RATING METHODOLOGY

CORPORATE RATING

An independent forward looking opinion on the credit worthiness of a corporate

Content

UPDATED: JUNE 2018

The Pakistan Credit Rating Agency Limited

www.pacra.com

0. INTRODUCTION

- *Scope*
- *Rating Framework*
- *Key Drivers*

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. Although risk is an opportunity embedded within the context of uncertainty and all participants do their best to manage this risk to maximize their return. However, confidence on risk quantification and its consequence management 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. PACRA's 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 an entity's performance as well as for peer comparisons.

0.1 Scope: This methodology applies to corporate entities. These are regulated primarily by Securities and Exchange Commission of Pakistan. The regulator has designed a comprehensive set of laws and regulations for corporate entities. This methodology document covers all corporate entities. However, in certain cases, taking lead from distinct features of underlying businesses, PACRA has evolved separate methodologies. In such cases, those methodologies take precedent while this corporate methodology supports.

0.2 Rating Framework: PACRA's framework for assessing credit quality makes use of both qualitative and quantitative analyses. Overall factors are categorized under these key areas.

Corporate Rating Framework

0.3 The quantitative factors helps in achieving objectivity in the rating process while the qualitative side helps in establishing the sustainability of the relevant factors in the foreseeable future. Neither all factors can be quantified nor do quantitative values portray the whole story. PACRA, therefore, seeks to employ a best combination of both and would stick to it to ensure comparability on historical as well as synchronic basis. Meanwhile, PACRA achieves a clearer perspective on relative position, an entity's position is compared with that of others in its peer group. In addition, a sensitivity analysis is performed through several "what if" scenarios to assess an entity's capacity to cope with changes in its operating environment. Analysis typically involves at least three years of operating history and financial data as well as entity and rating agency forecasts of future performance. Meanwhile, the risks associated with the implementation of any large project undertaken by the entity, and its funding and business risks are also evaluated, with relative significance assigned proportionate to the project size. Short-term and long-term ratings are based on an entity's fundamental credit characteristics, a correlation exists between them (see PACRA's Criteria document "Correlation between Short-term and Long-term Rating Scale").

0.4 Key Drivers: Ratings are an assessment of the entity's capacity and willingness to service financial obligations in a timely manner and are intended to be comparable across industry groups. This methodology helps in identifying key rating drivers that may create vulnerability in capacity and willingness to service financial obligations in a timely manner. Key rating drivers are pivotal for assessing the financial flexibility of the entity, which depends, in large part, on the entity's ability to generate cash from operations.

1. PROFILE

- *Structure*
- *Background*
- *Operations*

1.1 Structure: PACRA evaluates the legal structure of the entity. Legal status determines the level of expected stability. In cases where the entity is a large corporate and has a complex business structure, there are unique challenges in evaluating credibility of the entity. PACRA considers the characteristics of the entity as at times a public company structure might operates like a private company. Meanwhile, the level of perceived stability gradually increases from a sole proprietor to a public limited company.

1.2 Background: PACRA looks at the progress of the entity since its inception in order to understand the evolution of the entity from where it started to where it currently stand at. The background of the entity help PACRA in assessing how and through what means the entity has achieved the desired expansion. However, it also help PACRA in establishing the scope of work in terms of its complexity.

1.3 Operations: The assessment of operations of the entity depends on the type of the industry and the stage the business is in. Here PACRA reviews the diversity, geographic spread of operations, and diversification of major customers and suppliers. Later, PACRA places the entity within its relative universe to evaluate critical factors that provide competitive advantage. Size may be an important factor if it confers major advantages in terms of operating efficiency and competitive position. In commodity industries, size at times take lead, since the ability of one participant to influence price is usually not significant and cost position brings advantages.

