

Bank Alfalah Limited

CREDIT RATING REPORT | JUN-25



Rating History

Dissemination Date	Long-Term Rating	Short-Term Rating	Outlook	Action	Rating Watch
28-Jun-25	AAA	A1+	Stable	Maintain	-
28-Jun-24	AAA	A1+	Stable	Upgrade	-
24-Jun-23	AA+	A1+	Stable	Maintain	-
25-Jun-22	AA+	A1+	Stable	Maintain	-
26-Jun-21	AA+	A1+	Stable	Maintain	-

About the Entity

BAFL is majority-owned by the Abu Dhabi Group (The Group – sponsors of the Bank based in Abu Dhabi, UAE), with a stake of 56.06%. Other stakeholders include Mutual Funds, NBFCs, FIs, DFIs, individuals (43.82%), and executives (0.12%). The Abu Dhabi Group comprises prominent members of the UAE's ruling family and leading businessmen with global investments. BAFL's Board consists of nine members, including the President & CEO and eight Non-Executive Directors. Out of the eight Non-Executive Directors, four represent the Abu Dhabi Group, while the remaining three members serve as Independent Directors, including one female Director. In 2024, Mr. Efstratios Georgios Arapoglou, an accomplished corporate advisor and Chairman of Bank of Cyprus – joined the Board, bringing with him a wealth of international experience across banking, finance, and shipping. Mr. Atif Bajwa, Bank's President & CEO, brings 40 years of executive leadership experience in the banking sector.

Rating Rationale

Bank Alfalah Limited (BAFL) has maintained a strong and consistent growth trajectory since its inception nearly three decades ago. Evolving from a mid-sized institution into one of the country's leading large banks, BAFL reported a substantial deposit base of PKR 2,136.9bln as of (Dec 2023: PKR 2,084.9bln). This growth reflects a deliberate and strategic shift in its deposit mobilization approach, with a clear focus on deposit quality and maintaining a positive spread—both of which are critical for long-term sustainability. The Bank's sustained performance across multiple dimensions underpins its current credit rating. These include robust financial fundamentals, strategic execution, and a demonstrated ability to navigate a dynamic and competitive banking environment. The industry landscape remains challenging, and BAFL's management is expected to remain agile and responsive to maintain its relevance and positioning among top-tier institutions. The Bank benefits from a strong ownership profile and sound governance practices, which provide critical support to its overall creditworthiness. Additionally, the rating reflects BAFL's experienced management team, prudent risk management framework, expanding digital footprint, growing market share, diverse product portfolio, and a sizeable share in the remittances and trade business.

Key digital initiatives undertaken in 2024 include the revamp of the Bank's mobile application 'Alfa' and its e-commerce platform 'AlfaMall', featuring enhanced user interfaces and upgraded banking functionalities. The materialization of the digital initiatives would be reflected going forward. On the lending side, BAFL reported gross performing advances of PKR 1,113.9bln (CY23: PKR 739.7bln), marking a significant increase over the prior year. Credit quality remained stable, with an infection ratio of ~3.7% (CY23: 4.8%). Despite the challenges posed by declining interest rates, increased taxation, and the lingering effects of elevated inflation, the Bank has successfully sustained its profitability. During CY24, BAFL recorded a net profit of PKR38.3bln, compared to PKR 36.5bln in CY23. The Bank's Capital Adequacy Ratio (CAR) improved to 17.96% (CY23: 16.74%), indicating a strengthened capital base. On the expense side, non-markup expenses to total income rose to 50.4% (CY23: 43.4%), primarily driven by inflationary cost pressure, branch expansion, and marketing activities for remittances. The Bank has also retained presence in allied financial services, including asset management, and insurance. Going forward, BAFL aims to enhance its SME footprint, expand in supply chain and cash management solutions, and further strengthen its home remittance corridor.

Key Rating Drivers

The ratings are dependent on the sustained strength of key performance and risk indicators in line with 'AAA' benchmarks. Any material weakening in these fundamentals may impact the ratings.

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- Methodology | Rating Modifiers | Apr-25



RELATED RESEARCH

- Sector Study | Commercial Banks | Jun-25



RATING ANALYST

- Madiha Sohail
- madiha.sohail@pacra.com
- +92-42-35869504
- www.pacra.com

Bank Alfalah Limited

RATING ANALYSIS



Profile

Structure	Bank Alfalah Limited (hereinafter referred to as “BAFL” or the “Bank”) was incorporated as a public limited company in 1992 and is listed on the Pakistan Stock Exchange (PSX).
Background	Bank Alfalah Limited, established in 1992, has experienced remarkable growth to become a prominent private commercial bank in Pakistan. The Bank holds a significant position in credit card issuance and acquisition, SME, digital banking, and remittances, and is recognized as one of the major players in Islamic Banking in the country.
Operations	The Bank provides financial solutions to consumers, corporations, institutions, and governments through a broad spectrum of products and services, including corporate and investment banking, consumer banking and credit, commercial, SME, agri-finance, Islamic, and asset financing. At Dec24, the Bank has a network of 1,141 domestic branches (Dec23: 1,009 branches). Out of these, 707 are conventional (Dec23: 650), and 423 are Islamic (Dec23: 348). The Bank also operates 10 overseas branches (Dec23: 10), along with 1 offshore banking unit (same as Dec23).

