The Pakistan Credit Rating Agency Limited

Microfinance Institutions Rating Criteria
Methodology

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Summary

PACRA's methodology documents lay out the umbrella framework guiding its credit ratings. This document provides an overview of PACRA's approach to assigning credit ratings to Micro Finance Banks (MFBs), Non-bank Microfinance Companies (NBMFCs) and MFIs.

PACRA's opinions is based on a mix of qualitative and quantitative assessment factors, including: Profile, Ownership, Governance, Management, Business Risk and Financial Risk. While standalone credit quality is addressed, PACRA incorporates the relative positioning of a microfinance institution to arrive at the final rating.

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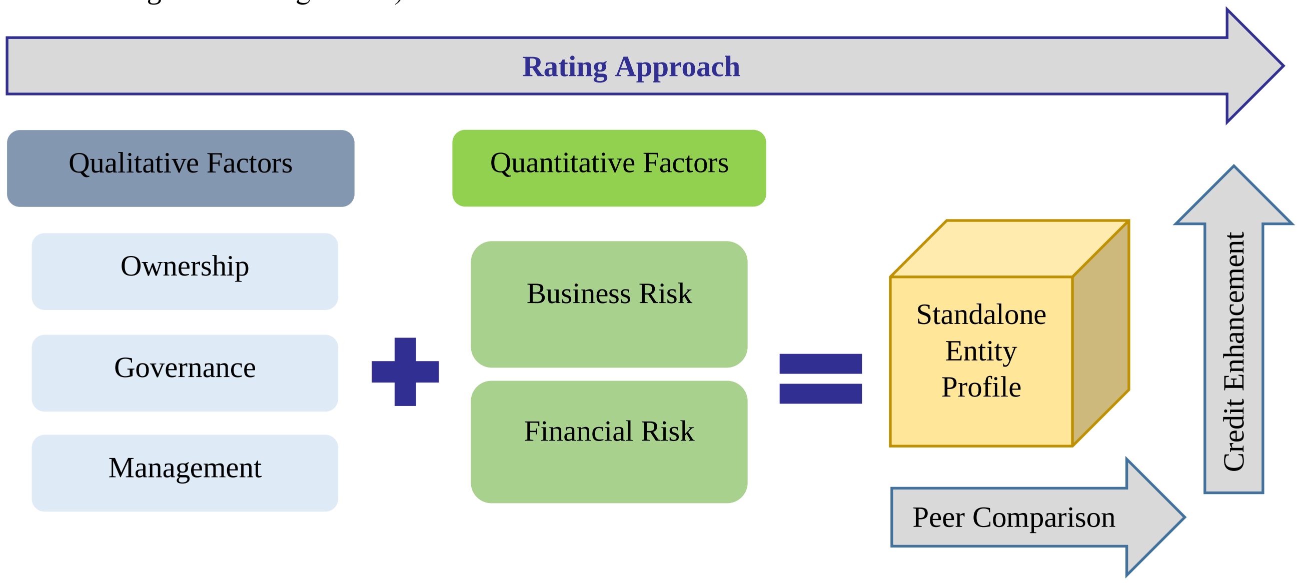
1. Introduction

1.1 Scope: Micro Finance Institutions (MFIs) are in many ways similar to other financial institutions, which primarily operate in lending business. MFIs' primary business is to cater to unserved or underserved part of the society due to low levels of their income and micro needs. These cannot be satisfied by large financial institutions like commercial banks mainly due to capability as well as business considerations. MFIs focus on business on self-sustainable basis so as to reduce/eliminate dependence on support (subsidized loans, donations, grants etc.). As amounts involved per borrower are significantly small but the volumes are large, MFIs operate under a different risk framework. This methodology applies to Micro Finance Banks (MFBs), Non-bank Microfinance Companies (NBMFCs) and MFIs. While both share the social objective of meaningful impact on society, a key difference is that MFBs have access to an important commercial source of funding, customer deposits, whereas NBMFCs largely do not. Additionally, MFBs fall under the purview of State Bank of Pakistan (SBP), which monitors MFBs through separate regulations, while NBMFCs are primarily regulated by the Securities and Exchange Commission of Pakistan (SECP). For the purpose of this methodology, both will be referred to collectively as MFIs, with distinction being made only where relevant.

