

RELATIONSHIP

LONG-TERM & SHORT-TERM

RATING SCALE



THE PAKISTAN CREDIT RATING AGENCY LIMITED

*An Illustrative representation of
the Relationship between long-
term and short-term ratings*

RATING CRITERIA

**1. FORWARD
LOOKING OPINIONS**

1.1. PACRA Credit Ratings reflect forward-looking opinion on creditworthiness of underlying entity or instrument. The primary factor being exhibited on the rating scale is relative likelihood of default:

1.2. PACRA expresses its opinion in terms of:

- i The long-term rating: A long-term rating denotes vulnerability to default on a medium-to-long term horizon (> 12 months). Hence, the primary rating considerations for evolving a long-term rating are factors that have high impact on long-term sustainability of underlying entity / issuer. Such factors include, inter-alia, sponsor strength, management quality, systems and controls and the evolving dynamics of the respective industry.
- ii The short-term rating (*where applicable*): A short-term rating is an opinion on the short-term vulnerability to default for obligations coming due within 12-months time. Hence, the primary rating considerations for evolving a short-term rating are factors that can materially alter credit quality in the short-term. A key factor for determining short-term ratings is liquidity position of an entity / issuer.

1.3. PACRA's long-term credit ratings range from Triple A (**AAA**), reflecting the highest credit quality, to Single C (**C**) denoting imminent default. The addition of plus "+" and minus "-" provides a way to create relative distinctions within rating categories that range from Double A (**AA**) to Single B (**B**) category. The Triple A (**AAA**) and Triple CCC to Single C (**CCC – C**) categories have no plus "+" or minus "-" attached to it.

1.4. PACRA has a single category (**D**) to denote obligations that are currently in default. PACRA assigns a "**D**" to capture an event of default (*For further details, refer to PACRA default recognition policy "What is Default" on www.pacra.com*).

1.5. PACRA rates entities / issuers on a short-term rating scale from A One (**A1**) to Single C (**C**). Within the **A1** category, it can be designated with a plus sign (+). This denotes the highest capacity for timely repayment, whereas, "**C**" captures the likelihood of an inadequate capacity to ensure timely repayment.

1.6. Long-term and short-term ratings are independent of one another in the sense that both are opinions evolved and assigned separately. The band exhibiting the relationship between long-term and short-term ratings is for illustration purposes only and facilitates understanding. Since there are fewer short-term rating grades, each short-term rating corresponds to a band of long-term ratings. For instance, the "**A-1**" short-term rating corresponds to the long-term ratings band from "**AA-**" to "**A-**".



Long-Term and Short-Term Ratings Relationship Scale

An Illustrative Representation

		Short-Term Ratings							
		A1+	A1	A2	A3	B	C		
Long-Term Ratings	AAA	■							AAA
	AA+	■							AA+
	AA	■							AA
	AA-	■	■						AA-
	A+	■	■						A+
	A		■						A
	A-		■	■					A-
	BBB+			■	■				BBB+
	BBB			■	■	■			BBB
	BBB-				■	■			BBB-
	BB+				■	■	■		BB+
	BB					■	■		BB
	BB-						■		BB-
	B+						■		B+
	B						■		B
	B-						■		B-
	CCC							■	CCC
	CC								CC
C							■	C	

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