2. OWNERSHIP

- *Structure*
- *Stability*
- *Business Acumen*
- *Financial Strength*

2.1 Structure: The assessment of ownership begins with an in-depth study of the shareholding mix in order to disentangle structure of the ownership. This process includes analyzing the detailed chart. Key factors that are considered for this purpose, inter-alia include, i) shareholding structure which includes whether the individual own the entity directly or indirectly, ii) foreign or local shareholders, iii) whether the entity is owned by a single group or through a combination of entities and individuals, and iv) part of a group or a standalone entity. All these deliberations are done to identify the man of the last mile. Secondly, analyzing shareholding structure is also important as clarity on ownership generally lacks in a joint venture agreement.

2.2 Stability: In order to analyze the stability of the ownership, a particularly important factor to be taken into account is the succession planning. A very important part of our background analytical work is an attempt to assess whether, and under right of succession, an entity future prospects would be supported, and by whom. This is particularly relevant for stability in case of a family owned businesses and joint ventures, whose failures could have a contagious effect on the sustainability of the entity's future prospects.

2.3 Business Acumen: Here PACRA gauge the Sponsor's business skills. Having a strong business skill set has been critical for the sustainable success of the entity. PACRA analyze the business acumen through two primary areas; i) Industry-specific working knowledge and ii) Strategic thinking capability. Meanwhile, a deep and applicable understanding of the system is critical in order to determine how a business achieves its goals and objectives. The scope includes the assessment and understanding of how the apex of the entity think about and successfully make the right business decisions.

2.4 Financial Strength: PACRA analyzes the ability and willingness of the major shareholders to support the entity both on a continuing basis, and support in times of crisis. Here, PACRA gives due importance to, i) the behavior of the major shareholders to provide timely and comprehensive support in times of need in the past, ii) prospective view of key shareholders, incase such need arises, iii) other businesses of sponsors, and iv) the level of commitment of the major shareholder with the entity in providing capital support. In case of no explicit commitment, PACRA attempts to form a view on availability of likely support. The scope for other business of sponsors includes overall profiling of the key sponsor in the context of identifying the resources they have, outside the entity.

Information Required

- *Shareholding Pattern*
- *Details of sponsors' other businesses*
- *Sponsor's financial information*
- *Past pattern of sponsor support*

3. GOVERNANCE

- ***Board Structure***
- ***Members' Profile***
- ***Board Effectiveness***
- ***Financial Transparency***

3.0 PACRA's assessment of governance involves both systematic analyses of governance data and information, and the more contextual reviews of an entity's governance practices. PACRA considers four main factors while assessing the board structure of an entity: (i) board structure, (ii) members profile, (iii) board effectiveness, and (iv) financial transparency.

3.1 Board Structure: This comprises assessment of board on various criteria including overall size, presence of independent members, association of board members with the entity, overall skill mix and structure of committees of the board. Size of the board may vary as per the scope and complexity of the business operations of the entity. As too small board is not considered good, similarly reaching on a decision in an effective and efficient manner may not be possible in case of a larger board. A healthy composition of board includes the presence of independent / non-executive members having limited relationship with the sponsoring group of the entity. Meanwhile, same individual holding chairman and CEO positions is considered weak governance practice. Thus these should be separate persons. The chairman is expected to have a non-executive role. Assessment of board as a whole Compliance of code of corporate governance is also examined. Here PACRA also examines the independence of management from major shareholders. Lastly, PACRA evaluate number of board committees, their structure, and how these committees are providing support to the BoD. The board with higher total number of members should have higher number of committees in place to achieve efficiency in performing role of the board.

3.2 Members' Profile: PACRA collects information regarding profile and experience of each board member. This helps in forming an opinion about the quality of overall board. Moreover, diversification in terms of knowledge background and experience is considered positive. However, a fair number of board members should have related experience. Here, director's trainings conducted by the entity are considered good. This is expected to equip the board members in fulfilling their role in an effective manner.

3.3 Board Effectiveness: PACRA considers the role of the board is to work with management in steering the entity to its performance objectives and to provide critical and impartial oversight of management performance. Board members' attendance and participation in meetings is considered a measure to assess the effectiveness. Moreover, PACRA analyses the type and extent of information shared with the board members, and quality of discussions taking place at board and committee level. Effective oversight requires frequent sharing and detailed information than required by statue. Meanwhile, PACRA also review the number of board meeting held during the year as number of board meetings should be justified with the number of issues/matters arising.