Ownership

Ownership Structure	BAFL is majority-owned by the Abu Dhabi Group (The Group – sponsors of the Bank based in Abu Dhabi, UAE), with a stake of 56.06%. Other stakeholders include Mutual Funds, NBFCs, FIs, DFIs, individuals (43.82%), and executives (0.12%). The Bank's Board has approved the sale of its Bangladesh operations to Bank Asia Limited, subject to regulatory approvals and final agreements (Ref: LDN/CA/124/25 dated May 29, 2025).
Stability	The Group has retained the majority shareholding, for the last many years and is expected to remain the same in the foreseeable future. Bank Alfalah Limited, as a holding company, maintains strategic investments in subsidiaries and associates across diverse sectors, including asset management, insurance, foreign exchange, and energy. Alfalah Currency Exchange is the subsidiary of the Bank, while associated companies comprise Alfalah Asset Management, Alfalah Insurance, and Sapphire Wind Power. The Bank also operates internationally in Afghanistan, Bangladesh, Bahrain, and UAE.
Business Acumen	The Group comprises prominent members of the UAE's ruling family and leading businessmen of the UAE. Its investment portfolio spans multiple countries, including Pakistan, Bangladesh, the Middle East, Europe, and the United States.
Financial Strength	Sponsors, having close ties with the ruling family of UAE, possess strong financial ability to support BAFL in case of need.

Governance

Board Structure	BAFL's Board consists of nine members, including the President & CEO and eight Non-Executive Directors. Out of the eight Non-Executive Directors, four represent the Abu Dhabi Group, while the remaining three members serve as Independent Directors, including one female Director.
Members' Profile	The Chairman of the Board of Directors, His Highness Sheikh Nahayan Mabarak Al Nahayan is a prominent member of the ruling family of Abu Dhabi, United Arab Emirates. Currently, His Highness is UAE Cabinet Member and Minister of Tolerance and Coexistence. Mr. Abdulla Nasser Hawaileel Al Mansoori is a prominent businessman of Abu Dhabi, UAE. Presently, he is the Chairman of the Board of Al Nasser Holdings and Group Companies which have diversified activities ranging from Oilfield Services, Retailing, Investments, Manufacturing Industries, Real Estate and Food & Beverage. He has served on the Board since 1997. Mr. Abdulla Khalil Al Mutawa is serving in the position of H.E. Sheikh Suroor Bin Mohammad Al Nahyan Private Office Advisor. He has been associated with the Bank for over 27 years. Mr. Khalid Mana Saeed Al Otaiba is the office Manager of His Excellency Dr. Mana Saeed Al Otaiba (Personal Advisor to His Highness, the President of UAE). He has served on

the Board since 2003. **Dr. Ayesha Khan** is an expert in the field of corporate strategy and institutional growth in emerging markets. She is currently the CEO and Regional Managing Director at Acumen. **Dr. Gyorgy Tamas Ladics**, CEO of Silverlake Symmetri, has over 30 years of international banking and technology leadership. **Mr. Khalid Qurashi**, a retired banker, has held various international roles at Citibank and currently serves on the Board of HBL UK. **Mr. Efstratios Georgios Arapoglou**, a corporate advisor and Chairman of Bank of Cyprus, joined the Board in 2024 with broad experience in finance and shipping.

Board Effectiveness

To ensure effective and independent oversight of the Bank's overall operations, the Bank has constituted seven committees namely, i) Audit Committee, ii) Human Resource, Remuneration & Nomination Committee, iii) Risk Management Committee, iv) IT Committee, v) Strategy and Finance Committee, vi) Real Estate Committee, and vii) Crisis Management Committee.

Financial Transparency

The external auditors of the Bank, A.F Ferguson, and Co., Chartered Accountants, have issued an unqualified audit opinion pertaining to financial statements for CY24.

Management

Organizational Structure

BAFL has a lean organizational structure that clearly defines responsibilities, authority, and reporting lines with proper monitoring and compliance mechanism.

