



## The Pakistan Credit Rating Agency Limited

### Rating Report

#### Parwaaz Financial Services Limited - PPTFC - PKR 1bln - TBI

#### 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 |
|--------------------|------------------|-------------------|---------|-------------|--------------|
| 22-Oct-2024        | AA-              | -                 | Stable  | Preliminary | -            |

#### Rating Rationale and Key Rating Drivers

Parwaaz Financial Services Ltd. (PFSL or "the Company") is a wholly owned subsidiary of Karandaaz Pakistan Limited (KRN). The Company focuses on providing tailored financing solutions to meet the credit needs of Small and Medium Enterprises (SMEs), as defined by the International Finance Corporation. PFSL benefits from a well-structured governance framework, reinforced by a professional management team and underpinned by a comprehensive risk management policy incorporating rigorous risk identification, assessment, and mitigation mechanisms. As of the latest financial period, the Company has built a robust portfolio, with an asset base of ~PKR 2.8 billion. In a significant move, PFSL is set to introduce its inaugural Green Bond, with proceeds designated exclusively for financing environmentally sustainable projects, including renewable energy, energy efficiency, clean transportation, sustainable waste and water management, and pollution prevention. The Company has developed a Green Bond Framework, ensuring alignment with the Securities and Exchange Commission of Pakistan's (SECP) Green Bond Guidelines and the International Capital Market Association's (ICMA) Green Bond Principles. The Framework has been validated through independent consultation and certification by PET Nature (Pvt.) Ltd. To oversee the management of the Green Bond proceeds, PFSL has constituted a dedicated Green Bond Committee. This committee is tasked with ensuring that all eligible projects align with PFSL's Environmental and Social Governance (ESG) Policy and the Company's broader sustainability objectives. The committee will also be responsible for project selection and monitoring. As part of its compliance and governance protocol, PFSL has committed to publicly disclose key performance indicators related to the allocation of proceeds and the environmental impact of the funded projects. Additionally, the Company will engage an independent auditor to conduct periodic reviews of fund utilization, ensuring transparency and accountability. The credit rating assigned to the Green Bond considers the Company's strong governance structure, well-defined risk management practices, and the security measures established for this bond's issuance.

The rating depends on PFSL's continued ability to achieve its strategic objectives while maintaining sound asset quality and adhering to regulatory and internal risk management frameworks. Compliance with SECP guidelines and external audit reviews remains crucial.

#### Disclosure

|                              |  |
|------------------------------|--|
| <b>Name of Rated Entity</b>  | Parwaaz Financial Services Limited - PPTFC - PKR 1bln - TBI  |
| <b>Type of Relationship</b>  | Solicited  |
| <b>Purpose of the Rating</b> | Debt Instrument Rating   |
| <b>Applicable Criteria</b>   | Methodology   Rating Modifiers(Apr-24),Methodology   Corporate Rating(Jul-24),Methodology   Debt Instrument Rating(Oct-24) |
| <b>Related Research</b>      | Sector Study   Non-Banking Finance Companies(Apr-24)   |
| <b>Rating Analysts</b>       | Sohail Ahmed Qureshi   sohail.ahmed@pacra.com   +92-42-35869504  |



## Issuer Profile

**Profile** Parwaaz Financial Services Limited (PFSL), incorporated on December 23, 2020, under the Companies Act 2017, is a licensed Non-Banking Finance Company (NBFC) authorized to provide Investment Finance Services under the NBFC Rules 2003 and NBFC Regulations 2008. As a wholly owned subsidiary of Karandaaz Pakistan Limited (KRN), PFSL is dedicated to offering financing solutions that promote the growth and financial inclusion of Small and Medium Enterprises (SMEs) as defined by the International Finance Corporation (IFC). PFSL commenced operations in 2022, providing both short- and long-term credit facilities to SMEs in various sectors, including agriculture, industrial value chains, health, education, and renewable energy. PFSL also facilitates financing programs managed by KRN. As of August 31, 2024, PFSL's Gross Loan Portfolio stood at PKR 2.847 billion, serving 45 customers.