3.4 Financial Transparency: Quality of governance framework is also assessed by the procedures designed by the board to ensure transparent disclosures of financial information. The board may establish controls to ensure transparency through strengthening the role of audit committee, the quality of internal audit function, and effectiveness of external audit.

Information Required

- *Profile of BoD members*
- *Details of committees including TORs*
- *Minutes of the board meetings*
- *Information packs for the boards (MIS)*
- *Auditor details*

4. MANAGEMENT

- *Organizational Structure*
- *Management Team*
- *Effectiveness*
- *MIS*
- *Control Environment*

4.0 Good quality management, effective systems and controls, and well-defined strategy are essential ingredients for a successful entity.

4.1 Organizational Structure: The assessment of management starts with PACRA conducting an in-depth analysis of organizational structure of the entity. On a standalone basis, PACRA looks into the hierarchal structure, reporting line, dependence of the management team on one or more persons, coherence of the team. However, PACRA also places the organizational structure in the entity's relative universe for comparison in order to form opinion of optimal structure within the sector in context of its complexity.

4.2 Management Team: Analysis of management includes evaluating experience profile of key individuals, management's track record to date, in terms of building up sound business mix, maintaining operating efficiency and strengthening the entity's market position. Although judgment about management is subjective, performance of entity over time provides a more objective measure. PACRA analyses the quality and credibility of management's strategy, examining plans for internal or external growth. When evaluating future plans, significant credit is given for delivering on past projections and sticking to strategies.

4.3 Effectiveness: Management effectiveness plays a significant role in empowering the organization through positive results. Effectiveness makes decision making process systematic. Robustness of control systems is considered a reflection of strong management. Number of management committees are established to monitor performance and assure the adherence to the policies and procedures. PACRA measures the effectiveness of the entity by forming an opinion on the quality of management committees. PACRA further assesses whether management has developed any critical success factors (CSF) to evaluate performance of various business segments. The efficacy of these CSF is gauged. Thus PACRA conducts a qualitative review of policies and procedures, technology infrastructure to assess the effectiveness and strength of the management system.

4.4 MIS: One of the key tools available to the management to effectively run an organization is the information provided to it. PACRA closely monitors the type and frequency of information used by the management. The critical aspect is for the information to be concise, clear, and timely so the management can understand and respond accordingly. System generated – real time based – MIS reports add more efficiency in performance monitoring. PACRA evaluates the quality and frequency of the MIS reports used by the department heads.

4.5 Control Environment: Another testimonial of the strong oversight and effective management is the control environment. PACRA considers that a good entity should be driven by processes instead of being dependent upon individuals. Therefore, evaluation of the quality of policies and procedures and invariable adherence to those policies and procedures remain pivotal in the assessment of the control environment. Segregation of duties and occupancy of the all positions would provide comfort as to the minimization of operational risk. With the passage of time, the importance of information technology infrastructure has increased tremendously. The entities that take advantage of advanced I.T. solutions deliver comparatively better on many fronts. PACRA, therefore, assesses the quality of the I.T. infrastructure and the breadth and depth of activities performed by this division. Herein, analysis of the integration of the entity's operations into technology would be pivotal. Built-in controls should demonstrate that conflict of interest is avoided.

Information Required

- *Latest Organogram*
- *Profile of senior management*
- *Redundancy pattern*
- *MIS reports*
- *Management meeting minutes*
- *Entity's policies and SOP's*

5. BUSINESS RISK

- ***Industry Dynamics***
- ***Relative Position***
- ***Revenues***
- ***Margins***
- ***Sustainability***

5.1 Industry Dynamics: The process for anchoring corporate ratings of the entity builds on PACRA's understanding of the industry dynamics. This understanding, following an in-depth research approach, is documented as a sector study. The analysis captures the placement of the local industry in the international context to see the points of identity and distinction. In points of identity, the risks and challenges identified for the international players are re-evaluated for the local players, with a view to see whether the local players have established effective mitigant's against those risks and taken due measures to meet the challenges. At the same time, we identify the risks and challenges specific to the local context of the industry. While conducting the analysis, PACRA takes a view on the industry alone, independent of the market players. This exercise helps

PACRA to form a view on industry's significance in the economic environment of the country, its attractiveness to entrepreneurs, barriers to entry, and the power of suppliers and customer.

