Important Note

Important note to any person not authorised to have access to this report

Any person who is not envisaged under the 'Tripartite Agreement' dated December 15, 2014, entered into between the State Bank of Pakistan, KASB Bank Limited and A. F. Ferguson & Co. ("Agreement"), to have access to our report, is not authorised to have access to this report.

Should any unauthorised person obtain access to and read this report, by reading this report such person accepts and agrees to the following terms:

- The reader of this report understands that the work performed by A.F. Ferguson & Co. ("AFF") was performed in accordance with the terms of the Agreement and was performed exclusively for the sole benefit and use of the State Bank of Pakistan.
- The reader of this report acknowledges that this report was prepared for State Bank of Pakistan and may not include all procedures deemed necessary for the purposes of the reader.
- The reader agrees that AFF, its partners, principals, employees and agents neither owe nor accept any duty or responsibility to it, whether in contract or in tort (including without limitation, negligence and breach of statutory duty), and shall not be liable in respect of any loss, damage or expense of whatsoever nature which is caused by any use the reader may choose to make of this report, or which is otherwise consequent upon the gaining of access to the report by the reader. Further, the reader agrees that this report is not to be referred to or quoted, in whole or in part, in any prospectus, registration statement, offering circular, public filing, loan, other agreement or document and not to distribute the report without AFF's prior written consent.

Deals

KASB Bank Limited
Valuation Report

Strictly private and confidential

March 16, 2015

pwc

A. F. FERGUSON & CO.
a member firm of the PwC network

Introduction

Scope of work

As per the terms of the 'Tripartite Agreement' dated December 15, 2014, entered into between the State Bank of Pakistan, KASB Bank Limited and A.F . Ferguson & Co. ("Agreement"), we were appointed to carry out:

- Valuation of KASB Bank Ltd.
- Financial and tax due diligence of the Bank and certain related entities (This part of the scope is covered in our 'Due Diligence Report'.)

The scope of our work is detailed in the Agreement which is set out in Appendix 1.

We were provided with the financial projections of the Bank, KASB Securities Ltd. ("KSL") and My Solutions Corporation Ltd. ("MSC"). We discussed the financial projections with the management of these entities to understand the assumptions used in preparation of the financial projections. In addition, we were also provided with financial projections of Shakarganj Food Products Ltd. ("SFPL"). The access to SFPL Management was limited. We also received very limited information from SFPL and have not received certain material information that we had requested. Consequently, we were only able to perform a high level price analysis of SFPL and did not perform an indicative valuation.

We were not provided with the financial projections of KASB Funds Ltd. ("KFL") on a stand-alone basis. Consequently we have performed an indicative valuation in respect of KFL based on recent proposed/completed transactions.

Under the Agreement, we were required to perform a valuation of KASB Invest (Pvt.) Ltd. ("KIL") and KASB Modaraba ("KM") on the basis of financial projections prepared by management of the entities. However, the management of the Bank ("Management of the Bank") through e-mail dated January 21, 2015 informed us that only public information in respect of these entities would be available as shareholding of the Bank in KIL and KM decreased in 2014 to 13.7% and 21.73%, respectively, and accordingly, the Bank no longer has the ability to exert control over these entities.

Our scope of work did not include carrying out a valuation of New Horizon Exploration and Production Ltd. ("NHEPL"), SFPL, KASB Capital Ltd. ("KCL") and Evolvence Capital Ltd. ("ECL").

In addition, the scope of our work did not include:

- Valuation of KSL's shareholding in Al-Jomaih Power Ltd. and Karachi Stock Exchange Ltd.
- Valuation of tangible and intangible assets.

Introduction

Scope of work (cont'd)	• Valuation of financial instruments and contracts. • Actuarial valuation and related services. • Transaction structure advice. • Provision of legal advice including in respect of transaction structure(s) and transaction agreement(s). Accordingly, this report may not have identified all matters that might be of concern to you.
Sources of information	The information used in preparation of this report has been obtained from a variety of sources as indicated within the report. While our work has involved analysis of financial information and/or accounting records, it has not included an audit in accordance with generally accepted auditing standards. Moreover, except where otherwise stated in the report, we have we not subjected the financial information in the report to checking or verification procedures. Accordingly we assume no responsibility and make no representations with respect to the accuracy or completeness of any information provided to us, except where otherwise stated herein, and no assurance is given. Our analysis is based on information available as on March 3, 2015. Accordingly, we have not performed any work / analysis or review of information after March 3, 2015.
Assumptions and limiting conditions	The actual price achieved in an open market transaction may be higher or lower than our valuation depending upon the circumstances of the transaction (for example, the competitive bidding environment), the nature of the business (for example, the purchaser's perception of potential synergies), the negotiating ability, the motivation of buyers and sellers, etc. Accordingly, the results of our valuation may not necessarily be the price at which any agreement may proceed. The final price is something on which all parties themselves have to agree upon. We also emphasize that valuation is not the only factor that should be considered by a buyer and seller in determining an agreeable price. In this regard, factors other than our valuation will need to be taken into account in determining the transaction price. By its very nature, valuation work is not an exact science and the conclusions will necessarily be subjective and dependent on the exercise of individual judgment. While we consider our valuation to be reasonable and defensible, based on the information available, others might argue for a different value.

Introduction

Assumptions and limiting conditions (cont'd)

The valuation was based on information provided by the management of the respective entities and relevant publicly available information. While our work involved an analysis of financial information, it did not include an audit in accordance with auditing standards as applicable in Pakistan. In addition, this information has not been subjected to checking or verification procedures. Accordingly, we assume no responsibility and do not make any representations or provide any assurance with respect to accuracy or completeness of any information that has been provided to us.

In carrying out the valuations, we reviewed the prospective financial information prepared by the management of the Bank and other related entities. We considered the views of the management of these entities as well as your views on various matters, including regarding future events which may affect the cashflows of these entities, which, by their nature, cannot be fully substantiated and will likely not occur exactly as forecast.

By its nature, budgets, projections and forecasts relate to future events and are based on assumptions which may not remain valid for the whole of the relevant period and unanticipated events and circumstances may occur that may materially alter our analyses and conclusions. Consequently, this information cannot be relied upon to the same extent as that derived from audited financial statements for completed accounting periods.

Although, we have provided a commentary on the key assumptions, we express no opinion and do not provide any assurance as to how closely the actual results will correspond to those projected and forecast, as reflected in the prospective financial information. We take no responsibility for the achievement of predicted results and disclaim any liability relating to the achievability of these results.

Our valuation is at a specific point in time and our conclusions are based upon the information available as at the date specified in our report. Economic conditions, market factors and changes in the performance of the businesses may result in our conclusions becoming quickly outdated and may require updating from time to time or before any major decisions are taken based on our report. We assume no responsibility to update our findings for events and circumstances occurring after the date specified in our report.

Nothing specified in this report should be construed as a legal interpretation, an opinion on any contract or document, or a recommendation to invest or divest.

Unless otherwise stated, no effort has been made to determine the possible effect, if any, due to future national or local legislation.

Introduction

Assumptions and limiting conditions (cont'd)

No responsibility is assumed for matters of a legal nature.

Our report must be considered in its entirety by the reader, as selecting and relying on only specific portions of the analyses or factors considered by us, without considering all factors and analyses together, could create a misleading view of the processes underlying the valuation and the conclusions therefrom. Valuation is a complex process and it is not appropriate to extract partial analyses or make summary descriptions. Any attempt to do so could lead to undue emphasis on a particular factor or analysis.

As a result of due diligence adjustments, the Bank may need to be recapitalised by Rs 16 billion to comply with minimum capital requirement prescribed by SBP

Introduction

- We were appointed to carry out a valuation of the Bank. Terms applicable to this engagement are set out in the Agreement.

Overall methodology/ approach

- We carried out a valuation of the Bank using a "sum-of-parts" approach.
- The valuation is based on the Income approach using the Discounted Cash Flow ("DCF") methodology. In this connection, a variant of the Discounted Dividend Method was used with the implicit assumption that the Bank will pay out, what it can afford, in dividends after taking into account regulatory requirements such as statutory reserves and capital requirements.
- The starting point for the valuation was the financial projections for the period from 2015 to 2020 provided by the Management of the Bank ("Management Projections"). These projections incorporated the impact of the moratorium imposed on the Bank and assumed a capital injection of Rs 10.3 billion to comply with the minimum capital requirement prescribed by SBP.
- We adjusted the Management Projections based on due diligence findings. As a result, the capital injection was revised to Rs 16 billion. In addition, certain other adjustments were made to the Management Projections, including the following:

Value of KASB Bank Ltd.

Rupees in million

Present value of explicit forecast		3,658.9
Present value of terminal value		967.6
Present value of capital injection assumed on May 31, 2015		(14,667.2)
		(10,040.7)
Bank's Investments and certain properties		
KASB Securities Ltd.	Refer Section 10	502.6
Shakarganj Food Products Ltd.	Refer Section 16	627.9
My Solutions Corporation Ltd.	Refer Section 19	-
KASB Funds Ltd.	Refer Section 22	210
Investments in mutual funds of KASB Funds Ltd.		899.4
KASB Capital Ltd.	Note 1	5.80
KASB Modaraba	Note 1	52.2
KASB Invest (Pvt.) Ltd.	Note 1	19.9
Evolvence Capital Ltd.	Note 1	550.0
Non-banking assets acquired in satisfaction of claims	Note 2	604.95
Properties owned by the Bank which are not currently in use	Note 3	178.4
		3,462.1
Value of KASB Bank Ltd.		**(6,578.6)**

Note 1: Please refer Due Diligence report for details.
Note 2: This represents the forced sale value of non-banking assets acquired in satisfaction of claims, except for 'Gemini Plaza' which is included at its adjusted book value. The property in 'Hub, Baluchistan' has not been considered.
Note 3: This represents the forced sale value of office at 'Ahmer Arcade', plots located at D.H.A., Islamabad and 'Ittehad property'.

Capital injection assumed as at May 31, 2015

Rupees in million

Equity as at December 31, 2014 (as per management accounts) *	652.5
Due diligence adjustments	(5,854.1)
Loss for the period of five months ended May 31, 2015	(587.2)
Equity as at May 31, 2015 before capital injection	(5,788.8)
Minimum capital requirement	10,000.0
Capital injection required	15,788.8
Capital injection assumed	16,000.0

*Adjusted for certain due dilligence adjusments, which the Bank had recorded in December 2014, to avoid duplication.

Source: AFF Analysis

As a result of due diligence adjustments, the Bank may need to be recapitalised by Rs 16 billion to comply with minimum capital requirement prescribed by SBP

- the assumption that Iranian Deposits will be retained for a long term/ indefinite period does not appear to be reasonable. We discussed this matter with SBP and in the absence of information, adopted an assumption for availability of these deposits for the medium term i.e. three years.
- impact of termination of cooperation agreement with Merrill was incorporated.
- recoveries assumed by the Management were rationalised.
- certain assumptions were revised based on analysis of the Bank and comparable banks.
- financial projections were extended beyond 2020 for 'normalisation' of cash flow to equity holders after accounting for capital requirements.

- Cash flows to equity holders were discounted at the cost of equity.
- The cost of equity was estimated on the basis of the Capital Asset Pricing Model.
- The value derived using the DCF methodology was adjusted for the value of certain investments, non-banking assets acquired in satisfaction of claims and certain properties which are not currently in use of the Bank.
- The value of the Bank is set out in the table opposite.

Value of KASB Bank Ltd.

Rupees in million

Present value of explicit forecast		3,658.9
Present value of terminal value		967.6
Present value of capital injection assumed on May 31, 2015		(14,667.2)
		(10,040.7)
Bank's Investments and certain properties		
KASB Securities Ltd.	Refer Section 10	502.6
Shakarganj Food Products Ltd.	Refer Section 16	627.9
My Solutions Corporation Ltd.	Refer Section 19	-
KASB Funds Ltd.	Refer Section 22	21.0
Investments in mutual funds of KASB Funds Ltd.		899.4
KASB Capital Ltd.	Note 1	5.80
KASB Modaraba	Note 1	52.2
KASB Invest (Pvt.) Ltd.	Note 1	19.9
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Non- banking assets acquired in satisfaction of claims	Note 2	604.95
Properties owned by the bank which are not currently in use	Note 3	178.4
		3,462.1
Value of KASB Bank Ltd.		**(6,578.6)**

Note 1: Please refer Due Diligence report for details.
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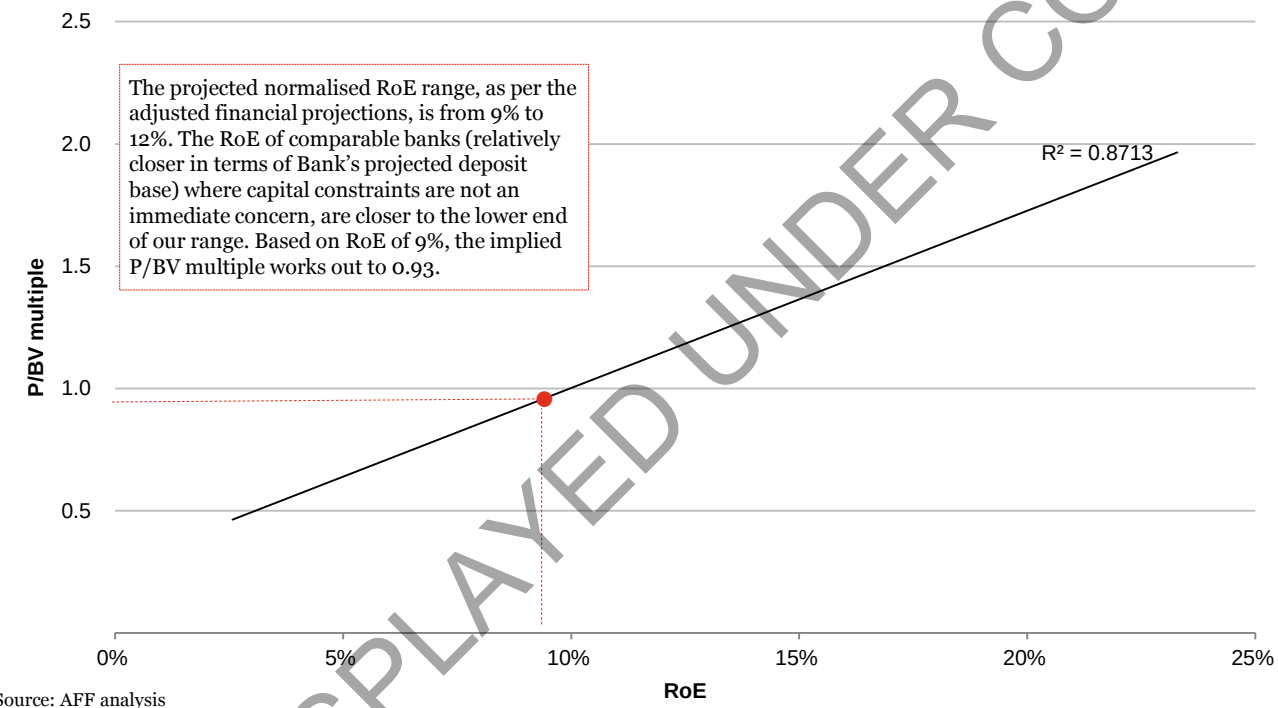
*Adjusted for certain due dilligence adjusments which the Bank had recorded in December 2014 to avoid duplication.

Source: AFF analysis

High-level value analysis, based on the Market approach, indicates similar results to the valuation of the Bank under Income approach using the DCF methodology

To assess the valuation of the Bank, we analysed the Price to Book Value ("P/BV") multiple of banks in Pakistan and regressed their P/BV multiple against their return on equity ("RoE"). This regression suggests that the P/BV multiple of these banks is highly correlated with their RoE.

Implied value analysis



The projected normalised RoE range, as per the adjusted financial projections, is from 9% to 12%. The RoE of comparable banks (relatively closer in terms of Bank's projected deposit base) where capital constraints are not an immediate concern, are closer to the lower end of our range. Based on RoE of 9%, the implied P/BV multiple works out to 0.93.

Source: AFF analysis

High-level value analysis

Rupees in million

Adjusted net assets	10,211
Less: value of certain investments and non-operating assets	3,462
	6,749
Implied P/BV	0.93
	6,276
Add: value of certain investments and non-operating assets	3,462
	9,738
Capital injection	(16,000)
Implied value	(6,262)

Source: AFF analysis

High-level analysis based on adjusted book value (net assets) of Rs 10,211 million as at May 31, 2015 (based on financial projections). These net assets have been adjusted for due diligence findings and the financial projections assume capital injection of Rs 16 billion.

Sensitivity analysis

We have performed sensitivity analysis by:

i. identifying some key assumptions, related to the DCF valuation methodology, to which the valuation is sensitive. These consist of:

- discount rate; and
- terminal growth rate.

ii. varying these assumptions upwards and downwards to get different observations.

Observations assumed in relation to each of these assumptions and corresponding results are shown on the right.

Discount rate

Valuation is highly sensitive to the change in discount rate. If discount rate is varied by (+/-) 2%, the change in value in relation to the base case ranges from negative 7.7% to 11.3%.

Terminal growth rate

Valuation is comparatively less sensitive to changes in the terminal growth rate as compared to change in discount rate. If the terminal growth rate is varied by (+/-) 2%, the change in value in relation to the base case ranges from 3.3% to negative 2.3%.

Sensitivity analysis

Rupees in million	Observations				
	-2.0%	-1.0%	Base case	1.0%	2.0%
Discount rate	17.0%	18.0%	19.0%	20.0%	21.0%
Present value of equity cashflows	(9,298.8)	(9,707.1)	(10,040.7)	(10,316.6)	(10,547.3)
Value of Bank's Investments	3,462.1	3,462.1	3,462.1	3,462.1	3,462.1
Value of Bank	(5,836.7)	(6,245.0)	(6,578.6)	(6,854.5)	(7,085.2)
Sensitivity	**11.3%**	**5.1%**	**0.0%**	**-4.2%**	**-7.7%**
Terminal growth rate	5.0%	6.0%	7.0%	8.0%	9.0%
Present value of equity cashflows	(10,194.3)	(10,123.4)	(10,040.7)	(9,942.8)	(9,825.4)
Value of Bank's Investments	3,462.1	3,462.1	3,462.1	3,462.1	3,462.1
Value of Bank	(6,732.2)	(6,661.3)	(6,578.6)	(6,480.7)	(6,363.3)
Sensitivity	**-2.3%**	**-1.3%**	**0.0%**	**1.5%**	**3.3%**

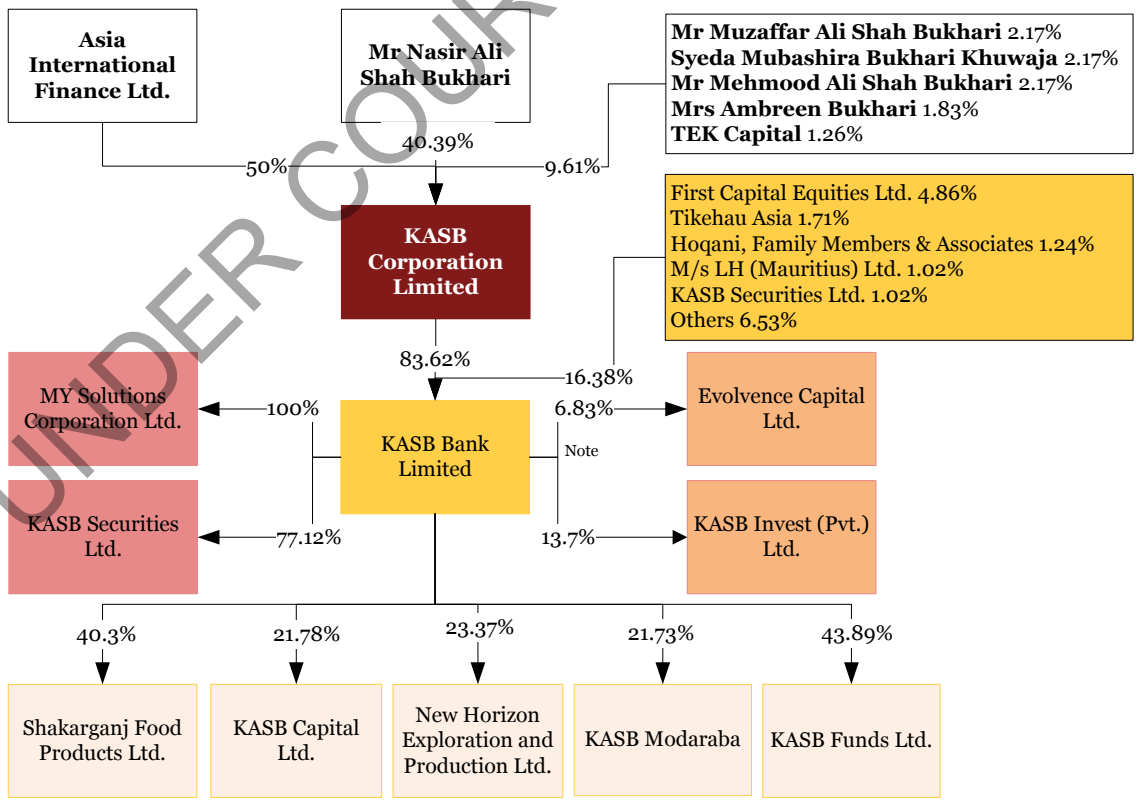
Source: AFF Analysis

KASB Bank

Business overview

- The Bank is engaged in commercial banking, consumer banking and corporate and investment banking activities and related services through 105 branches.
- The Bank is listed on all the three stock exchanges.
- The Bank has been unable to meet minimum capital requirements and capital adequacy requirements.
- From close of business on November 14, 2014, the SBP imposed a six month moratorium on the Bank.

Group Structure



Note: The Bank's investment in ECL represents 6.83% voting rights in ECL and the percentage of paid-up capital held by the Bank in ECL is 8.03%.
Source: Management Information

Evolution of the Bank – key dates

1950's

In 1955, Khadim Ali Shah Bukhari and Company was established as a cotton trading firm. The firm ventured into securities trading in 1958.

1991

Khadim Ali Shah Bukhari and Company was established as the first public limited brokerage company in Pakistan and was listed on the Karachi Stock Exchange as Khadim Ali Shah Bukhari & Company Limited ("KASB").

1993

Merrill Lynch (Asia Pacific) Ltd. entered into an arrangement with KASB to work in the areas of research and investment banking.

1994

Platinum Commercial Bank Limited ("PCBL") was incorporated as a public limited company.

1995

PCBL received banking license from SBP and certificate of commencement of business from Securities and Exchange Commission of Pakistan ("SECP").

2002

KASB acquires PCBL.

2003

The name of PCBL was changed to KASB Bank Limited (the "Bank").
KASB, except for its brokerage business, was amalgamated into the Bank. The brokerage business of KASB was transferred to KASB Securities Ltd. ("KSL") which was a new entity.

2005

The Bank set-up KASB Funds Limited ("KFL").

2006

In order to meet minimum capital requirement, International Housing Finance Limited (in which Mr. Nasir Ali Shah Bukhari, sponsor / director of the Bank, held 64.33% shares) was amalgamated into the Bank.

KASB Capital Limited ("KCL") was formed. The Bank's investments in KSL and KFL were transferred to KCL.

2008

In order to meet minimum capital requirement, the Bank amalgamated KCL and Network Leasing Corporation Limited (in which KCL directly held 78.84%) with and into the Bank.

Source: Management Information

Moratorium and suspension – key dates

14-Nov-2014

Moratorium was imposed on the Bank by SBP. Under the moratorium:
- Only withdrawals of deposit upto Rs 300,000 per depositor per account was allowed;
- further/new financings were not allowed;
- disbursement against fund/non-fund based financing commitments were not allowed, unless approved by SBP;
- the Bank was not allowed to enter into any contract, commitment, understanding or engagement involving any financial liability on part of the Bank or commit to make any investments or purchase any assets without prior written approval of SBP.

18-Nov-2014

Operations of KSL were suspended by SECP. In this regard:
- all investor accounts were frozen.
- investors were not allowed to sell or buy scrips.
- scrips bought in futures were sold off regardless of consent of investors.
- investors were allowed to transfer their securities to other brokerage houses.
- investors were called upon to repay leverage availed for purchase of scrips.

24-Nov-2014

KSL wrote a letter to KSE and informed them that the suspension of operations was due to funds placed in its account with the Bank on which restrictions had been imposed by SBP and not due to financial position/performance of the company.

3-Dec-2014

Relaxation of restrictions by SECP. Consequently:
- execution of buy orders on 100% cash was allowed.
- T+0 days settlement was allowed instead of the normal T+2 settlement period.
- leveraging or buying on credit was not allowed.
- buying in futures was not allowed.
- sell orders were to be executed only against pre-existing holdings in CDC sub-accounts with KSL.
- CDC was directed by SECP to allow movement of securities from the Participant umbrella only for the purpose of settlement of trades through NCCPL.

31-Dec-2014

Merrill Lynch (Asia Pacific) Ltd. terminated its arrangement with the Bank.

3-Feb-2015

Further relaxation of restrictions by SECP. Consequently:
- execution of buy orders on 50% cash basis was allowed.
- trades executed on behalf of Non-Broker Clearing Members to be affirmed not later than one hour before closure of market.
- trade in Deliverable Future Market allowed only on behalf of customers and not on proprietary accounts
- submission with KSE of weekly reconciliations of client cash balances as per back office record with the designated client accounts.

Source: Management Information, Public Information

The advances to deposits ratio of the banking sector in Pakistan was 48.2% as at September 30, 2014

As at December 31, 2014, there were 33 scheduled commercial banks operating in Pakistan including 5 public sector banks, 6 foreign banks operating branches in Pakistan and 5 fully-dedicated islamic banks.