1.2 Rating Framework: PACRA bases its analysis of MFIs on a number of quantitative and qualitative factors. Overall, factors are categorized under six key areas: Profile, Ownership, Governance, Management, Business Risk and Financial Risk. No one factor has an overriding importance or is considered in isolation and all the factors are reviewed in conjunction. The quantitative factors help 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 between ratings over time.

1.2.1 The basic precepts of this rating methodology are understanding of the business model of the MFI (and the inherent risks), the strategy of its management, local macro-economic environment, and developments happening in the industry. The relevant positioning of the MFI, established in comparison with relative peers in the industry, is a key consideration under this methodology to reach a final rating for an MFI.

1.2.2 While our rating process does not include an audit of a MFI's financial statements, it does examine the control environment to establish to which extent they accurately reflect a MFI's financial performance and balance sheet integrity. We make adjustments where necessary to make a MFI's financial data comparable with those of its peers. In order to carry out adequate analysis of a particular MFI, it is helpful to establish a "peer group" of comparable MFIs. Short-term and long-term ratings are based on a MFI's fundamental credit characteristics, a correlation exists between them (see PACRA's Criteria document "Correlation between Short-term and Long-term Rating Scale").



2. Profile

2.1 Background: PACRA reviews the background of the MFI to understand its evolution from where it started to where it currently stands. We analyze how and through what means the MFI has achieved the desired expansion. PACRA looks at the progress of the MFI from its historical past. The progress of the MFI helps PACRA in determining the ability of the MFI to successfully realize its strategy. The significant factor here for PACRA is to assess whether the MFI has achieved the desired expansion through organic growth or acquisitions. Meanwhile, the source of funding for desired growth is also critical.

2.2 Operations: The assessment of operations of an MFI depends on the exposure of business segments and the stage the business is in. Here PACRA reviews the diversity, geographic spread of operations, product offering, asset mix, borrower profile, size of the franchise/portfolio and track record of operations. Size may be an important factor if it confers major advantages in terms of operating efficiency and competitive position.

3. Qualitative Factors

3.1 Qualitative assessment helps to establish the sustainability of the rating in the foreseeable future. Qualitative considerations here refer to rating factors which do not pertain to an entity's business or financial risk. Rather, they focus more on internal processes, people and systems, and thus are essential to incorporate a forward-looking perspective into rating opinions. This section is meant to provide a brief overview of how PACRA generally factors qualitative considerations into its assessment, insofar as they can impact an issuer's ability to meet financial obligations. PACRA's detailed approach undertaken to conduct this analysis is documented in its methodology titled "Qualitative Considerations".

3.2 Incorporating the potential impact of qualitative considerations into the rating opinion can be challenging because it is generally inferred or estimated based on information which may not be standardized and is difficult to quantify. This often requires some degree of subjectivity and analyst judgement, supplemented by PACRA's own experience and experience of the underlying entity or other entities with similar risks. Three factors underlying PACRA's qualitative analysis at entity level include: Ownership, Governance and Management. The scope of analysis for each category is briefly described below.

3.3 **Ownership**: This section provides an overview of the risks pertaining to the structure and stability of the entity's ownership structure, owners' experience and prowess in the entity's industry, and willingness and ability to extend extraordinary financial support in distressful circumstances.

3.3.1 NBMFCs are usually incorporated as public companies limited by guarantee under Section 42 of the Companies Ordinance, 1984 (now Companies Act, 2017). As a result, their structure is different compared to other MFIs as they have "members" rather than shareholders. In this case, PACRA assesses the NBMFC's ability to identify a pool of members who can contribute in carrying its mission and operations beyond founding members. Here, an NBMFC's dependence or over reliance on a single person, especially in terms of decision making, can pose risks.

3.3.2 In case of NBMFCs, the members are not taking any monetary benefit from the entity's available funds. Hence, financial support in the form of members backing, will be from other sources, if needed. Hence, the ability of key member/s to get external support from government, regulators, international and local donors/ lenders gain more significance.

3.4 **Governance**: This section provides an overview of the risks pertaining to the Board of Director's role in establishing a robust oversight and control framework to ensure appropriate management oversight, alignment between shareholder and management objectives, transparency in reporting and disclosures, and adherence to applicable regulatory requirements

3.5 **Management**: This section provides an overview of the risks pertaining to the management team's proficiency in executing strategy, maintaining strong information systems and utilizing the same for efficient decision making, and ensuring adherence to the entity's ethical and quality standards.