**Ownership** PFSL is a wholly owned subsidiary of Karandaaz Pakistan Limited (KRN), which holds a 99.99% stake, with the remaining shareholding is held by directors as qualifying shares. The ownership structure is stable, with KRN as the majority shareholder enhancing the subsidiary's stability, credibility, and access to resources like capital, expertise, and market opportunities. Looking ahead, the sponsor may introduce a new partner to strengthen the equity base further. KRN has been operational since 2014, with a strong business profile, reflected by substantial investments across multiple sectors. As of June 2023, KRN's asset base was approximately PKR 33 billion, with no leverage. KRN's association with the Foreign Commonwealth & Development Office (FCDO) and the Bill & Melinda Gates Foundation (BMGF) enhances the sponsor's financial strength.

**Governance** PFSL operates under a well-established governance structure. The Board of Directors consists of seven members, including two independent directors (one serving as Chairman), four nominee directors (one of whom is female), and the CEO in line with the Code of Corporate Governance. Members bring extensive experience across relevant fields. Notably, the Chairman, Mr. Nouman Ansari, has over 30 years of expertise in credit, corporate, and investment banking. Mr. Yameen Kerai, a graduate of the London School of Economics and a qualified Chartered Accountant, brings substantial experience in the financial services industry, having held various leadership positions in organizations across the UK, Canada, and Pakistan. Additionally, Mr. Navid Goraya contributes over three decades of global experience in financial services, including investment banking, private equity, impact investing, and corporate finance advisory. The Board oversees four committees: the Human Resource Committee, Risk Management Committee, Information Technology Committee, and Audit Committee, enhancing oversight and strategic direction. A. F. Ferguson & Co., one of the Big Four audit firms listed in Category A on the State Bank of Pakistan's panel of auditors, serves as PFSL's external auditor. The auditor issued an unqualified opinion on the Company's financial statements for the year ending December 2023.

**Management** The Company operates with a well-structured organization consisting of six key functional departments: (i) Business, (ii) Risk & Compliance, (iii) IT, (iv) HR & Admin, (v) Finance & Secretarial, and (vi) Digital Services. All departmental heads report directly to the CEO, ensuring streamlined communication and oversight. Each department is organized with a multi-layered management hierarchy, promoting smooth and efficient operations. All essential positions are filled by highly qualified professionals with diverse expertise in their respective areas. The CEO, Mr. Javed Iqbal, brings over 30 years of experience across investment, corporate, commercial, and SME banking, making him a well-seasoned leader. He is supported by a capable senior management team, including Mr. Atif Kauser, the Chief Risk and Compliance Officer, who holds a master's degree in business administration and has nearly 29 years of experience in banking, covering areas such as risk management, credit, corporate marketing, and financial control. Additionally, the CFO, Mr. Bilal Mohyuddin, is a chartered accountant with over 20 years of experience in audit and the financial services sector. PFSL has established three management committees, which, along with clearly defined roles and responsibilities across the organization, are essential to improving the efficiency of operational decision-making. This structure facilitates coordination between departments and ensures alignment with the Company's strategic objectives. Additionally, the Company employs an in-house Management Information System (MIS) called Cascade to digitize the Loan Origination and Management System, contributing to enhanced operational efficiency.