Top ten banks by assets as at September 30, 2014

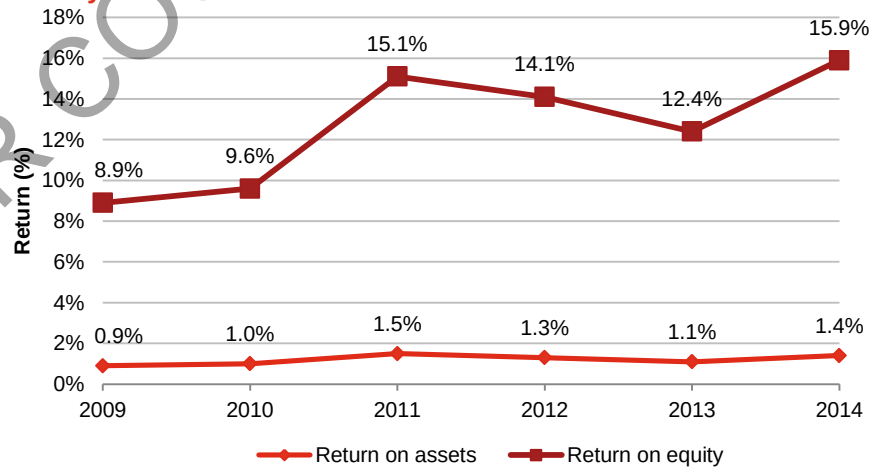
Rupees in billion	Assets	Advances	Deposits	Equity	Advances to Deposits
Habib Bank Ltd.	1,607.2	539.0	1,344.3	131.4	40.1%
National Bank of Pakistan	1,412.3	606.7	1,096.9	107.5	55.3%
United Bank Ltd.	1,067.7	417.4	865.7	92.5	48.2%
MCB Bank Ltd.	868.8	289.6	666.3	104.7	43.5%
Allied Bank Ltd.	789.4	282.7	643.4	60.6	43.9%
Bank Alfalah Ltd.	667.2	272.6	563.6	29.5	48.4%
Bank ALHabib	519.8	172.8	436.4	25.6	39.6%
Standard Chartered Bank	416.3	135.4	313.8	51.4	43.2%
Askari Bank Ltd.	409.5	167.3	350.3	18.5	47.7%
Habib Metropolitan Bank Ltd.	378.1	128.5	299.5	28.4	42.9%
	8,136.4	**3,012.1**	**6,580.2**	**650.1**	**45.8%**
All Banks	**11,129.0**	**4,209.0**	**8,740.0**	**1,002.0**	**48.2%**
As a % of all Banks	**73.1%**	**71.6%**	**75.3%**	**64.9%**	

RoE of selected banks

	9MFY 2014
Soneri Bank Ltd.	8.6%
NIB Bank Ltd.	4.5%
Faysal Bank Ltd.	6.8%
Silk Bank Ltd.	1.6%
Bank Islami Ltd.	5.0%
JS Bank Ltd.	4.1%
Dubai Islamic Bank Ltd.	6.8%

Source: Statistics of the Banking System, Financial statements of banks

Industry returns



Source: Statistics of the Banking System

Equity of Rs 643 million accounts for an advance of Rs 981 million received against future issue of right shares. As per Management Discussion, the advance has been received from Mr. Nasir Ali Shah Bukhari

Balance sheet

Rupees in million	30-Nov-14	31-Dec-13
Assets		
Cash and balances with treasury banks	4,194	4,944
Balances with other banks	356	324
Lendings to financial institutions	24	1,063
Investments	27,705	27,694
Loans and advances	21,342	24,265
Operating fixed assets	2,605	2,571
Deferred tax asset - net	4,798	4,818
Other assets	2,541	2,611
	63,565	**68,290**
Liabilities		
Bills payable	288	871
Borrowings	2,393	1,861
Deposits and other accounts	58,219	63,073
Other liabilities	1,323	1,127
	62,223	**66,932**
Net assets	**1,342**	**1,358**
Net assets represented by:		
Share capital	19,509	19,509
Reserves	-	-
Accumulated losses	(12,871)	(12,397)
Discount on issue of right shares	(6,976)	(6,976)
Advance against future issue of right shares	981	981
	643	**1,117**
Surplus on revaluation of assets - net of tax	699	241
	1,342	**1,358**
Advances to Deposits ratio	**36.7%**	**38.5%**

Source: Management Information

- As at November 30, 2014, loans to Punjab Food Department, Pakistan International Airlines Ltd., Nishat Mills Ltd, Mr. Shaukat Fayaz Tareen and Mr. Azmat Shehzad Tareen constituted 30.1% of the carrying value (net of provision) of loans and advances.
- Investment in government securities account for 81.1% of total carrying value of investments. The remaining investments include investments in:
  - KASB Securities Ltd. [carrying value (net of impairment) of Rs 1,357 million]
  - Evolvence Capital Ltd. [carrying value of Rs 1,155 million]
  - Shakarganj Food Products Ltd., [carrying value of Rs 627.9 million]
  - mutual funds of Rs 847.5 million [market value of Rs 884.4 million].
- Operating fixed assets consist mainly of land and buildings, which have a net book value of Rs 1,851 million. These assets were revalued in 2014. In addition, operating fixed assets also include advance given for four floors in KASB Altitude [carrying value (net of provision) of Rs 361 million].
- Other assets mainly comprise of non-banking assets acquired in satisfaction of claims of Rs 1,088.8 million and goodwill (allocated to the Investment Banking Group) of Rs 248.4 million.
- Borrowings include an amount of Rs 1,668 million obtained from SBP under the export refinance scheme and repo borrowings of Rs 680 million.
- Deposits include deposits of Rs 19,552.2 million received from an Iranian company.
- Equity of Rs 643 million accounts for an advance of Rs 981 million received against future issue of right shares. As per Management Discussion, the advance has been received from Mr. Nasir Ali Shah Bukhari.

As per management accounts, the Bank incurred a loss after tax of Rs 514 million in 2014

Profit and loss account

Rupees in million	2014	Dec-14	11M 2014	2013
Interest income	4,719.6	353.2	4,366.4	4,936.5
Interest expense	(2,809.6)	(201.0)	(2,608.6)	(2,805.2)
Net mark-up / interest income	**1,910.0**	**152.2**	**1,757.8**	**2,131.3**
Provision against non-performing loans and advances	(366.6)	(7.5)	(359.1)	(1,116.3)
Provision for diminution in the value of investments	(235.3)	(22.7)	(212.6)	(594.7)
Bad debts written off directly	(1.9)	(0.8)	(1.1)	(1.3)
Net mark-up / interest income after provisions	**1,306.2**	**121.2**	**1,185.0**	**419.0**
Fee, commission and brokerage income	233.2	7.7	225.5	301.6
Dividend income	215.9	2.5	213.4	189.4
Income from dealing in foreign currencies	36.8	(1.6)	38.4	18.1
Gain / (loss) on sale of securities	92.1	51.1	41.0	100.9
Other income / (charges)	113.5	10.2	103.3	76.2
Non mark-up / interest income	**691.5**	**69.9**	**621.6**	**686.2**
	1,997.7	**191.1**	**1,806.6**	**1,105.2**
Administrative expenses	(2,477.4)	(190.0)	(2,287.4)	(2,485.7)
Other provisions / write-offs	(26.2)	(18.1)	(8.1)	-
Other charges	(0.2)	-	(0.2)	(94.7)
Total non mark-up / interest expenses	**(2,503.8)**	**(208.1)**	**(2,295.7)**	**(2,580.4)**
Profit before taxation	**(506.1)**	**(17.0)**	**(489.1)**	**(1,475.2)**
Taxation - current	(49.9)	(3.6)	(46.3)	(52.6)
Taxation - deferred	41.2	-	41.2	(55.3)
	(8.7)	**(3.6)**	**(5.1)**	**(107.9)**
Profit / (loss) after taxation	**(514.8)**	**(20.6)**	**(494.2)**	**(1,583.1)**

For presentation purposes only

Source: Management Information

- Net interest income of the Bank declined by 9.4% in 2014. We have been given to understand by the Management that this was due to:
  - decrease in performing loans and advances from Rs 23.1 billion as at December 31, 2013 to Rs 19.2 billion as at November 30, 2014; and
  - decrease in yield on advances from 10.6% to 9.9% resulting from increase in composition of lower rate fixed income loans and advances.
- Provisions against loans and advances and investments was also lower by Rs 1,108 million in 2014.
- Administrative expenses remained relatively stable mainly due to:
  - departure of 66 executive-level staff during 11M 2014. The rehiring was done at lower positions.
  - increments were not given to 13 senior employees who report directly to the CEO of the Bank. However, these employees were allowed an increment of 3% as compensation for inflation.
  - the head of Investment Banking Group and head of Global Transaction Banking and Alternative Delivery Channel left the Bank in August 2014 and July 2014, respectively. These positions remained vacant till December 31, 2014.

We have carried out a valuation of the Bank using sum-of-parts approach

- We carried out a valuation of the Bank using a sum-of-parts approach. The valuation is based on the Income approach using the Discounted Cash Flow ("DCF") methodology. In this connection, a variant of the Discounted Dividend Method was used with the implicit assumption that the Bank will pay out, what it can afford, in dividends after taking into account regulatory requirements such as statutory reserves and capital requirements.
- Cash flows to equity holders were discounted at the cost of equity.
- The cost of equity was estimated based on the Capital Asset Pricing Model. The computation of the cost of equity is shown in the table on the right.
- The value derived using the DCF methodology was adjusted for the value of certain investments made by the Bank, the value of non-banking assets acquired in satisfaction of claims and the value of certain properties not currently in Bank's use. The Banks' investments are summarised as follows:

KASB Securities Ltd.	Evolvence Capital Ltd.
Shakarganj Food Products Ltd.	KASB Capital Ltd.
My Solutions Corporation Ltd.	KASB Modaraba
KASB Funds Ltd.	KASB Invest (Pvt.) Ltd.
Investments in mutual funds of KASB Funds Ltd.	

Cost of Equity

Risk-free rate	9.84%	Rate based on 10-year Pakistan Investment Bond yield prevailing on January 30, 2015.
Equity beta	1.30	Based on "high-level" analysis of selected comparable banks.
Market risk premium	7.00%	
Cost of Equity	**18.94%**	
Cost of Equity - adopted	**19.00%**	

Source: AFF Analysis

Projected balance sheet

Balance sheet		Adjusted *	Forecast											
Rupees in million	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Cash and balances with treasury banks	4,944	3,530	3,994	4,437	4,907	4,493	5,170	5,981	6,879	7,738	8,512	9,151	9,791	10,477
Balance with other banks	324	469	618	674	749	683	791	921	1,059	1,192	1,311	1,409	1,508	1,613
Lending to financial institutions	1,063	-	-	-	-	-	-	-	-	-	-	-	-	-
Investments	27,694	26,451	41,900	48,633	53,261	39,907	43,038	50,321	57,618	65,250	71,600	76,779	81,970	87,376
Loans and advances	24,265	17,543	21,514	22,621	28,848	36,263	47,234	56,559	64,913	72,835	79,850	86,158	92,486	99,353
Other assets	2,571	1,506	2,384	2,895	3,188	3,114	3,479	3,910	4,246	4,469	4,762	5,029	5,271	5,517
Operating fixed assets	4,818	2,138	2,066	2,266	2,466	2,666	2,866	3,066	3,266	3,466	3,666	3,866	4,066	4,266
Deferred tax assets	2,610	4,802	4,621	3,849	3,034	2,730	2,758	2,776	2,021	1,642	1,563	1,480	1,394	1,304
Assets	68,289	56,438	77,097	85,375	96,453	89,856	105,336	123,534	140,002	156,592	171,264	183,872	196,486	209,906
Borrowings	1,861	1,666	1,647	1,789	2,381	3,133	4,088	4,898	5,633	6,337	6,970	7,493	8,018	8,579
Deposits	63,073	57,505	60,576	67,616	77,011	68,732	82,261	98,495	113,269	127,427	140,170	150,683	161,231	172,517
Other liabilities	1,997	1,554	2,805	3,387	3,992	4,666	5,435	6,278	6,984	7,676	8,302	8,823	9,335	9,978
Liabilities	66,931	60,724	65,028	72,792	83,384	76,531	91,784	109,671	125,886	141,440	155,442	166,999	178,584	191,074
Net Assets	1,358	(4,286)	12,069	12,583	13,069	13,325	13,552	13,863	14,116	15,152	15,822	16,873	17,902	18,832
Represented by:														
Share capital	19,509	19,509	35,509	35,509	35,509	35,509	35,509	35,509	35,509	35,509	35,509	35,509	35,509	35,509
Advance against future issue of right shares	981	981	981	981	981	981	981	981	981	981	981	981	981	981
Reserves	-	-	71	331	614	716	943	1,254	1,507	1,823	2,170	2,544	2,943	3,370
Discount on issuance of right shares	(6,976)	(6,976)	(6,976)	(6,976)	(6,976)	(6,976)	(6,976)	(6,976)	(6,976)	(6,976)	(6,976)	(6,976)	(6,976)	(6,976)
Accumulated loss	(12,397)	(18,716)	(18,432)	(18,178)	(17,975)	(17,821)	(17,821)	(17,821)	(17,821)	(17,101)	(16,778)	(16,101)	(15,471)	(14,968)
	1,117	(5,202)	11,153	11,667	12,153	12,409	12,636	12,947	13,200	14,236	14,906	15,957	16,986	17,916
Surplus on revaluation	241	916	916	916	916	916	916	916	916	916	916	916	916	916
	1,358	(4,286)	12,069	12,583	13,069	13,325	13,552	13,863	14,116	15,152	15,822	16,873	17,902	18,832

* Adjusted for due diligence adjustments.

Source: Management Information, AFF Analysis

Projected profit and loss

Profit and loss Rupees in million	2013	9MFY 2014	Forecast 2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Interest earned	4,937	3,584	4,441	6,403	7,534	7,138	8,557	10,243	12,198	13,723	15,096	16,228	17,364	18,579
Interest expense	(2,805)	(2,126)	(2,402)	(2,843)	(3,421)	(4,128)	(4,980)	(5,993)	(7,027)	(7,906)	(8,696)	(9,349)	(10,003)	(10,703)
Net mark-up / interest income	**2,132**	**1,458**	**2,039**	**3,560**	**4,113**	**3,010**	**3,577**	**4,250**	**5,171**	**5,817**	**6,400**	**6,879**	**7,361**	**7,876**
(Provisions) / reversal against non-performing loans	(1,712)	(303)	611	649	363	46	(141)	(317)	(510)	(573)	(631)	(678)	(726)	(776)
Net interest after provisions	420	1,155	2,650	4,209	4,476	3,056	3,436	3,933	4,661	5,244	5,769	6,201	6,635	7,100
Non mark-up/interest income	686	525	364	483	632	851	1,026	1,239	1,500	1,687	1,856	1,995	2,135	2,284
Administrative expenses	(2,581)	(1,862)	(2,396)	(2,588)	(2,795)	(3,016)	(3,258)	(3,519)	(4,002)	(4,503)	(4,953)	(5,324)	(5,697)	(6,096)
Profit / (loss) before taxation	**(1,475)**	**(182)**	**618**	**2,104**	**2,313**	**891**	**1,204**	**1,653**	**2,159**	**2,428**	**2,672**	**2,872**	**3,073**	**3,288**
Taxation														
Current	(53)	(38)	(47)	(69)	(82)	(80)	(96)	(115)	(137)	(471)	(856)	(922)	(989)	(1,061)
Deferred	(55)	41	(216)	(736)	(815)	(304)	28	18	(755)	(379)	(79)	(83)	(86)	(90)
	(108)	3	(263)	(805)	(897)	(384)	(68)	(97)	(892)	(850)	(935)	(1,005)	(1,075)	(1,151)
Profit / (loss) after taxation	**(1,583)**	**(179)**	**355**	**1,299**	**1,416**	**507**	**1,136**	**1,556**	**1,267**	**1,578**	**1,737**	**1,867**	**1,998**	**2,137**
Transfer to statutory reserve			71	260	283	101	227	311	253	316	347	373	400	427
Effective tax rate	7%	-2%	❶ 43%	❶ 38%	❶ 39%	❶ 43%	❷ 6%	❷ 6%	❶ 41%	35%	35%	35%	35%	35%
RoE*			3.2%	11.4%	11.9%	4.1%	9.1%	12.2%	9.7%	11.5%	11.9%	12.1%	12.1%	12.2%
RoA			0.5%	1.6%	1.6%	0.5%	1.2%	1.4%	1.0%	1.1%	1.1%	1.1%	1.1%	1.1%

* RoE for 2015 is based on closing equity. RoE for remaining years is based on average equity.

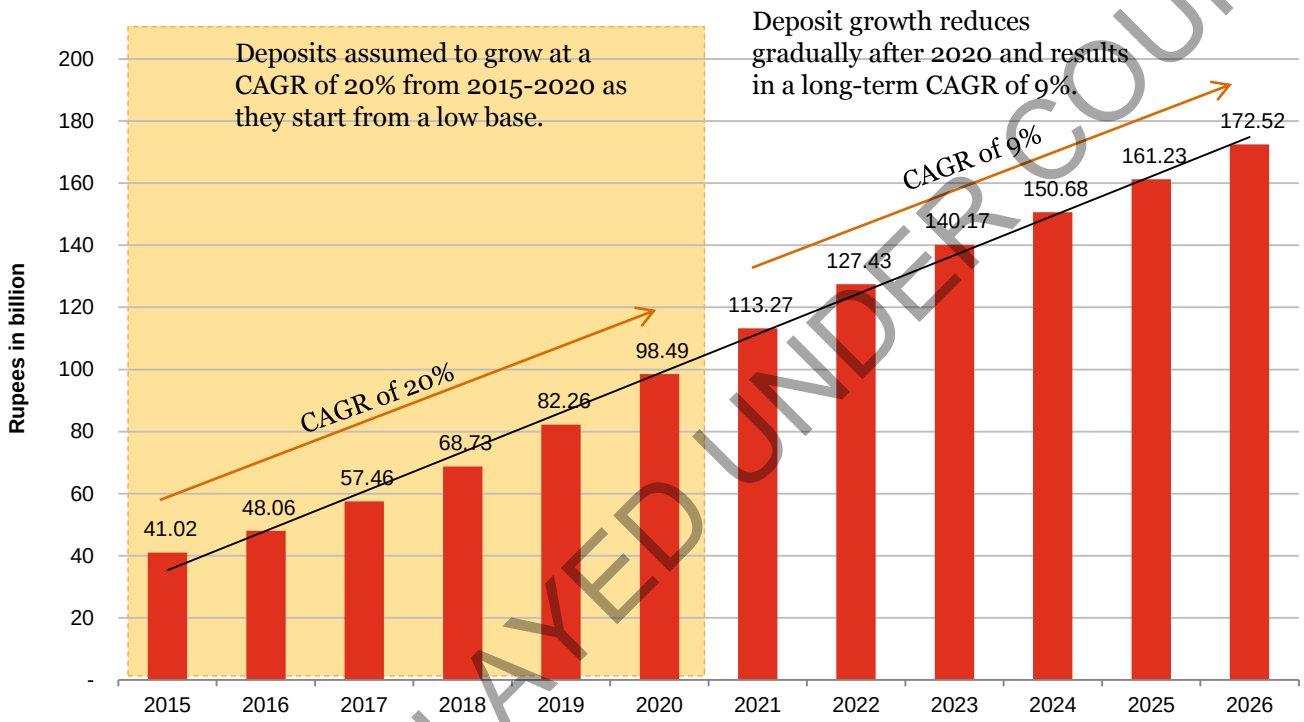
❶ Effective tax rate is higher than 35% due to minimum tax.

❷ Effective tax rate is low due to absorption of tax losses on which deferred tax asset has not been recognised.

Source: Management Information, AFF Analysis

Increase in deposits is in line with historic growth in deposits of comparable banks

Deposit growth



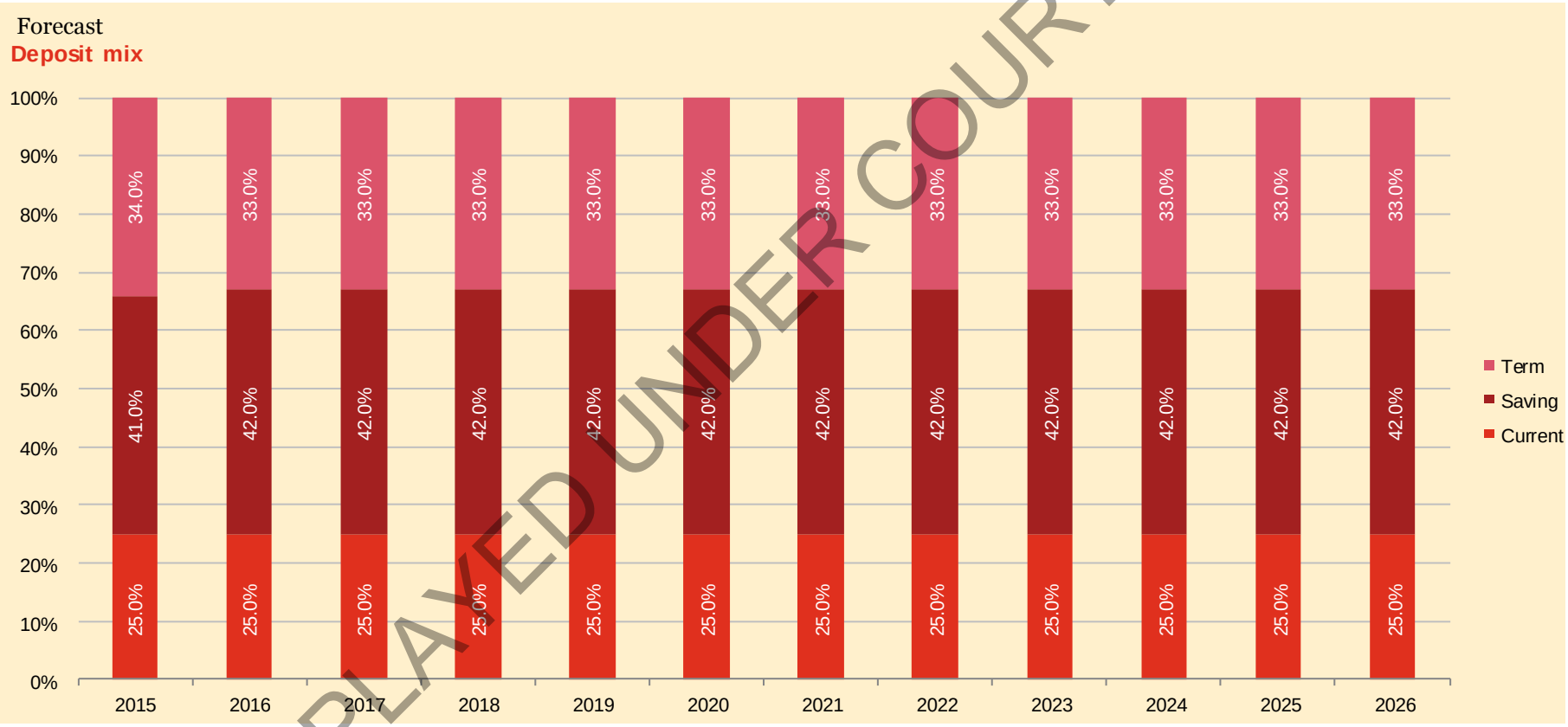
Deposits exclude Iranian Deposits.
Source: Management Information, AFF Analysis

From 2009 to 9 MFY 2014

	Deposit growth in billion	CAGR
Bank Islami	61.60	18.8%
JS Bank	80.62	26.1%
Summit Bank	74.20	29.1%
Soneri Bank	76.88	11.2%
Dubai Islamic Bank	41.97	14.5%
Burj Bank	31.11	29.0%

Source: Public Information, AFF Analysis

Deposit mix assumed to be constant

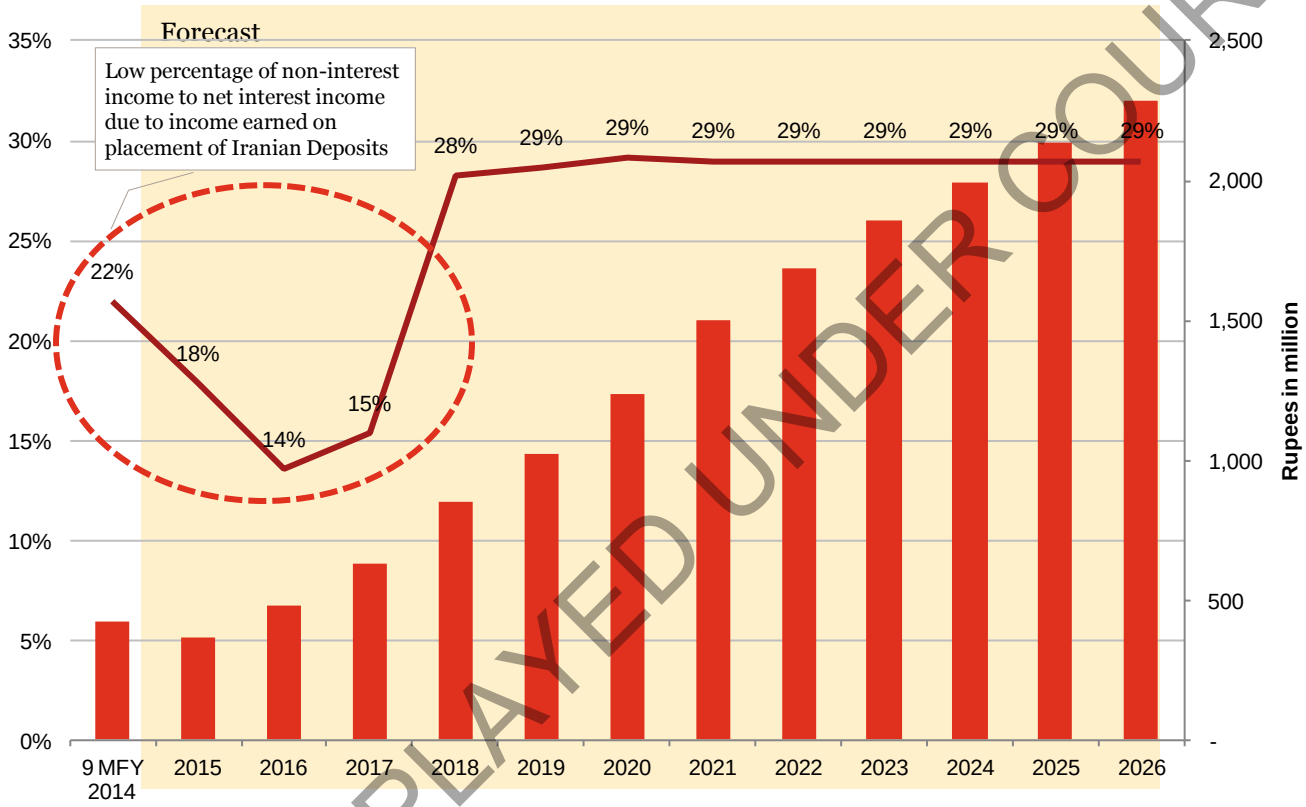


Iranian Deposits were excluded for the purpose of these calculations.