Management Team

The Bank's senior management team comprises experienced bankers having national and international exposure. **Mr. Atif Bajwa** joined Bank Alfalah as President & CEO in 2020. Mr. Bajwa started his professional journey with Citibank in 1982, and has since held numerous senior positions in large local and multinational banks, including President & CEO of MCB Bank and Soneri Bank. **Ms. Anjum Hai** is currently working as the CFO of the Bank. She joined Bank Alfalah as Chief Financial Officer in November 2017. She has over 28 years of work experience across financial institutions like Soneri Bank Limited, Citibank N. A. Pakistan, Faysal Bank Limited, and A. F. Ferguson & Company. She is a Fellow Member of the Institute of Chartered Accountants of Pakistan as well as a Fellow Member of the Associated Chartered Certified Accountants. **Mr. Faisal Rabbani** joined Bank Alfalah in November 2018. He has been heading Credits, Risk Management, Commercial Banking, Trade Finance, and Cash Management products. He has over 29 years of extensive banking experience with renowned financial institutions like Dhafi Islamic Bank (UAE), Noor Bank (UAE), Commercial Banking Group (UAE), and Citibank Pakistan. He holds a Master's degree in Business Administration from the IBA, Karachi.

Effectiveness

Bank Alfalah Limited has three main management committees for the purpose of strategic planning and decision-making under the Chairmanship of the CEO: (a) Central Management Committee; (b) Central Credit Committee, and (c) Digital Council.

MIS

The Bank uses Temenos (T-24) as its core banking software across all branches and head office operations.

Risk Management Framework

The Bank's risk management framework has a well-defined organisational structure for effective management of credit risk, market risk, liquidity risk, operational risk, information security risk, trade pricing, environment and social risk. The Board Risk Management Committee is appointed and authorized by the Board of Directors to assist in the design, regular evaluation, and timely updating of the risk management framework of the Bank, and the Board Information Technology Committee plays a supervisory and advisory role for IT, Information Security and Digital Banking functions within the Bank.