3.5.1 **Field Staff:** In case of MFIs, field staff is crucial in maintaining a strong asset quality as they hold the relationship with the borrower and any misconduct on their part may cost deterioration to the institution's asset quality. Thus, the ability to retain good field staff is considered important while assessing human resource management. Moreover, PACRA attempts to understand the MFI's staffing policies, local language ability of staff dealing with borrower, and their training on social aspects, particularly important to the area of their operations.

3.5.2 **Risk Management Framework/Control Environment:** This includes an analysis of the MFI's appetite for risks and the systems in place to manage these risks. PACRA examines the independence and effectiveness of the risk management function, the procedures and limits that have been implemented, limits setting authority and the degree to which these procedures are adhered to. PACRA endeavors to assess senior management's understanding of and involvement in risk management issues and examine the reporting lines in place. In recent years, there has been a noticeable upgradation in the risk management systems of the MFIs, in the face of increasing guidance and supervision from the SBP and SECP.

Regulatory framework has historically been stronger for MFIs. However, non-banking microfinance regulatory framework was introduced by the SECP in 2016 to facilitate the sector. In addition, SBP supports small entities in microfinance business in funds mobilization by issuing microfinance credit guarantee scheme (MCGF).

Credit Risk

- Asset quality Indicators: Primary tool to assess the level of risk being taken.
- These indicators are viewed in the context of returns achieved
- Credit risk management is assessed to determine how the risk return equation evolve in different phases of financial instituions business cycle.

Market Risk

- Asset and liabilities management strategy is reviewed.
- Board and management policy limits, typically expressed as earnings at risk, are evaluated along with reports from management systems.
- Market risk on its own may not be a rating driver. However, poor market risk management or aggressive market risk-taking without mitigants would likely pressurize an institution's ratings.

Operational Risk

- Operational Risk analysis include,
- Financial institution's definition of such risk,
- The quality of its organizational structure,
- Operational risk culture,
- Approach to the identification and assessment of key risks
- Data collection efforts, and
- Overall approach to operational risk quantification and management.

Reputational and other Risks

- May emanate from operational problems or failure in any risk management systems
- Results in withdrawl of deposits in case of strain on reputation.
- Difficult to evaluate but could adversely affect an institution's rating in cases where it is significant.
- Any regulatory non-compliance may lead to potential legal ramifications as well.

3.5.3 Technology Infrastructure: Technological progress in order to enhance service standards and delivery processes is crucial for a forward-thinking MFI's strategy. It can attempt to ensure provision of financial services to the remotest and far-flung areas, hence increasing outreach. PACRA analyses the effectiveness of technological infrastructure in terms of efficiency and controls, disaster recover and business continuity plan and system to provide back up. PACRA evaluates the efforts of MFIs to inculcate technology-based solutions to remain competitive and enhance risk controls.

Branchless Banking: With recent growth in branchless banking (BB) segment by microfinance banks (MFBs), PACRA evaluates BB operations in detail. In addition to surveilling its profitability, PACRA gives importance to, i) Agent networks, ii) Regulatory reporting, and iii) related Systems and controls. Besides adding diversity to the revenue stream, it has been observed that BB operations can generate low-cost deposits; thus, further strengthening the profitability.

4. Business Risk

4.1 Industry Dynamics: The process for anchoring credit rating of a MFI 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 regulatory environment and likely support, if needed.

4.1.1 PACRA explores the possible risks and opportunities in a MFI 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. The analysis includes the role of the regulator, its supervision of regulated entities, reporting requirements and regulations relating to specific type of institutions and to specific financial products.

4.1.2 Economic Risk: PACRA analyzes basic economic indicators of the country including size and composition of economy, performance of important sectors, gross domestic product (GDP) growth, inflation, saving and investment trends and potential credit demand. An important part of economic analysis is positioning of industry and impact assessment of economic risk factors on the industry.

4.1.3 Regulatory Environment: A well-regulated and supervised system is pivotal for credibility and stability of MFIs even when the operating environment is unfavorable. PACRA's evaluation of the regulatory system evaluation of criterion related to capital and other countercyclical measures to absorb risk and the extent of regulatory supervision and changes in response to the macro environment; key norms (such as Portfolio-at-Risk (PAR), Non-Performing Loans (NPL) recognition, provisioning, capital adequacy, liquidity, benchmark lending rate and expansion) and prospective regulatory changes.

