

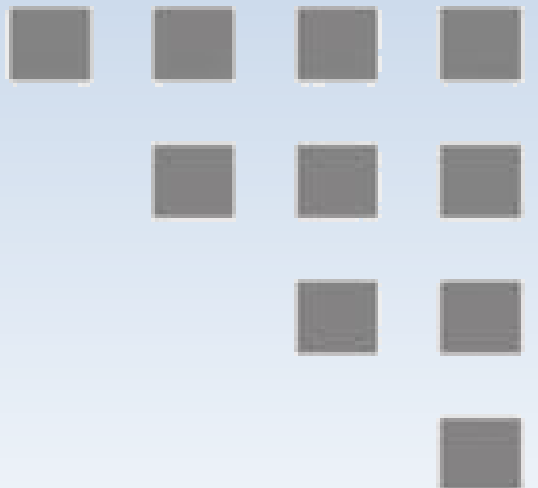
CRITERIA

RATING MODIFIER

Rating Modifiers are refinements to a rating opinions. These usually address the potential for future performance of underlying rating.

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1. RATING MODIFIER

A sound financial ecosystem is critical for functioning of any economy. It is defined by interaction of providers of funds - savers, users of funds - borrowers, financial institutions, and regulators. This system ensures smooth flow of funds between savers and borrowers; wherein, financial institutions provide platform for their interaction. Regulatory oversight safeguards the sanctity of this system. Like all systems, financial system has its own set of challenges. The most prominent being “Risk”; the risk that some participant may not be able to meet its commitments. All participants do their best to manage this risk to maximize their return. This is not possible unless we have independent information on this risk. Here comes expertise of rating agencies, providing independent opinion on credit risk. Flow of funds is only possible when the provider of funds has confidence that user of funds will be able to return these in a timely manner and as committed. Ratings help build this confidence. A higher rating means higher likelihood of timely repayment compared to a low rating. Our ratings are forward-looking and reflect our expectations for future financial and operating performance. However, historical results are helpful in understanding patterns and trends of a company’s performance as well as for peer comparisons.

1.1 Ratings reflect forward-looking opinion on creditworthiness 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.

1.2 Rating modifiers are refinements about a rating opinion that PACRA may use. Rating modifier listings address the potential for future performance of underlying rating. These are annexed after assigning the rating from the rating scale. A rating modifier listing, however, does not mean a rating change is inevitable and rating changes may occur without the ratings having first appended with a modifier.

1.3 PACRA has two types of rating modifiers – rating watch (RW) and rating outlook (Outlook).

2. RATING OUTLOOK

2.1 Rating outlook 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.

2.2 Outlooks have a longer time horizon. PACRA updates all its ratings on an annual basis. Hence, the annual review would also update the latest status of the outlook. Rating outlooks indicate the likely direction of a change in the rating upon the translation of the rating outlook:

- ❖ Positive: Indicates the likelihood that a rating may be raised;
- ❖ Negative: Indicates the likelihood that a rating may be lowered;
- ❖ Stable: Indicates that a rating is not likely to change;
- ❖ Developing: “developing” designation is used for unusual situations in which there are conflicting elements or future events are so unclear that the rating could be raised or lowered or maintained.

2.3 The following points should be considered while interpreting an outlook:

- ❖ An outlook merely indicates PACRA’s view that the rating could be changed if the scenario upon which the rating is based does not transpire. Hence, a very highly rated issuer may have a negative outlook associated with the assigned rating, while an issuer with a low rating may have a positive outlook.
- ❖ An outlook reflects PACRA’s view regarding the trends and risks affecting the long-term rating prospects of a specific issuer. As such, it isn’t necessary for companies within a given industry peer group to have the same outlooks.
- ❖ If an outlook translates into a rating change and an outlook is then assigned to the changed rating, such an outlook is a new outlook yet to translate.
- ❖ It is extremely rare for a rating to be lowered and assigned a positive outlook, or raised and assigned a negative outlook, though it may occur.

3. RATING WATCH

3.1 Rating watch alerts the users to the possibility of a rating change subsequent to or in anticipation of:

- ❖ Some material identifiable event (a merger/demerger, recapitalization, regulatory action, anticipated operating development etc.), or;
- ❖ Deviation from an expected trend.

3.2 Rating Watch is assigned if above mentioned events or trends have occurred or is expected to occur and when additional information is necessary to fully ascertain the rating impact. This 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. PACRA will generally publish updates to identify, as and when required, its most current assessment of the situation.

3.3 Rating Watch listing does not imply that any potential change would be only one notch; it could be one notch, several notches or more, depending on the situation. Also, there might be no change in the rating. PACRA may simply remove the rating from “Rating Watch” or update the rating with the appropriate action at the time of resolution of the key events triggering the rating watch.

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.