Business Risk

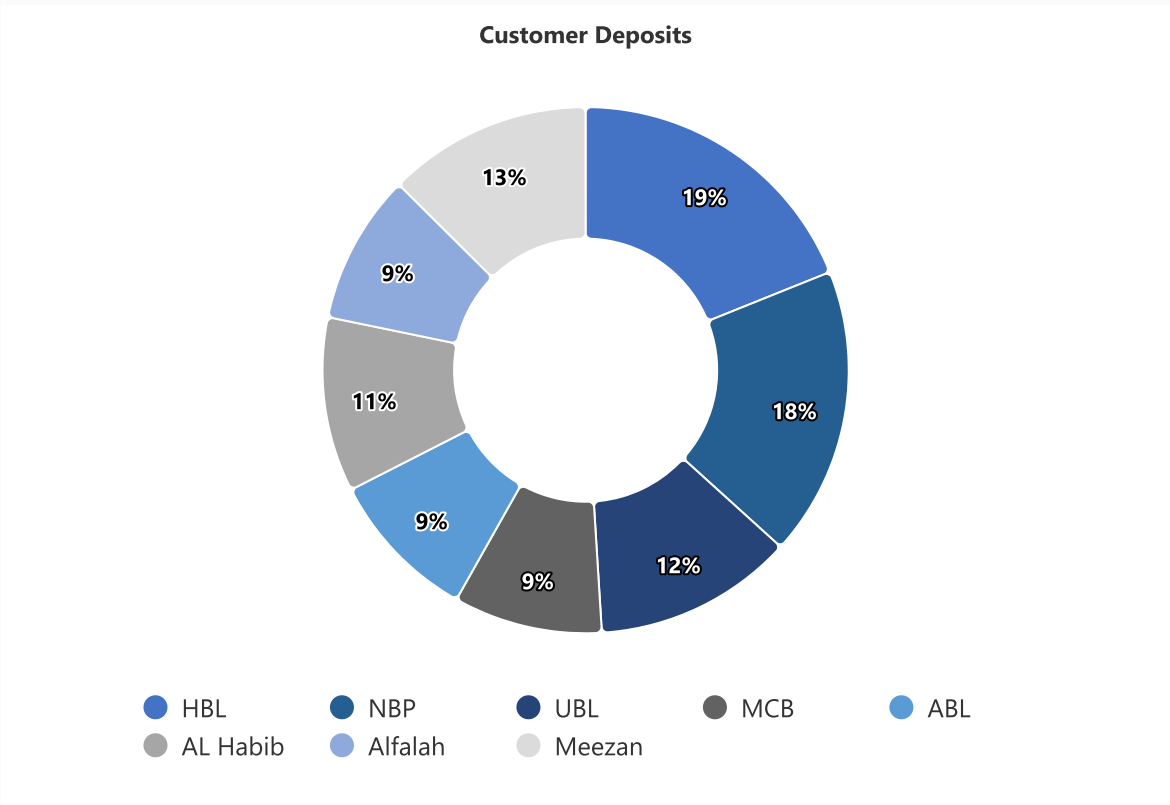
Industry Dynamics

During CY24, Pakistan's Banking sector's total assets posted growth of ~15.81% YoY whilst investments surged by ~14.50% to PKR ~29.79trln (Dec23: PKR ~26trln). Gross Advances of the sector recorded growth of ~29.11% to stand at PKR ~16.914trln (Dec23: PKR ~13.101trln). Non-performing loans witnessed an increase of 7.34% YoY to PKR ~1,068bln (Dec23: ~995bln). The CAR averaged at 20.6% (Dec23: 19.7%). Looking ahead, given the expected monetary rate cut and high cost environment, Banks are likely to sustain some dilution in profitability by CY25. **(Source: SBP Compendium)**

Relative Position

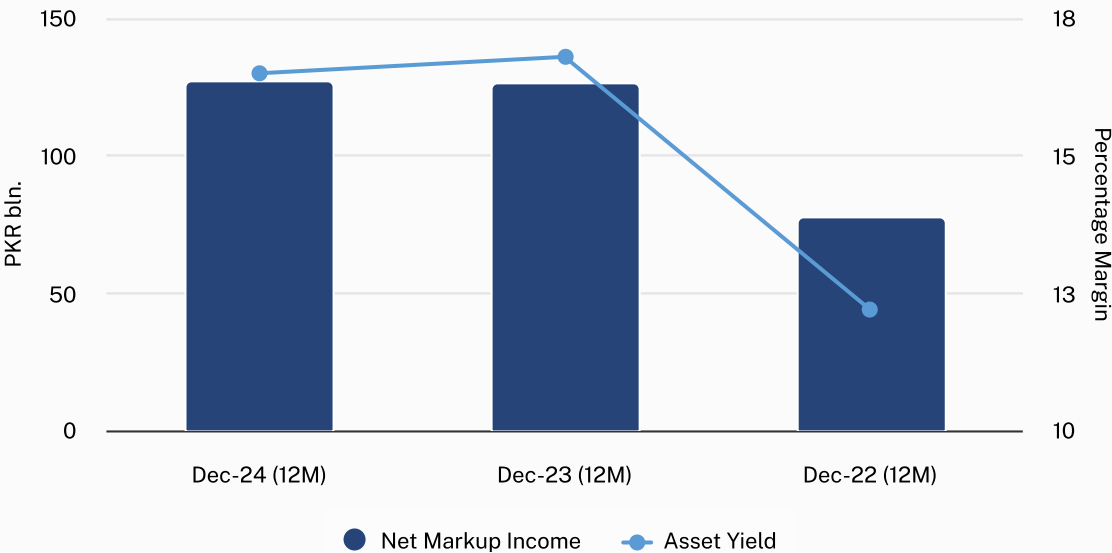
BAFL is ranked among the large Banks in the country. At Dec24, BAFL recorded the growth in total deposits clocking in at 2.5%, which led to a slight decrease in its industry-wide system share to 7.0% (Dec23: 7.3%). Among

the large Banks, BAFL holds 9% market share.