4.2 Relative Position: Relative position reflects the standing of the MFI in the related market. The stronger this standing is, the stronger is the MFI's ability to sustain pressures on its business volumes and profit margins. This standing take support from three major factors including: i) market share, ii) growth trend, and iii) franchise/brand value.

4.2.1 Market Share: Market share represents the MFI's penetration in the chosen market. There is a positive correlation between a MFI's absolute and relative size and its market position and brand value. Key factors that are evaluated to assess the market share of a financial institution include its share in the sector's total advances, total deposits and franchise presence. 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. In a dynamic industry, which is not characterized by concentration, PACRA believes that relative size would better capture the strength of the MFI's standing.

4.2.2 Growth trend: While evaluating the size, PACRA looks at the rate of growth. Growth is important as it ensures that the MFI continues to have the ability to meet the industry's benchmarks. As the industry grows, it uplifts the scale of its operational context which may be reflected by an increase in the amount of deposits, allow the financial institution to grow geographically, and diversify its loan portfolio. To lag the industry's growth trend means to remain short on these avenues, putting pressure on the market position. PACRA monitors higher-than-industry growth to understand the quality of the incremental business including impact on key business segments and if it has resulted in higher concentration due to added business. High growth correlated with declining portfolio quality is perceived negatively.

4.2.3 Franchise/Brand Value: The strength of a franchise determines its capacity to grow while maintaining a reasonable cost to income ratio and profitability, thus providing resilience of earnings. PACRA evaluates the franchise strength in terms of scale of operations and market share for various activities, performance and strengths relative to competition, complexity of key segments, diversification across various performance metrics like branches, advances, liabilities, sources of other income etc. and access to special Government support or privileges relative to other MFIs. A strong franchise is expected to result in a granular asset and liability base. PACRA also considers the brand recognition and life of institution for its franchise strength analysis.

4.3 Revenues: In measuring revenue quality of a MFI, diversification and stability are very important factors. An MFI with a diverse product slate with more than one revenue streams is considered better than a MFI with a concentrated earning profile. Composition of revenue from core business activities – advances – is considered critical. PACRA sees concentration at product, customer and geographic levels. Stability is measured through historical trend analysis of the MFI's revenues.

4.3.1 Diversification: Diversification is desirable since it enhances the MFI's ability to meet challenges, both present and upcoming. Lack of diversification gives rise to concentration risk, reflecting vulnerability of the MFI to few elements. 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 an MFI specializing in a certain product/segment or geography would be put at a disadvantage. The disadvantage would only arise, if the MFI's business gives rise to concentration risk. In assessing diversification, common factors include loan mix, portfolio granularity, sectoral mix and borrower profile, particularly in terms of group vs. individual lending. Meanwhile, diverse geographical presence bolsters competitive position as it could offset the credit risks arising from unfavorable regional developments.

4.3.2 Non-Mark-up Income: For most MFIs, interest income from advances and investments makes up much of the revenue base. However, non-interest income from fees, service charges, and commissions also represent an important and growing source of revenue. PACRA views earnings profile comprised primarily of interest income favorably given the relative stability of this income stream. However, PACRA also assesses the MFI's ability to complement its interest income with fee income. A large fee income allows greater diversification which can improve MFI's resilience of earnings and earning profile.

4.4 Cost Structure: Cost structure is analyzed for the amount of flexibility provided when market conditions are less favorable. In this regard, PACRA considers how much of the cost base is variable. PACRA also evaluates the MFI's performance ratios relative to those of its peers to understand whether costs have been contained while growing assets and revenue. If expense ratios are high, it could be an indicator that the MFI has a significant fixed cost burden. In this context, key measure that PACRA looks at is the (Non-Mark-Up Expenses / Total Income) ratio. Non-mark-up expenses are also compared where possible with earning assets, to the number of branches and to the number of employees. Performance measures are not assessed in isolation as there may be variations that are caused by business model differences and the importance of ongoing investment in the MFI's franchise. A low-cost base relative to peers offers the MFI greater flexibility to deal with competitive pricing pressures. PACRA also considers Provisioning levels, together with the capacity of the MFI's earnings to absorb provisions.