**Business Risk** The business landscape in the country has presented various challenges, with government initiatives aimed at economic stabilization affecting overall business sentiment. Investment finance companies are facing considerable competition from banks; however, there remains a significant gap in the SME financing market. Approximately 5.2 million SMEs operate within both the formal and informal sectors, accounting for around 90% of private enterprises. This sector employs about 30% of the workforce and contributes roughly 40% to the annual GDP. As of December 2023, outstanding loans to SMEs in the financial sector reached PKR 542.5 billion, distributed among approximately 172,300 active borrowers. PFSL is a relatively new participant in this market but equipped with the necessary skills and risk mitigation strategies plans to effectively strengthen its position in the SME financing space sustainably. Over the past two years, PFSL has established a substantial loan portfolio exceeding PKR 2.8 billion, with minimal non-performing loans (NPLs), indicating the company's growing footprint in the sector. In terms of financial performance, PFSL's revenue increased by approximately 188% during CY 2023, rising to PKR 674 million from PKR 234 million in CY 2022. Markup on advances accounted for about 27% of total income. In the first quarter of CY 2024, the company reported revenue of PKR 179 million, with markup on advances contributing roughly 46% to the total, driven by an expanded loan portfolio. The company's profit after tax (PAT) grew by around 19% in 2023, reaching PKR 87 million, compared to PKR 73 million in 2022. However, personnel costs surged by about 66% due to inflation and an increase in human resources, reaching PKR 138 million, up from PKR 83 million in 2022. PFSL has obtained funding from its parent company at concessional rates, aiding in the maintenance of sustained earnings. The company's strategic plan focuses on sustainable growth by utilizing appropriate funding sources while adopting a cautious lending approach to preserve asset quality. Additionally, PFSL is working to introduce digital services to improve customer accessibility through the digitization of its processes. The sustainability of the company and its operations is supported by a comprehensive risk management policy approved by the board, which is enhanced by an internally developed Obligor Risk Rating (ORR) Model. This model features a clearly defined risk-based industry segmentation alongside various qualitative and quantitative assessment criteria.

**Financial Risk** PFSL has established a comprehensive credit management policy incorporating guidelines for limiting group and sector exposures. The company operates a dedicated risk management function responsible for evaluating the creditworthiness of potential customers, ensuring that all necessary documentation and securities comply with its credit extension policy. Market risks primarily arise from fluctuations in interest rates, which can affect both debt obligations and loan receivables. Competing in the SME financing sector exposes PFSL to risks associated with competitive pricing dynamics for acquiring and retaining customers. The company's primary funding sources consist of equity and a subordinate loan from its parent company at below-market rates (KIBOR - 2%). This structure has helped reduce finance costs and contributed to profitability. The sponsors plan to convert this subordinated loan of approximately PKR 1.5 billion into equity. As of March 2024, PFSL's equity was recorded at PKR 1,789 million, with an equity-to-total assets ratio of around 46.1%. This stable capital structure provides robust support for the company's operations. Additionally, the debt-to-equity ratio stands at 1.1 as of the same date. Securing funding at favorable rates will be critical for the company's sustainable growth and profitability moving forward.

## Instrument Rating Considerations

**About The Instrument** PFSL is poised to launch its first privately placed Term Finance Certificate (PPTFC), valued at PKR 1,000 million, designated as a Green Bond with a tenure of three years. The instrument and its framework have undergone validation to ensure compliance with the SECP's Green Bond guidelines and the International Capital Market Association (ICMA) Green Bond Principles. This validation has been achieved through a second-party consultation and certification by PET Nature (Pvt.) Ltd.

**Relative Seniority/Subordination Of Instrument** The claims of the Bond holders will rank superior to the claims of ordinary shareholders.

**Credit Enhancement** The underlying instrument is secured by a registered hypothecation charge on both existing and future book debts and receivables of PFSL, with a margin of 25%. Throughout the tenor of the green bond issue, an amount equivalent to one quarter's peak profit installment must be maintained as a debt service reserve requirement ("Debt Service Reserve Requirement"). This reserve will be arranged by Karandaaz Pakistan Limited.



**Parwaaz Financial Services Limited**  
Unlisted Public Limited

| Mar-24    | Dec-23  | Dec-22  | Dec-21  |
|-----------|---------|---------|---------|
| 3M        | 12M     | 12M     | 12M     |
| Unaudited | Audited | Audited | Audited |

