

VIS

Credit Rating Company Limited

SCALE TRANSLATION METHODOLOGY

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SCOPE OF CRITERIA

This methodology outlines the process for mapping of the Global Scale Ratings (GSR) onto the VIS National Scale ratings (NSR). Alignment of rating symbols used by VIS and the international rating agencies will facilitate in evaluation of the credit quality of entities or instruments involving foreign credit risk. VIS employs a robust process of "translation," where ratings assigned to foreign entities on a global scale are "mapped" onto VIS's national rating scale employing the Default-Transition Principle approach. This methodology is rooted in the fundamental principle of aligning the performance of ratings of both the scales. The approach is complimented by the VIS's extensive database, build on internal research and over 25 years of rating history, encompassing a substantial number of issuers and defaults.

OVERVIEW OF THE CONCEPT OF TRANSLATION

Generally, inter-scale comparisons between foreign currency ratings and national scale ratings can be made using three distinct approaches:

- Linking the Sovereign ratings of both jurisdictions;
- Independent credit assessment in both domains; and
- The Default-Transition Principles approach.

VIS, however, employs Default-Transition Principles approach in mapping of international scale ratings to VIS rating scale. This approach is based on the principle of assessing 'Probability of Default' of entities and instruments. The Default-Transition principles approach involves comparing indicators that provide historical performance of ratings, primarily default rates and rating transition statistics, between two rating scales to facilitate translation. Since ratings are intended to represent a measure of credit risk (expressed as either default rates or rating volatility), comparing these standardized metrics across global and national scales results in the most effective translation

The translation of ratings under this approach is an ongoing process and with the ratings of parent companies having direct effect on the guaranteed and/or notched-up ratings of their local subsidiaries, changes therein may also result in upward or downward movement in NSRs of the subsidiaries in order to maintain alignment of ratings across global and national scales.

TRANSLATION METHODOLOGY

A significant portion of entities operating in our local markets are either wholly owned by foreign corporations or have substantial foreign corporate shareholding. Their global credit ratings serve as a crucial input in our credit risk assessment process and assigning national scale ratings. VIS's ratings for these local entities are influenced, to varying extents, by the credit quality of their parent companies, as reflected in their existing credit ratings from our partner rating agencies or Nationally Recognized Statistical Rating Organization (NSRO). Within VIS's analytical framework, these global-scale ratings are considered when evaluating related local entities or their issued instruments, regardless of whether the parent company provides explicit guarantees.

When a parent company explicitly guarantees the rated debt, VIS's rating is determined solely by its evaluation of the guarantor's credit quality, as indicated by the translated rating. In cases where no explicit guarantee exists, VIS considers the standalone rating of the local entity, the translated rating of the foreign parent, and an analysis of their credit relationship. The translation or linking of a parent company's foreign currency rating to its local subsidiary depends on the nature and structure of the parent's investment. Direct investments are considered stronger than those made

through legally separated entities like associates or SPVs. Additionally, mandatory consolidation of the local investment in the parent's consolidated financial statements, regardless of the investment route, is viewed more favorably than when such consolidation is not required. The extent of the parent's shareholding and the involvement of its representatives in the subsidiary are also critical factors. Together, all these factors influence the adjustment of the notching applied to the local entity's standalone rating to reflect the parent's credit strength. In both scenarios, the foreign company's credit quality is evaluated by translating its global-scale rating onto VIS's scale.

Leading international rating agencies generally use three distinct rating scales to cater to various types of investors: global scale foreign currency ratings (FCR), global scale local currency ratings (LCR), and national scale ratings (NSR). LCRs and FCRs are designed for transnational investors, where FCRs exclude risks associated with transferring and converting local currency into foreign currency, typically into reserve currencies. Both types of global scale ratings allow for comparability across countries, with peer group analysis incorporating issuers worldwide.

In contrast, NSRs are tailored to the needs of respective local financial markets and are not directly comparable to global scale ratings or NSRs of any other country. Peer group comparisons for NSRs are limited to issuers within the same country.

Based on available empirical data, a foreign currency rating of 'A' on global scale, typically corresponds to a 'AAA' rating on VIS's scale, while a 'BBB' rating on the global foreign currency scale generally aligns with the 'AA' category on VIS's scale. Consequently, when international rating agencies adjust global ratings, these changes can sometimes lead to revisions in the ratings of domestic entities with exposure to foreign credit risk.

The above methodology can be applied alongside all VIS Rating Methodologies that are based on the principle of assessing 'Probability of Default' of entities and instruments.



VIS's INTERNATIONAL AFFILIATIONS

VIS has a technical cooperation agreement with two credit rating agencies of the largest Chinese group CCX - China Chengxin International Credit Rating Co. Ltd (CCXI) and its wholly owned subsidiary China Chengxin (Asia Pacific) Credit Rating Co. Ltd. (CCXAP) operating in Hong Kong. CCXI is a leading provider of credit ratings in People's Republic of China and enjoys the highest market share in the domestic rating industry. In addition, the Company also leads the market in panda bond ratings for issuers outside China, to facilitate access to Yuan denominated funds. CCXAP, licensed with Hong Kong Securities and Futures Commission, is wholly owned by CCXI and is the first Chinese credit rating agency operating in the international market. Both CCXI and CCXAP are also recognized by the Securities & Exchange Commission of Pakistan (SECP).