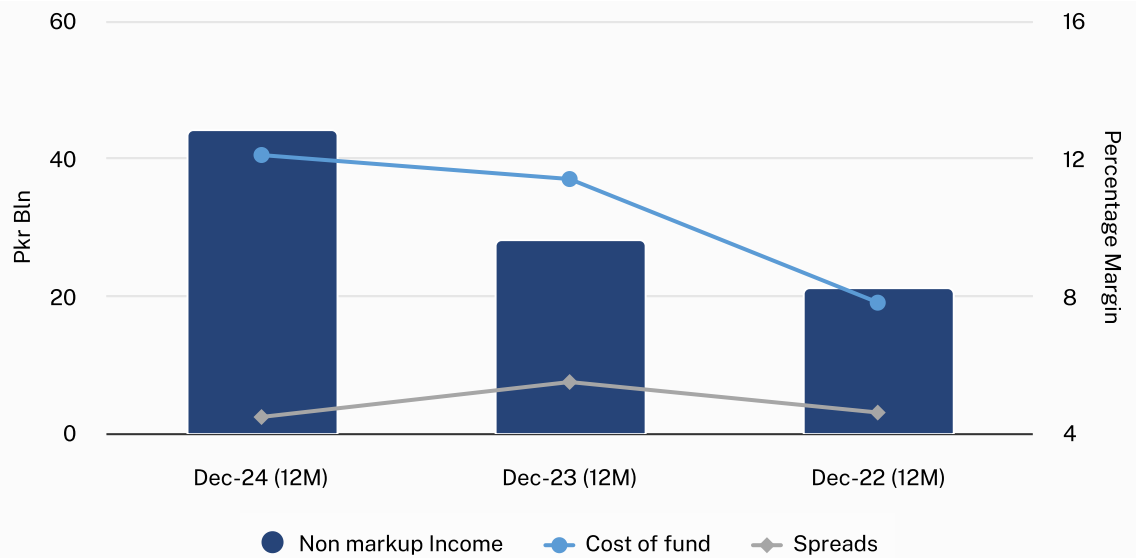
Revenues

During CY24, BAFL's net markup-income stood at PKR 126.7bln (CY23: PKR 126.1bln) attributable to increased markup earned amounting to PKR 506.8bln (CY23: PKR 411.9bln). The increase in markup earned was primarily driven by higher income from investments, debt instruments, and other earning assets. The Bank's asset yield stood at 16.5% (CY23: 16.8%).



Performance

During CY24, non-markup income increased by 54.8% to stand at PKR 44.5bln (CY23: PKR 28.8bln) with a major contribution from fee & commission income clocking in at PKR 17.6bln (CY23: PKR 15.8bln) followed by foreign exchange income at PKR 9.5bln (CY23: PKR 9.2bln). The non-markup income to total income was recorded at 25.9% (CY23: 18.5%). The non-markup expense increased to PKR 86.3bln (CY23: PKR 67.2bln). The provisioning charges declined to PKR 1.8bln (CY23: PKR 9.4bln). The net profitability increased to PKR 38.3bln (CY23: PKR 36.5bln). Consequently, the Bank's spread slightly decreased to 4.5% (CY23: 5.5%). Similarly, the cost of funds also increased to 12.1% (CY23: 11.4%).



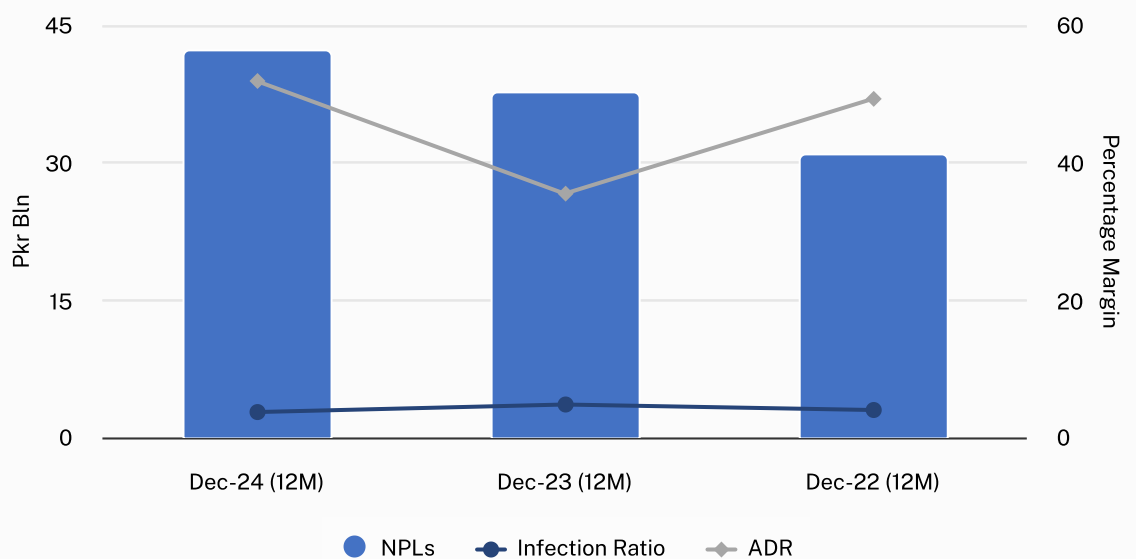
Sustainability

Moving forward, BAFL is well-positioned for sustainable growth and building long-term shareholder value. The Bank will continue to invest in Digital Banking, technology infrastructure, human capital, and in strengthening compliance and controls environment. At the same time, the Bank will continue to focus on building a low-cost deposit base, improving the return on capital on risk assets, optimizing returns from the banking book, and enforcing a strong cost discipline across the Bank. The decline in interest rates and inflation has contributed in restoring market confidence and enhancing financial stability, creating a favourable environment for the banking sector. However, ongoing geopolitical developments, including tariff escalations, continue to pose risks, with potentially significant implications for the global economy, including Pakistan.