Source: Management Reports, AFF Analysis

Non-interest income to net interest income of the Bank and comparable banks

Non-interest income to net interest income



Source: AFF Analysis

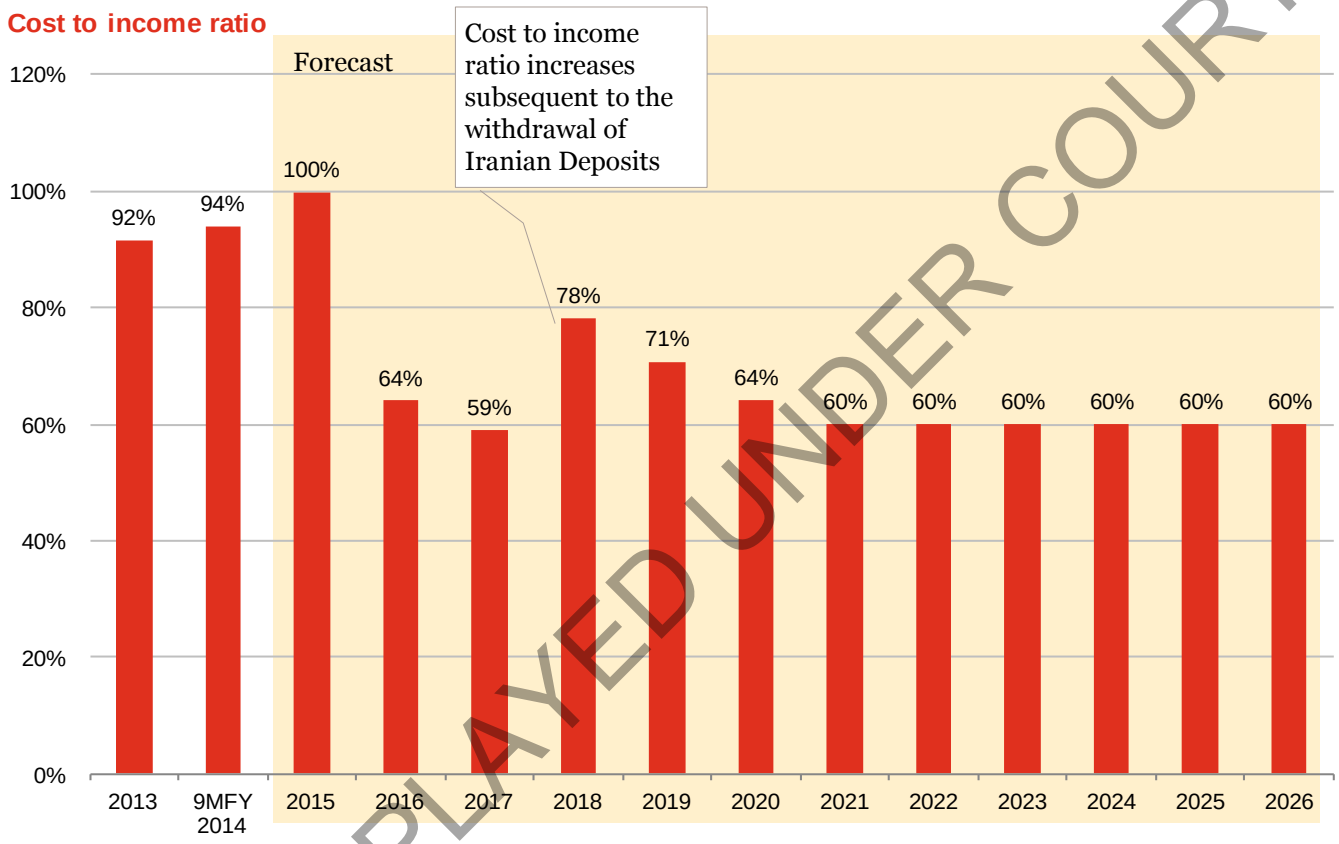
Non-interest income to net interest income

	Annualised non-interest income for FY 2014*	For 9MFY 2014
	Rupees in million	
Bank Islami	580	18%
JS Bank	1,151	32%
Faysal Bank	3,818	29%
Dubai Islamic Bank	948	24%
Burj Bank	270	20%
Silk Bank	1,181	33%

* Other than capital gains and dividend

Source: Public Information, AFF Analysis

Cost to income ratio of the Bank and comparable banks



Source: AFF Analysis

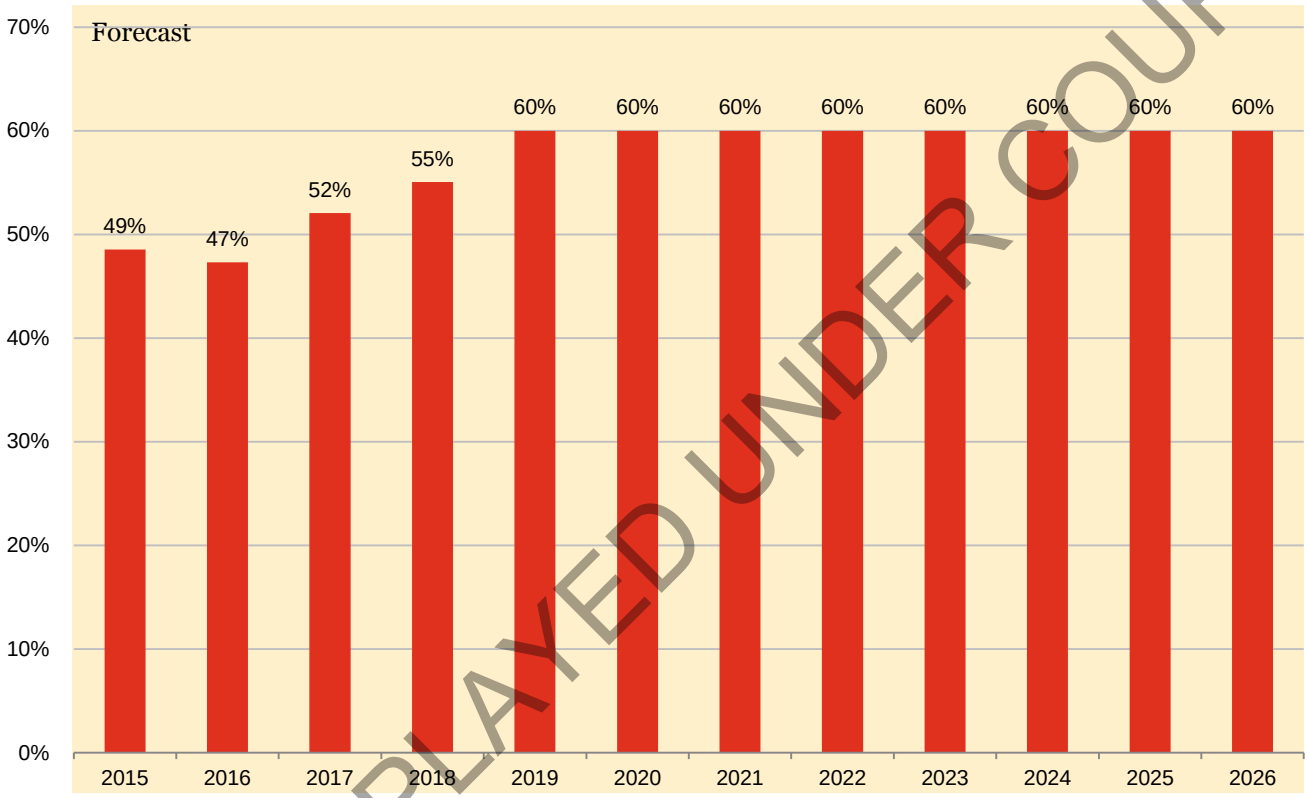
Cost to income ratio of comparable banks

	For 9MFY 2014
Bank Islami	86%
JS Bank	74%
Faysal Bank	71%
NIB Bank	76%
Soneri Bank	66%
Dubai Islamic Bank	78%
Silk Bank	88%

Source: Public Information, AFF Analysis

Advances to deposits ratio of the Bank and comparable banks

Advances to deposits ratio



Iranian Deposits were excluded for the purpose of calculation of Bank's advances to deposits ratio.

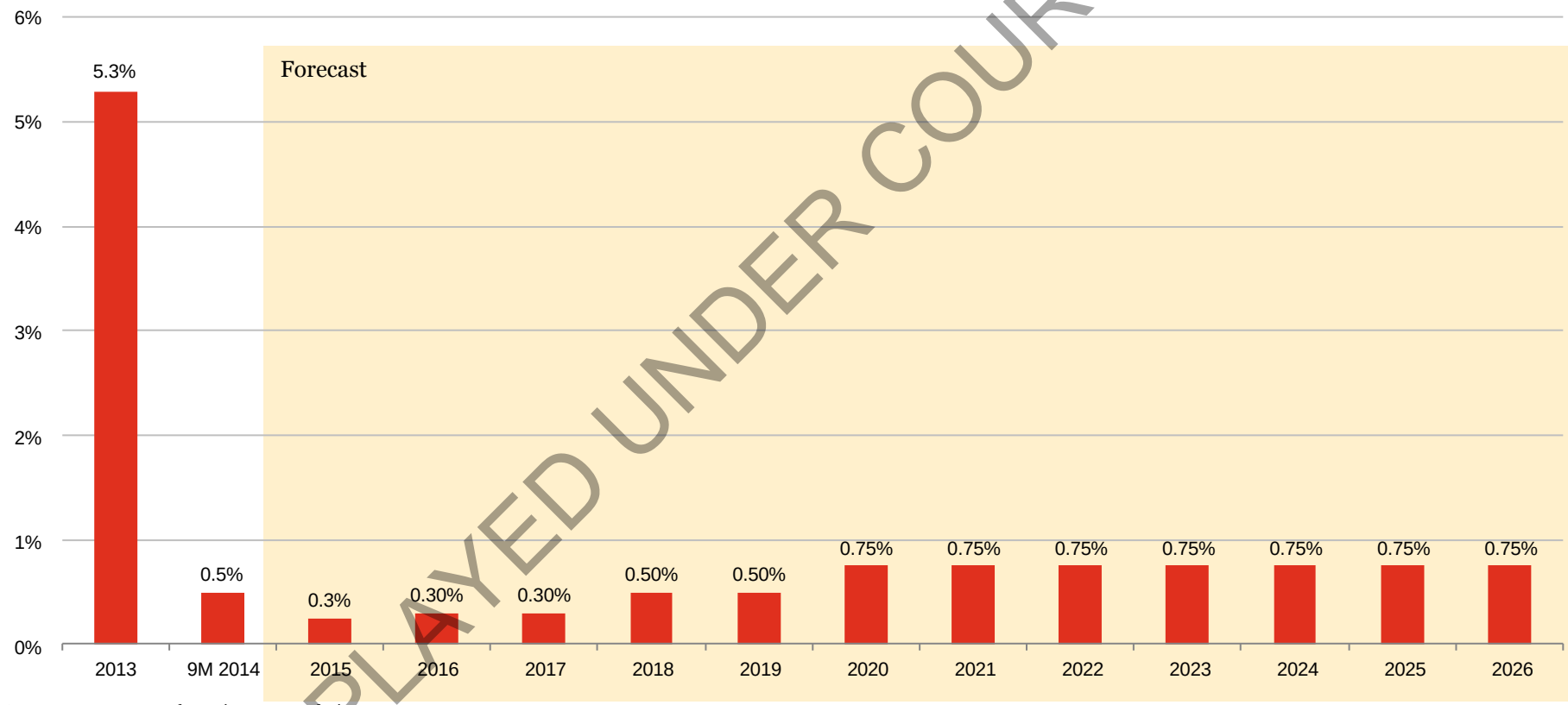
Source: AFF Analysis

Advances to deposits ratio of comparable banks

	For 9MFY 2014
Bank Islami	48%
JS Bank	45%
Faysal Bank	66%
NIB Bank	88%
Soneri Bank	64%
Dubai Islamic Bank	68%
Silk Bank	79%
Summit Bank	58%
Burj Bank	75%

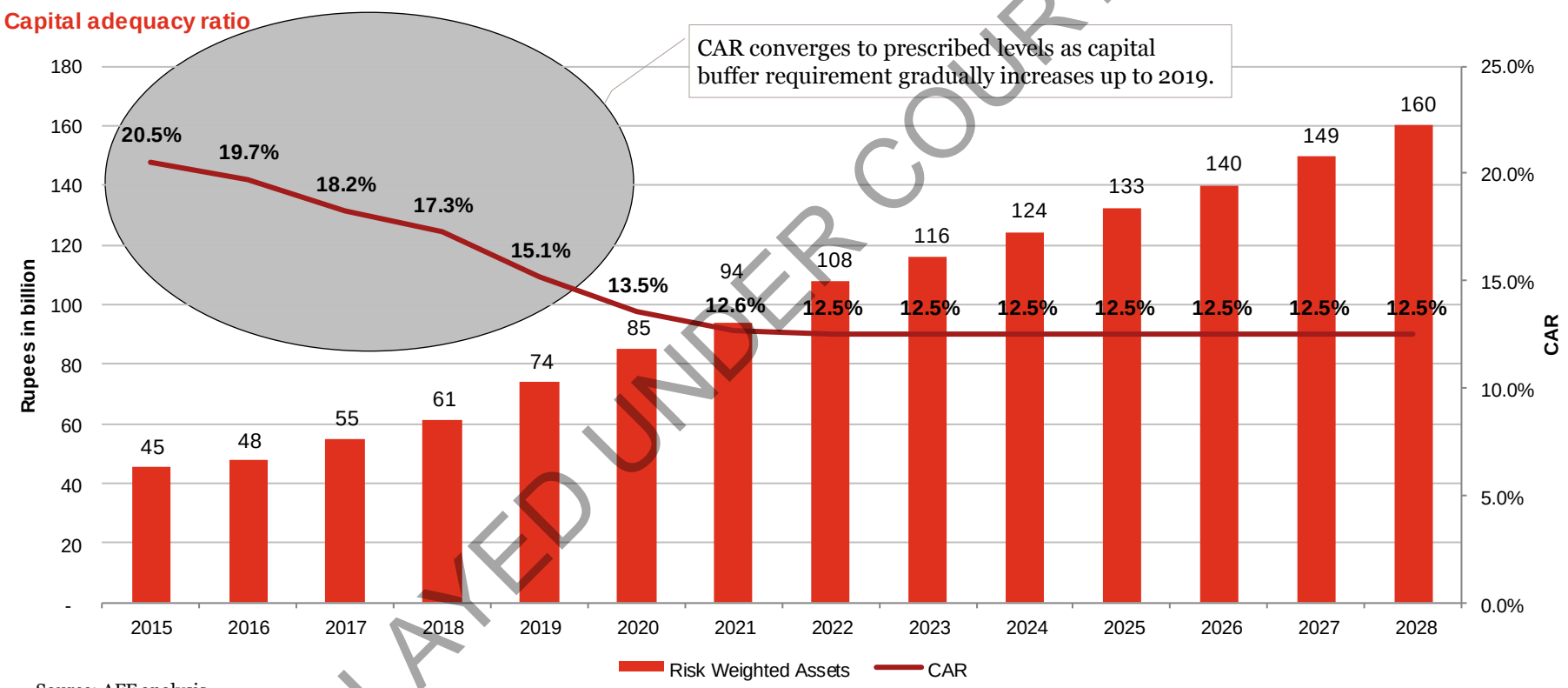
Source: Public Information, AFF Analysis

Provisions assumed to increase with growth in loans and advances



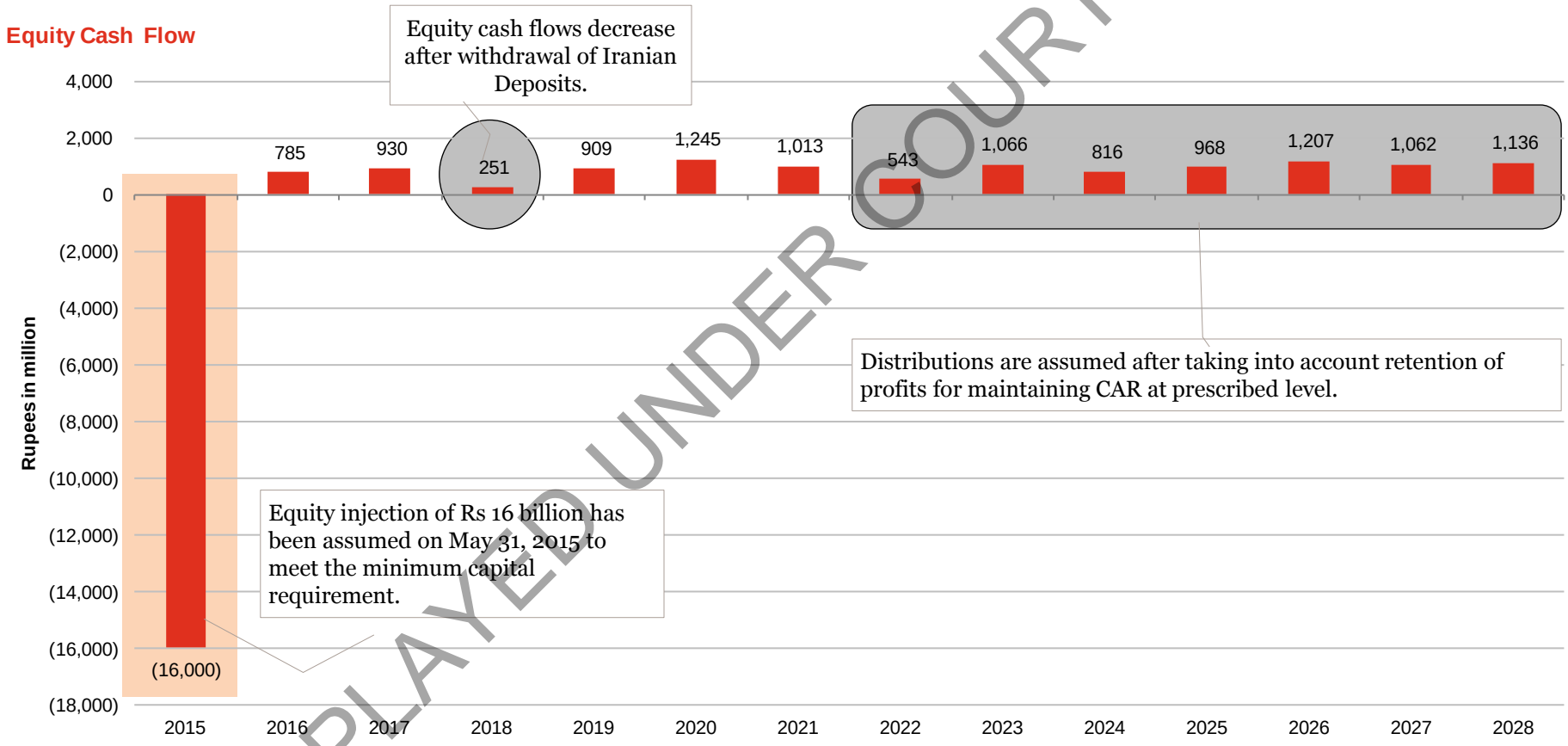
Source: Management Information, AFF Analysis

Capital injection results in CAR in excess of the prescribed level in the initial period of the forecast



Source: AFF analysis

Distributions are made each year after taking into account statutory reserve requirements. In addition, profits are also retained to the extent of FSV benefit and for the purpose of maintaining the prescribed capital adequacy ratio



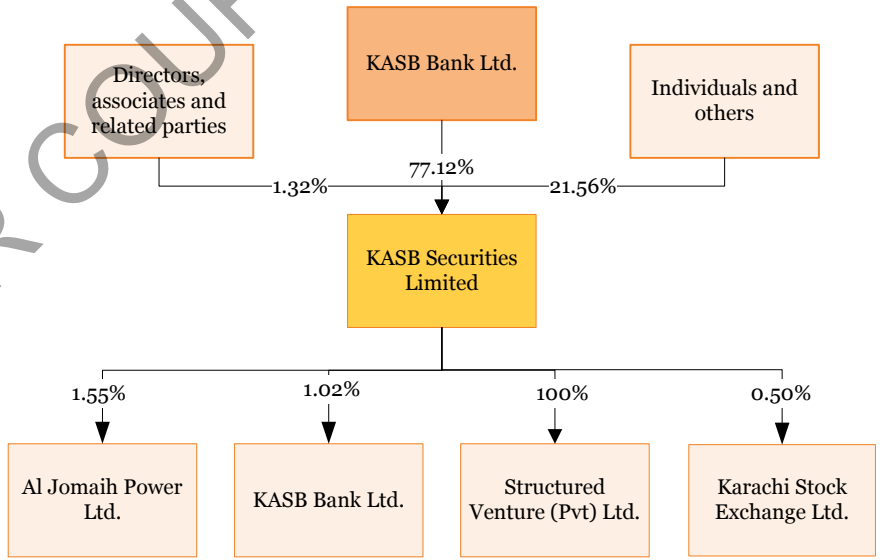
Source: AFF Analysis

KASB Securities

KSL is a corporate member of the Karachi Stock Exchange and Pakistan Mercantile Exchange. The Bank holds 77.12% of shares of KSL

- KSL was incorporated on October 24, 2000 under the Companies Ordinance, 1984 and commenced its operations effective from January 1, 2003 consequent to sanction of scheme of arrangement by the High Court of Sindh for transfer of assets and liabilities of the securities segment of Khadim Ali Shah Bukhari and Company Limited.
- The shares of the company are listed on the Karachi Stock Exchange Ltd. ("KSE").
- KSL is a subsidiary of the Bank which holds 77.12% of shares of the company. The ultimate parent of the company is KASB Corporation Limited.
- KSL has corporate membership of KSE and Pakistan Mercantile Exchange Limited ("PMEL") and is principally engaged in the business of stocks, money market, foreign exchange and commodity broking. The activities of the company also include investment in equity and debt securities, economic research and advisory services.

Group structure of KASB Securities Ltd.



Source: Management Information

Total assets of the company declined from Rs 2.3 billion as at December 31, 2013 to Rs 2.1 billion as at November 30, 2014

Balance sheet

Rupees in million	30-Nov-14	31-Dec-13
Property and equipment	56.8	46.8
Intangible assets	8.9	8.9
Long-term investments	859.4	883.4
Long-term loans and advances	8.3	0.5
Long-term deposits and prepayments	6.5	6.4
Long-term receivable	-	0.2
Deferred tax asset - net	37.2	39.2
Non-current assets	**977.1**	**985.4**
Short-term investments	25.7	267.6
Trade debts	397.9	382.7
Advances, deposits, prepayments and other receivables	261.7	258.0
Taxation - net	22.5	26.8
Cash and bank balances	431.2	337.4
Current assets	**1,139.0**	**1,272.5**
TOTAL ASSETS	**2,116.1**	**2,257.9**
Share capital and reserves		
Issued, subscribed and paid-up capital	1,000.0	1,000.0
General reserve	18.8	18.8
Unrealised gain on re-measurement of 'available for-sale' investments to fair value - net	129.5	153.6
Unappropriated profit	92.5	46.1
	1,240.8	1,218.5
Non-current liabilities		
Long-term loan	150.0	100.0
Current liabilities		
Trade and other payables	722.0	939.4
Accrued mark-up	3.3	-
	725.3	939.4
TOTAL EQUITY AND LIABILITIES	**2,116.1**	**2,257.9**

Source: Management Information

- Property and equipment and intangible assets mainly consist of:
  - office premises (carrying value of Rs 17.5 million and market value of Rs 115.4 million).
  - computer and office equipment (carrying value of Rs 24.7 million).
  - three rooms and telephone booths at KSE (carrying value of Rs 6.8 million and market value of Rs 28.5 million).
  - membership card of PMEL and Trading Right Entitlement Certificate of KSE.
- Long-term investments mainly comprise of:
  - Investment of Rs 488.6 million in Structured Venture (Pvt.) Ltd. ("SVL"). The major investments of SVL include (i) investment of Rs 375 million in plots in Korangi Housing Scheme; and (ii) investment in shares of NHEPL with a carrying value of Rs 101 million.
  - Investment in Al-Jomaih Power Ltd. with a carrying value of Rs 306 million as at November 30, 2014.
- Trade debts (net of provision) of Rs 26 million have remained outstanding till January 31, 2015 out of trade debts (net of provision) of Rs 397.9 million as at November 30, 2014. The company held collateral against trade debts of Rs 5.3 million.
- Advances, deposits, prepayments and other receivables mainly consist of exposure deposit with KSE of Rs 241.9 million.
- The long term loan was obtained from the Bank at 3-month KIBOR plus 2.5% per annum and is payable on quarterly basis. The principal is to be paid on maturity in January 2016. The loan is secured by way of first pari passu hypothecation charge over all present and future current assets amounting to Rs 607 million with 30% margin. In addition, the company has lien on all deposits, accounts and properties held with the Bank.
- Trade and other payables include cash balances of customers held with KSL amounting to Rs 585 million. In addition, accrued expenses amounted to Rs 112.4 million.

Profit after tax of the company increased from Rs 81.5 million in 2013 to Rs 116.5 million in 2014

Profit and loss account

Rupees in million	2014	Dec-14	11M 2014	2013
Operating revenue	514.8	9.0	505.8	481.1
Net gain / (loss) on investments 'at fair value through profit and loss'				
on sale of securities, other investments and commodities	49.8	3.4	46.4	(20.8)
net unrealised (loss) / gain on re-measurement of investments	(3.1)	(1.5)	(1.6)	16.7
	46.7	1.9	44.8	(4.1)
Dividend income	1.1	-	1.1	1.5
Mark-up / profit on bank deposits, investments and other receivables	51.7	5.5	46.2	39.2
	614.3	16.4	597.9	517.7
Operating and administrative expenses	(462.1)	(17.2)	(444.9)	(400.7)
Provision against doubtful debts-net	1.1	1.1	-	(4.3)
Reversal of provision against long-term receivable	-	(1.0)	1.0	14.0
	(461.0)	(17.1)	(444.0)	(391.0)
Operating profit	**153.3**	**(0.6)**	**153.9**	**126.7**
Finance cost	(21.0)	(1.6)	(19.4)	(8.9)
	132.3	**(2.2)**	**134.5**	**117.8**
Other income	6.7	1.5	5.2	7.3
Profit before taxation	**139.0**	**(0.7)**	**139.7**	**125.1**
Taxation	(22.5)		(43.6)	(43.6)
Profit after taxation	**116.5**		**96.1**	**81.5**

For presentation purposes

Source: Management Information

- Income earned by KSL increased by 18.7% in 2014. As per Management Information, the higher income was mainly due to gain of Rs 49.8 million on sale of securities in 2014 as compared to loss of Rs 20.8 million recorded in 2013. In addition:
  - equity brokerage of Rs 385.5 million was earned on KSE trades as compared to Rs 361.1 million in 2013. The income generated in 2014 included Rs 72.4 million relating to trades by Merrill. We understand that Merrill has terminated its agreement with KSL with effect from December 31, 2014.
  - late payment surcharge, which is charged at rates ranging from 21% to 26% of overdue amount from customers who do not settle at 'T+2', increased from Rs 41.4 million in 2013 to Rs 69.7 million in 2014.
  - interest on bank balances and KSE exposure deposits increased from Rs 28.3 million in 2013 to Rs 47.6 million in 2014.
- Operating and administrative expenses increased by 15.3% in 2014 mainly due to:
  - increase in salaries expense from Rs 244.8 million to Rs 266.5 million.
  - a "one-off" tax charge of Rs 19.1 million paid to Sindh Revenue Board.
  - increase in brokerage expense of Rs 14 million on account of higher commission to brokers in respect of capital gains on money market deals. In 2014, money market brokerage expense was Rs 22.3 million.

Valuation approach

- We carried out a valuation of KSL using a sum-of-parts approach. The valuation is based on the Income approach using the DCF methodology. In this connection, a variant of the Discounted Dividend Method was used with the implicit assumption that KSL will pay out, what it can afford, in dividends after taking into account regulatory requirements, if any.
- Cash flows to equity holders were discounted at the cost of equity.
- The cost of equity was estimated based on the Capital Asset Pricing Model. The computation of the cost of equity is shown in the table on the right.
- The value derived using the DCF methodology was adjusted for the value of certain investments made by KSL. These investments are summarised below:

Structured Ventures (Pvt.) Ltd.	Karachi Stock Exchange Ltd.
Al-Jomaih Power Ltd.	TFC of PACE Pakistan (Pvt.) Ltd.

Cost of Equity

Risk-free rate	9.84%	Based on 10-year Pakistan Investment Bond yield prevailing on January 30, 2015.
Beta	1.50	Based on "high-level" analysis of selected comparable brokerage companies.
Market risk premium	7.00%	
Cost of equity	**20.34%**	
Cost of equity - adopted	**20.00%**	

Source: AFF analysis

Forecast balance sheet

Balance sheet Rupees in million	2012	2013	2014	Adjusted 2014	Forecast 2015	2016	2017	2018	2019
Property and equipment	35.8	46.8	52.0	52.0	44.0	38.2	34.0	30.9	28.5
Intangible assets	12.7	8.9	8.9	8.9	8.9	8.9	8.9	8.9	8.9
Long term investments	866.4	883.4	863.3	305.8	305.8	305.8	305.8	305.8	305.8
Deferred tax asset- net	53.5	39.2	37.2	44.0	57.6	46.7	35.6	21.9	-
Other assets	36.0	7.1	10.7	10.7	10.7	10.7	10.7	10.7	10.7
Non- current assets	1,004.5	985.4	972.0	421.4	427.0	410.3	395.0	378.2	353.8
Short- term investments	176.0	267.6	23.7	18.6	-	-	-	-	-
Trade debts	298.1	382.7	68.0	47.3	47.3	92.9	98.3	114.6	114.6
Advances, deposits, prepayments and other receivables	147.1	258.0	234.3	234.3	111.0	199.0	220.6	243.8	256.0
Taxation	18.3	26.8	42.6	42.6	-	-	-	-	-
Cash and bank balances	363.1	337.4	652.6	652.6	619.9	548.6	542.3	535.9	548.1
Current assets	1,002.6	1,272.5	1,021.3	995.5	778.2	840.5	861.2	894.3	918.6
Total assets	2,007.0	2,257.9	1,993.2	1,416.9	1,205.2	1,250.8	1,256.2	1,272.5	1,272.5
Issued share capital	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0
General reserve	18.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8
Unrealised gain on 'available- for - sale' investments	140.1	153.6	133.4	115.7	115.7	115.7	115.7	115.7	115.7
Unappropriated profit	14.7	46.1	112.6	(505.4)	(534)	(534)	(534)	(534)	(534)
Share capital and reserves	1,173.6	1,218.5	1,264.7	629.1	600.0	600.0	600.0	600.0	600.0
Long- term loan	-	100.0	150.0	150.0	150.0	150.0	150.0	150.0	150.0
Trade creditors	525.9	896.9	455.2	455.2	455.2	500.8	506.2	522.4	522.4
Tax payable	-	-	-	59.3	-	-	-	-	-
Short term borrowing	250.0	-	-	-	-	-	-	-	-
Others	57.6	42.5	123.3	123.3	-	-	-	-	-
Current liabilities	833.5	939.4	578.5	637.8	455.2	500.8	506.2	522.4	522.4
Equity and liabilities	2,007.0	2,257.9	1,993.2	1,416.9	1,205.2	1,250.8	1,256.2	1,272.5	1,272.5

Source: Management Information, AFF Analysis

Some of the significant adjustments to financial projections, prepared by Management of KSL, are summarised below:

- Due diligence adjustments were incorporated.
- Assumption for growth in forecast KSE volumes was rationalised.