4.4.1 Margins: MFIs carry high credit risk on their balance sheet due to the nature of their operations. Moreover, due to certain limitations, inter-alia including, small size, and limited outreach, their ability to mobilize low-cost funding remains weak. Thus, in addition to risk profile, their cost structure is high. These institutions serve a large client base with small loan size. This results in high operational costs, including staff costs, for MFIs. Therefore, MFIs charge fairly high price to their customers. Although their interest margins seem high as compared to other FIs; once loaded with business acquisition and servicing cost, their pre-provision profit margins are comparable to other FIs.

4.4.2 PACRA evaluates a MFI's ability to convert its earnings into profits as well as efficiency ratios, such as, operational self-sufficiency. Moreover, the quality and stability of the earning streams are assessed. An adequately diversified product slate is considered good as compared to concentration in a single loan product. In case MFI can generate revenue from some business other than lending, it is seen positively. But its contribution towards bottom-line is measured to incorporate its impact on overall performance. In addition, the drag of provisioning expense is incorporated to see the level of pre-tax profitability for the current as well as future periods.

4.4.3 Where necessary in its rating analysis, PACRA makes adjustments to the MFI's reported income statement figures, so that financial performance indicators are comparable across similar entities.

4.5 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. In addition, measures taken by the MFI to cultivate long-term relationships with existing clients along with efforts to enhance coverage of vulnerable communities to expand outreach are important indicators of sustainability.

4.5.1 Event Risk: Incorporating the risk of unforeseen events into a MFI's rating opinion is challenging, given their unpredictable nature. These events may be external (M&As, regulatory changes, litigations or a natural disaster) or may be internally driven (unrelated diversification or strategic restructuring) and can lead to substantial rating changes. PACRA applies its analytical judgment in assessing the likelihood of such occurrences and potential impact, insofar as may be possible, and assesses the MFI's track record, expertise of management team and level of financial discipline to incorporate the same into its ratings.

Information Required on Business Risk

- Type of license
- Target market
- Outreach, market share
- Key figures (agents, deposits in amount and volume, number of transactions)
- Industry information for loan portfolio, depositors, number of borrowers
- Branchless Banking operations
- Projection of two years, with details of underlying assumptions
- Strategy for future

Business Risk – Key Ratios

Revenues	• Advance Yield (%) • Deposits/Funding Cost (%) • Core Spread (%) • Net Mark Up Income/Total Income (%)
Earnings	• Operational Self-sufficiency (%) • Return on Average Equity (%) • Return on Average Assets (%) • Non-Mark Up Expenses/Total Income (%) • Personal Expenses/Total Assets (%)
Relative Position	• Number of branches • Total Deposits/Sector's Total Deposits (%) • Total Loans/ Sector's Total Loans (%)

5. Financial Risk

5.1 **Credit Risk:** Credit risk is significant to any lending institution. As MFI's cater to micro-borrowers, this entails different approach towards credit risk assessment. Micro-borrowers tend to have little or no documentation. Moreover, the tenor of loans is usually short, one year or less. Thus, an MFI's risk evaluation systems should be able to appraise the ability of such borrowers to repay on time. The relationship of MFI's loan staff with the borrower himself or with the people around him is critical to assess the means of the borrower for repayment of loans.

5.1.1 The review of credit risk involves assessment of policies and procedures before taking an exposure, post-disbursement monitoring mechanism, criteria for ongoing surveillance, and recovery process. Credit risk analysis includes review of credit portfolio at all levels. Portfolio is evaluated with respect to its size to establish market share. PACRA evaluates the size of loan per borrower to get an understanding of the risk profile of the book. Analysis of product mix in terms of secured and unsecured is done. Collateralized loan book is considered superior as compared to non-collateralized portfolio. Loans having staggered repayment structure are considered better vis-à-vis loans with bullet payment at maturity.

5.1.2 Asset Quality: Assessing asset quality is an important pillar of credit risk. In this regard, an MFI's overdue, restructured, and written off loans are taken into account to see the overall performance of the portfolio. Regarding provisioning criteria, PACRA takes comfort from stringent regulatory requirements. Post-delinquency, the level of reserves maintained for provisioning requirements is considered important. MFIs' asset quality remains exposed to risk of undocumented earning streams vis-a vis the amount of loans obtained by the borrowers from different MFIs. Thus, assessment of over-indebtedness remains a challenging task. Nevertheless, structuring of in-house evaluation framework and availability of micro finance exclusive credit information reports lend help to MFIs in this regard.