Financial Risk

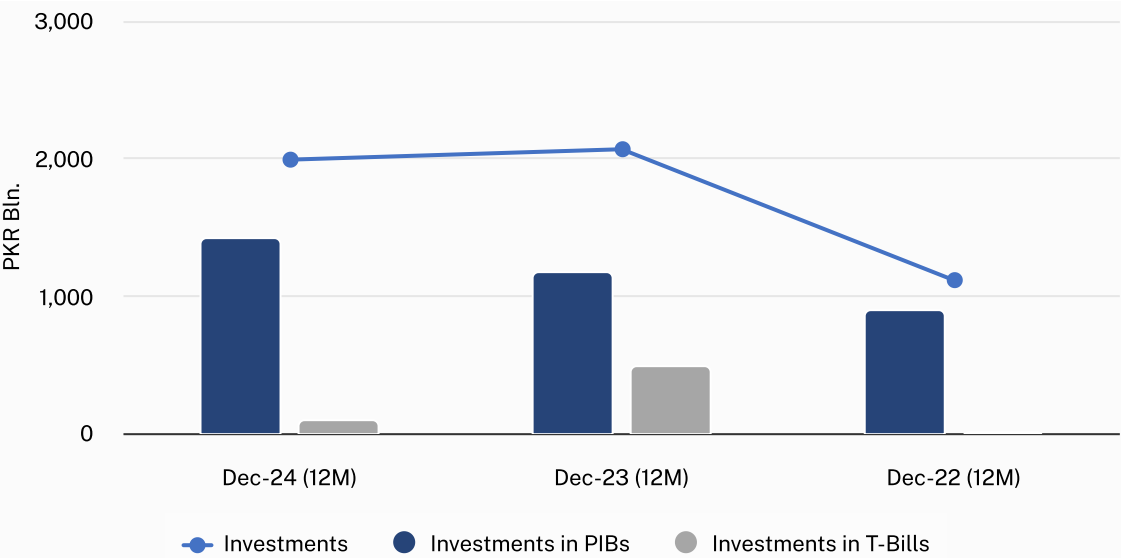
Credit Risk

At Dec24, the gross performing advances of the Bank were reported at PKR 1,113.9bln (Dec23: PKR 739.6bln). The NPLs of the Bank increased to PKR 42.4bln (Dec23: PKR 37.6bln). Consequently, the infection ratio decreased to ~3.7% (Dec23: 4.8%). The net advances to deposits ratio (ADR) of the Bank were reported at 51.9% (Dec23: 35.3%).



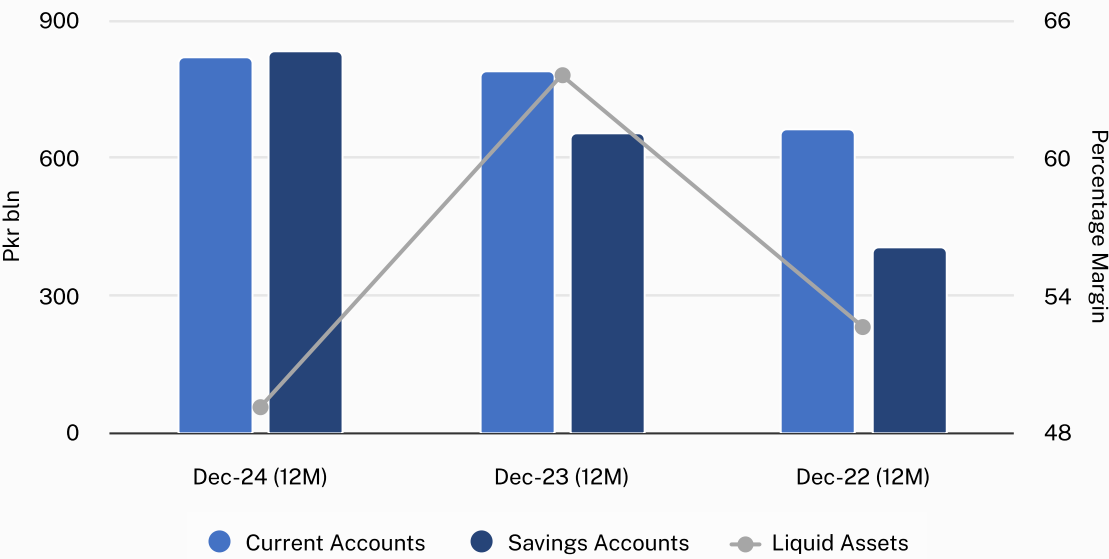
Market Risk

At Dec24, the investment portfolio of the Bank has declined by 3.7% to stand at PKR 1,991.2bln (Dec23: PKR 2,067.3bln). The investments in government securities portfolio comprised 5.3% T-Bills (Dec'23: 25.2%), 78.0% PIBs (Dec'23: 60.6%) reflecting a significant increase, and 16.8% in other government securities and investments (Dec'23: 14.2%). Government securities constitute 91.9% of total investments (Dec23: 93.9%).