Forecast profit and loss

Profit and loss Rupees in million	2011	2012	2013	2014	Forecast 2015	2016	2017	2018	2019
Brokerage revenue	156.1	283.0	405.7	435.6	259.8	454.8	486.1	562.5	575.9
Trading income (proprietary account)	33.3	27.3	(17.8)	21.0	-	-	-	-	-
Financial income	70.2	78.3	97.3	148.0	59.0	54.6	54.9	55.7	57.0
Other revenues	19.1	16.3	37.7	17.5	11.1	12.1	13.1	14.2	15.5
Total revenue	**278.7**	**404.9**	**522.9**	**622.1**	**330.0**	**521.5**	**554.1**	**632.4**	**648.4**
					-	-	-	-	-
Trading costs	36.0	10.0	21.2	22.3	12.6	23.1	24.4	28.1	28.1
Human resource costs	167.4	165.3	182.3	207.1	218.9	235.3	253.0	272.0	292.4
Premises / utilities expenses	19.8	25.4	40.6	60.5	39.3	42.5	46.0	49.8	53.9
Other expenses	109.7	65.5	82.0	112.3	73.0	86.1	90.0	97.9	101.8
Financial costs	69.8	16.1	8.9	21.0	18.1	18.1	18.1	18.1	18.1
Performance bonus	10.0	36.5	62.8	59.9	10.0	52.1	55.4	63.2	64.8
Total expenses	**412.6**	**318.8**	**397.8**	**483.1**	**371.9**	**457.3**	**486.9**	**529.0**	**559.1**
(Loss) / profit before tax	**(133.9)**	**86.0**	**125.1**	**139.0**	**(41.9)**	**64.2**	**67.2**	**103.4**	**89.3**
Taxation	12.4	(45.4)	43.6	22.5	(12.8)	30.1	29.4	38.7	35.7
(Loss)/ profit after taxation	**(146.2)**	**131.4**	**81.5**	**116.5**	**(29.1)**	**34.1**	**37.8**	**64.6**	**53.5**
Return on average equity	(14.2%)	12.1%	6.8%	9.4%	(3.1%)	5.6%	6.3%	10.8%	8.9%

Note: Effective tax rate has not been presented as brokerage from commodity, money market and forex is subject to final tax and also due to applicability of minimum tax and alternate corporate tax in certain years.

Source: Management Information, AFF Analysis

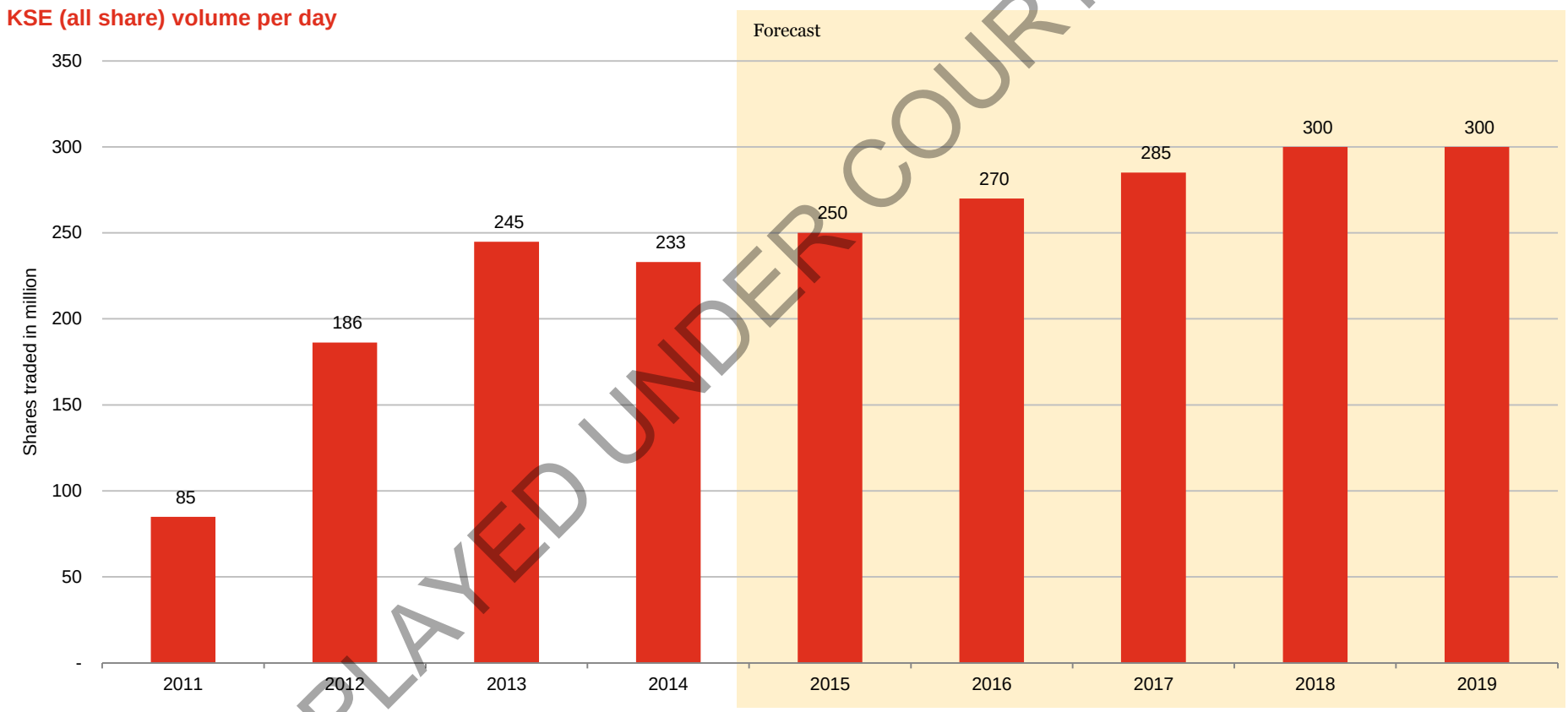
Management's assumptions were adjusted to account for the following:

- market share of KSL was adversely impacted following the suspension of trading activities.
- Merrill terminated its agreement with KSL with effect from December 31, 2014.
- the Faisalabad branch of KSL was closed.

We noted that KSL earned significant financial income from additional commission/late payment surcharge during previous years. This income was earned on overdue balances from customers who had not settled their dues on 'T+2' basis. However, we have been informed by the Management that SECP has recently reiterated its position that the above practice is not allowed. As a result, KSL intends to pursue margin financing in the future.

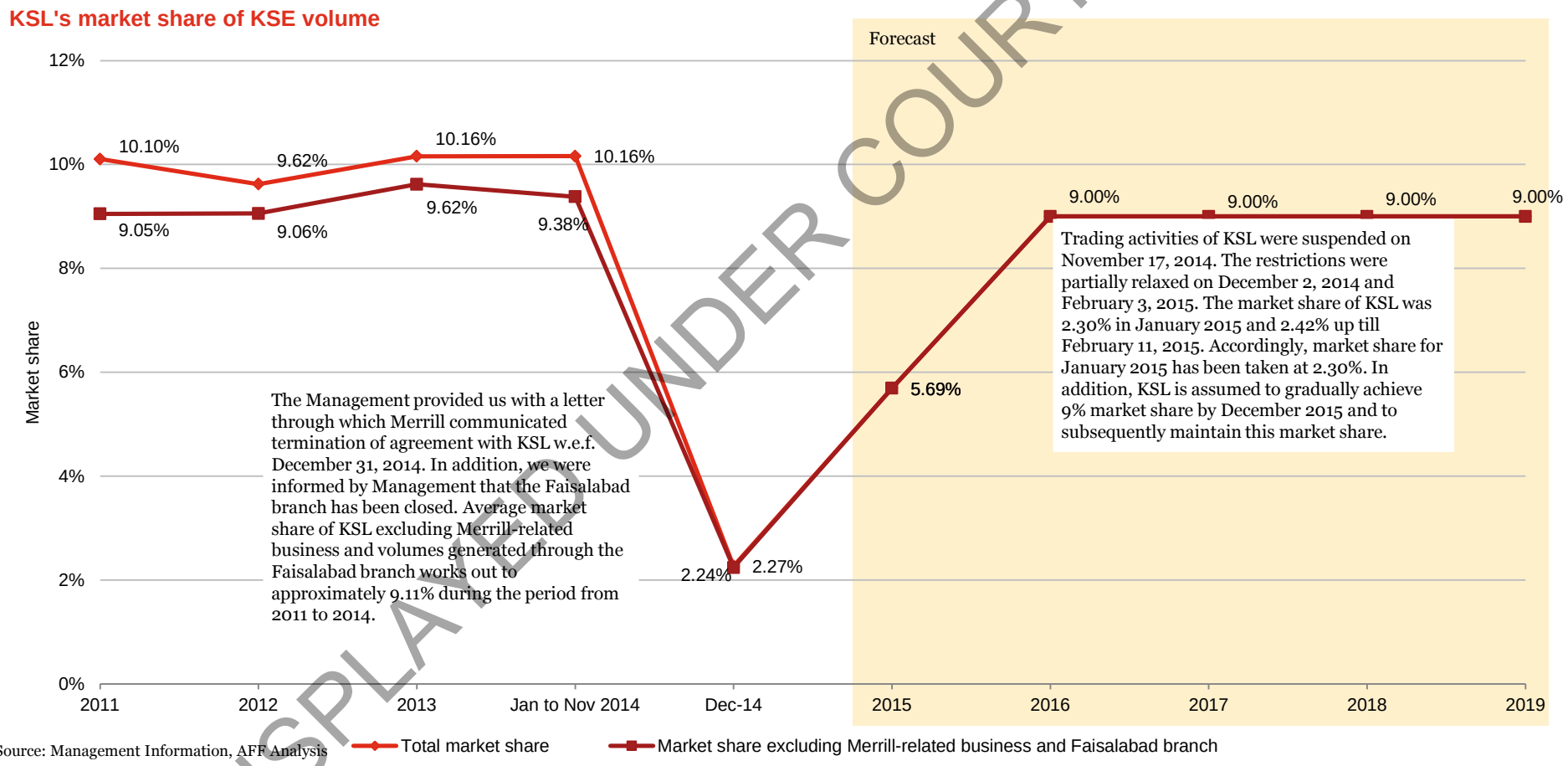
However, in view of the financial position of KSL consequent to the above adjustments and restriction on usage of clients' funds, income from margin financing and income from trading activities were not included in the financial projections.

KSE (all share) volume projected to increase from 233 million shares in 2014 to 300 million shares in 2018



Source: Management Information, AFF analysis

Market share of KSL projected to increase to 9% by end of 2015 and then remain stable during subsequent forecast period

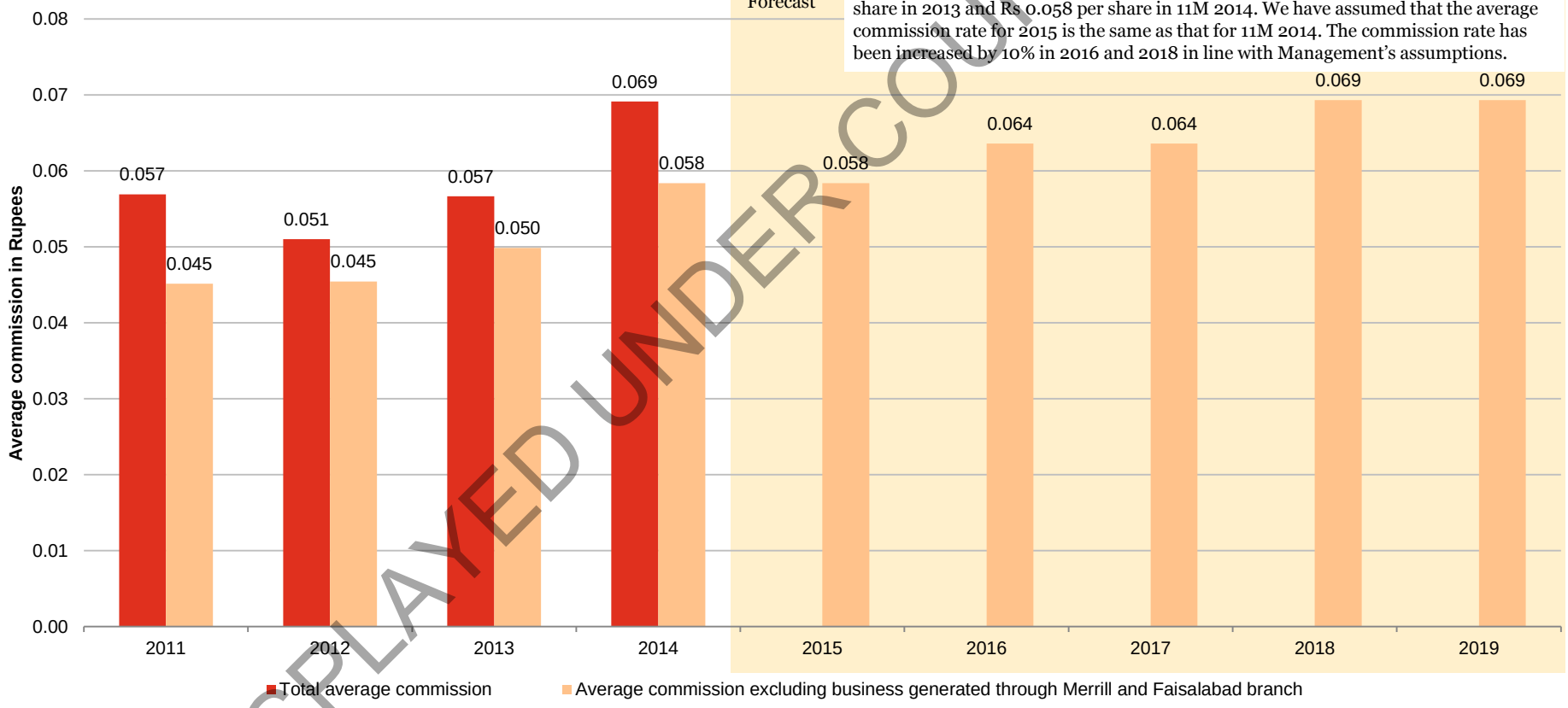


Source: Management Information, AFF Analysis

Commission rate assumed to increase by 10% in 2016 and 2018

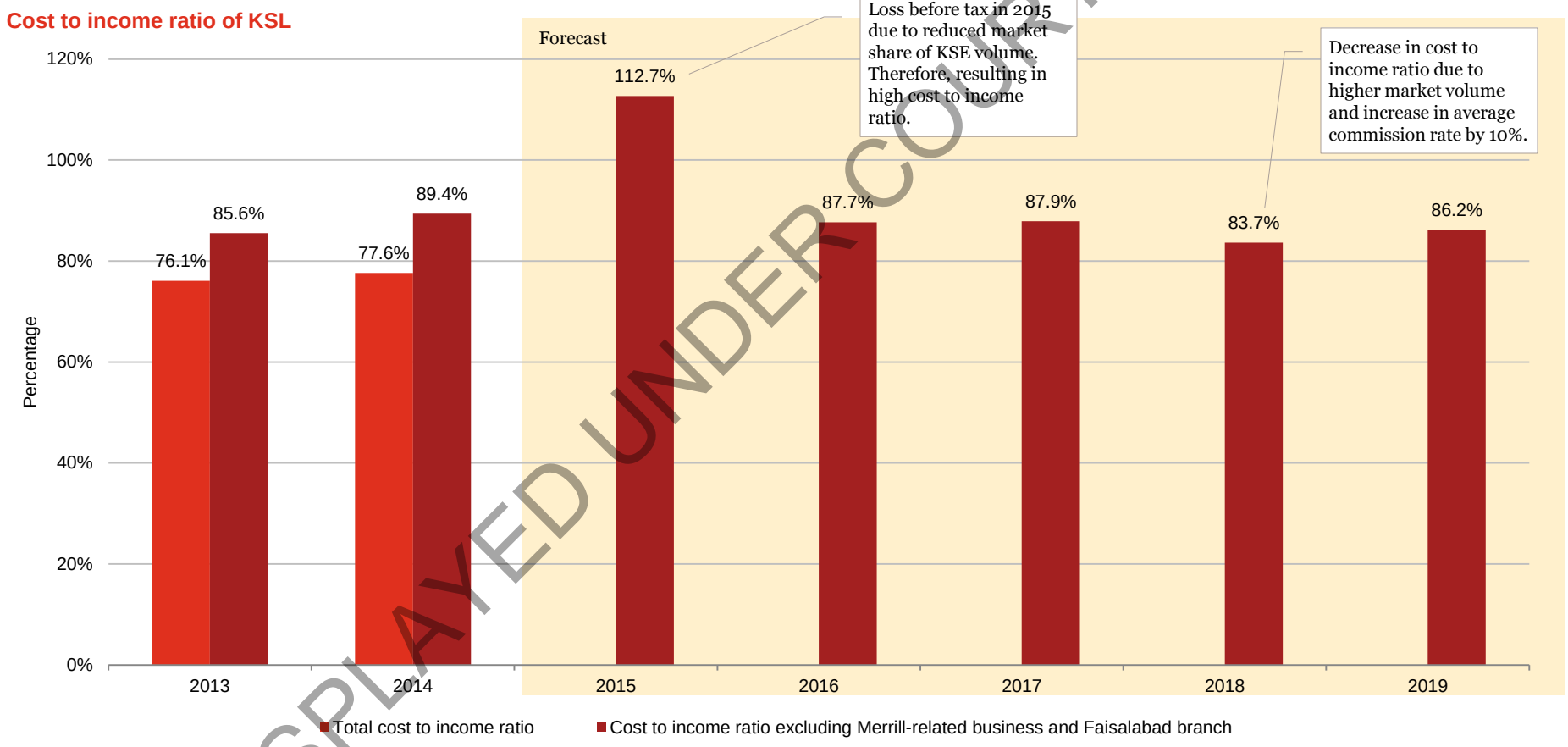
Historical and projected average commission

Average commission rate excluding business generated through Merrill and Faisalabad branch was Rs 0.045 per share in 2011 and 2012 after which it increased to Rs 0.05 per share in 2013 and Rs 0.058 per share in 11M 2014. We have assumed that the average commission rate for 2015 is the same as that for 11M 2014. The commission rate has been increased by 10% in 2016 and 2018 in line with Management's assumptions.



Source: Management Information, AFF Analysis

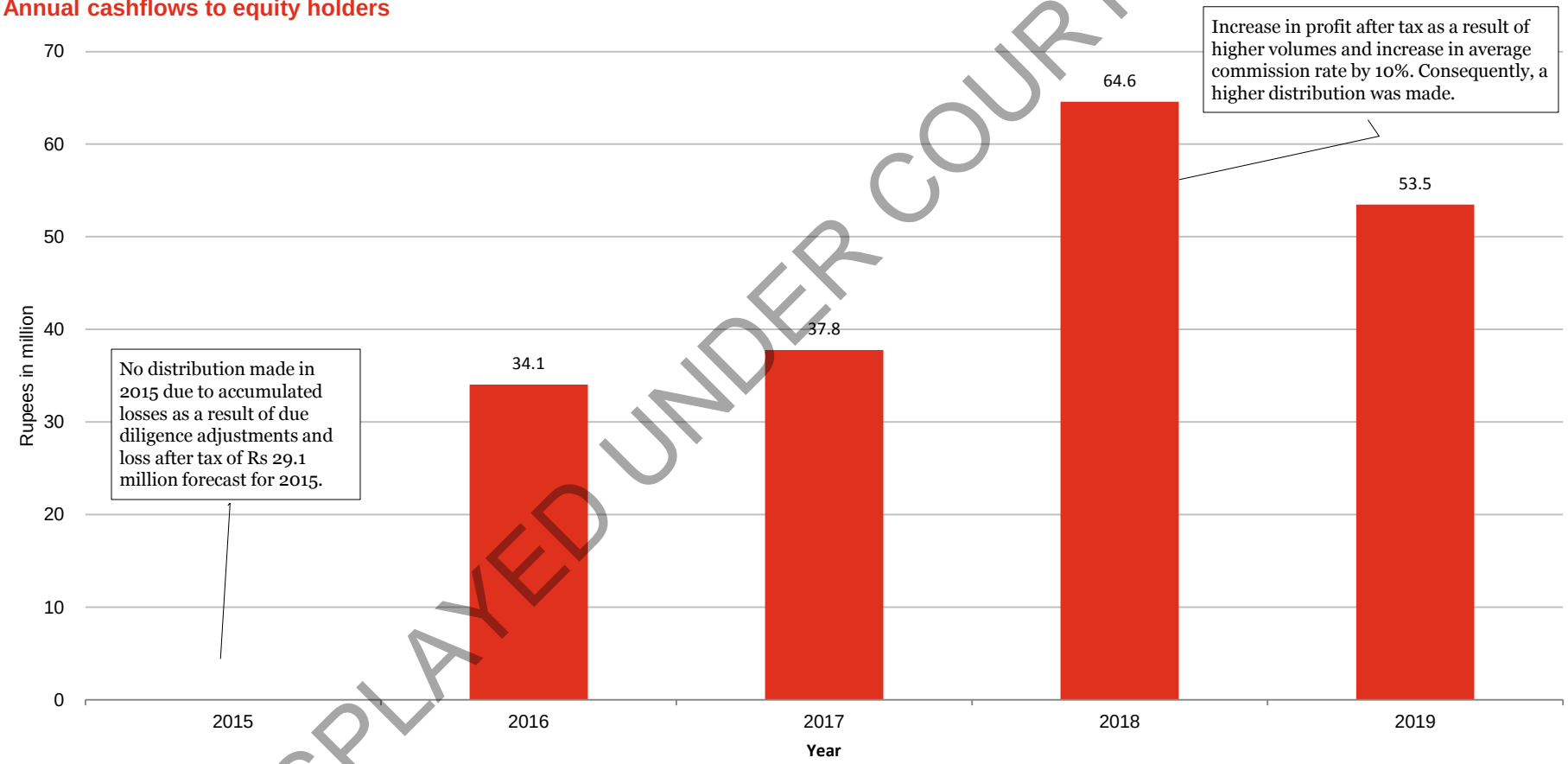
Cost to income ratio ranges between 83% to 88% and is in line with historical trend



Source: Management Information, AFF analysis

Distribution was not made in 2015 due to accumulated losses arising from due diligence adjustments and loss after tax of Rs 29.1 million forecast for 2015. Subsequently, all profits after tax will be distributed as dividend

Annual cashflows to equity holders



Source: Management Information, AFF Analysis

The value of Bank's investment in KSL is in the range of Rs 502.6 million to Rs 791.8 million

Value of Bank's investment in KASB Securities Ltd.

Rupees in million	Low	High
Present value of explicit forecast	107.5	107.5
Present value of terminal value	193.7	193.7
	301.2	**301.2**
KSL's Investments		
Structured Venture (Pvt.) Ltd.	2.3	377.3
Al- Jomaih Power Ltd.	299.9	299.9
Karachi Stock Exchange Ltd. (please refer Annexure 3)	40.8	40.8
TFC of PACE Pakistan (Pvt.) Ltd.	7.5	7.5
	350.5	**725.5**
Value of KSL	**651.7**	**1,026.7**
Bank's shareholding in KSL	77.12%	77.12%
Value of Bank's investment in KSL	**502.6**	**791.8**

Source: Management Information, AFF Analysis

Sensitivity analysis

We have performed sensitivity analysis by:

i. identifying some key assumptions to which the valuation is sensitive. These consist of:

- discount rate; and
- terminal growth rate.

ii. varying these assumptions upwards and downwards to get different observations.

Observations assumed in relation to each of these assumptions and corresponding results are shown on the right.

Sensitivity analysis

Rupees in million	Observations				
	-2.0%	-1.0%	Base case	1.0%	2.0%
Discount rate	18.0%	19.0%	20.0%	21.0%	22.0%
Present value of equity cashflows	360.1	328.2	301.2	278.2	258.2
Value of KSL's Investments	350.5	350.5	350.5	350.5	350.5
Value of KSL	710.6	678.7	651.7	628.7	608.7
Value of Bank's investment in KSL	548.0	523.4	502.6	484.8	469.4
Sensitivity	**9.0%**	**4.1%**	**0.0%**	**-3.5%**	**-6.6%**
Terminal growth rate	5.0%	6.0%	7.0%	8.0%	9.0%
Present value of equity cashflows	272.3	285.7	301.2	319.3	340.7
Value of KSL's Investments	350.5	350.5	350.5	350.5	350.5
Value of KSL	622.8	636.2	651.7	669.8	691.2
Value of Bank's investment in KSL	480.3	490.6	502.6	516.6	533.1
Sensitivity	**-4.4%**	**-2.4%**	**0.0%**	**2.8%**	**6.1%**

Rupees in million	Observations				
	-2.0%	-1.0%	Alternate case	1.0%	2.0%
Discount rate	18.0%	19.0%	20.0%	21.0%	22.0%
Present value of equity cashflows	360.1	328.2	301.2	278.2	258.2
Value of KSL's Investments	725.5	725.5	725.5	725.5	725.5
Value of KSL	1,085.6	1,053.7	1,026.7	1,003.7	983.7
Value of Bank's investment in KSL	837.2	812.6	791.8	774.0	758.6
Sensitivity	**5.7%**	**2.6%**	**0.0%**	**-2.2%**	**-4.2%**
Terminal growth rate	5.0%	6.0%	7.0%	8.0%	9.0%
Present value of equity cashflows	272.3	285.7	301.2	319.3	340.7
Value of KSL's Investments	725.5	725.5	725.5	725.5	725.5
Value of KSL	997.8	1,011.2	1,026.7	1,044.8	1,066.2
Value of Bank's investment in KSL	769.5	779.8	791.8	805.8	822.3
Sensitivity	**-2.8%**	**-1.5%**	**0.0%**	**1.8%**	**3.8%**

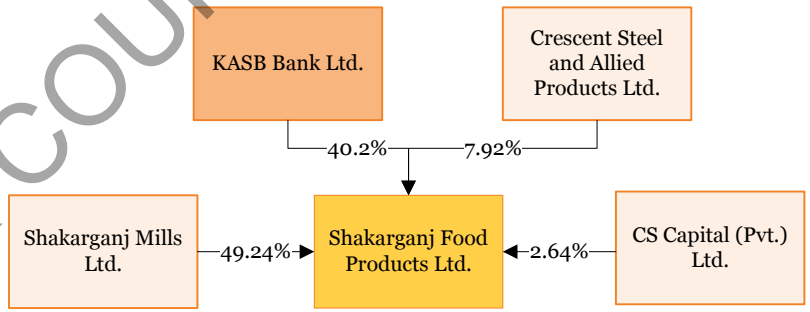
Source: AFF Analysis

Shakarganj Food

Overview of Shakarganj Food Products Ltd.

- SFPL was incorporated in Pakistan as a private limited company on April 3, 2001 and became a public unlisted company on January 3, 2006.
- The principal activity of the company is manufacturing, processing and sale of food products, including dairy, fruit pulps and concentrate juices.
- The company's major products are:
  - 'Good Milk' and 'Dairy Pure' milk products; and
  - 'Qudrat' and 'Chaika' liquid tea whiteners.

Group structure of Shakarganj Food Products Ltd.



Source: Management Information

Historical financial statements

Balance sheet

Rupees in million	2014	2013
Fixed assets	1,011.2	970.4
Capital work in progress	12.7	24.9
Long term deposits	18.2	17.9
Long term security deposits	13.6	13.8
Non current assets	**1,055.7**	**1,027.0**
Stores & spares	60.0	42.5
Stock in trade	385.3	279.4
Trade debtors	51.3	15.3
Advance income tax	77.3	44.3
Sales tax recoverable	315.8	167.0
Advances deposits & prepayments	26.6	13.9
Trade deposits & short term prepayments	28.9	3.2
Other receivables	0.1	1.2
Cash & bank balances	9	7
Current assets	**954.0**	**573.8**
Total assets	**2,009.7**	**1,600.8**
Issued, subscribed and paid-up capital	1,516.0	1,516.0
Capital fair value reserve	0.3	0.1
Accumulated losses	(972.0)	(1,093.5)
Equity	**544.3**	**422.6**
Long term debt	225.7	112.6
Deferred income USAID FCTs	13.5	-
Employee retirement benefits	58.2	47.2
Long term liabilities	**297.4**	**159.8**
Current portion of long term loan	18.8	37.4
Current portion of liabilities subject to finance lease	-	0.7
Creditiors, accruals & other liabilities	1,025.9	739.0
Markup accrued	22.4	51.7
Short term borrowing	-	130.0
Provision for taxation	100.9	59.6
Current liabilities	**1,168.0**	**1,018.4**
Equity and liabilities	**2,009.7**	**1,600.8**

Source: Financial Statements

Income statement

Rupees in million	2014	2013
Net sales	6,795.4	4,945.7
Cost of goods sold	(5,772.0)	(4,270.8)
Gross profit	**1,023.4**	**674.9**
Distribution and selling expenses	(721.9)	(591.4)
Administrative expenses	(52.2)	(43.2)
Other operating expenses	(19.4)	(8.1)
	(793.5)	**(642.7)**
	229.9	**32.2**
Other operating income	5.0	10.8
Profit from operations	**234.9**	**43.0**
Finance cost	(55.1)	(38.1)
Profit before taxation	**179.8**	**4.9**
Taxation	(60.9)	(40.0)
Profit after taxation	118.9	(35.1)

Source: Financial Statements

Due to limited information, we have carried out a high-level price analysis of SFPL

As per the Agreement, we were required to perform an indicative valuation of SFPL. An indicative valuation requires that we carry out a moderate level of analysis, investigation and independent corroboration.