5.1.1 PACRA explores the possible risks and opportunities in an entity resulting from social, demographic, regulatory and technological changes. It considers the effects of geographical diversification and trends in industry expansion or consolidation required to maintain a competitive position. Industry overcapacity is a key issue because it creates pricing pressure and, thus, can erode profitability. Also important are the stage of an industry's life cycle and the growth or maturation of product segments, which determine the need for expansion and additional capital spending. In rating cyclical entities, PACRA analyzes credit protection measures and profitability through the cycle to identify an entity's equilibrium or mid-cycle position. The primary challenge in rating a cyclical entity is deciding when a fundamental shift has occurred in financial policy or the operating environment that would necessitate a rating change.

5.1.2 PACRA determines an entity's rating within the context of each its industry fundamentals. Industries that are in decline, highly competitive, capital intensive, cyclical or volatile are inherently riskier than stable industries with oligopolistic structures, high barriers to entry, national rather than international competition and predictable demand levels. Major industry developments are considered in relation to their likely effect on future performance. The inherent riskiness and/or cyclicality of an industry may result in an absolute ceiling for ratings within that industry. Therefore, an entity in such an industry is unlikely to receive the highest rating possible ('AAA') despite having a conservative financial profile, while not all entities in low-risk industries can expect high ratings. Instead, many credit issues are weighed in conjunction with the risk characteristics of the industry to arrive at an accurate evaluation of credit quality.

5.2 Relative Position: Relative position reflects the standing of the entity in the related market. The stronger this standing is, the stronger is the entity's ability to sustain pressures on its business volumes and profit margins. This standing takes support from two major factors including a) market share, b) growth trend.

Market Share: *Market size represents the entity's penetration in the chosen market. Size is advantageous as it provides ability to acquire larger business, pricing power and better expense management. There is a positive correlation between an entity's absolute and relative size and its market position and brand value. The large entities exercise greater power over the pricing, while ensuring commensurate profits. Small entities struggle to obtain business; and with less flexibility in the cost structure, their profits remain low. While absolute size is important, it is basically the relative proportion which provides a clear yardstick to analyze the comparative strength of the market players. The more distant a player is from the average on the positive side, the stronger is its ability to reflect the characteristics just mentioned. In a dynamic industry, which is not characterized by concentration, PACRA believes that relative size would better capture the strength of the entity's standing in the related market.*

Growth Trend: *While evaluating the size, PACRA looks at the rate of growth. Growth is important as it ensures that the entity continues to have the ability to meet the industry's benchmarks. As the industry grows, it uplifts the scale of its operational context. This reflects in the ability of the players to invest in human resource, upgrade the control environment, enhance the product slate, increase the outreach and improve the quality of product/service. To lag the industry's growth trend means to remain short on these avenues, putting pressure on the market position.*

5.3 Revenues: In measuring earning's quality of an entity, diversification and stability are very important factors. An entity with a diverse product slate with more than one revenue streams is considered better than an entity with a concentrated earning profile. PACRA sees concentration at both product and customer levels. In addition, the analysis of target markets to which an entity serve s forms a part of the assessment. Stability is measured through historical trend analysis of the entity's revenues.

5.3.1 Diversification: Diversification is a holistic perspective. It encompasses many aspects which govern the business model of the entity. Diversification is utmost desirable. The rationale for this is that diversification enhances the ability to meet challenges, both present and upcoming. The lack of diversification gives rise to concentration risk, reflecting vulnerability of the entity to few elements. Concentration is considered a major negative because it limits the entity's ability to ensure sustainability in its business let alone expand it. At the same time, it enhances the risk of disruption in the operations if the area of concentration goes wrong. This does not entail that a company specializing in a certain product/segment would be put at a disadvantage. The disadvantage would only arise, if the company's business gives rise to concentration risk.

