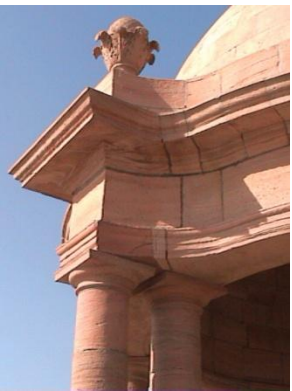


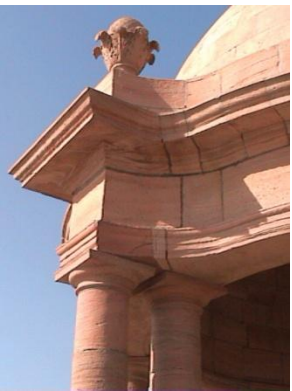
Bank Loan Ratings

Presented in ACRAA Training Workshop on
September 15, 16 2011



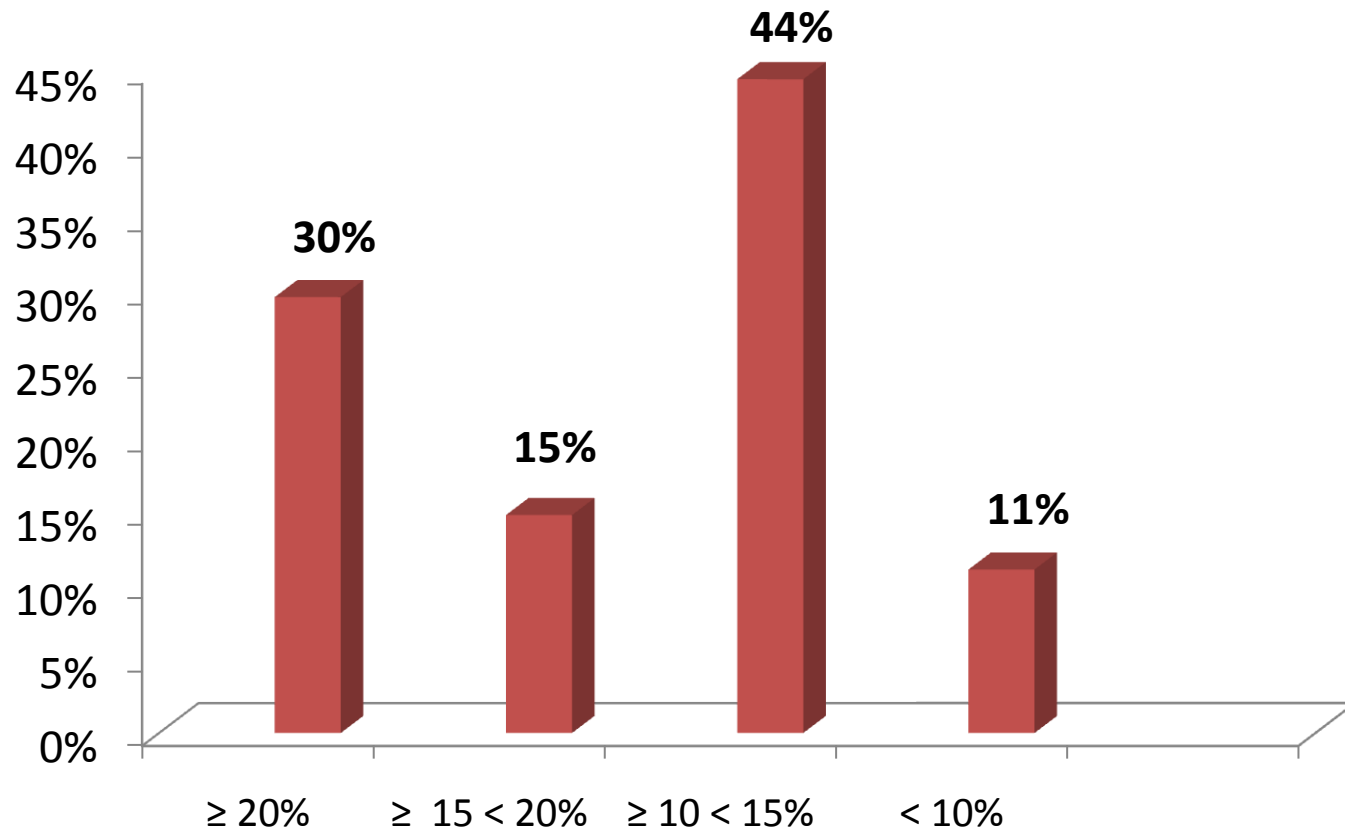
Outline of the Presentation

- Capital Standards in Pakistan & the Regulatory Framework for Basel II
- Role of Rating Agencies in Pakistan in the backdrop of convergence of banks to Basel II
- The way forward