We were provided with financial projections of SFPL. However, we had limited access to SFPL's management. In addition, we received very limited information from SFPL and we have not received certain material information that we had requested.

Consequently, we were only able to perform a high-level price analysis of SFPL and could not perform an indicative valuation.

- The DCF methodology was used to carry out a high-level analysis of enterprise value of SFPL. In deriving the high-level estimate of enterprise value of SFPL, we used projections for the period from 2015 to 2019 provided by Management, to which certain adjustments were made for purposes of our analysis.
- The DCF approach encompasses the following key steps:
  - estimating future cash flow for a certain discrete projection period;
  - determining an appropriate discount rate;
  - estimating the terminal value; and
  - discounting the discrrete period cash flows and terminal value at the relevant discount rate to determine the stand-alone enterprise value.

  Net debt is then deducted from the stand-alone enterprise value to arrive at equity value.

Cost of equity		
Risk-free rate	9.84%	Based on 10-year Pakistan Investment Bond yield prevailing on January 30, 2015.
Levered beta	0.95	Based on "high-level" analysis of selected comparable companies.
Market risk premium	7.00%	
	16.49%	
Cost of debt		
KIBOR	8.86%	Based on interest rate on the outstanding bank loan of the company. In this regard, we used the one-year KIBOR as at January 31, 2015.
Spread	2.0%	
	10.86%	
Capital structure		
Debt	20.00%	Based on average long-term capital structure of selected comparable companies.
Equity	80.00%	
	100.00%	
WACC	**14.65%**	
WACC (adopted)	**14.70%**	

Source: Management Information, AFF Analysis

Balance sheet

Balance sheet Rupees in million	2012	2013	2014	Forecast 2015	2016	2017	2018	2019
Fixed assets	901.8	970.4	1,011.2	❶ 1,622.3	1,586.4	1,553.2	1,522.3	1,493.4
Capital work in progress	3.7	24.9	12.7	27.7	27.7	27.7	27.7	27.7
Long term deposits	20.2	17.9	18.2	15.9	12.5	9.9	7.9	6.3
Long term security deposits	10.9	13.8	13.6	13.6	13.3	13.1	12.8	12.6
Non-current assets	**936.6**	**1,027.0**	**1,055.7**	**1,679.5**	**1,640.0**	**1,604.0**	**1,570.8**	**1,540.1**
❷ Stores & spares	32.6	42.5	60.0	99.9	112.6	126.9	143.0	161.1
Stock in trade	170.5	279.4	385.3	234.4	272.9	302.7	334.7	356.0
❸ Trade debtors	35.5	15.3	51.3	24.6	29.4	32.5	36.5	38.3
Advances, deposits & prepayments	19.5	44.3	77.3	28.4	32.0	36.1	40.6	45.8
Trade deposits & short term prepayments	6.9	167.0	315.8	39.1	44.1	49.7	56.0	63.1
Other receivables	7.2	13.9	26.6	0.1	0.2	0.2	0.2	0.2
❹ Advance income tax	16.0	3.2	28.9	81.0	97.4	108.6	118.3	119.1
❹ Sales tax recoverable	57.0	1.2	0.1	410.7	440.8	474.1	510.2	548.3
Cash & bank balances	43.4	7.0	8.7	(55.8)	1.5	6.1	99.1	289.5
Current assets	**388.6**	**573.8**	**954.0**	**862.4**	**1,031.0**	**1,136.8**	**1,338.6**	**1,621.3**
Current portion of long term loan	75.0	37.4	18.8	25.0	75.0	119.5	6.3	-
Current portion of liabilities subject to finance lease	2.4	0.7		156.8	153.8	86.2	-	-
❺ Creditiors, accruals & other liabilities	466.6	739.0	1,025.9	1,075.5	949.9	948.5	996.4	1,019.7
Markup accrued	38.7	51.7	22.4	20.6	21.9	37.0	39.6	39.8
Short term borrowing	114.1	130.0	-	-	-	-	-	-
Provision for taxation	19.7	59.6	100.9	112.9	118.5	127.5	129.7	89.0
Current liabilities	**716.5**	**1,018.4**	**1,168.0**	**1,390.8**	**1,319.1**	**1,318.7**	**1,172.0**	**1,148.5**
Long term debt	112.6	112.6	225.7	56.2	125.7	6.2	(0.0)	(0.0)
Deferred income USAID FCTs	-	-	13.5	12.7	11.8	11.0	10.1	9.3
Liabilities against assets subject to finance lease	0.6	-	-	243.0	89.2	3.0	(0.0)	(0.0)
Employee retirement benefits	31.9	47.2	58.2	68.2	76.9	86.6	97.6	110.0
Long term liabilities	**145.1**	**159.8**	**297.4**	**380.2**	**303.6**	**106.8**	**107.7**	**119.3**
Net assets	**463.6**	**422.6**	**544.3**	**771.0**	**1,048.3**	**1,315.3**	**1,629.6**	**1,893.6**

Source: Management Information, AFF Analysis

❶ As per Discussion with Management of SFPL, capital exependiture projected for 2015 related to:

- acqusition of packaging machinery from Packages Ltd. for Rs 137 million.
- finance lease of a UHT plant at a total expected cost of RS 294.67 million.

However, we have not been provided with any support document or procurement agreement in support of this assumption.

❷ Stores and spares have been projected to increase annually at a rate of 12.7% by Management.

❸ Trade debtors have been assumed equivalent to one receivable day.

❹ Explanations underlying working of advance income tax and sales tax recoverable were not provided by Management of SFPL.

❺ Creditors, accruals and other liabilities include 'existing trade creditors' of Rs 736 million as at September 30, 2014. It has been assumed that these creditors will decline up till December 2016 after which they will remain stable. Basis for this assumption for creditors, accruals and other liabilities and nature of 'existing trade creditors' has not been provided by the Management of SFPL.

Income statement

Income statement Rupees in million	2012	2013	2014	Forecast 2015	2016	2017	2018	2019
Gross sales	4,181.2	5,150.7	6,953.3	8,714.0	10,398.1	11,544.4	12,907.0	13,480.4
Less: discounts & returns	147.5	205.0	157.9	187.8	233.8	256.9	284.0	289.3
Net sales	**4,033.7**	**4,945.7**	**6,795.4**	**8,526.2**	**10,164.3**	**11,287.5**	**12,623.0**	**13,191.1**
Raw material cost	2,089.0	2,663.2	3,589.3	4,123.6	4,953.3	5,492.7	6,100.9	6,417.9
Variable production overheads	1,042.6	1,421.3	1,905.4	2,594.5	3,237.7	3,706.2	4,186.5	4,396.3
Fixed production overheads	159.5	208.4	280.5	219.8	230.4	249.4	270.2	291.6
Depreciation	47.0	47.2	53.3	64.9	78.1	76.3	74.6	73.1
Adjustment for inventory	(18.2)	(69.3)	(56.5)	60.5	(3.8)	(5.3)	(7.0)	(8.9)
Cost of goods sold	**3,319.9**	**4,270.8**	**5,772.0**	**7,063.3**	**8,495.7**	**9,519.3**	**10,625.2**	**11,170.0**
Gross profit	**713.8**	**674.9**	**1,023.4**	**1,462.9**	**1,668.6**	**1,768.2**	**1,997.8**	**2,021.1**
Operating expenses								
Administrative expenses	40.5	41.3	49.7	58.7	64.8	70.0	75.7	82.0
❶ Marketing expenses	13.3	51.3	93.5	307.3	348.4	372.8	420.5	442.6
❷ Selling expenses	462.8	540.1	628.4	661.0	733.0	851.5	984.2	1,067.1
Depreciation	1.7	1.9	2.5	3.2	4.0	3.9	3.8	3.7
Other expenses / (income)	13.3	(2.7)	14.4	37.1	39.1	35.8	38.8	32.7
	531.6	**631.9**	**788.5**	**1,067.3**	**1,189.3**	**1,334.0**	**1,523.0**	**1,628.1**
EBIT	**182.2**	**43.0**	**234.9**	**395.6**	**479.3**	**434.2**	**474.8**	**393.0**
Interest cost	57.7	38.1	55.1	58.2	69.0	41.3	12.2	5.9
Profit before tax	**124.5**	**4.9**	**179.8**	**337.4**	**410.3**	**392.9**	**462.6**	**387.1**
Tax	18.8	40.0	60.9	111.2	132.5	125.6	147.7	122.4
Profit after tax	**105.7**	**(35.1)**	**118.9**	**226.2**	**277.8**	**267.3**	**314.9**	**264.7**

Source: Management Information, AFF Analysis

We have adjusted the following Management assumptions:

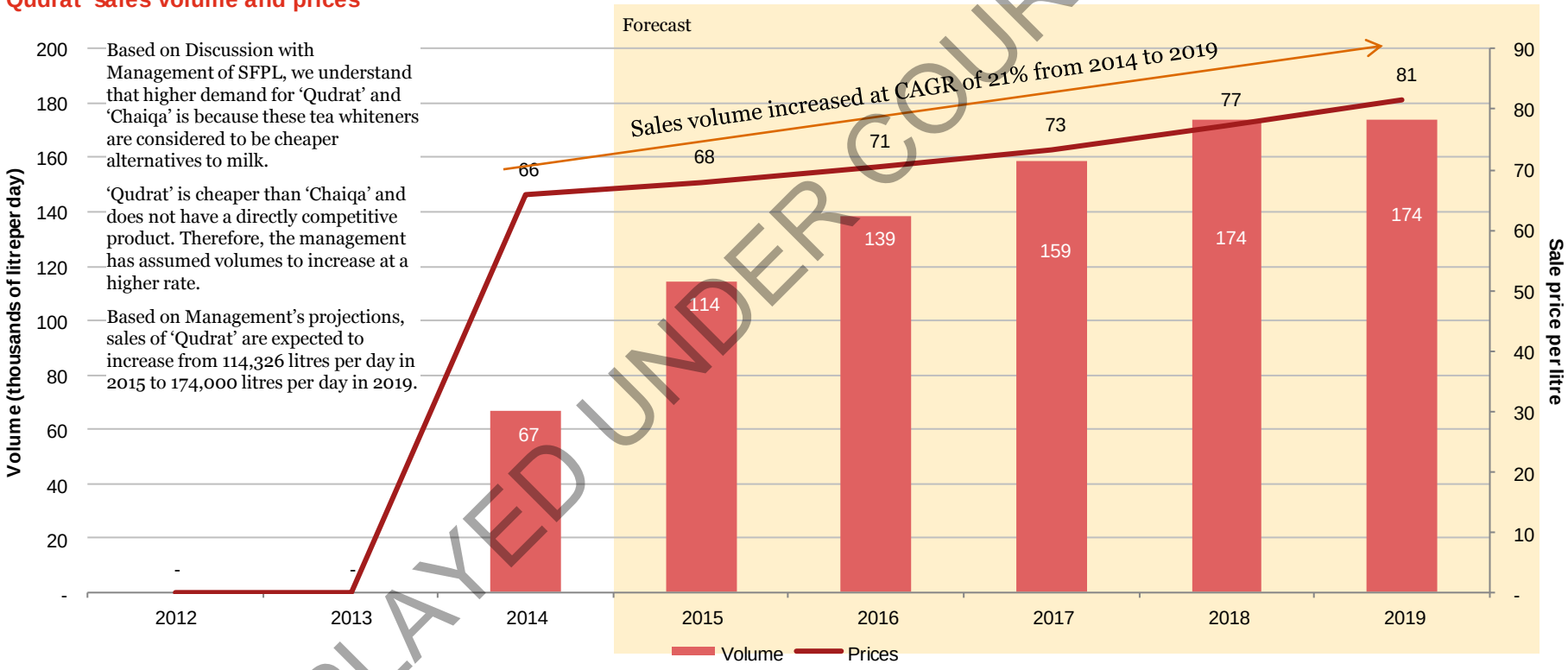
❶ Marketing expense includes sales and promotion expenses, which have been projected at 4% of sales taking into consideration the historical rate for SFPL. The Management had projected this expense at 2.3% of sales. However, we were not provided with thebasis for adopting this assumption.

We were not provided with certain information relating to historical raw milk prices and packaging materials.

❷ Freight cost in selling expense has been projected to increase by 8% on the basis of historic cost per litre for 2014.

The Management has projected sales of 'Qudrat', a new liquid tea whitener, to increase from Rs 1.6 billion in 2014 to Rs 5.2 billion in 2019

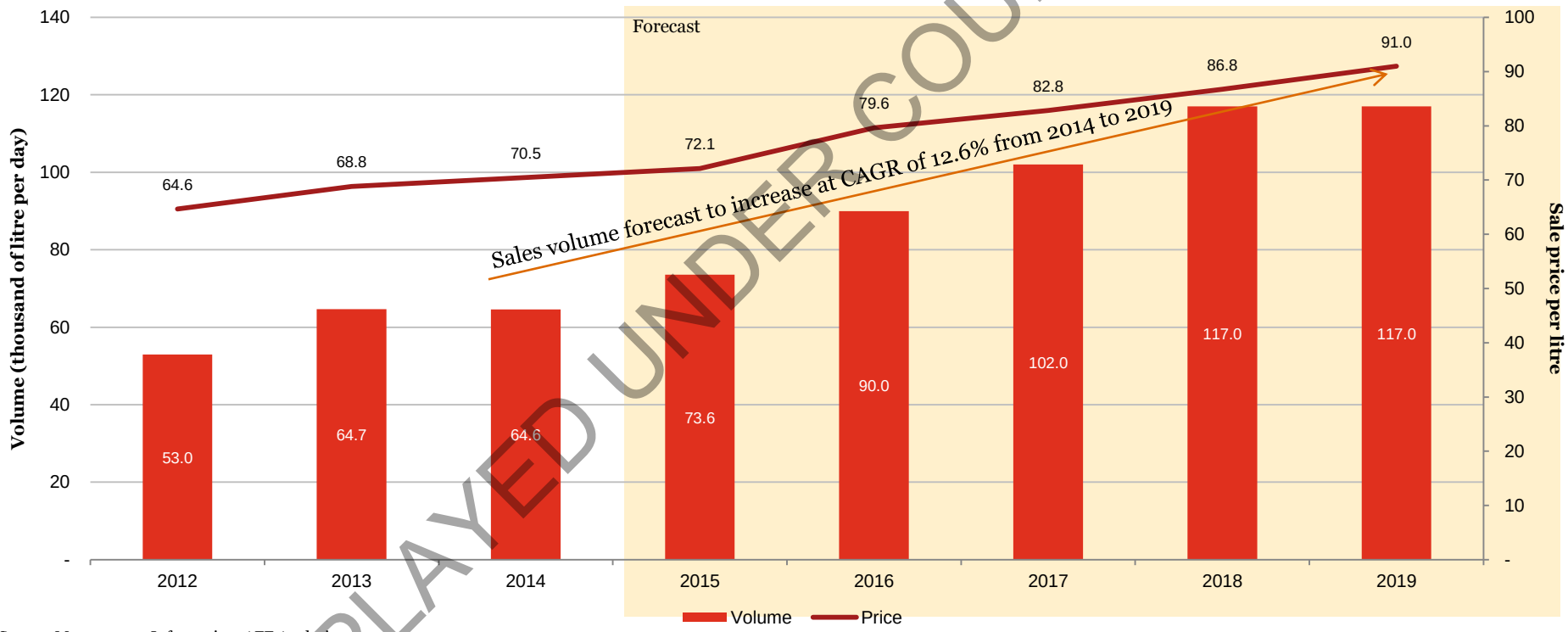
'Qudrat' sales volume and prices



Source: Management Information, AFF Analysis

The Management has projected sales of 'Chaika', a liquid tea whitener, to increase from Rs 1.7 billion in 2014 to Rs 3.9 billion in 2019

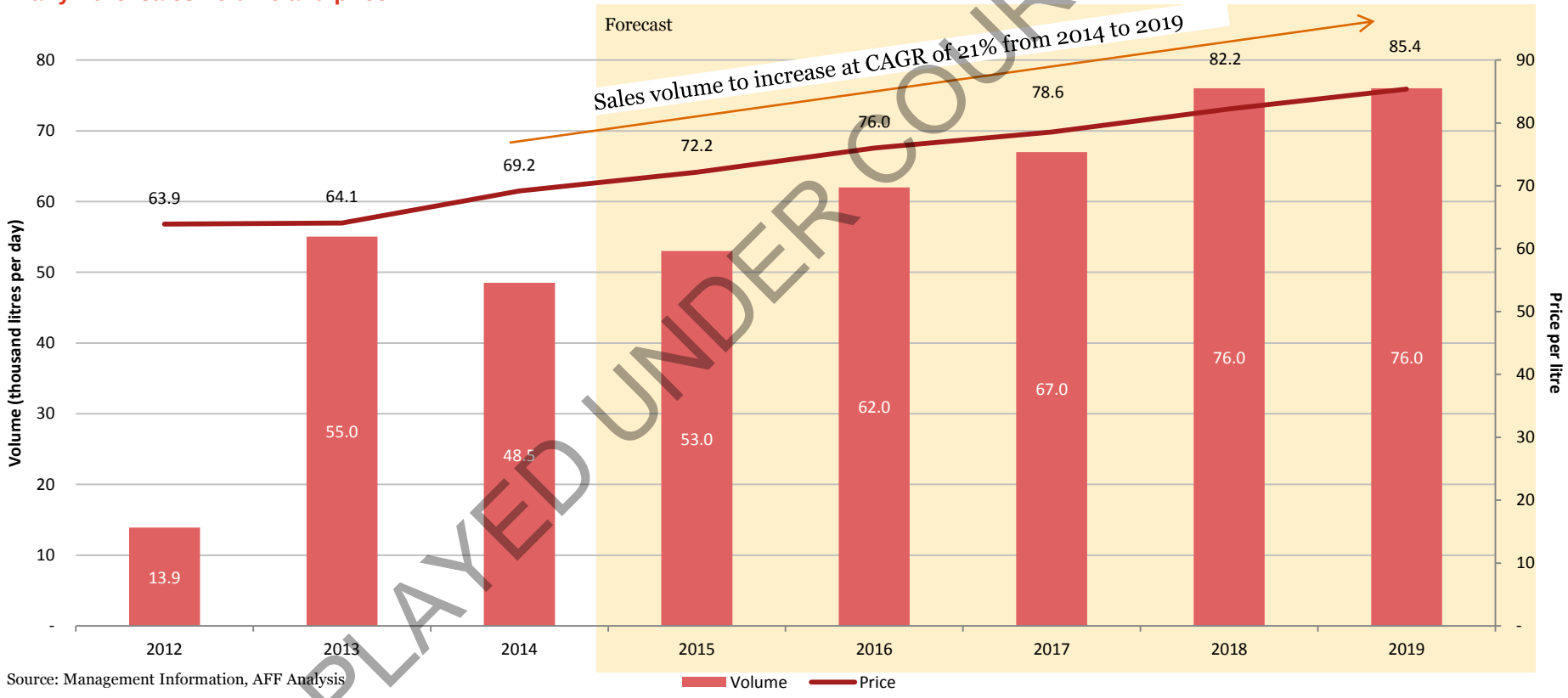
Chaika historical and projected sales volume and price



Source: Management Information, AFF Analysis

The Management has projected sales of 'Dairy Pure' to increase from Rs 1.2 billion in 2014 to Rs 2.4 billion in 2019

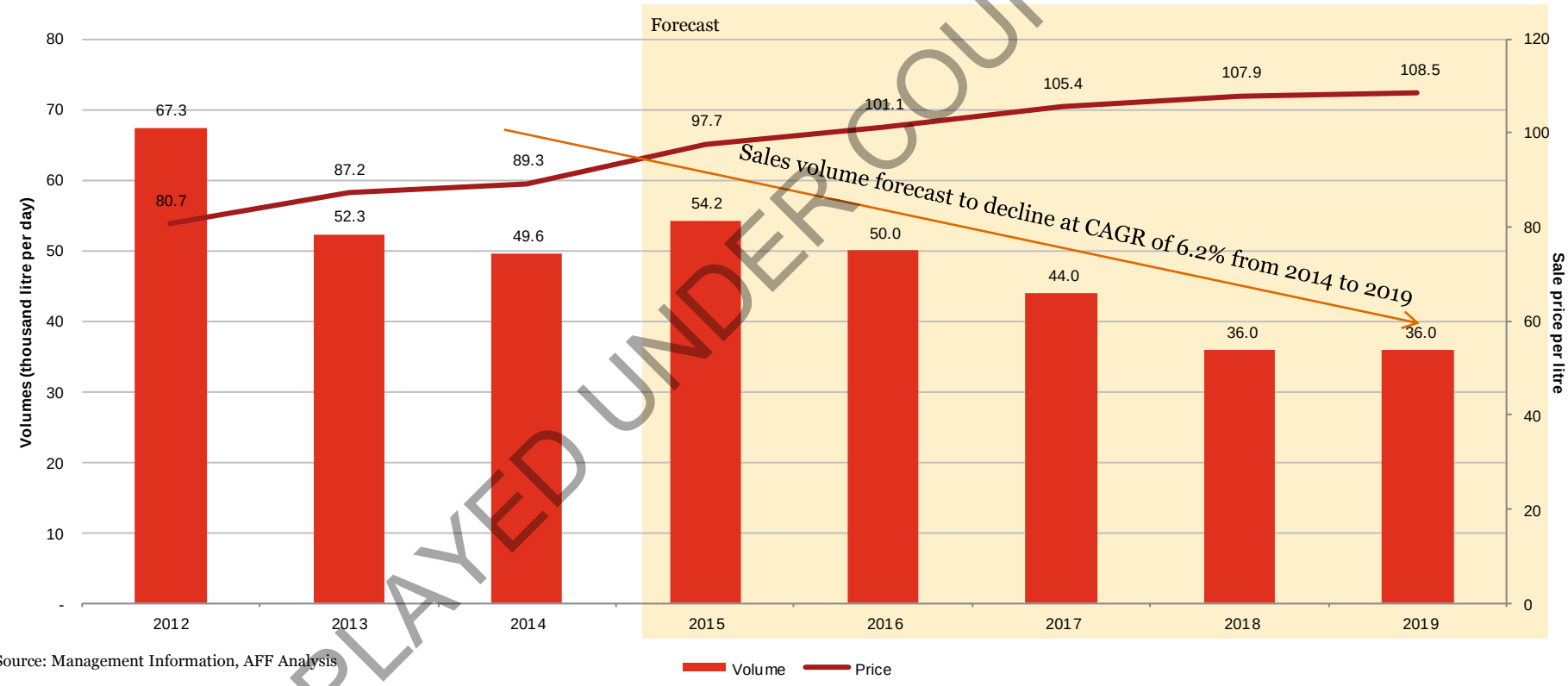
'Dairy Pure' sales volume and price



Source: Management Information, AFF Analysis

The Management has projected sales per day to decrease from Rs 1.6 billion in 2014 to Rs 1.4 billion in 2019

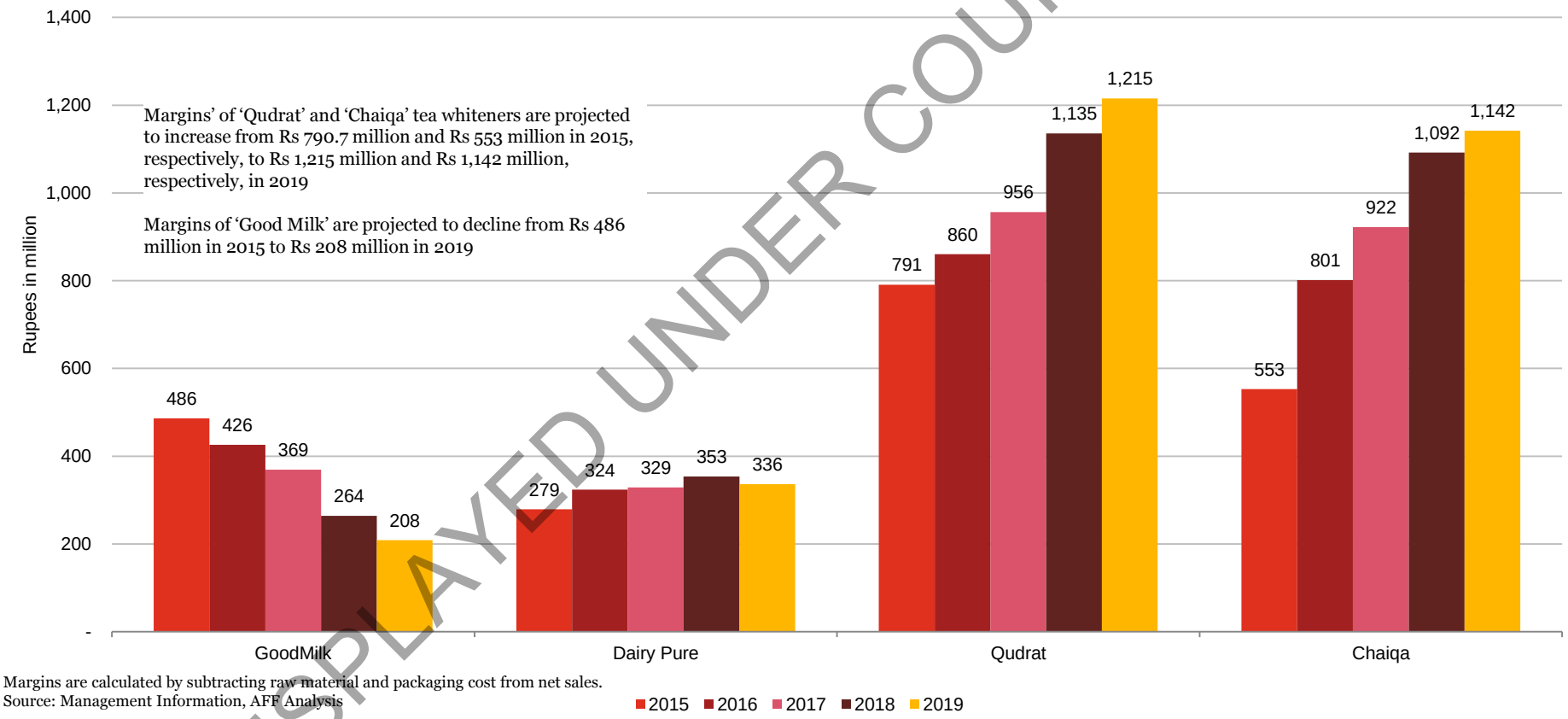
'Good Milk' sale volume and price



Source: Management Information, AFF Analysis

Estimated contribution margin of 'Qudrat' and 'Chaiqa' is expected to increase to 80% of total contributin margin in 2019

Trend in product-wise margins



Margins are calculated by subtracting raw material and packaging cost from net sales.
Source: Management Information, AFF Analysis

Based on "high-level" price analysis, we consider that no adjustment is required to the carrying value of Bank's investment in SFPL

Computation of "high level" value of SFPL

Rupees in million	2015	2016	2017	2018	2019	Free cash flow for terminal value
Net income	226.2	277.8	267.3	314.9	264.7	
Net interest expense	58.2	69.0	41.3	12.2	5.9	
Depreciation and amortisation	68.1	82.1	80.2	78.4	76.8	
	352.5	**428.9**	**388.8**	**405.5**	**347.4**	**364.8**
Change in working capital	88.8	(231.2)	(93.7)	(58.7)	(109.8)	(60.5)
Capital expenditure	(160.7)	(48.0)	(48.0)	(48.0)	(48.0)	(48.0)
Free cash flows to the firm	**280.6**	**149.7**	**247.1**	**298.8**	**189.6**	**256.3**
Terminal value						**2,774.2**
Present value of free cash flows	**266.5**	**126.1**	**181.5**	**191.3**	**105.9**	
Present value of explicit forecast						871.3
Present value of terminal value						1,548.8
Enterprise value						**2,420.1**
Net debt						(204.7)
Estimate of value (controlling interest basis)						**2,215.4**
Discount for lack of control						9.09%
Estimate of value (marketable minority basis)						**2,014.0**
Discount for lack of marketability						20.00%
Estimate of value (non-marketable minority basis)						**1,611.2**
Bank's shareholding in SFPL						40.20%
Estimate of value of Bank's investment in SFPL						**647.7**

Source: AFF Analysis

Based on the "high-level" price analysis of SFPL, we consider that no adjustment is required to the carrying value of Bank's investment in SFPL.