Segments
Products
Customers
Geography

5.4 Margins: In addition to an analysis of the earnings profile of the entity, overall performance measurement encompasses its cost structure and profitability. While PACRA performs traditional ratio analysis, e.g. Gross margin, Operating margin, Net profit margin, due weightage is given to EBITA margins. This is due to its importance as a cash flow generation measure. Overall analysis of business margins suggests the level of strength of the entity's business profile in comparison to its peers.

Earnings – Important Ratios
Turnover Growth (%)
Gross Margin (%)
Operating Margin (%)
EBITDA Margin (%)
Net Non-core Income (Expenses) / Net Income (%)
Cash Conversion Efficiency (%) Net Profit Margin (%)

5.5 Sustainability: PACRA evaluates the strategy of the management and the viability of designed path to reach to the goal. Earnings prospects are monitored, based on budgets and forecast prepared by the management. A reality check is performed while analyzing underlying assumption taken by the management as well as management's track record in providing reliable budgets and forecasts.

Information Required

- *Financial statements of the entity for the last three years and latest four quarters*
- *Current capacity utilization of the plant and its trend for next three years*
- *Breakup of the geographic sales*
- *Marketing and distribution network*
- *Market share (%) along with marketing strategy*
- *Top five suppliers along with respective contribution*
- *Top ten largest customers, separately for each business segment, along with contribution*

6. FINANCIAL RISK

- *Working capital*
- *Coverages*
- *Capitalization*

6.0 In its financial risk analysis, PACRA emphasizes cash flow measures of working capital, coverages and capitalization. Cash flows from operations provide an entity with more secure credit protection than dependence on external sources of capital. PACRA's approach gives more weight to cash flow measures than equity-based ratios. The latter rely on book valuations, which do not always reflect current market values or the ability of the asset base to generate cash flows. Measures such as debt-to-equity are less relevant to a credit analysis because they are based on formalized accounting standards, which are subject to varying interpretation. As the equity account is presented at book value, it does not provide the most accurate assessment of an entity's asset base to generate future cash flows. Thus, asset values may be overstated or understated, while the entity's liabilities remain close to fair market value. However, use of such ratios is prevalent in many parts of the world and they have relevance in helping investors understand an entity's financial profile. The entity may consider that these transactions provide the best return of available investments, and the reduction in book equity has no effect on its cash flow generating ability.

6.0.1 Notwithstanding the above discussion, the accruals or fair-value based measures are not disregarded entirely. In entity financial analysis, PACRA considers many key measures that are not captured in the cash flow statement, as many financial events that do not have an immediate cash flow impact, may have medium-term and long-term implications for cash flows for which the book adjustments serve as a useful indicator. Examples may include marking of assets to market, taking an impairment charge through a major write-down of goodwill or the entry into a long-term derivative. Other book adjustments – a write-down in inventory, for example – could signal a much more immediate impact on the entity's financial prospects. Another limitation of the cash flow perspective can be observed in the case of movements in foreign currency exposure that are typically not revealed from the cash flow statement, but would be evident from income statement measures and/or the reconciliation of the opening and closing balance sheet data.

6.1 Working Capital: PACRA's financial risk analysis assign significant importance to an entity's working capital management. In its assessment, PACRA evaluates working capital cycle of the entity. Lengthy working capital cycle may dent the entity financial health in times of even slight external (economic or industry specific) shocks. On the other side, evaluation of funding mix to finance working capital needs becomes important. Higher the funding from equity or profit retention, lesser would be reliance on short-term borrowing by the entity. Thus high level of cushion in short-term assets vis-à-vis short-term borrowings is seen positively.