Capital Requirements

- Minimum Capital Requirement Rs. 10b - \$120m approx.
- MCAR for Locally incorporated commercial banks - 10%
- Of the **27** locally incorporated banks in the sector, 90% were compliant with regulatory requirement for CAR

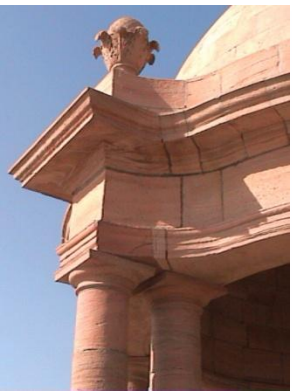


CAR position as of December-end 2010 JCR-VIS Credit Rating Company Limited



Need for reinforcing IRB

- The central bank has yet to validate models
- Back testing of models has not been carried out
- Non-performing loans have risen, casting doubts on internally developed models
- The quality of ratings produced by these models varies widely from bank to bank

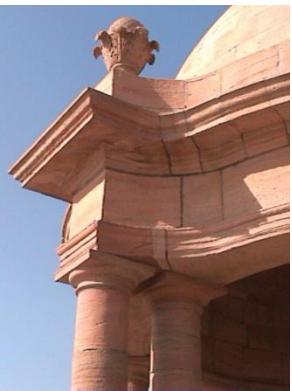


Impediments for Implementation of Standardized approach

- Lack of regulatory incentive for bank loan ratings
- Lack of consensus amongst market players

Bankers' Concerns

- Fear of transparency regarding quality of bank portfolios
- Fear of client attrition
- Fear of rapid rating transitions particularly downgrades



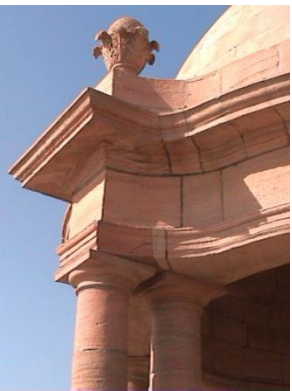
Implementation of Standardized Approach

- In Pakistan implementation of standardized approach for reporting CAR has limited effectiveness.
- Corporate exposures are rarely rated.
- Corporates that are expected to be able to achieve high to very high ratings are rated.
- As of December-end 2010, top five commercial banks in Pakistan representing around 50% of domestic advances of the banking sector continued to depict significant unrated corporate exposures in their portfolio. Unrated exposure represented about 85% of corporate loan book in the case of one large bank.



Compliance with Basel II

- Standardized approach has been implemented in Pakistan.
- To converge to IRB approach, State Bank of Pakistan, the Central Bank, has laid down milestones for banks.
- By September 2010, 90% of corporate borrowers were internally rated by banks.
- All banks have initiated the COSO implementation process.
- Under the foundation approach, banks will develop their probability of default for each rating grade while loss given default (LGD) and exposure at default (EAD) estimates will be based on supervisory values.
- Under the IRB's advanced approach, banks can use their own LGD and EAD estimates and will have greater flexibility in the treatment of collateral guarantees and credit derivatives.



Suggestions proposed by JCR-VIS to improve penetration of ratings

- Increasing risk weights associated with unrated credits beyond 150% in a phased manner.
- To make ratings compulsory for companies with a certain level of paid-up capital.
- Currently, risk weight assigned to credits with ratings in the BBB to BB range is same i.e. 100%. Lowering the risk weight assigned to BBB rated credits may encourage ratings.
- To make ratings mandatory for companies with certain level of debt outstanding. These maximum debt levels, could decrease in a graduated manner over time.



THANK YOU

Ms. Sabeen Saleem (Ext. 510)

Ms. Sobia Maqbool (Ext. 506)

JCR-VIS Credit Rating Company Limited

VIS House, 128/C, 25th Lane, Phase VII, D.H.A. Karachi

Tel: (92-21) 35311861-70

JCR-VIS Credit Rating Company Limited