My Solutions

MSC is a fully owned subsidiary of the Bank

- My Solutions Corporation Ltd. ("MSC") was incorporated as a private limited company on November 05, 1995 and was converted into a public limited company on March 24, 2003.
- The Company provides the following services:
  - import and sale of IBM products in Pakistan;
  - internet connectivity, telecommunication and networking services ("Networking") to the Bank, KSL, KFL and NHEPL;
  - coordination in respect of electronic utility bill payment switch ("eUBS") services provided by the Bank.
  - secondment of administrative staff to KASB Modaraba.
- MSC is a fully owned subsidiary of the Bank.

As per management accounts for the period ended November 30, 2014, net assets of MSC amounted to Rs 52.2 million

Balance sheet

Rupees in million	30-Nov-14	31-Dec-13
ASSETS		
Non-current assets		
Operating fixed assets	3.0	2.1
Long term security deposits	0.8	0.8
Deferred tax asset - net	28.4	28.6
	32.2	**31.5**
Current assets		
Trade debts	58.0	11.2
Advances and prepayments	0.8	0.5
Earnest money	7.4	-
Advance tax - net	14.3	5.2
Cash and bank balances	7.5	21.1
	88.0	**38.0**
TOTAL ASSETS	**120.2**	**69.5**
EQUITY AND LIABILITIES		
Share capital and reserves		
Share capital	250.0	250.0
Accumulated loss	(197.8)	(190.6)
	52.2	**59.4**
Non-current liabilities		
Long-term security deposits	0.2	0.2
Current liabilities		
Creditors, accrued and other liabilities	27.8	9.9
Short-term borrowings	40.0	-
TOTAL EQUITY AND LIABILITIES	**120.2**	**69.5**

Source: Management Information

- Operating fixed assets consist of furniture and fixtures of Rs 1.4 million, electrical, office and computer equipment of Rs 1.5 million and motor vehicles of Rs 0.1 million.
- Security deposits amounting, in aggregate, to Rs 0.8 million are placed with Pakistan Telecommunication Company Ltd. for bandwidth, co-location and digital cross-connect system.
- Trade debts mainly consist of Rs 40.8 million receivable from three IBM business-related customers and Rs 12.5 million due from eUBS customers.
- Advances and prepayments consist of prepayments of Rs 0.8 million and advance subscription against shares of PEX Ltd. of Rs 2.5 million, against which provision has been made in the financial statements. As per Discussion with Management, advance subscription was paid in 2003 to PEX Ltd., a securities and exchange company owned by Mr. Nasir Ali Shah Bukhari. However, the company has not yet commenced its operations nor has it issued shares against the above subscription money.
- The company has provided earnest money to customers of IBM-related business in accordance with the requirements of tender documents. Amounts of Rs 5.5 million and Rs 1 million have been submitted with Sui Northern Gas Pipeline Ltd. and Karachi International Container Terminal. Both these IBM-related contracts have been terminated due to non-availability of funding.
- Cash and bank balances include cash in hand of Rs 0.05 million and bank balances of Rs 7.44 million. Balance of Rs 6 million is deposited with the Bank.
- Creditors, accrued and other liabilities mainly consist of Rs 11.5 million payable to Infotech in respect of IBM-related business and Rs 9.2 million payable to Lahore Electric Supply Company Ltd. for eUBS services.
- Mr. Muzzaffar Ali Shah Bukhari has provided a loan of Rs 40 million to the company. As per the terms of loan agreement, dated July 21, 2014, mark-up is charged on the loan at 3M KIBOR + 4%, with quarterly interest payments. The loan is repayable on the 90th day from date of disbursement, unless extended by Mr. Muzzaffar Ali Shah Bukhari, at his discretion.

MSC incurred a loss before taxation of Rs 7.2 million in 11M 2014

Profit and loss

Rupees in million	11M 2014	2013
IBM-related sales	45.7	
IBM-related expenses	(44.8)	
	0.9	
eUBS income for the year - gross	22.9	
Less: eUBS share of member institutions	(13.2)	
	9.7	
Networking services	12.4	
Connectivity charges	(9.7)	
	2.7	
Consultancy services	2.9	
Salaries and wages - Modaraba	(2.1)	
	0.8	
Gross margin	**14.1**	
Operating and administrative expenses	(20.0)	
Financial charges	(2.1)	
	(22.1)	
	(8.0)	
Other operating income	1.0	
Loss before taxation	**(7.0)**	
Taxation	0.2	
Loss after taxation	**(7.2)**	

Information not provided

Source: Management Information

- MSC commenced marketing of certain IBM products and services in Pakistan in 2014 under an agreement with IBM World Trade Corporation. In 11M 2014:
  - 86.4% of sales were made to Pakistan Navy and Sui Southern Gas Company Ltd.
  - cost incurred in respect of sales made during 11M 2014 amounted to Rs 38.6 million. Rs 3.8 million related to sales made after November 30, 2014, Rs 0.3 million related to documentation charges for various tenders and Rs 2.1 million has been reversed subsequently.
  - the company hired sales staff specifically for the IBM-related business. Cost of this staff for the period amounted to Rs 9.5 million while the cost of remaining staff of MSC was Rs 3.2 million.
  - We have been informed by the Management that financial charges of Rs 2.1 million, incurred on loan obtained from Mr. Muzzaffar Ali Shah Bukhari, related to IBM-related business.
- The company also provides networking and internet services, infrastructure support services and technical expertise, as required, to the Bank, KSL, KFL and NHEPL. As per Discussion with Management, we understand that the company provides these services at cost plus margin of 20% to Bank and KFL and at cost plus fee of Rs 1.8 million to KSL. Financial terms for services to NHEPL have not been provided by Management of MSC.
- MSC also provides coordination, reconciliation and collection services for eUBS provided by the Bank. It collects a 'per bill' charge from the utility companies and transfers a certain proportion to the Bank and certain other parties. However, as per Management of MSC, consequent to the imposition of moratorium on the Bank, eUBS services have been suspended and eUBS accounts of member institutions in the Bank as well as accounts of customers have been blocked.
- MSC had entered into a service agreement with KASB Modaraba under which MSC provided administrative staff to the Modaraba. As per the agreement, KASB Modaraba agreed to pay a service charge of 9%, inclusive of 6% withholding tax, on gross invoice amount which included gross salary, perquisites, overtime and all statutory payments. The Management of MSC has informed us that KASB Modaraba terminated the agreement in February 2015. However, we have not been provided with the termination notice.

In view of the uncertainty regarding achievability of management projections and the significant due diligence adjustments to net assets of MSC, we have adjusted the net carrying value of the Bank's investment in the company

The Management of MSC provided us with financial projections for the period from 2015 to 2019. Based on information provided by Management, we understand that:

- MSC had entered into a one-year agreement with IBM World Trade Corporation ("IBM WTC") under which the company marketed certain IBM products and services in Pakistan. This agreement expired on October 9, 2014. We have not been provided with an extension letter/agreement in respect of this business.
- We have been informed that all purchases from IBM WTC are required to be made on cash basis. In order to meet the associated funding requirements, the company obtained a loan of Rs 40 million from Mr. Muzzaffar Ali Shah Bukhari at the rate of 3M KIBOR + 4%.
- The company generated sales of Rs 45.6 million in 2014. However, as per Management Information, the company also lost a number of high-value projects due to non-availability of funding. These included:
  - orders from Central Depository Company of Pakistan Ltd, National Bank of Pakistan Ltd. and Karachi International Container Terminal Ltd. with an aggregate value of USD 1,339,000; and
  - two projects of Sui Northern Gas Pipelines Ltd. with an aggregate value of USD 2,650,000.
- In addition the company also deferred a number of projects. These included three projects with an aggregate value of USD 683,000. We were informed that these projects were deferred till first quarter of 2015. However, as per Discussion with Management, no progress has been made on these projects to date.

  We would like to highlight that we have not been provided with supporting documents/agreements in respect of the above projects.

Profit and loss	Actual	Forecast				
Rupees in million	2014	2015	2016	2017	2018	2019
IBM-related revenue	45.6	271.0	330.2	377.0	428.1	485.8
IBM-related cost	(44.8)	(239.8)	(288.9)	(329.9)	(374.6)	(425.1)
	0.8	31.2	41.3	47.1	53.5	60.7
eUBS income	22.9	12.4	26.7	28.8	31.1	33.6
eUBS cost	(13.1)	(7.1)	(15.3)	(16.6)	(17.9)	(19.3)
	9.7	5.3	11.4	12.3	13.3	14.3
Networking revenue	12.4	12.4	13.0	13.7	14.4	15.1
Networking cost	(9.5)	(9.5)	(10.0)	(10.5)	(11.0)	(11.5)
	2.9	2.9	3.1	3.2	3.4	3.6
HR consultancy income	2.9	2.9	3.3	3.8	4.4	5.0
HR consultancy cost	(2.1)	(2.2)	(2.5)	(2.9)	(3.3)	(3.8)
	0.8	0.7	0.8	1.0	1.1	1.3
Gross margin	**14.3**	**40.1**	**56.6**	**63.6**	**71.3**	**79.9**
Salary expenses	(12.7)	(18.0)	(19.6)	(21.2)	(22.9)	(24.7)
Administrative expenses	(7.2)	(5.3)	(5.8)	(6.3)	(6.8)	(7.3)
Depreciation	(0.6)	(0.7)	(0.8)	(0.9)	(1.0)	(1.1)
	(20.5)	**(24.0)**	**(26.2)**	**(28.4)**	**(30.7)**	**(33.1)**
EBIT	**3.6**	**21.3**	**28.5**	**39.2**	**46.9**	**55.6**

The contract for HR consultancy services was terminated by KASB Modaraba in February 2015.

Source: Management Information

In view of the uncertainty regarding achievability of management projections and the significant due diligence adjustments to net assets of MSC, we have adjusted the net carrying value of the Bank's investment in the company

- The financial projections provided by the Management assume sales of Rs 271 million in 2015 and forecasts sales to increase to Rs 485.8 million by 2019. However, as per Management, the only source of funds available to the company, at present, is:
  - loan from Mr. Muzzaffer Ali Shah Bukhari; and
  - funds generated from the company's IBM-related business and eUBS and networking services. However, the IBM-related business incurred a loss of Rs 4.5 million (after adjusting for IBM staff cost and finance cost) in 11M 2014, whereas the margins generated by the eUBS and networking services are relatively insignificant.
- In the absence of a funding plan in respect of this business, it appears unlikely that the company will be able to achieve the level of sales envisaged in the financial projections.

Taking into consideration:

- non-availability of funds required to generate the forecast sales levels;
- non-availability of evidence of orders/tenders on which the forecast sales level for 2015 is based; and
- limited margins of the eUBS and networking services/business,

the financial projections of MSC do not appear to be achievable.

In view of the uncertainty regarding the achievability of management projections and the significant due diligence adjustments to net assets of MSC, we have adjusted the net carrying value of the Bank's investment in MSC of Rs 30.8 million.

eUBS and networking services

Rupees in million	11M 2014	HY 2013	2013*
Networking income	12.4	7.2	21.7
Networking cost	(9.7)	(3.7)	(15.0)
eUBS income - net	9.7	5.1	8.3
Margin	12.4	8.6	15.0
Administrative expenses	(9.5)	(10.7)	(10.5)
	2.9	**(2.1)**	**4.5**

* Financial year of MSC was on a July to June basis prior to June 30, 2013.

Note: Cost of sales staff of IBM- related business was adjusted from administrative expenses for 11M 2014. Consultancy related income and expenses were also excluded from the above table.

Source: Management Information

Adjusted net assets of MSC

Rupees in million	30-Nov-14
Net assets as per management accounts	**52.2**
Adjustments	
Additional income tax liability relating to IBM- related business	(2.2)
Tax refunds not supported by documentation	(2.7)
Deferred tax overstated on depreciation losses	(18.0)
Liability to pay Sindh Sales Tax	(28.0)
	(50.9)
Net assets after adjustment	**1.3**

Source: Management Information,

KASB Funds

As at November 30, 2014, approximately 77% of KFL's funds under management comprised of investments made by related parties

- KFL was incorporated in Pakistan on January 24, 2005 under the Companies Ordinance, 1984 as an unlisted public limited company.
- The company is licensed to carry out 'asset management' and 'investment advisory services' under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 and the Non-Banking Finance Companies and Notified Entities Regulations, 2008 ("NBFC Rules and Regulations"). The objective of the company is to float and manage open-end mutual funds and to provide investment advisory services. At present, KFL manages the following five open-end mutual funds:
  - KASB Income Opportunity Fund.
  - KASB Asset Allocation Fund.
  - KASB Islamic Income Opportunity Fund.
  - KASB Cash Fund.
  - Crosby Dragon Fund.
- The Bank holds 43.89% shareholding in KFL. The other major shareholder is KASB Corporation Ltd. which holds approximately 46% shareholding in KFL.
- The Bank acquired the investment in KFL consequent to the merger with KASB Capital Ltd. in 2008. The Bank applied the "purchase method" of accounting for the business combination under IFRS 3 and recorded the investment at Rs 432.3 million. However, in subsequent years, the Bank made cumulative provision of Rs 370.2 million against this investment. Accordingly as at November 30, 2014, the carrying value (net of provision) of the Bank's investment in KFL amounted to Rs 62.1 million.

Summary of Funds under Management

Rupees in million	Category of open-end fund	FuM as at 30-Nov-14	Basis of management fee*	Related party investment in own funds as at 30-Nov-14	
KASB Income Opportunity Fund	Aggressive Income	261.4	2.0%	242.2	92.7%
KASB Asset Allocation Fund	Asset Allocation	305.2	2.0%	289.5	94.9%
KASB Islamic Income Opportunity Fund	Islamic Aggressive Income	266.8	1.5%	136.8	51.3%
KASB Cash Fund	Money Market	346.8	0.8%	212.8	61.4%
Crosby Dragon Fund	Equity	153.8	2.0%	141.2	91.8%
		1,334.0		**1,022.5**	**76.65%**

*per annum of the average annual net assets of the Fund.

In addition to the above FuM, specially managed accounts under the management of KFL amounted to Rs 58.6 million as at November 30, 2014.

Source: Management Information

Proposed merger between KFL and Pak Oman Asset Management Company Limited

As per Management Information, the Board of Directors of KFL approved the merger of KFL with Pak Oman Asset Management Company Limited ("POAMCL") in April 2014.

However, we have been informed by the Management that the Board of Directors of KFL and POAMCL decided to abandon the merger in February 2015.

As per management accounts for the period ended November 30, 2014, net assets of KFL amounted to Rs 124.9 million

Balance sheet

Rupees in million	30-Nov-14	31-Dec-13
ASSETS		
Property and equipment	1.4	1.4
Intangible assets	6.3	6.4
Long term security deposits	0.4	0.4
Long term loan	2.7	1.7
Deferred tax asset - net	34.1	34.4
Non-current assets	**44.9**	**44.3**
Loans and advances	5.2	2.8
Prepayments and other receivables	22.6	27.1
Due from funds under management	2.6	5.6
Investments	125.4	51.9
Taxation- net of provisions	14.0	25.6
Cash and bank balances	11.5	1.6
Current assets	**181.3**	**114.6**
Total assets	**226.2**	**158.9**
LIABILITIES		
Current liabilities		
Accrued expenses and other liabilities	(26.3)	(27.8)
Non-current liabilities		
Subordinated loan	(75.0)	-
Net assets	**124.9**	**131.1**
EQUITY		
Issued, subscribed and paid-up share capital	321.8	321.8
Less :discount on issue of right shares	(36.8)	(36.8)
Accumulated loss	(160.1)	(153.9)
Equity	**124.9**	**131.1**

Source: Management Information

- The NBFC Rules and Regulations specify the minimum equity requirement for NBFCs. Based on these requirements, the minimum equity (free of losses) required for carrying out 'investment advisory' and 'asset management services' as at November 30, 2014 amounts to Rs 230 million. However, as at November 30, 2014, KFL's equity amounted to Rs 124.9 million. In addition, the company had obtained a subordinated loan of Rs 75 million.
- The subordinated loan of Rs 75 million was received from Mr. Muzzaffar Ali Shah Bukhari (6.2% shareholder of KFL). The loan is interest-free and is required to be repaid within three years or as both parties may agree. As per the agreement, the loan is subordinate to all other payment obligations of KFL due to financial institutions and banking lenders and may be converted to secured debt obligation or equity instrument, subject to fulfilment of requisite corporate and regulatory formalities.
- Other liabilities include an amount of Rs 15.2 million payable to House Building Finance Corporation ("HBFC") in respect of a suit filed by HBFC against KFL and KASB Income Opportunity Fund (previously AMZ Plus Income Fund). A corresponding receivable is also appearing in other receivables in respect of indemnity from AMZ Asset Management Company Ltd. in the situation that the case is decided against KFL and the fund.
- The remaining assets, other than tax refundable and deferred tax, consist mainly of:
  - Investment in units of funds under management of Rs 107.6 million, non-performing TFCs of Agritech Limited, Azgard Limited and Trust Investment Bank Limited with an aggregate book value of Rs 14.2 million and shares in Agritech Ltd. at book value of Rs 3.6 million.
  - Management rights in respect of Crosby Dragon Fund amounting to Rs 6.3 million.
  - Loan provided to an employee, Mr. Hussain Khoja, of Rs 3.9 million and advance given to Ahmed & Qazi, advocates, of Rs 1.9 million.
  - Due from "funds under management" consists mainly of management fee receivable of Rs 2.2 million.
  - Break-up and working of deferred tax asset – net as at November 30, 2014 has not been provided by Management.

KFL incurred a loss of Rs 6.2 million in 11M 2014

Profit and loss

Rupees in million	2014	Dec-2014	11M 2014	2013
Revenue				
Management fee	36.8	2.1	34.7	36.3
Load income	1.9	0.1	1.8	1.7
Advisory income	(0.1)	1.1	(1.2)	14.2
Unrealised gain / (loss) on revaluation of investments	(2.2)	1.6	(3.8)	0.4
Net realized gain on sale of available for sale investments	9.4	0.2	9.2	11.2
Mark-up income on sukuks	-	-	-	1.9
Mark-up income on bank deposit	0.6	0.2	0.4	0.3
Other income	1.0	-	1.0	7.7
	47.4	**5.3**	**42.1**	**73.7**
Expenses				
Administrative expenses	56.5	8.6	47.9	62.1
Impairment loss on intangible asset	-	-	-	3.0
Provision for impairment in value of available for sale investment	-	-	-	6.8
Financial charges	-	-	-	0.6
	56.5	8.6	**47.9**	**72.5**
Profit / (loss) before taxation	**(9.1)**	**(3.3)**	**(5.8)**	**1.2**
Taxation				
Current	-	-	(0.4)	0.7
Prior	-	-	-	0.5
Deferred	-	-	-	35.2
Loss after taxation	**(9.1)**	**(3.3)**	**(6.2)**	**(35.2)**

For presentation purposes only.

Source: Management Information

- The break-up of management fee is given below:

Management fee

Rupees in million	2014	Dec-2014	11M 2014	2013
KASB Income Opportunity Fund	9.5	0.4	9.1	10.7
KASB Asset Allocation Fund	6.7	0.6	6.1	6.3
Crosby Dragon Fund	3.3	0.2	3.1	3.2
KASB Islamic Income Opportunity Fund	9.1	0.6	8.5	5.9
KASB Cash Fund	8.2	0.3	7.9	10.2
	36.8	**2.1**	**34.7**	**36.3**

Source: Management Information

- We have been informed by the Management that bonus of Rs 0.4 million was paid in 11M 2014 as compared to bonus of Rs 1.2 million paid in 2013. The reason for decrease in remaining administrative expenses was not provided by Management.
- Expenses include costs incurred by KFL in respect of the proposed acquisition of Pak Oman Asset Management Company Ltd. These expenses consist of legal advisor fee of Rs 3 million, cost of newspaper notices of Rs 0.4 million and fee paid to Competition Commission of Pakistan of Rs 0.2 million.
- Based on Discussions with Management of KFL, we understand that units of "funds under management" are sold mainly through direct sales team. Sales are also made through distributors and the Bank.

Purchase consideration for acquisition of entire shareholding in IGI Funds Ltd. was approximately equal to net assets of IGI Funds Ltd.

- The Bank provided us with financial projections of KFL. These projections were developed on the assumption that the proposed merger between KFL and POAMCL would be consummated. However, after the announcement of cancellation of merger between KFL and POAMCL, we requested the Management of the Bank to provide us with revised financial projections of KFL on a stand-alone basis. These financial projections have not been provided to us.
- In the absence of financial projections of KFL, we considered using the market approach to determine the indicative valuation of KFL.
- In this connection, we considered the recent transaction relating to acquisition of entire shareholding of IGI Funds Limited by Alfalah GHP Investment Management Limited. In addition, we also considered the basis of determination of "swap ratio" for the proposed merger of KFL and POAMCL.

Acquisition of IGI Funds Ltd.

- As per the consolidated financial statements of IGI Investment Bank Limited ("IGI Bank") for the year ended June 30, 2014, IGI Bank entered into a share purchase agreement with Alfalah GHP Investment Management Ltd. ("Alfalah GHP") on May 22, 2013 whereby the entire shareholding of IGI Funds Ltd. ("IGI Funds") was acquired by Alfalah GHP. The sale was approved by the shareholders of IGI Bank in the extraordinary general meeting held on May 27, 2013.
- Based on the notice of the above extraordinary general meeting sent to shareholders of IGI Bank, the consideration for sale of shares amounted to Rs 175 million. However, the price was subject to adjustment on the basis of movement in the following balances from September 30, 2012 to the closing date of the transaction:
  - Cash and bank balances.
  - Investments.
  - Net receivables comprising of deposits, prepayments and other receivables.
  - Balance due from open-end funds managed by IGI Funds.
  - Accrued expenses and other liabilities.
- The net assets of IGI Funds as at September 30, 2012, disclosed in the above notice, amounted to Rs 174.005 million.
- Pursuant to an order of SECP under section 282L of the Companies Ordinance, 1984, IGI Bank disposed off its shareholding in IGI Funds effective from October 15, 2013. Due to movement in the aforesaid items from September 30, 2012 to October 14, 2013, the final sale consideration amounted to Rs 199.753 million.
- IGI Bank recorded a gain of Rs 8.9 million in its consolidated financial statements for the year ended June 30, 2014 in respect of the above transaction.
- The FuM of IGI Funds Limited, as at September 30, 2012, are summarised below:

Rupees in million	FuM as at 30-Sep-12	Related party FuM as at 30-Sep-12*	
IGI Stock Fund	211.7	178.2	84.2%
IGI Money Market Fund	3,100.0	721.3	23.3%
IGI Income Fund	1,129.0	502.1	44.5%
IGI Islamic Income Fund	241.1	207.6	86.1%
IGI Aggressive Income Fund	813.8	729.5	89.6%
	5,495.6	**2,338.7**	**42.56%**

*Related party FuMs have been obtained from the financial statements of the above mutual funds.
Source: Public Information, AFF Analysis

Indicative value of Bank's investment in KFL amounts to Rs 21 million

- The factors considered in the determination of indicative valuation of KFL included the following:
  - Transaction involving the acquisition of IGI Funds Limited by Alfalah GHP Investment Management Limited.
  - Significant decline in KFL's Funds under Management from Rs 2,884.4 million as at December 31, 2013 to Rs 1,204.6 million as at February 26, 2015. In addition, composition of FUM held by related parties increased from 47.0% as at December 31, 2013 to 79.8% as at February 26, 2015.

Rupees in million	31-Dec-13	31-Mar-14	30-Jun-14	30-Sep-14	30-Nov-14	26-Feb-15
KASB Bank Ltd.		945.5	848.1	852.4	884.4	
KASB Funds Ltd.		97.5	113.0	106.1	107.7	
KASB Modarba		-	57.2	28.3	28.6	
KASB Invest (Pvt.) Ltd.		-	-	100.2	0.1	
Directors and employees		1.9	1.7	3.8	1.5	
KASB Securities Ltd.		207.4	161.6	165.1	-	
Other related parties		232.2	125.5		-	
FuM held by related parties	**1,354.7**	**1,484.5**	**1,307.1**	**1,255.9**	**1,022.3**	**961.5**
FuM held by others	1,529.7	1,290.8	1,390.9	1,057.3	311.7	243.1
Total FuM	**2,884.4**	**2,775.3**	**2,698.0**	**2,313.2**	**1,334.0**	**1,204.6**
Related party FuM as a% of total FuM	47.0%	53.5%	48.4%	54.3%	76.6%	79.8%

Information not provided

Source: Management Information

- Based on Management Information, we understand that the "swap ratio" for the proposed merger of KFL and POAMCL was determined on the basis of net assets of these entities.

- As net assets represent a "controlling interest" level of value, we considered application of appropriate discounts to arrive at an indicative valuation for the Bank's investment in KFL on a non-marketable minority basis.
- The calculation of indicative value of Bank's investment in KFL is summarised below:

Calculation of indicative value of Bank's investment in KFL
Rupees in million

Net assets of KFL (after due diligence adjustments) as at November 30, 2014	65.9
Discount for lack of control	9.09%
Estimate of value (Marketable minority basis)	**59.9**
Discount for lack of marketability	20.00%
Estimate of value (Non- marketable minority basis)	**47.9**
Indicative value of Bank's 43.89% shareholding in KFL	**21.0**

Source: AFF Analysis

Appendices

Agreement

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A. F. FERGUSON & CO.

THIS TRIPARTITE AGREEMENT (Engagement Letter) is made on 15th day of December, 2014 (hereinafter referred to as the "Agreement")

By and Amongst

State Bank of Pakistan, constituted under the State Bank of Pakistan Act, 1956, having its head office at I.I. Chundrigar, Road, Karachi, acting through Shaukat Zaman, Director, Banking Policy & Regulations Department (hereinafter referred to as "SBP" which term shall include its successors and assigns) of the First Part;

And

KASB Bank Limited, a banking company incorporated under the laws of Pakistan and having its principal office at Business and Finance Centre, I.I. Chundrigar Road, Karachi and registered office at Razia Sharif Plaza, Jinnah Avenue, 90-Blue Area, Islamabad, acting through Bilal Mustafa, President and Chief Executive Officer (hereinafter referred to as "KASB" which expression shall where the context so permits mean and include its successors in interest and permitted assigns) of the Second Part;

And

A. F. Ferguson & Co., Chartered Accountants, a member firm of the PwC Network and having its office at State Life Building 1-C, I.I. Chundrigar Road, Karachi (hereinafter referred to as "AFF" which expression shall where the context so permits mean and include its successors in interest and permitted assigns) of the Third Part;

References herein to "Party" or "Parties" are references to SBP, KASB and AFF as the context requires. In addition, reference herein to "we", "us" or any similar expressions refer to AFF.