Important Ratios
Gross Working Capital Cycle (days)
Net Working Capital Cycle (days)
Short-term Leveraging (%)
Current Ratio

6.2 Coverages: Key elements in determining an entity's coverages are its cash flows, which affect the maintenance of operating facilities, internal growth and expansion, access to capital and the ability to withstand downturns in the business environment. The availability of funds to repay debt without external funding is given special consideration. PACRA also examines capital expenditures to distinguish among maintenance amounts necessary to support an entity's competitive position, regulatory requirements and discretionary expenditures that support growth. PACRA's analysis focuses on the stability of earnings and the continuity of cash flows from the entity's major business lines. Sustained cash flow provides assurance of the entity's ability to service debt and finance operations and capital expansion without sizeable amounts of external funding.

Important Ratios
EBITDA/Gross Interest (%)
FCFO/Gross Interest (%)
FCFO/Gross Interest+Current maturity of LT Loans (%)
Debt Payback (years)

6.3 Capitalization: PACRA analyzes capital structure to determine an entity's reliance on external financing. To assess the credit implications of an entity's leverage, several factors are considered, including the nature of its business environment and the funds flows from operations. As industries differ significantly in their need for capital and capacity to support high debt levels, the assessment of leverage in the capital structure is based on industry norms.

Financial Flexibility: *Having financial flexibility allows an entity the latitude to meet its debt service obligation and manage stress without eroding credit quality. In terms of debt, the more conservatively capitalized an entity, the greater its flexibility. In addition, a commitment to maintaining debt within a certain range allows an entity to cope with the impact of unexpected events on the balance sheet. Other factors that contribute to financial flexibility are the ability to redeploy assets and revise plans for capital spending, strong banking relationships and equity markets access. Committed, multiyear bank lines provide additional strength. The inherent choice of dividend expense and capex investments may warrant an examination of reduction / suspension of one or both for stress cases.*

Project risk evaluation: *In the case of entities implementing a project of significant size, PACRA evaluates the risks associated with that project, and factors in these risks while arriving at the overall rating. The relative size of the project as compared with the overall operations of the rated entity would indicate the relative significance of the project risk within the overall rating opinion. The project's business risk, particularly in relation to the entity's existing product line, and the management's track record in implementing such projects are key factors. An assessment is made of the implementation risks such as time and/or cost over-runs, technology risk, and the impact of these on project's viability. Furthermore, funding risks with regard to project's capital structure and funding arrangements are also evaluated.*

Information Required

- *Optimal inventory levels*
- *Aging analysis of the receivables*
- *Payment terms with creditors*
- *Complete schedule of all the long term borrowings*
- *Bank wise detail of available credit lines*
- *Financial projections, along with detailed assumptions; including debt acquisition and capex*
- *Nature and status of intergroup lending and borrowing positions*

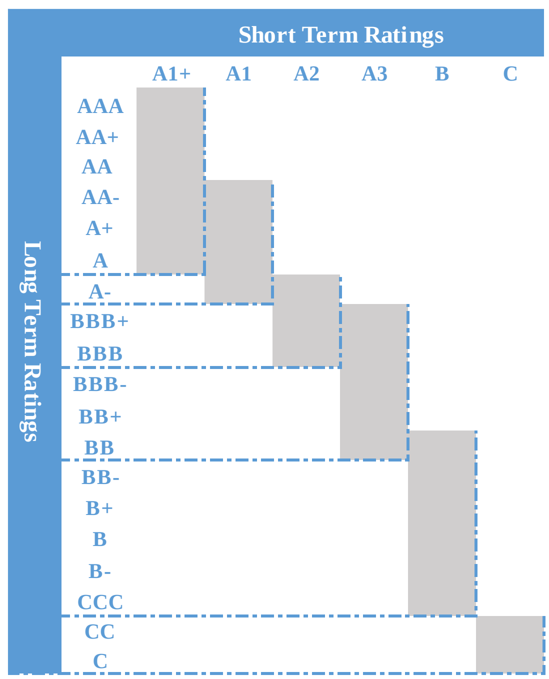
Rating Scale

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

Short Term Ratings	
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.
B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
C	An inadequate capacity to ensure timely repayment.



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 surveill the opinion due to lack of requisite information.

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