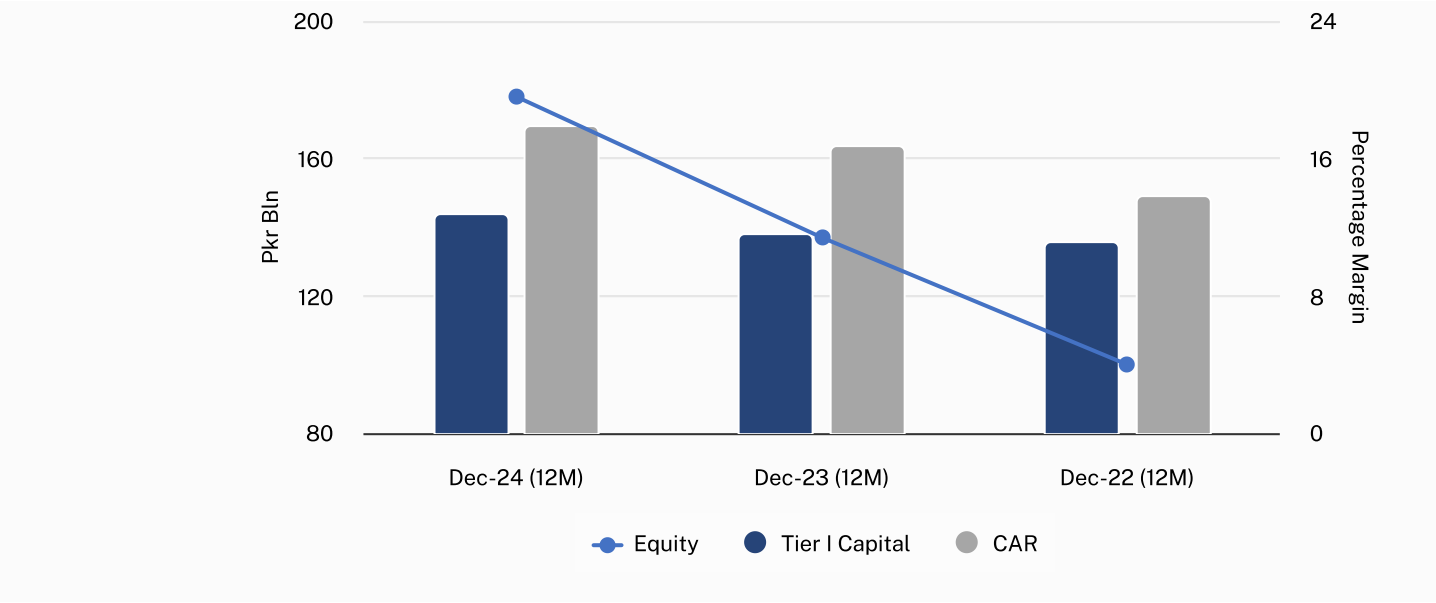
Liquidity and Funding

At Dec24, the deposit base of the Bank posted a growth of 2.5% to stand at PKR 2,136.9bln (Dec23: PKR 2,084.9bln). The advances to deposits ratio was reported at 51.9% (Dec23: 35.3%). CA and SA proportions were reported at 38.2% (Dec23: 37.9%) and 38.9% (Dec23: 31%) respectively. The Bank's liquidity, in terms of Liquid Assets-to-Deposits and borrowing ratio, declined to 49.1% (Dec23: 63.6%).



Capitalization

At Dec24, the Bank's equity base strengthened to PKR 178.1bln (Dec23: PKR 137.9bln). Subsequently, the CAR improved to 17.96% (Dec23: 16.74%) comprising Tier I CAR 12.83% (Dec23: 11.64%), remaining compliant with the minimum requirement by SBP.



Bank Alfalah Limited

(PKR mln)