WHEREAS:

A. Pursuant to the order of moratorium dated 14th November, 2014, the Government of Pakistan has placed a moratorium on KASB for a period of six (06) months with effect from 14th November, 2014 ("Order of Moratorium") on the application of SBP under Section 47 of the Banking Companies Ordinance, 1962 ("BCO");

B. The provisions of the Order of Moratorium as well as Section 47 of the BCO require SBP to prepare a scheme of reconstruction or amalgamation in respect of KASB;

C. A financial due diligence of KASB and its associated companies needs to be carried out prior to the preparation of the scheme of reconstruction or amalgamation by SBP;

D. AFF has offered to provide advisory services in terms of the financial due diligence of KASB and its associated companies, as provided in this Agreement ("Services");

E. As the scheme of reconstruction or amalgamation would be to the benefit of KASB, it has agreed to engage AFF to provide the Services as per the terms and conditions contained herein and would bear the cost thereof;

F. The Parties have reached agreement on the terms of the provision of Services and their respective rights and liabilities in relation to the arrangements emanating from the aforesaid and are accordingly desirous of entering into this Agreement to outline the agreed terms of the proposed arrangements and set out a manner to proceed.

NOW, THEREFORE, in consideration of the mutual promises herein contained the Parties have agreed as follows:

Afg & Co.

A. F. FERGUSON & CO., Chartered Accountants, a member firm of the PwC network
State Life Building No. 1-C, I.I. Chundrigar Road, P.O. Box 4716, Karachi-74000, Pakistan
Tel: +92 (21) 32426682-6/32426711-5; Fax: +92 (21) 32415007/32427938/32424740; <www.pwc.com/pk>

Lahore: 25 C, Aziz Avenue, Canal Bank, Gulberg V, P.O. Box 39, Lahore-54660, Pakistan; Tel: +92 (42) 35715864-71; Fax: +92 (42) 35715872
Islamabad: PIA Building, 3rd Floor, 49 Blue Area, Jinnah Avenue, P.O. Box 3021, Islamabad-44000, Pakistan; Tel: +92 (51) 2275457-60; Fax: +92 (51) 2275944
Kabul: Apartment No. 3, 3rd Floor, Ahmad Lawer, Haji Yaqub Square, Shar-e-Nau, Kabul, Afghanistan; Tel: +93 (79) 315580, +93 (799) 303500

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pwc

A. F. FERGUSON & CO.

1. **SCOPE OF SERVICES**

1.1 AFF shall provide the Services, as described in Appendix A hereto with such amendments and modifications from time to time as may be agreed in writing by the Parties. Appendix A forms an integral part of the Agreement.

1.2 AFF shall perform the Services required under this Agreement in a prudent, reasonable, and efficient manner and in accordance with professional international standards.

1.3 The Services shall be performed at such location(s), as specified by SBP.

2. **FEE AND COSTS**

2.1 For the successful performance of the Services as per the milestones given below, AFF shall be paid a professional fee of Pakistan Rupees ("Rs") 20.5 million by KASB. The payment schedule of the fee is given below:

	Professional fee (Rs in million)
On mobilisation	5.5
On submission of final due diligence report	7.5
On submission of final valuation report	7.5
	20.5

2.2 The above professional fee does not include any sales tax which will be separately added to the above fee at the applicable rate.

2.3 In addition to the above professional fee, AFF shall be paid out-of-pocket expenses ("OPE") associated with the provision of the Services. The OPE will include cost relating to transportation, conveyance, communication, printing and stationery, procurement of forecasts and publications, if required, and IT costs. The OPE will be billed at actuals.

2.4 All invoices shall be raised by AFF in the name of KASB for settlement within a maximum period of fifteen (15) calendar days from the date of the bill.

2.5 Any change in the scope of the Services shall be agreed between SBP and AFF, in writing, and will be subject to reasonable adjustments to the fees payable by KASB and timetable.

3. **PERFORMANCE OF THE SERVICES**

3.1 Appendix A fully sets out the services AFF will provide to SBP under this Agreement, which SBP agrees are sufficient to meet its needs (the "Services").

3.2 Unless otherwise stated in the Agreement, the Services will not include an audit opinion, attestation or other form of assurance.

3.3 KASB shall provide to AFF all necessary access to personnel, information and documents reasonably required to enable AFF to provide the Services. Unless otherwise stated in this Agreement, AFF will not independently verify the accuracy of information and documents and will not be liable for any loss or damage arising from any inaccuracy or other defect in information or documents provided to it, or any failure to provide on a timely basis such access, information or documents.

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Agreement

3.4 KASB shall inform AFF as soon as possible of any change in information as originally provided to AFF which may impact the provision of the Services.

3.5 AFF's partners and employees who are engaged in the provision of the Services will not be deemed to be aware of information known by any of AFF's other partners or employees who are not engaged in the performance of the Services.

3.6 AFF will use its best efforts to meet any specified timetable. However, unless expressly agreed in writing, dates contained in the Agreement or otherwise communicated are indicative dates, intended for planning and estimating purposes only.

3.7 KASB agrees to provide to AFF such information/ documents as may be required by SBP.

4. REPORTING

4.1 AFF shall provide all reports pertaining to the Services directly to SBP (the "Deliverables"). Unless otherwise stated in the Agreement, SBP may only use the Deliverables for its own internal use and benefit and for the purpose for which the Services were provided.

4.2 AFF agrees that the Deliverables shall not be shared with any other entity other than SBP, unless so directed by SBP.

4.3 SBP acknowledges it shall not rely on draft Deliverables or oral advice issued by AFF as they may be subject to further work and revisions.

4.4 SBP will not provide any part of the Deliverables or copies of them to any third party (excluding Government of Pakistan) without first obtaining AFF's written consent. Where AFF gives consent, AFF will obtain appropriate releases from the third parties. Other than to SBP, AFF assumes no responsibility of any kind in any circumstances to any party who may seek to rely on its Deliverables or Services.

5. INTELLECTUAL PROPERTY RIGHTS

5.1 Unless otherwise stated herein, intellectual property rights in all documentation, systems, materials, methodologies and processes (in paper or electronic form and including working papers) brought to the Services by AFF, or created by AFF in the cause of the Services, shall remain and be vested in AFF. This clause does not affect SBP's use of the Deliverables in accordance with the terms contained herein and/ or to take necessary actions in pursuance of the purpose of the Services.

5.2 SBP/ KASB will not use the AFF or PwC name or logo on any website or in any public statement without first obtaining AFF's written consent.

6. TERM AND TERMINATION

6.1 This Agreement will apply from the earlier of the date of the Parties' written acceptance of this Agreement or the date AFF begins to perform the Services.

6.2 Any extension in the term of this Agreement shall be mutually decided between AFF and SBP, and on such terms and conditions as may be agreed, in writing.

6.3 This Agreement may be terminated or suspended by [either Party] by written notice. Where this Agreement is terminated or suspended for reasons other than material breach by AFF, KASB will pay AFF for all Services provided up to the date of termination or suspension and additional costs that AFF reasonably incurs in connection with the early termination or suspension.

6.4 The provisions of this Agreement which expressly or by implication are intended to survive its termination or expiry will survive and continue to bind the Parties.

6.5 Termination or suspension of this Agreement shall be without prejudice to any accrued rights of the Parties.

7. CONFIDENTIALITY AND PERMITTED DISCLOSURES

7.1 Neither Party may disclose Confidential Information about or belonging to the other without written consent. For the purposes of this Agreement, "Confidential Information" means information or documents, including personal data, which either party receives or produces in connection with the Services which is marked confidential or is manifestly confidential, and includes working papers, information and methodologies, and any proposal or tender document. However, it does not include any information which:

7.1.1 is or becomes generally available to the public other than as a result of a breach of this clause; or

7.1.2 is received from a third party who owes no obligation of confidence in respect of the information; or

7.1.3 is known by the non-disclosing party prior to the commencement of the Agreement or independently developed by the non-disclosing party.

7.2 Notwithstanding the above:

7.2.1 The Parties will be entitled to disclose the Confidential Information of the other:

(a) where there is a requirement to do so under applicable law, rule or regulation provided that, where permitted and practicable, reasonable notice is first given to the other party; or

(b) to their respective insurers or legal advisors where required in any dispute relating to the Services, provided that the Confidential Information is kept confidential by them.

7.3 In the course of providing the Services AFF all Confidential Information passed on to the employees of AFF shall be on a need to know basis and AFF shall ensure that such employees are bound by the confidentiality provisions stated herein.

7.4 AFF may on a need to know basis disclose Confidential Information, upon seeking a prior written consent of SBP, to its partner firms including entities (whether or not incorporated) which carry on business under a name which includes all or part of the PricewaterhouseCoopers name or is otherwise within (or associated or connected with an entity within) or is a correspondent firm of the worldwide network of PricewaterhouseCoopers, and their partners and employees and such Affiliates shall be subject to the same confidentiality obligations as ourselves.

7.5 AFF's work will be carried out and Deliverables will be issued in accordance with the scope of work agreed with and for the purposes of SBP. As stated in paragraph 4.1, the Deliverables will only be provided to SBP without reference to KASB. Accordingly, KASB acknowledges and agrees that AFF will not have a duty of care to KASB or any of its related parties (including its subsidiaries and associates). In addition, KASB confirms that, with respect of the work carried out under this engagement, it or its related parties (including its subsidiaries and associates) will not bring a claim against AFF. If AFF receives any legally enforceable notice or demand issued by a third party, including any regulatory authority, tax authority, government body or instrumentality, or any court or tribunal, in connection with the Services, KASB agrees to pay our reasonable professional costs and expenses (including legal counsel expenses) in complying with or challenging any such notice or demand to the extent that our costs and expenses are not recovered or recoverable from the party issuing the notice or demand. Subject to this clause 7, in the event that the relevant project is no longer confidential (of which you shall be the judge), AFF may, in general terms, cite the performance of its services to its clients and prospective clients, or include a reference in its electronic or printed marketing materials or publications, or otherwise as an indication of its experience without referring to any specific date, information or document seen by it during the course of the Services.

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8. LIABILITY

8.1 AFF will use reasonable skill and care in the provision of the Services.

8.2 AFF will accept liability for:

8.2.1 Death or personal injury caused by our negligence or the negligence of our employees acting in the course of the Services; and

8.2.2 Any other liability which by law we cannot exclude at law.

8.3 AFF's liability for loss or damages arising in relation to the Services, as a result of breach of contract, tort (including negligence) or otherwise, is limited to an amount equal to the fees paid by KASB for the portion of our Services or work giving rise to the liability.

8.4 In any event and to the extent permitted by law, AFF will not be liable for any indirect, incidental or consequential loss, damages or expenses (including loss of profits or revenue, business interruption, loss of data or failure to realise anticipated savings or benefits) arising in any way in relation to the Services.

8.5 SBP agrees that if it makes any claim against AFF for loss as a result of a breach of this Agreement, and that loss is contributed to by its own actions, then liability for any such loss will be apportioned as is appropriate having regard to the respective responsibility for the loss, and the amount SBP may recover from AFF will be reduced by the extent of its contribution to that loss.

8.6 Subject to the aggregate limit of liability specified herein, any liability of AFF in connection with the Services will be limited to that proportion of SBP's actual loss which was directly and solely caused by AFF or, where the loss was caused by a number of persons, is proportionate to the degree of responsibility of AFF taking into account the responsibility of all third parties who contributed to the loss.

8.7 SBP and KASB acknowledge and agree that in relation to the Services and this Agreement, our responsibility is solely to SBP. Therefore, KASB agrees to reimburse and hold harmless AFF, our Affiliates, partners, employees and subcontractors against all claims and actions by all third parties, including KASB's related entities (including its subsidiaries and associates), and all associated damages, costs, and expenses, including reasonable professional costs, arising from or relating to the Services.

8.8 SBP agrees that it will not bring any claim (whether in contract, tort (including negligence) or otherwise) arising out of or in connection with the Services against any of AFF's partners and employees personally, but this will not limit or exclude any liability AFF may have for their acts or omissions.

8.9 Where there is more than one Addressee under this Agreement, the limit of liability specified in clause 8.3 will have to be allocated between such Addressees. Such allocation will be entirely a matter for such Addressees, who will be under no obligation to inform AFF of it (except where there is a dispute in relation to the Services). If (for whatever reason) no such allocation is agreed, none of such Addressees will dispute the validity, enforceability or operation of the limit of liability on the grounds that no such allocation was agreed. An "Addressee" means, the original addressee(s) of the Agreement but excludes KASB, together with any other persons (a) whom SBP and AFF have agreed in writing may have the benefit of the Services and (b) to whom AFF has assumed a duty of care in respect of the Services under written arrangements with them.

8.10 SBP agrees that AFF shall not be liable, whether in contract, tort (including negligence) or otherwise for any damage arising from information material to its work being withheld or concealed from it or misrepresented to it.

8.11 The Services are not designed to and are not likely to reveal fraud or misrepresentation by the management or any other person. Accordingly, AFF cannot accept responsibility for detecting fraud (whether by management or by external parties) or misrepresentation by the management or any other person.

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8.12 For the avoidance of doubt, where AFF is SBP's auditor or auditor of any other parties involved in this engagement, AFF's obligations under this Agreement are entirely separate from its role as auditors. Nothing in this Agreement or said or done in the course of or in connection with the Services should be taken to extend any duty of care AFF may have in its capacity as auditors of any financial statements.

9. OTHER PRICEWATERHOUSECOOPERS FIRMS

9.1 In the course of providing the Services, AFF may, at its discretion, draw on the resources of other PricewaterhouseCoopers firms including entities (whether or not incorporated) which carry on business under a name which includes all or part of the PricewaterhouseCoopers name or is otherwise within (or associated or connected with an entity within) or is a correspondent firm of the worldwide network of PricewaterhouseCoopers, and their partners and employees (an "Affiliate"), but provision of the Services will remain AFF's responsibility alone.

9.2 SBP and KASB agree that they will not bring any claim (whether in contract, tort (including negligence) or otherwise) against any Affiliate in respect of the Services. Any Affiliate who deals with SBP or KASB (if applicable) in connection with the Services does so solely on AFF's behalf and AFF will be responsible to SBP for their dealings with SBP.

10. DOCUMENTS

10.1 AFF retains its files and documents relating to the Services (whether or not created by it, in paper or electronic form, including working papers) as its professional record. It is its practice to destroy such documents five years after the end of the engagement. However, we agree to retain such documents relating to this engagement for a period of ten years.

11. MISCELLANEOUS

11.1 The Parties acknowledge and agree that this agreement shall enter into force on the date hereof and the terms of this Agreement will continue to apply until the termination or expiration of the agreement, unless earlier terminated as provided herein.

11.2 Subject to the terms of this Agreement, this Agreement constitutes the whole agreement between the Parties and supersedes any and all prior discussions or agreements relating to the subject matter of this Agreement.

11.3 If any provision hereof is rendered invalid or unenforceable in any jurisdiction then to the fullest extent permitted by law, the other provisions hereof shall remain in full force and effect and the Parties agree to carry out the agreements contained herein to give effect as near as possible to the original intention of the invalid or unenforceable provision.

11.4 Neither Party may assign or otherwise deal with their rights or obligations under this Agreement without the prior written consent of the other Parties.

11.5 The Parties accept and acknowledge that AFF has not made any warranties or guarantees of any nature in respect of the satisfactory conclusion of the Services or with respect to the economic, financial or other results which may be experienced as a result of the provision of the Services, unless otherwise stated in this Agreement.

11.6 Any rights conferred on third parties by this Agreement are subject to the right of SBP and AFF, by agreement, to rescind or vary any terms of this Agreement without the consent of any third party.

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Agreement

11.7 No Party will be liable to the other for any delay or failure to fulfil its obligations under this Agreement to the extent that any such delay or failure arises from force majeure or causes beyond its reasonable control.

11.8 Any notice to be given under this Agreement shall be in writing and to be delivered in person, by letter, by electronic mail, or by facsimile transmission to the address appearing in this Agreement. All such notices shall be deemed to have been received at the times when they would ordinarily have been received.

12. GOVERNING LAW AND RESOLVING DISPUTES

12.1 This Agreement will be governed by and interpreted in accordance with the laws of Pakistan.

12.2 In the unlikely event that differences concerning the Services or fees should arise that are not resolved by mutual agreement, the Parties agree that the Pakistan Courts will have exclusive jurisdiction in connection with the resolution of any dispute or difference arising out of or in connection with this Contract.

Appendix A

(Scope of Services)

AFF shall perform the following Services [the terms "we"/"us"/"our" hereinafter refer to AFF and the terms "you"/"your" refer to SBP]:

Financial and tax due diligence

- Financial and tax due diligence of KASB Bank Limited (the "Bank")
- Financial and tax due diligence of KASB Securities Limited
- Financial and tax due diligence of KASB Invest (Pvt.) Limited
- Financial and tax due diligence of KASB Modaraba
- Financial and tax due diligence of My Solutions Corporation Limited
- Financial and tax due diligence of KASB Funds Limited
- Tax due diligence of Structured Venture (Pvt.) Limited

Valuation

- Valuation of the Bank.

1. Financial and Tax Due Diligence of the Bank

a) General

- Present an overview of the business of the Bank including its brief history;
- Present the Bank's shareholding structure;
- Review external auditor's cover letter on the latest audited financial statements of the Bank as well as the management letter;
- Review of minutes of meetings of shareholders and Board of Directors for the year; and
- Review accounting policies followed by the Bank in order to assess whether these are in conformity with the financial reporting framework applicable in Pakistan.

b) Profit and Loss account/quality of earnings analysis

i. **Quality of earnings analysis/review**

The purpose of this analysis/review will be to adjust the reported earnings of the Bank in order to present an estimate of recurring level of earnings. The analysis will include:

- Identification of adjustments to reported results for non-recurring and unusual items, if any;
- Gaining an understanding of recent changes in significant accounting policies/procedures to analyse the impact on reported results;
- Identify and analyse the impact of significant related party transactions as reported in the financial statements, if any, based on available information.

ii. **Analysis of performance trends**

Perform an analysis of the net spread earned. The analysis will include:

- Analysis of historical trends in volumes of earning assets including composition of earning assets in terms of financing and other earning assets;
- Analysis of trends in yield on financing and other earning assets;
- Analysis of historical trends in volumes of deposits including composition in terms of current, savings and fixed deposits; and

Agreement

- Analysis of trends in cost of deposits and financings.

Perform an analysis of other income. The analysis will include:

- Gaining an understanding of the main drivers of other income; and
- Analysis of historical trends in key components of other income.

Perform an analysis of other expenses. The analysis will include:

- Analysis of components of staff cost and annual variation in staff cost;
- Analysis of trends in rent cost; and
- Analysis of annual variation in key components of other expenses.

c) Balance sheet analysis [based on balance sheet as at November 30, 2014]

The balance sheet analysis will cover the following areas:

i. Cash and balances with banks

- Obtain and review bank reconciliation statements for long outstanding entries;

ii. Lendings to financial institutions

- Analysis of the terms and conditions including interest rate, maturity and collateral held in respect of lending to financial institutions;
- Review of interest accruals as per agreed terms.

iii. Investments

- Obtain break-up of investment portfolio;
- Obtain SGL confirmation and CDC confirmation from the management of the Bank in respect of the Bank's investment in government securities, listed securities and term finance certificates;
- Assess whether valuation and classification of investments is in accordance with the financial reporting framework applicable in Pakistan;
- Review of working for impairment in the value of investments prepared by the management of the Bank.
- Review of investments against which no provision or partial provision has been made due to specific exemption granted by SBP;

iv. Advances

Corporate

- Analysis of selected customers classified as 'Regular' (based on materiality consideration to be agreed with SBP, obligor rating and information provided by the Bank) highlighting the nature of financing, terms of repayment, profit rate, obligor rating, details of collateral, repayment history and financial condition of the customer. Based on this analysis and after discussion, we will assess whether any of these customers may be classified as non-performing on a subjective basis and provision is required to be recognised thereagainst;
- Review of non-performing customers categorized as either "OAEM", "Substandard", "Doubtful" or "Loss" (based on information provided by the Bank) on the basis of time based criteria specified in the Prudential Regulations issued by SBP.

- Review of non-performing customers (based on information provided by the Bank) which have been classified by the Bank on a subjective basis, if any;

We would like to highlight that where the benefit of the forced sale value of collateral is taken into account by the Bank for determining the provision required to be maintained against non-performing advances, we will rely on the opinion of the Bank's legal counsel (as regards the validity of the documents of mortgage, non-encumbrance certificate etc.) and professional valuer (as regards the forced sale value of the properties held as collateral). Our scope of work does not include (i) Valuation of the collateral; and (ii) Review of documents to ascertain the validity of title to the collateral. Where benefit of the forced sale value of collateral is taken into account by the Bank for determining the provision required to be maintained against non-performing advances and a legal opinion as regards the validity of the documents of mortgage, non-encumbrance certificate etc. is not available, we will ask the Bank's management to obtain a legal opinion. Cases identified by us where such opinion is not available will be reported to you.

- Review of non-performing advances against which no provision or partial provision has been made due to specific exemption granted by SBP;
- Review of 'internal watch list' prepared by management of the Bank highlighting cases which may be classified on a subjective basis;
- Obtain information from the Bank on movements in provision against non-performing advances during the last two years including recoveries during this period;
- Analysis in respect of selected restructured/rescheduled advances highlighting the terms of restructuring and performance of the account after restructuring. Based on this analysis and after discussion with Bank and SBP, we will assess whether any of these customers should be classified as non-performing and provision is required to be recognised thereagainst.
- Carry out discussions with management of Bank on restructuring proposals which are under consideration and have not yet been finalised. Based on the discussions, we will assess whether the customers in regard to which these proposals are being considered should be classified as non-performing and provision is required to be recognised thereagainst.

Consumer

- Analysis of trends in delinquencies in the consumer portfolio;
- Review of policies, if any, adopted by the Bank in respect of provision against consumer financing in addition to the requirements of Prudential Regulations issued by SBP;
- Review of the calculation of general provisions against consumer financing maintained in accordance with the requirements of Prudential Regulations issued by SBP; and
- Analysis of provision required against consumer financing based on the information provided by the Bank relating to historical migration of financing (if available)

v. Operating fixed assets

- Review of schedules of owned assets and intangible assets of the Bank;
- In respect of the properties owned by the Bank, we will review the legal opinion(s) available with the Bank as regards the validity of title of the properties. In case legal opinion is not available, we will ask the Bank's management to obtain a legal opinion as regards the title of the properties. We will highlight the properties where the legal opinion on title documents is not available.
- Review of schedule of leased assets, if any, and provide a commentary on the significant terms of the leasing agreements/arrangements;
- Review of the most recent revaluations carried out by the independent valuation expert engaged by the Bank;

Agreement

- Review of the results of most recent physical inspection of fixed assets carried out by the management of the Bank;
- Review of working for impairment in the value of goodwill and intangible assets having indefinite useful lives prepared by the management of the Bank;
- Review of nature of items appearing in capital work in progress; and
- Review of working for impairment in respect of advance payment made to KASB Developers (Private) Limited for acquiring floor/office premises;

Our scope of work does not include the following: (i) Valuation or physical inspection of the property, plant and equipment of the Bank; (ii) valuation of intangible assets of the Bank and (iii) Review of documents to ascertain the validity of title of the Bank's assets.

vi. Bills payable

- Review of ageing analysis of bills payable based on information provided by the Bank.

vii. Borrowings

- Review of financing arrangements with financial institutions;

viii. Deposits and other accounts

- Obtain latest break-up of deposits (at a date after order of moratorium dated November 14, 2014 by the SBP);
- Analysis of major deposits to identify major/material depositors;
- Analysis of remaining maturities of fixed deposits;

ix. Other areas

- Review of the most recent revaluations of non-banking assets acquired in settlement of claims carried out by the independent valuation expert engaged by the Bank. We would like to highlight that our scope of work does not include (i) Valuation of non-banking assets acquired in satisfaction of claims; and (ii) Review of documents to ascertain the validity of title of the non-banking assets;
- In respect of the aforesaid assets acquired by the Bank, we will review the legal opinion(s) available with the Bank as regards the validity of title of these assets. In case legal opinion is not available, we will ask the Bank's management to obtain a legal opinion as regards the validity of title of these assets. We will highlight the assets where the legal opinion on title documents is not available.
- Comment on other assets and other liabilities (based on materiality considerations as agreed).

x. Off-balance sheet items

Obtain details in respect of significant commitments and contingencies.

We would like to clarify that our scope of work does not include carrying out a legal due diligence of the Bank.

xi. Related parties

- Obtain a list of related parties from the Bank and understand the basis on which these parties have been classified as related parties;
- Understand significant transactions entered into with related parties and the terms of these transactions;

Affaa.

- Present a summary of balances of amount due to/from related parties.

xii. Capital adequacy and Minimum Capital Requirement

- Review of latest Capital Adequacy Statement filed by the Bank with SBP; and
- Review of correspondence between SBP and the Bank in respect of minimum capital requirement of the Bank.

xiii. Income Tax

- Review current tax position of the Bank based on the information available in the financial statements and that provided by the Bank;
- Obtain from the Bank and review cases pending with income tax authorities and appeal authorities;
- Review income tax returns filed by the Bank for last five years (we will require signed copy of return with detailed computation);
- Review appellate orders, for cases pending;
- Review findings of income tax audits, if any, carried out by the tax authorities;
- Assess accuracy of balance of tax refunds due and tax losses available for carry forward in future years, if any (we will require year-wise break-up);
- Review confirmation from the legal counsel / tax advisor on the income tax position;
- Identification of tax issues that may give rise to contingent liabilities or have any other major financial impact;
- Review tax withholding orders passed, and for the year where order(s) have not yet been passed, we will require reconciliation highlighting expense head where withholding is not made;

xiv. Sales Tax and Federal Excise Duty ("ST&FE")

- Reconciliation of revenue as per financial statement with ST / FED returns filed for last 5 years. We will also require copy of returns filed.
- Review findings of the ST&FE audit, if any, carried out by the tax authorities;
- Review of adjudication orders (if any) and appeal(s) filed thereagainst and appellate orders;
- Review confirmation from the legal counsel / tax advisor on the sales tax position;
- Assessment of realisability of sales tax / federal excise refundable balance, if any;
- Review tax withholding orders passed, and for the year where order(s) have not yet been passed, we will require reconciliation highlighting expense head where withholding is not made.

xv. Deferred taxation

- Review of deferred taxation computation prepared by management of the Bank.

2. Financial and Tax Due Diligence of KASB Securities Limited ("KSL")

a) General

- Present an overview of the business of KSL including its brief history;
- Review external auditor's cover letter on the latest audited financial statements of KSL as well as the management letters;
- Review of minutes of meetings of shareholders and Board of Directors for the last year; and

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Agreement

- Review accounting policies followed by KSL in order to assess whether these are in conformity with the financial reporting framework applicable in Pakistan.

b) Profit and Loss account/quality of earnings analysis

The purpose of this analysis/review will be to adjust the reported earnings of KSL in order to present an estimate of recurring level of earnings. The analysis will include:

- Identification of adjustments to reported results for non-recurring and unusual items, if any;
- Gaining an understanding of recent changes in significant accounting policies/procedures to analyse the impact on reported results;
- Identify and analyse the impact of significant related party transactions as reported in the financial statements, if any, based on available information.

Based on information provided by management of KSL, perform the following:

- Analysis of historical trends in brokerage volume and income;
- Analysis of components of staff cost (including cost of employee benefit plans, if any, and cost relating to key management personnel) and annual variation in staff cost, and
- Analysis of historical trends in key components of other income and expenses.

c) Balance Sheet Analysis [based on balance sheet as at November 30, 2014]

The balance sheet analysis will cover the following areas:

i. Property, plant and equipment

- Review of schedules of owned assets and intangible assets of KSL;
- Review of schedules of leased assets, if any, and provide a commentary on significant terms of the leasing agreements;
- Review the most recent revaluations carried out by the independent valuation expert engaged by KSL, if any;
- Review the results of most recent physical inspection of fixed assets carried out by the management of KSL; and
- Review of nature of items appearing in capital work-in-progress, if any.