**A BALANCE SHEET**

|                               |              |              |              |              |
|-------------------------------|--------------|--------------|--------------|--------------|
| 1 Total Finance-net           | 2,024        | 1,843        | 787          | -            |
| 2 Investments                 | 1,680        | 1,645        | 608          | -            |
| 3 Other Earning Assets        | 15           | 234          | 1,955        | 1,549        |
| 4 Non-Earning Assets          | 211          | 145          | 39           | 9            |
| 5 Non-Performing Finances-net | (45)         | (43)         | (9)          | -            |
| <b>Total Assets</b>           | <b>3,884</b> | <b>3,824</b> | <b>3,379</b> | <b>1,557</b> |
| 6 Funding                     | *1963        | 1,947        | 1,629        | -            |
| 7 Other Liabilities           | 132          | 108          | 67           | 15           |
| <b>Total Liabilities</b>      | <b>2,095</b> | <b>2,055</b> | <b>1,697</b> | <b>15</b>    |
| <b>Equity</b>                 | <b>1,789</b> | <b>1,769</b> | <b>1,682</b> | <b>1,542</b> |

\*This includes PKR 1,493mln subordinated loan from the parent (Karandaa Pakistan Ltd.) which will be converted into equity over the short horizon. Therefore, this is being considered Quasi-Equity.

**B INCOME STATEMENT**

|                                   |            |            |            |           |
|-----------------------------------|------------|------------|------------|-----------|
| 1 Mark Up Earned                  | 179        | 674        | 234        | 96        |
| 2 Mark Up Expensed                | (78)       | (299)      | (1)        | (0)       |
| 3 Non Mark Up Income              | -          | -          | -          | -         |
| <b>Total Income</b>               | <b>101</b> | <b>375</b> | <b>233</b> | <b>96</b> |
| 4 Non-Mark Up Expenses            | (69)       | (215)      | (119)      | (36)      |
| 5 Provisions/Write offs/Reversals | (2)        | (34)       | (10)       | -         |
| <b>Pre-Tax Profit</b>             | <b>30</b>  | <b>127</b> | <b>105</b> | <b>60</b> |
| 6 Taxes                           | (10)       | (40)       | (32)       | (18)      |
| <b>Profit After Tax</b>           | <b>20</b>  | <b>87</b>  | <b>73</b>  | <b>42</b> |

**C RATIO ANALYSIS**

**1 PERFORMANCE**

|                                       |       |       |       |       |
|---------------------------------------|-------|-------|-------|-------|
| a Non-Mark Up Expenses / Total Income | 68.4% | 57.2% | 51.0% | 37.9% |
| b ROE                                 | 4.5%  | 5.0%  | 4.5%  | 2.7%  |

**2 CREDIT RISK**

|  |        |       |       |     |
|--|--------|-------|-------|-----|
| a Gross Finances (Total Finance-net + Non-Performing Advances + Non-Performing Debt Instruments) / Funding | 100.8% | 92.5% | 47.7% | N/A |
| b Accumulated Provisions / Non-Performing Advances   | 0.0%   | 0.0%  | 0.0%  | N/A |

**3 FUNDING & LIQUIDITY**

|  |       |       |        |     |
|--|-------|-------|--------|-----|
| a Liquid Assets / Funding  | 86.3% | 96.5% | 157.3% | N/A |
| b Borrowings from Banks and Other Financial Institutions / Funding | 0.0%  | 0.0%  | 0.0%   | N/A |

**4 MARKET RISK**

|   |       |       |       |      |
|---|-------|-------|-------|------|
| a Investments / Equity                          | 93.9% | 93.0% | 36.1% | 0.0% |
| b (Equity Investments + Related Party) / Equity | 0.0%  | 0.0%  | 0.0%  | 0.0% |

**5 CAPITALIZATION**

|  |       |       |       |       |
|--|-------|-------|-------|-------|
| a Equity / Total Assets (D+E+F)                                      | 46.1% | 46.3% | 49.8% | 99.0% |
| b Capital formation rate (Profit After Tax + Cash Dividend) / Equity | 4.6%  | 5.2%  | 4.7%  | N/A   |

### 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+   |   |
| 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-   |   |
| 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):

- 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

### **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 | 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 | 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)

