 (end-Dec20: PKR 177.5bln). Non-Performing loans recorded attrition to PKR 21.3bln (end-Dec20: PKR 22.6bln). The infection declined to 8.3% (end-Dec20: 11.4%) attributable to an increased advance base. Coverage ratio increased to 102% (end-Dec20: 94.9%); good cushion maintained against future unforeseen NPLs.

**Market Risk** As of end-Dec21, the bank's investment book represented 53.7% (end-Dec20: 48.4%) of the total assets. Quantum of investment book recorded a sizable increase (end-Mar22: PKR 440bln, end-Dec21: PKR 450.5bln). Government securities continue to dominate the investment portfolio. This reflects the risk-averse appetite of the bank. However, this is in line with the general industry trend.

**Liquidity And Funding** During CY21, the bank witnessed robust growth in deposits which increased to PKR 626.7bn (Dec 20: PKR 556.5bn). CASA mix, amongst one of the best in the banking industry, remained the same (end-Dec21: 92.1%, end-Dec20: 92.5%) - mainly skewed towards a savings account.

**Capitalization** SCBPL's equity remains high in the mid-size banking universe. It remained strong at PKR 79.9bln as of end-Mar22 (end-Dec21: PKR 79.6bln, end-Dec20: PKR 81.6bln). SCBPL's CAR during the period declined to 16.9% (end-Dec20: 19.1%) which is well above the regulatory requirement of 11.5%.



PKR mln

Standard Chartered Bank  
Listed Public Limited

Mar-22	Dec-21	Dec-20	Dec-19
3M	12M	12M	12M

### A BALANCE SHEET

1 Total Finances - net	252,084	234,748	177,544	218,219
2 Investments	440,170	450,583	349,243	248,761
3 Other Earning Assets	69,112	25,967	83,310	33,933
4 Non-Earning Assets	136,622	128,703	110,934	118,787
5 Non-Performing Finances-net	(111)	(576)	874	271
<b>Total Assets</b>	<b>897,877</b>	<b>839,426</b>	<b>721,905</b>	<b>619,971</b>
6 Deposits	649,943	626,774	556,506	465,629
7 Borrowings	80,139	35,029	23,293	20,257
8 Other Liabilities (Non-Interest Bearing)	87,847	98,017	60,428	61,168
<b>Total Liabilities</b>	<b>817,929</b>	<b>759,820</b>	<b>640,227</b>	<b>547,054</b>
<b>Equity</b>	<b>79,948</b>	<b>79,605</b>	<b>81,678</b>	<b>72,917</b>

### B INCOME STATEMENT

1 Mark Up Earned	16,393	46,852	52,222	52,240
2 Mark Up Expensed	(8,181)	(20,585)	(24,082)	(24,054)
3 Non Mark Up Income	6,091	11,126	12,800	10,890
<b>Total Income</b>	<b>14,303</b>	<b>37,393</b>	<b>40,940</b>	<b>39,076</b>
4 Non-Mark Up Expenses	(3,259)	(12,137)	(12,383)	(11,894)
5 Provisions/Write offs/Reversals	730	(495)	(4,941)	17
<b>Pre-Tax Profit</b>	<b>11,774</b>	<b>24,762</b>	<b>23,616</b>	<b>27,199</b>
6 Taxes	(4,712)	(11,034)	(10,483)	(11,182)
<b>Profit After Tax</b>	<b>7,062</b>	<b>13,728</b>	<b>13,133</b>	<b>16,017</b>

### C RATIO ANALYSIS

#### 1 Performance

Net Mark Up Income / Avg. Assets	3.8%	3.4%	4.2%	4.7%
Non-Mark Up Expenses / Total Income	22.8%	32.5%	30.2%	30.4%
ROE	35.4%	17.0%	17.0%	22.9%

#### 2 Capital Adequacy

Equity / Total Assets (D+E+F)	8.9%	9.5%	11.3%	11.8%
Capital Adequacy Ratio	15.8%	16.9%	19.1%	16.9%

#### 3 Funding & Liquidity

Liquid Assets / (Deposits + Borrowings Net of Repo)	69.0%	78.6%	71.6%	64.5%
(Advances + Net Non-Performing Advances) / Deposits	38.8%	37.4%	32.0%	46.8%
CA Deposits / Deposits	41.4%	41.7%	43.3%	44.1%
SA Deposits / Deposits	51.7%	50.4%	49.2%	49.0%

#### 4 Credit Risk

Non-Performing Advances / Gross Advances	7.7%	8.3%	11.4%	7.5%
Non-Performing Finances-net / Equity	-0.1%	-0.7%	1.1%	0.4%

**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	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<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.
AA-	
A+	
A	<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.
A-	
BBB+	
BBB	<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.
BBB-	
BB+	<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.
BB	
BB-	
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-	
CCC	
CC	<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.
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):

<p><b>Entities</b></p> <ul style="list-style-type: none"> <li>a) Broker Entity Rating</li> <li>b) Corporate Rating</li> <li>c) Financial Institution Rating</li> <li>d) Holding Company Rating</li> <li>e) Independent Power Producer Rating</li> <li>f) Microfinance Institution Rating</li> <li>g) Non-Banking Finance Companies (NBFCs) Rating</li> </ul>	<p><b>Instruments</b></p> <ul style="list-style-type: none"> <li>a) Basel III Compliant Debt Instrument Rating</li> <li>b) Debt Instrument Rating</li> <li>c) Sukuk Rating</li> </ul>
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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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(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)

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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 | 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)

(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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