VIS is a founder shareholder of the Islamic International Rating Agency (IIRA), Bahrain. Co-founders include coveted players in the Islamic market including the Islamic Development Bank (IsDB) and other prominent Islamic Financial Institutions. IIRA is an infrastructure institution for Islamic finance founded by the IsDB to promote capital markets development and serve as an alternate choice to other major rating agencies in OIC countries.

With a strong foot print in the sovereign ratings, IIRA has conducted ratings in about 20 jurisdictions and is recognized by regulatory authorities in various countries in the Islamic countries including SECP. Moreover, IIRA is the only rating agency, outside the 3 major global credit rating agencies, recognized by IsDB.

Japan Credit Rating Agency, Limited (JCRA) and VIS are into a Joint Venture Agreement since 2001 whereby JCRA is providing technical support in terms of methodologies and research. JCRA is the leading credit rating agency in Japan and is the only Japanese rating agency that is also officially registered in the US as Nationally Recognized Statistical Ratings Organizations (NRSRO) and certified in the EU.

RATING SCALE & DEFINITIONS

Rating Scale and Definitions may be accessed at (<https://docs.vis.com.pk/docs/VISRatingScales.pdf>).



Faheem Ahmad

President & CEO, VIS Credit Rating Company Limited
 Founder, VIS Group Chairman,
 Vice-Chairman, Association of Credit Rating Agencies in Asia

Mr. Ahmad possesses 30+ years experience in financial risk assessment with focus on Islamic finance, venture capital and general management. He has top level management experience at international level in the fields of credit ratings, Islamic and conventional financial risk assessment modeling, industrial management and construction engineering. Mr. Ahmad is an active participant at international forums on Credit Ratings. He obtained his B.S in Civil Engineering from NED University of Engineering and Technology, Karachi. He also has Masters Degrees in Engineering and Business Administration from USA.



Javed A. Callea - Member

Advisor

Mr. Callea is a professional in the financial sector with over 35 years of experience mostly in the financial institutions with certain exposure to service and infrastructure sectors in Pakistan. He has held the position of Chief Executive of a leasing company for 10 years. His core areas of expertise cover leasing, development financing, project management, investment & merchant banking, strategic investment management and real estate. Major financial institutions he worked for include Pakistan Industrial Credit and Investment Corporation, State Life Insurance Corporation, Bankers Equity, Crescent Leasing Corporation and Saudi Pak Ind. & Agri. Inv. Company. He has also served as Member Finance of Water & Power Development Authority of Pakistan and as member of the Inquiry committee on stock exchange crises in 2000 commissioned by the SECP. He earned his MBA degree from the Institute of Business Administration in 1974.



Muhammad Bilal Aftab

Director

Bilal joined VIS Group at its inception and since has been engaged in most research and development ventures undertaken by the group companies. Prior to joining VIS, he has been engaged with other VIS Group Companies in different capacities. Bilal was also a key resource in coordinating and developing the methodology for “Mapping National Scale Ratings over Sovereigns in Asia”, which was spearheaded by the CEO, VIS. His career spans over 25 years and includes work experience in the Middle East and local stock market brokerage houses. He holds an MBA degree and has also completed various courses in Economics and Investment Analysis and Data Science.



Jahangir Kothari Parade (Lady Lloyd Pier) Inspired by Her Excellency, The Honorable Lady Lloyd, this promenade pier and pavillion was constructed at a cost of 3 Lakhs and donated to the public of Karachi by Jahangir Kothari to whose genrosity and public spirit the gift is due. Foundation stone laid on January 5, 1920. Opened by Her Excellency, The Honorable Lady Lloyd on March 21, 1921.

Dome: A roof or vault, usually hemispherical in form. Until the 19th century, domes were constructed of masonry, of wood, or of combinations of the two, frequently reinforced with iron chains around the base to counteract the outward thrust of the structure.

Origins: The dome seems to have developed as roofing for circular mud-brick huts in ancient Mesopotamia about 6000 years ago. In the 14th century B.C. the Mycenaean Greeks built tombs roofed with steep corbeled domes in the shape of pointed beehives (tholos tombs). Otherwise, the dome was not important in ancient Greek architecture. The Romans developed the masonry dome in its purest form, culminating in a temple built by the emperor Hadrian. Set on a massive circular drum the coffered dome forms a perfect hemisphere on the interior, with a large oculus (eye) in its center to admit light.

VIS Credit Rating Company Limited is committed to the protection of investors and offers a blend of local expertise and international experience to serve the domestic financial markets. With its international reach, VIS is positioned to aim for an international mark. In this regard, the global experience of our international affiliates and partners have been invaluable towards adding depth to our ongoing research endeavors, enriching us in ways, that enable us to deliver our responsibilities to the satisfaction of all investors. The edifice of the Jahangir Kothari Parade has stood proudly through the years and is a symbol of our heritage. Its 'Dome' as the most stable of building structures, exemplifies architectural perfection. Committed to excellence, VIS continues its endeavour to remain an emblem of trust.

INTERNATIONAL

Affiliates

Islamic International Rating Agency – **Bahrain** – iira.com
 Credit Rating Information & Services Ltd. – **Bangladesh** – crislbld.com

Collaborations

Japan Credit Rating Agency, Ltd. - **Japan**
 China Chengxin International Credit Rating Company Limited - **China**

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