### **Proprietary Information**

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## Regulatory and Supplementary Disclosures

| Nature of Instrument   | Size of Issue (PKR)     | Tenor                                   | Security   | Book Value of Assets (PKR mln) | Nature of Assets | Trustee                             |
|--|-------------------------|---|--|--------------------------------|------------------|-------------------------------------|
| Rated, Secured, Privately Placed Term Finance Certificate ("PPTFC" or the "Issue") | Up to PKR 1,000 million | Up to 3 years from the date of Drawdown | <p>1. The Green Bonds will be secured against a registered hypothecation charge on existing and future book debts and receivables of PFSL with a 25% margin.</p> <p>2. An amount equal to 1 (One) Quarter's peak profit installment amount shall be required to be maintained throughout the tenor of the green bond issue as the debt service reserve requirement ("Debt Service Reserve Requirement"). The Debt Service Reserve Requirement will be arranged by Karandaaz Pakistan."</p> |                                | Current Assets   | Pak Oman Investment Company Limited |

|                       |                                    |
|-----------------------|------------------------------------|
| <b>Name of Issuer</b> | Parwaaz Financial Services Limited |
| <b>Issue Date</b>     | TBI                                |
| <b>Maturity</b>       | 3-Years from Issue Date            |
| <b>Profit Rate</b>    | 3MK+ Spread yet to be decided      |

### Parwaaz Financial Services Limited | PPTFC | Green Bond | Repayment Schedule | Estimated

| Sr.                  | Due Date Principal/markup | Opening Principal | 3M Kibor | Markup/Profit Rate (3MK + Spread yet to be decided) | Markup/Profit Payment | Principal Payment    | Total                | Principal Outstanding |
|----------------------|---------------------------|-------------------|----------|---|-----------------------|----------------------|----------------------|-----------------------|
|                      |                           | PKR               |          |   | PKR                   |                      |                      |                       |
| Tentative Issue Date | 30-Oct-24                 | 1,000,000,000     |          |   |                       | -                    | -                    | 1,000,000,000         |
| 1                    | 28-Jan-25                 | 1,000,000,000     | 15.97%   | 15.97%  | 39,378,082            | -                    | 43,076,712           | 1,000,000,000         |
| 2                    | 28-Apr-25                 | 1,000,000,000     | 15.97%   | 15.97%  | 39,378,082            | -                    | 43,076,712           | 1,000,000,000         |
| 3                    | 27-Jul-25                 | 1,000,000,000     | 15.97%   | 15.97%  | 39,378,082            | -                    | 43,076,712           | 1,000,000,000         |
| 4                    | 25-Oct-25                 | 1,000,000,000     | 15.97%   | 15.97%  | 39,378,082            | -                    | 43,076,712           | 1,000,000,000         |
| 5                    | 23-Jan-26                 | 1,000,000,000     | 15.97%   | 15.97%  | 39,378,082            | -                    | 43,076,712           | 1,000,000,000         |
| 6                    | 23-Apr-26                 | 1,000,000,000     | 15.97%   | 15.97%  | 39,378,082            | -                    | 43,076,712           | 1,000,000,000         |
| 7                    | 22-Jul-26                 | 1,000,000,000     | 15.97%   | 15.97%  | 39,378,082            | -                    | 43,076,712           | 1,000,000,000         |
| 8                    | 20-Oct-26                 | 1,000,000,000     | 15.97%   | 15.97%  | 39,378,082            | -                    | 43,076,712           | 1,000,000,000         |
| 9                    | 18-Jan-27                 | 1,000,000,000     | 15.97%   | 15.97%  | 39,378,082            | 250,000,000          | 289,378,082          | 750,000,000           |
| 10                   | 18-Apr-27                 | 750,000,000       | 15.97%   | 15.97%  | 29,533,562            | 250,000,000          | 279,533,562          | 500,000,000           |
| 11                   | 17-Jul-27                 | 500,000,000       | 15.97%   | 15.97%  | 19,689,041            | 250,000,000          | 269,689,041          | 250,000,000           |
| 12                   | 15-Oct-27                 | 250,000,000       | 15.97%   | 15.97%  | 9,844,521             | 250,000,000          | 259,844,521          | -                     |
|                      |                           |                   |          |   | <b>413,469,863</b>    | <b>1,000,000,000</b> | <b>1,413,469,863</b> |                       |