5.2 Market Risk: MFIs generally exhibit limited exposure to market risk as they invest primarily in government securities or place funds with FIs (mainly banks) to meet regulatory liquidity, cash reserve requirements and other day-to-day needs. Moreover, MFIs are only allowed to invest in limited sectors. This limits overall exposure of MFIs to market risk.

5.3 Liquidity and Funding: MFBs finance their assets mainly through deposits – micro savings as well as corporate deposits –, in addition to other funding sources and funding lines, where available. Meanwhile, funding sources for NBMFCs typically comprise borrowings, grants and donations. PACRA analyzes funding mix and concentration levels therein. For MFBs, the mix of deposits in terms of retail vs. institutional and current vs. savings/fixed term deposits is considered. A large, granular pool of micro savers is considered stable in comparison to large institutional deposits. Due importance is given to management's strategy to keep risks related to funding at manageable level.

5.3.1 As far as liquidity is concerned, PACRA analyses the maturity profile of liabilities in tandem with related asset base to analyze liquidity profile. PACRA believes higher asset turnover as compared to liabilities is good for liquidity management. The MFI's compliance to regulatory reserve requirements is a minimum. The presence of Asset Liability Committee is essential to ensure effective monitoring of liquidity mismatches.

5.4 Capital Structure: Compliance with minimum capital requirement is key to obtain license. For MFIs, the requirement for capital increases with the operational scale i.e., district, provincial, or national. Like in case of other financial institutions, PACRA considers MFIs capitalization as a cushion to absorb unreserved losses. These include impact of foreseeable future business losses, if any, and expected level of provisioning on bad loans.

5.4.1 While analyzing capitalization, PACRA sees higher capital adequacy ratio positively. As ratings are not point-in-time, PACRA sees the ability of the institution to generate capital from internal sources. In case of MFBs, dividend payout policy is considered important to evaluate as it may have a significant bearing on potential capital formation rate. Additionally, PACRA considers compliance with regulatory requirements important for MFIs.

5.4.2 Credit Enhancement: The MFI that carry third party commitment to make good an amount obligated to the lenders may provide additional support to its financial risk profile. In this case, in determining the impact on rating, key factors to assess are the financial profile of the third party and the extent of coverage – quantum and duration – it provides.

Financial Risk – Key Ratios

Credit Risk	• Non-Performing Advances/Gross Advances (%) • Non-Performing Finances/Gross Finances (%) • Loan Loss Provision/Non-Performing Advances (%)
Market Risk	• Government Securities/Investment (%) • Investment/Equity (%) • (Investment + Debt Instruments)/Total Assets (%)
Liquidity and Funding	• Liquid Assets/Deposits and Borrowings (%) • Advances/Deposits (%)
Capitalization	• Equity/Total Assets (%) • Capital Adequacy Ratio • Capital Formation Rate (%)

Information Required on Financial Risk

- Outstanding exposures amount along with segment wise/product-wise details of the classified advances portfolio
- Industry-wise concentration and exposure
- Party wise detail of classified advances portfolio (Top 20)
- Industry loan portfolio
- Total available money market lending and borrowing lines along with average rates and repayment schedules
- Details of 50 largest depositors along with their maturity profile and profit rates (MFBs)
- Industry information for deposit portfolio (MFBs)
- Committed donor funds and avenues of funds (NBMFCs)
- SBP returns filed including i) Reserve Ratio Requirements', and ii) Capital Adequacy Statement (MFBs)
- Spread calculations
- Projected funds inflows vs projected liabilities

Credit Rating

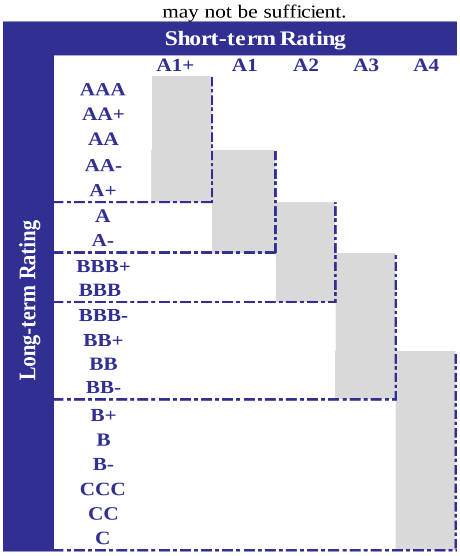
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
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 Rating

Scale	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
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 surveill 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