FINANCIAL SUMMARY



	Dec-24 12M	Dec-23 12M	Dec-22 12M
A. BALANCE SHEET			
1. Stage I Advances - net	995,758	729,792	726,800
2. Stage II Advances - net	110,938	0	0
3. Stage III Non-Performing Advances	41,705	37,633	30,971
4. Stage III Impairment Provision	(39,023)	(32,374)	(25,397)
5. Investments in Government Securities	1,830,338	1,942,544	1,015,171
6. Other Investments	160,894	124,719	99,235
7. Other Earning Assets	113,683	133,510	117,750
8. Non-Earning Assets	495,915	410,093	288,665
Total Assets	3,710,206	3,345,917	2,253,197
6. Deposits	2,136,913	2,084,997	1,486,845
7. Borrowings	1,155,886	923,543	505,180
8. Other Liabilities (Non-Interest Bearing)	239,295	199,453	161,157
Total Liabilities	3,532,094	3,207,994	2,153,182
Equity	178,112	137,923	100,015
B. INCOME STATEMENT			
1. Mark Up Earned	506,898	411,948	214,054
2. Mark Up Expensed	(380,172)	(285,877)	(136,812)
3. Non Mark Up Income	44,506	28,758	21,883
Total Income	171,232	154,828	99,126
4. Non-Mark Up Expenses	(86,288)	(67,191)	(50,497)
5. Provisions/Write offs/Reversals	(1,849)	(9,462)	(12,468)
Pre-Tax Profit	83,095	78,175	36,160
6. Taxes	(44,777)	(41,719)	(17,954)
Profit After Tax	38,318	36,456	18,206
C. RATIO ANALYSIS			
1. Performance			
Net Mark Up Income / Avg. Assets	3.6%	4.5%	3.9%
Non-Mark Up Expenses / Total Income	50.4%	43.4%	50.9%
ROE	24.2%	30.6%	18.2%
2. Capital Adequacy			
Equity / Total Assets (D+E+F)	4.8%	4.1%	4.4%
Capital Adequacy Ratio	17.9%	16.7%	13.8%
3. Funding & Liquidity			
Liquid Assets / (Deposits + Borrowings Net of Repo)	49.1%	63.6%	52.6%
Net Financial Assets to Deposits Ratio [(Total Finances - net + Non-Performing Finances - net) / Deposits]	51.9%	35.3%	49.3%
Current Deposits / Deposits	38.2%	37.9%	44.5%
Saving Deposits / Deposits	38.9%	31.4%	27.2%
4. Credit Risk			
Impaired Loan Ratio [Stage III Non-Performing Advances / Gross Advances]	3.6%	4.8%	4.0%

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
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.

Scale	Short-Term Rating
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.

Rating Modifiers | Rating Actions

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.
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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. Rating actions may include "maintain", "upgrade", or "downgrade".

Note: This scale is applicable to the following methodology(s):

- | | |
|---------------------------------|--------------------------------------|
| a) Broker Entity Rating | e) Holding Company Rating |
| b) Corporate Rating | f) Independent Power Producer Rating |
| c) Debt Instrument Rating | g) Microfinance Institution Rating |
| d) Financial Institution Rating | h) Non-Banking Finance Company |

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1. Rating Team Statements

I. **Rating** is just an opinion about the creditworthiness of the entity and does not constitute a 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))**

II. 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)]**
- iv. Explanation: for the purpose of the above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee.

2. Restrictions

- i. 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))**
- ii. 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 a business relationship with the customer. **(Chapter III; 10-7-(d))**
- iii. PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of the entity subject to rating. **(Chapter III; 10-7-(k))**

3. Conduct of Business

- i. 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))**
- ii. PACRA uses due care in the 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 verify or validate information received in the rating process or in preparing this Rating Report. **(Clause 11-A-(p))**
- iii. PACRA prohibits its employees and analysts from soliciting money, gifts, or favors from anyone with whom PACRA conducts business. **(Chapter III; 11-A-(q))**
- iv. PACRA ensures before the 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))**
- v. PACRA maintains the principle of integrity in seeking rating business. **(Chapter III; 11-A-(u))**
- vi. PACRA promptly investigates in the event of 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))**

4. Independence & Conflict of Interest

- i. 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 ii) fee mandate - signed with the payer, which can be different from the entity.
- ii. PACRA does not provide consultancy/advisory services or other services to any of its customers or their associated companies and associated undertakings that are being rated or have been rated by it during the preceding three years, unless it has an adequate mechanism in place ensuring that the provision of such services does not lead to a conflict of interest situation with its rating activities. **(Chapter III; 12-2-(d))**
- iii. 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. **(Chapter III; 12-2-(f))**
- iv. PACRA ensures that the rating assigned to an entity or instrument is not 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))**
- v. PACRA ensures that the analysts or any of their family members shall not buy, sell, or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause, however, does not apply to investments in securities through collective investment schemes. **(Chapter III; 12-2-(l))**
- vi. PACRA has established policies and procedures 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))**

5. Monitoring and Review

- i. 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 an effective manner after appropriate consultation with the entity/issuer. **(Chapter III; 17-(a))**
- ii. PACRA reviews all the outstanding ratings periodically on an annual basis. Provided that public dissemination of annual review and in an instance of change in rating will be made. **(Chapter III; 17-(b))**
- iii. PACRA initiates an 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))**
- iv. 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))**

6. Probability of Default

- i. 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, the actual transition of rating may not follow the pattern observed in the past. **(Chapter III; 14-3(f)(vii))**

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