## Green Bond Framework | Salient Features

### Introduction

Parwaaz Financial Services Limited (PFSL) is a Non-Banking Finance Company (NBFC) licensed by the Securities and Exchange Commission of Pakistan (SECP) to provide "Investment Finance Services" (IFS). As a subsidiary of Karandaaz Pakistan Limited (KRN), PFSL is committed to empowering small and medium enterprises (SMEs) in Pakistan by delivering innovative financial solutions that prioritize sustainability and inclusive growth. As of August 31, 2024, the company has built a strong portfolio valued at PKR 2.847 billion, catering to 45 borrowers. In line with the mandate of its sponsors and green bond principles PFSL aims to actively address pressing social and environmental challenges, including climate change, environmental degradation, and the promotion of sustainable development.

According to the Global Climate Risk Index, Pakistan is the fifth most vulnerable country to climate change and has the fourth-worst air pollution globally. These alarming statistics underscore the critical need to prioritize adaptation and resilience initiatives. In response, Parwaaz Financial Services Limited (PFSL) is preparing to launch its inaugural Green Bond, valued at PKR 1,000 million. This initiative aims to stimulate the market and attract investments for climate-related projects in the private sector.

The anticipated Green Bond is expected to be transformative, setting benchmarks for local currency issuances and enhancing impact reporting. To promote transparency, PFSL has developed a comprehensive Green Bond Framework that governs its issuances and reporting processes. This framework aligns with the International Capital Markets Association (ICMA) Green Bond Principles and the Securities and Exchange Commission of Pakistan (SECP) Green Bond Guidelines, ensuring accountability and integrity in its sustainability efforts.

### Use Of Proceeds

PFSL shall ensure that the proceeds from the Green Bond are exclusively allocated to finance or refinance environmentally sustainable initiatives and eligible green assets. These initiatives will prioritize key areas, including renewable energy, energy efficiency, clean transportation, sustainable water and wastewater management, and pollution prevention and control. PFSL will provide clear documentation on allocating the bond's proceeds towards Green Projects, ensuring that all eligible projects deliver measurable environmental benefits.

### Process for Project Evaluation and Selection

PFSL has formed a Green Bond Committee tasked with overseeing the eligibility, evaluation, and selection of projects funded by the Green Bond proceeds. This committee will ensure that all projects are in line with the Company's Environmental and Social Governance Policy Guidelines and Framework, as well as its Sustainability and Business Strategy. Meetings will be held at least biannually to review progress and make decisions based on a majority vote.

The Green Bond Committee will include the following members:

- Chief Financial Officer
- Chief Risk Officer
- Head of Business
- Climate Finance Expert

In addition, PFSL plans to enhance its team's climate business expertise to ensure compliance with relevant laws and regulations. The Company will monitor its credit portfolio continuously through regular reports from the business unit on borrower performance and project activities. Furthermore, PFSL's sponsor or designated third parties will conduct an independent portfolio assessment.

### Management of Proceeds

All the proceeds from the Green Bond will be set aside in a separate account. PFSL may invest the unallocated proceeds in a profit-bearing account with any "AA" rated financial institution or government-issued securities and bonds. Furthermore, PFSL will ensure the appropriate identification of green projects, tracking of proceeds' utilization, and establishing a reconciliation mechanism.

### Reporting

PFSL will publish a list of projects that have received or are eligible for funding from the Green Bond proceeds, in accordance with the SECP's Green Bond Guidelines. Public reports on the website will detail various aspects, including the amount of green assets created, sector exposure, details of unutilized proceeds, and the environmental impact of the funded projects. Furthermore, a qualified third party or external auditor will periodically review the reporting and management of proceeds to ensure transparency regarding their utilization.

### External Review

PFSL has aligned its Green Bond framework and underlying instruments with the Green Bond Principles (GBP) administered by the International Capital Market Association (ICMA) and the SECP's Green Bond Guidelines. This alignment has been validated through consultations and a second-party opinion from PET Nature (Pvt.) Ltd, which confirms adherence to the established principles and guidelines.