We would like to highlight that our scope of work in respect of the above will not include (i) Valuation or physical inspection of fixed assets of KSL; (ii) Valuation of intangible assets of KSL; and (ii) Review of documents to ascertain the validity of title of KSL's assets.

ii. Trade debts

- Review of ageing analysis of trade debts;
- Review of information on collateral/custody placed with KSL by customers;
- Make inquiries from management of KSL in respect of recoverability of long outstanding debtors, if any;

iii. Trade creditors

- Review of ageing analysis of trade creditors;

iv. Cash and bank balances

- Obtain and review bank reconciliation statements for long outstanding entries;

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- Inquire about any restriction with regard to utilisation of bank balances.

v. Investments

- Obtain break-up of investments;
- Obtain CDC statements from KSL in respect of investment in shares;
- Review of working for impairment in the value of investments, if any, prepared by the management of KSL.
- Ensure that the valuation and classification of investments is in accordance with the financial reporting framework applicable in Pakistan.

vi. Other Balance Sheet Items

- Document nature of long-term deposits, if any;
- Document nature of trade deposits and prepayments;
- Obtain break-up and comment on recoverability (after discussion with management) of significant other receivables;
- Document terms of financing obtained from bank(s), including repayment schedules, maturity, interest rate, collateral and significant covenants;
- Comment on adequacy of accruals (based on information available);
- Comment on nature of other significant payables; and

vii. Commitments and contingencies

- Obtain details in respect of significant commitments and contingencies.

We would like to highlight that our scope of work will not include carrying out legal due diligence review including commenting on the legal implications of the cases filed by or against KSL.

viii. Related party transactions

- Obtain a list of related parties from KSL and understand the basis on which these parties have been classified as related parties;
- Understand significant transactions entered into with related parties and the terms of these transactions;
- Present a summary of balances of amount due to/from related parties.

ix. Income Tax

- Review current tax position of KSL based on the information available in the financial statements and that provided by KSL;
- Obtain from KSL and review cases pending with income tax authorities and appeal authorities;
- Review income tax returns filed by KSL for last five years (we will require signed copy of return with detailed computation);
- Review appellate orders, for cases pending;
- Review findings of income tax audits, if any, carried out by the tax authorities;
- Assess accuracy of balance of tax refunds due and tax losses available for carry forward in future years, if any (we will require year-wise break-up);
- Review confirmation from the legal counsel / tax advisor on the income tax position;
- Identification of tax issues that may give rise to contingent liabilities or have any other major financial impact;

AFF&G.

Agreement

- Review tax withholding orders passed, and for the year where order(s) have not yet been passed, we will require reconciliation highlighting expense head where withholding is not made:

x. Sales Tax and Federal Excise Duty

- Reconciliation of revenue as per financial statement with ST / FED returns filed for last 5 years. We will also require copy of returns filed.
- Review findings of the ST&FE audit, if any, carried out by the tax authorities;
- Review of adjudication orders (if any) and appeal(s) filed thereagainst and appellate orders;
- Review confirmation from the legal counsel / tax advisor on the sales tax position;
- Assessment of realisability of sales tax / federal excise refundable balance, if any;
- Review tax withholding orders passed, and for the year where order(s) have not yet been passed, we will require reconciliation highlighting expense head where withholding is not made.

xi. Deferred taxation

- Review of deferred taxation computation prepared by management of KSL.

3. Financial and Tax Due Diligence of KASB Invest (Pvt.) Limited ("KIL")

a) General

- Present an overview of the business of KIL including its brief history;
- Review external auditor's cover letter on the latest audited financial statements of KIL as well as the management letter;
- Review of minutes of meetings of shareholders and Board of Directors for the year; and
- Review accounting policies followed by KIL in order to assess whether these are in conformity with the financial reporting framework applicable in Pakistan.

b) Quality of Earnings Analysis

- Document basis for management fee charged to the Modaraba;
- Analysis of components of staff cost and annual variation in staff cost;
- Understand the nature of significant components of administrative and general expenses and analysis of annual variation in these expenses.

c) Balance Sheet

- Obtain break-up of investment portfolio;
- Obtain CDC confirmation from KIL in respect of investment in Modaraba;
- Obtain and review bank reconciliation statements for long outstanding entries;
- Inquire about any restriction with regard to utilisation of bank balances;
- Comment on nature of other significant receivables and payables;
- Obtain details in respect of significant commitments and contingencies.

We would like to highlight that our scope of work will not include carrying out legal due diligence review including commenting on the legal implications of the cases filed by or against KIL.

- Obtain a list of related parties from KIL and understand the basis on which these parties have been classified as related parties;

AFF&G.

- Understand significant transactions entered into with related parties and the terms of these transactions;
- Present a summary of balances of amount due to/from related parties.

d) Tax

i. Income Tax

- Review current tax position of KIL based on the information available in the financial statements and that provided by the KIL;
- Obtain from KIL and review cases pending with income tax authorities and appeal authorities;
- Review income tax returns filed by KIL for last five years (we will require signed copy of return with detailed computation);
- Review appellate orders, for cases pending;
- Review findings of income tax audits, if any, carried out by the tax authorities;
- Assess accuracy of balance of tax refunds due and tax losses available for carry forward in future years, if any (we will require year-wise break-up);
- Review confirmation from the legal counsel / tax advisor on the income tax position;
- Identification of tax issues that may give rise to contingent liabilities or have any other major financial impact;
- Review tax withholding orders passed, and for the year where order(s) have not yet been passed, we will require reconciliation highlighting expense head where withholding is not made;

ii. Sales Tax and Federal Excise Duty

- Reconciliation of revenue as per financial statement with ST / FED returns filed for last 5 years. We will also require copy of returns filed.
- Review findings of the ST&FE audit, if any, carried out by the tax authorities;
- Review of adjudication orders (if any) and appeal(s) filed thereagainst and appellate orders;
- Review confirmation from the legal counsel / tax advisor on the sales tax position;
- Assessment of realisability of sales tax / federal excise refundable balance, if any;
- Review tax withholding orders passed, and for the year where order(s) have not yet been passed, we will require reconciliation highlighting expense head where withholding is not made.

iii. Deferred taxation

- Review of deferred taxation computation prepared by management of KIL.

4. Financial and Tax Due Diligence of KASB Modaraba ("Modaraba")

a) General

- Present an overview of the business of the Modaraba including its brief history;
- Review external auditor's cover letter on the latest audited financial statements of the Modaraba as well as the management letter;
- Review of minutes of meetings of shareholders and Board of Directors for the year; and
- Review accounting policies followed by the Modaraba in order to assess whether these are in conformity with the financial reporting framework applicable in Pakistan.

AFF&G.

Agreement

b) Quality of Earnings Analysis

- The purpose of this analysis/review will be to adjust the reported earnings of the Modaraba in order to present an estimate of recurring level of earnings for the most recent completed financial year. The analysis will include:
  - Identification of adjustments to reported results for non-recurring and unusual items, if any;
  - Gaining an understanding of recent changes in significant accounting policies/procedures to analyse the impact on reported results;
  - Analysis of the impact of significant related party transactions as reported in the financial statements, if any, based on available information.
- Based on information provided by management of the Modaraba, perform the following:
  - Analysis of historical trends in income generated from murabaha, musharaka, diminishing musharaka and leasing operations.
  - Analysis of trends in yield on murabaha, musharaka, diminishing musharaka and leasing operations;
  - Analysis of trends in cost of musharika financing;
  - Document nature of other sources of income;
  - Analysis of components of staff cost and annual variation in staff cost;
  - Analysis of trends in rent expense; and
  - Understand the nature of significant components of administrative and operating expenses and analysis of annual variation in these expenses.

c) Balance Sheet Analysis

Perform an analysis of key balance sheet items. Specific procedures to be performed in this respect include the following:

i. Murabaha, Musharaka, Diminishing Musharaka and lease financing

- Analysis of selected customers classified as 'Regular' (based on materiality consideration to be agreed, obligor rating and information provided by Modaraba), highlighting the nature of financing, terms of repayment, profit rate, obligor rating, details of collateral, repayment history and financial condition of the customer. Based on this analysis and after discussion, we will assess whether any of these customers may be classified as non-performing on a subjective basis and provision is required to be recognised thereagainst;
- Review of non-performing customers categorized as either "OAEM", "Substandard", "Doubtful" or "Loss" (based on materiality considerations to be agreed and information provided by Modaraba) on the basis of time-based criteria specified in the regulations issued by SECP. We would like to highlight that where the benefit of the forced sale value of collateral is taken into account by Modaraba for determining the provision required to be maintained against non-performing financing, we will rely on the opinion of Modaraba's legal counsel (as regards the validity of the title to the collateral) and professional valuer (as regards the forced sale value of the assets held as collateral);
- Review of non-performing customers (based on information provided by Modaraba) which have been classified by Modaraba on a subjective basis. We would like to highlight that where the benefit of the forced sale value of collateral is taken into account by Modaraba for determining the provision required to be maintained against non-performing financing, we will rely on the opinion of Modaraba's legal counsel (as regards the validity of the title to the collateral) and professional valuer (as regards the forced sale value of the assets held as collateral);

We would like to highlight that our scope of work does not include: (i) Valuation of the collateral; and (ii) Review of documents to ascertain the validity of title to the collateral.

- Review of 'internal watch list' prepared by management of Modaraba highlighting cases which may be classified on a subjective basis;
- Analysis in respect of restructured/rescheduled financing (based on information provided by Modaraba) highlighting the terms of restructuring and performance of the account after restructuring. Based on this analysis and after discussion, we will assess whether any of these customers should be classified as non-performing and provision is required to be recognised thereagainst;
- Carry out discussions with the management of the Modaraba on restructuring proposals which are under consideration and have not yet been finalised. Based on these discussions, we will assess whether the customers in respect of which these proposals are being considered should be classified as non-performing and provision is required to be recognised thereagainst.

ii. Fixed assets in own use and Ijarah assets

- Review of schedules of fixed assets in own use of Modaraba;
- Review of schedules of Ijarah assets;
- Review of the results of most recent physical inspection of 'fixed assets in own use' carried out by the management of Modaraba;

We would like to highlight that our scope of work in respect of the above will not include (i) Valuation or physical inspection of fixed assets in own use and Ijarah assets; and (ii) Review of documents to ascertain the validity of title of Modaraba's fixed assets in own use and Ijarah assets.

iii. Investments

- Obtain break-up of investment portfolio;
- Obtain CDC confirmation from Modaraba in respect of investment in sukuks;
- Ensure that the valuation and classification of investments is in accordance with the financial reporting framework applicable in Pakistan.

iv. Cash and bank balances

- Obtain and review bank reconciliation statements for long outstanding entries;
- Inquire about any restriction on utilisation of bank balances.

v. Other Balance Sheet Items

- Obtain break-up and comment on recoverability (after discussion with management) of significant other receivables;
- Comment on adequacy of accruals (based on information available).
- Obtain ageing of unclaimed profit distribution;
- Comment on nature of other significant payables;
- Analysis of remaining maturity of the certificates of musharika;
- Analysis of employee benefit plan.

vi. Commitments and contingencies

- Obtain details in respect of significant commitments and contingencies.

We would like to highlight that our scope of work will not include carrying out legal due diligence review including commenting on the legal implications of the cases filed by or against Modaraba.

Agreement

vii. Related party transactions

- Obtain a list of related parties from Modaraba and understand the basis on which these parties have been classified as related parties;
- Understand significant transactions entered into with related parties and the terms of these transactions;
- Present a summary of balances of amount due to/from related parties.

viii. Income Tax

- Review income tax returns filed by the Modaraba for last five years (we will require signed copy of return with computation for complying with tax exemption Clause of 90% distribution);
- Obtain from the Modaraba and review cases pending, if any with income tax authorities and appeal authorities;
- Review findings of income tax audits, if any, carried out by the tax authorities;
- Review confirmation from the legal counsel / tax advisor on the income tax position;
- Identification of tax issues that may give rise to contingent liabilities or have any other major financial impact;
- Review tax withholding orders passed, and for the year where order(s) have not yet been passed, we will require reconciliation highlighting expense head where withholding is not made.

ix. Sales Tax and Federal Excise Duty

- Review findings of the ST&FE audit, if any, carried out by the tax authorities;
- Review of adjudication orders (if any) and appeal(s) filed thereagainst and appellate orders;
- Review confirmation from the legal counsel / tax advisor on the sales tax position;
- Review tax withholding orders passed, and for the year where order(s) have not yet been passed, we will require reconciliation highlighting expense head where withholding is not made.

5. Financial and Tax Due Diligence of My Solutions Corporation Limited ("MSCL")

a) General

- Present an overview of the business of MSCL including its brief history;
- Review external auditor's cover letter on the latest audited financial statements of MSCL as well as the management letters;
- Review of minutes of meetings of shareholders and Board of Directors for the last year; and
- Review accounting policies followed by MSCL in order to assess whether these are in conformity with the financial reporting framework applicable in Pakistan.

b) Profit and Loss account/quality of earnings analysis

The purpose of this analysis/review will be to adjust the reported earnings of MSCL in order to present an estimate of recurring level of earnings. The analysis will include:

- Identification of adjustments to reported results for non-recurring and unusual items, if any;
- Gaining an understanding of recent changes in significant accounting policies/procedures to analyse the impact on reported results;
- Identify and analyse the impact of significant related party transactions as reported in the financial statements based on available information.

Based on information provided by management of MSCL, perform the following:

- Analysis of historical trends in revenue;
- Analysis of customer concentration;
- Obtain and review significant customer agreements / arrangements;
- Analysis of components of staff cost (including cost relating to key management personnel) and annual variation in staff cost;
- Analysis of connectivity charges and annual variation in connectivity charges; and
- Analysis of historical trends in key components of other income and expenses.

c) Balance Sheet Analysis

The balance sheet analysis will cover the following areas:

i. Property, plant and equipment

- Review of schedules of owned assets of MSCL; and
- Review the results of most recent physical inspection of fixed assets carried out by the management of MSCL.

We would like to highlight that our scope of work in respect of the above will not include: (i) Valuation or physical inspection of fixed assets of MSCL; and (ii) Review of documents to ascertain the validity of title of MSCL's assets.

ii. Trade debts

- Review of ageing analysis of trade debts; and
- Make inquiries from management of MSCL in respect of recoverability of long outstanding debtors, if any.

iii. Cash and bank balances

- Obtain and review bank reconciliation statements for long outstanding entries;
- Inquire about any restriction with regard to utilisation of bank balances.

iv. Other Balance Sheet Items

- Document nature of long-term security deposits, if any;
- Document nature of advances and prepayments;
- Review of ageing analysis of sundry creditors;
- Comment on adequacy of accruals (based on information available); and
- Comment on nature of other significant payables.

v. Commitments and contingencies

- Obtain details in respect of significant commitments and contingencies.

We would like to highlight that our scope of work will not include carrying out legal due diligence review including commenting on the legal implications of the cases filed by or against MSCL.

vi. Related party transactions

- Obtain a list of related parties from MSCL and understand the basis on which these parties have been classified as related parties;

Agreement

- Understand significant transactions entered into with related parties and the terms of these transactions;
- Present a summary of balances of amount due to/from related parties.

iv. Income Tax

- Review current tax position of MSCL based on the information available in the financial statements and that provided by the MSCL;
- Obtain from MSCL and review cases pending with income tax authorities and appeal authorities;
- Review income tax returns filed by MSCL for last five years (we will require signed copy of return with detailed computation);
- Review appellate orders, for cases pending;
- Review findings of income tax audits, if any, carried out by the tax authorities;
- Assess accuracy of balance of tax refunds due and tax losses available for carry forward in future years, if any (we will require year-wise break-up);
- Review confirmation from the legal counsel / tax advisor on the income tax position;
- Identification of tax issues that may give rise to contingent liabilities or have any other major financial impact;
- Review tax withholding orders passed, and for the year where order(s) have not yet been passed, we will require reconciliation highlighting expense head where withholding is not made.

v. Sales Tax and Federal Excise Duty ("ST&FE")

- Reconciliation of revenue as per financial statement with ST / FED returns filed for last 5 years. We will also require copy of returns filed.
- Review findings of the ST&FE audit, if any, carried out by the tax authorities;
- Review of adjudication orders (if any) and appeal(s) filed thereagainst and appellate orders;
- Review confirmation from the legal counsel / tax advisor on the sales tax position;
- Assessment of realisability of sales tax / federal excise refundable balance, if any;
- Review tax withholding orders passed, and for the year where order(s) have not yet been passed, we will require reconciliation highlighting expense head where withholding is not made.

vi. Deferred taxation

- Review of deferred taxation computation prepared by management of MSCL.

6. Financial and Tax Due Diligence of KASB Funds Limited ("KFL")

a) General

- Present an overview of the business of KFL including its brief history;
- Review external auditor's cover letter on the latest audited financial statements of KFL as well as the management letter;
- Review of minutes of meetings of shareholders and Board of Directors for the year; and
- Review accounting policies followed by KFL in order to assess whether these are in conformity with the financial reporting framework applicable in Pakistan.

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b) Profit and Loss account/quality of earnings analysis

The purpose of this analysis/review will be to adjust the reported earnings of KFL in order to present an estimate of recurring level of earnings. The analysis will include:

- Identification of adjustments to reported results for non-recurring and unusual items, if any;
- Gaining an understanding of recent changes in significant accounting policies/procedures to analyse the impact on reported results;
- Identify and analyse the impact of significant related party transactions as reported in the financial statements based on available information.

Based on information provided by management of KFL, perform the following:

- Document basis for management fee charged to the mutual funds;
- Analysis of components of staff cost and annual variation in staff cost;
- Understand the nature of significant components of administrative and general expenses and analysis of annual variation in these expenses.

c) Balance Sheet

- Review of schedules of owned assets and intangible assets of KFL;
- Review of the results of most recent physical inspection of fixed assets carried out by the management of KFL;
- Review of working for impairment in the value of management rights prepared by the management of KFL.

Our scope of work does not include the following: (i) Valuation or physical inspection of the property, plant and equipment of KFL; (ii) valuation of intangible assets of KFL; and (iii) Review of documents to ascertain the validity of title of the KFL's assets.

- Obtain break-up of investment portfolio;
- Obtain and review bank reconciliation statements for long outstanding entries;
- Inquire about any restriction with regard to utilisation of bank balances;
- Review of terms of financing obtained by KFL;
- Comment on nature of other significant receivables and payables;
- Obtain details in respect of significant commitments and contingencies.

We would like to highlight that our scope of work will not include carrying out legal due diligence review including commenting on the legal implications of the cases filed by or against KFL.

- Obtain a list of related parties from KFL and understand the basis on which these parties have been classified as related parties;
- Understand significant transactions entered into with related parties and the terms of these transactions;
- Present a summary of balances of amount due to/from related parties.

d) Tax

i. Income Tax

- Review current tax position of KFL based on the information available in the financial statements and that provided by the KFL;
- Obtain from KFL and review cases pending with income tax authorities and appeal authorities;

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Agreement

- Review income tax returns filed by KFL for last five years (we will require signed copy of return with detailed computation);
- Review appellate orders, for cases pending;
- Review findings of income tax audits, if any, carried out by the tax authorities;
- Assess accuracy of balance of tax refunds due and tax losses available for carry forward in future years, if any (we will require year-wise break-up);
- Review confirmation from the legal counsel / tax advisor on the income tax position;
- Identification of tax issues that may give rise to contingent liabilities or have any other major financial impact;
- Review tax withholding orders passed, and for the year where order(s) have not yet been passed, we will require reconciliation highlighting expense head where withholding is not made.

ii. Sales Tax and Federal Excise Duty

- Reconciliation of revenue as per financial statement with ST / FED returns filed for last 5 years. We will also require copy of returns filed.
- Review findings of the ST&FE audit, if any, carried out by the tax authorities;
- Review of adjudication orders (if any) and appeal(s) filed thereagainst and appellate orders;
- Review confirmation from the legal counsel / tax advisor on the sales tax position;
- Assessment of realisability of sales tax / federal excise refundable balance, if any;
- Review tax withholding orders passed, and for the year where order(s) have not yet been passed, we will require reconciliation highlighting expense head where withholding is not made.

iii. Deferred taxation

- Review of deferred taxation computation prepared by management of KFL.

7. Tax due diligence of Structured Venture (Pvt.) Limited ("SVL")

a) Income Tax

- Review income tax returns filed by SVL (we will require signed copy of return with computation);
- Obtain from the SVL and review cases pending, if any with income tax authorities and appeal authorities;
- Review findings of income tax audits, if any, carried out by the tax authorities;
- Review confirmation from the legal counsel / tax advisor on the income tax position;
- Identification of tax issues that may give rise to contingent liabilities or have any other major financial impact;
- Review tax withholding orders passed, and for the year where order(s) have not yet been passed, we will require reconciliation highlighting expense head where withholding is not made.

b) Sales Tax and Federal Excise Duty

- Review findings of the ST&FE audit, if any, carried out by the tax authorities;
- Review of adjudication orders (if any) and appeal(s) filed thereagainst and appellate orders;
- Review confirmation from the legal counsel / tax advisor on the sales tax position;
- Review tax withholding orders passed, and for the year where order(s) have not yet been passed, we will require reconciliation highlighting expense head where withholding is not made.

8. Valuation

The valuation of the Bank will be carried out using a sum-of-parts approach whereby the valuation of the Bank will be calculated as the sum of the following:

A. Valuation of the "Core Banking Business" i.e. excluding investments in subsidiaries and associates and investment in Evolvence Capital Limited (hereinafter collectively referred to as "Bank's Investments"); and

B. Valuation of Bank's Investments. Based on a review of the financial statements of the Bank for the year ended December 31, 2013, following is a summary of the Bank's Investments:

Investee Company	Classification	Status	Percentage shareholding of the Bank in the investee company
KASB Securities Limited	Subsidiary	Listed	Direct: 77.12%
KASB Invest (Pvt.) Limited	Subsidiary	Unlisted	Direct: 96.02%
KASB Modaraba	Subsidiary	Listed	Direct: 56.95% Indirect: 14.65%
My Solutions Corporation Limited	Subsidiary	Unlisted	Direct: 100%
KASB Funds Limited	Associate	Unlisted	Direct: 43.89%
KASB Capital Limited – Incorporated in Mauritius	Associate	Unlisted	Direct: 21.78%
New Horizon Exploration & Production Limited	Associate	Unlisted	Direct: 23.37% Indirect: 13.28%
Shakarganj Food Products Limited ("SFPL")	Associate	Unlisted	Direct: 40.20%
Evolvence Capital Limited – incorporated in British Virgin Islands	'Available for sale' investment	Unlisted	
KASB Asset Allocation Fund	Associate	Listed	Direct:35.93%
KASB Cash Fund	Associate	Listed	Direct: 8.29% Indirect: 7.91%
KASB Income Opportunity Fund	Associate	Listed	Direct: 39.52% Indirect: 4.06%
KASB Islamic Income Opportunity Fund	Associate	Listed	Direct: 23.24%
Crosby Dragon Fund	Associate	Listed	Direct: 90.73%

The valuation approach for the Core Banking Business and Bank's Investments is as follows:

A	Valuation of the "Core Banking Business" of KASB Bank Limited	The DCF methodology will be used to arrive at a value for the Core Banking Business of the Bank. The starting point for this valuation will be the financial projections prepared by management of the Bank. These projections should incorporate the effect of: • the Order of Moratorium passed by the Federal Government on November 14, 2014 under section 47 of the Banking Companies Ordinance, 1962; and • a capital injection plan to address the shortfall in respect of the minimum capital requirement and capital adequacy ratio. We will review these projections and discuss them with management of the Bank in order to obtain an understanding of the assumptions used. We will also consider year views on various matters, including in respect of the assumptions adopted by the Bank in respect of its operations and the industry in which it operates. We will also evaluate the use of the Market Approach for valuation of the Core Banking Business of the Bank for cross-checking the value arrived at using the DCF methodology. If valuation of the Core Banking Business of the Bank using the above approach(s) results in a nil or negligible value, we will discuss with you alternate valuation approach(s) at that stage.
B1	Valuation of Bank's investment in KSL - The valuation of Bank's investment in KSL will be carried out using a sum-of-parts method whereby its value will be calculated as the sum of the following: • Valuation of "Brokerage Business" of KSL, excluding KSL's Investments; and	

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		• Valuation of KSL's investments: • Structured Venture (Private) Limited ("SVL"); • Bank • Al Jomaih Power Limited ("AJP"); • New Horizon Exploration & Production Limited ("NHEPL"); and • Karachi Stock Exchange Limited ("KSE") (hereinafter collectively referred to as "KSL's Investments")
B1(a)	Valuation of "Brokerage Business" of KSL, excluding KSL's Investments	We will use the DCF methodology to arrive at a value for KSL. The starting point for this valuation will be the financial projections prepared by management of KSL. These projections should include impact of the restriction on activities of the company imposed by the SECP. As per KSL's communication to the Karachi Stock Exchange Limited dated November 24, 2014, this restriction has been placed as a result of the above order of moratorium due to which funds of KSL maintained with the Bank have been blocked. The restriction may result in KSL's customers withdrawing their securities and/ or cash balances with KSL. We will review these projections and discuss them with management of KSL in order to obtain an understanding of the assumptions used. We will also consider your views on various matters, including in respect of the assumptions adopted by KSL in respect of its operations (especially in view of the aforesaid restrictions) and the industry in which it operates. We will also evaluate the use of the Market Approach for valuation of KSL. However, we would like to highlight that information on listed brokerage companies in Pakistan is limited. As a result, application of the Market Approach may be problematic.
B1(b)	Valuation of KSL's investment in SVL	Based on the financial statements of SVL for the year ended December 31, 2013, we understand that SVL's assets mainly comprise investment in certain properties in the Korangi Housing scheme and shares of NHEPL. Accordingly, we will value KSL's investment in SVL based on its net assets which will be the sum of the following: • Fair value of properties relating to Korangi Housing scheme as at a recent date. The fair value of these properties will be estimated by a professional valuer to be hired by SBP and/or SVL. We would, however, like to highlight that, as per the financial statements of SVL for the year ended December 31, 2013, SVL is in the process of completing the legal formalities for the transfer of title of these properties in the name of SVL. We therefore recommend that SBP should hire a legal counsel to check if the title of these properties has been transferred to SVL; • Value of investment in NHEPL. See 'B7' below; and • Remaining net assets of SVL at book value.
B1(c)	Valuation of KSL's investment in AJP	Approach for valuation of this investment will be decided once we have access to information on this company.
B1(d)	Valuation of KSL's investment in NHEPL	Refer 'B7' below.
B1(e)	Valuation of KSL's investment in KSE	Valuation of KSE cannot be performed due to limited information. The Income Approach cannot be applied as we may not have access to forecast cash flows of the stock exchange nor will we have access to its management. The Market Approach is also problematic as information on listed stock exchange companies similar in scale to KSE is limited. Consequently, as discussed with you, the break-up value per share of KSE (based on its latest available audited balance sheet) will be used as a proxy for its fair value.
B2	Valuation of Bank's investment in KIL	We will use the DCF methodology to arrive at a value for KIL. The starting point for this valuation will be the financial projections prepared by management of KIL. We will review these projections and discuss them with management of KIL in order to obtain an understanding of the assumptions used. We will also consider your views on various matters, including in respect of the assumptions adopted by KIL in respect of its operations and the industry in which it operates.
B3	Valuation of Bank's investment in Modaraba	We will use the DCF methodology to arrive at a value for the Modaraba. The starting point for this valuation will be the financial projections prepared by management of the Modaraba. We will review those projections and discuss them with management of Modaraba in order to obtain an understanding of the assumptions used. We will also consider your views on various matters, including in respect of the assumptions adopted by Modaraba in respect of its operations and the industry in which it operates. We will also consider cross-checking the valuation of Modaraba derived using the DCF

		methodology with the Market Approach, if possible.
B4	Valuation of Bank's investment in MSCL	We will select an appropriate methodology for the valuation of MSCL once we have more information about the operations and customers of this company.
B5	Valuation of Bank's investment in KFL	We will use the DCF methodology to arrive at a value for KFL. The starting point for this valuation will be the financial projections prepared by management of KFL. These projections should incorporate a capital injection plan to address the minimum capital (net of losses) to be maintained by KFL in accordance with the Non-Banking Finance Companies and Notified Entities Regulations, 2008. We will review these projections and discuss them with management of KFL in order to obtain an understanding of the assumptions used. We will also consider your views on various matters, including in respect of the assumptions adopted by KFL in respect of its operations and the industry in which it operates. We will also consider using the Market Approach for cross-checking the value derived using the DCF methodology.
B6	Valuation of Bank's investment in KCL	Based on the management accounts of KCL for the period of nine months ended September 30, 2014, its assets mainly comprise of investment in NHEPL and a deposit with a bank. Accordingly, the Bank's investment in KCL will be taken on the basis of its net assets which will be the sum of the following: • Value of investment in NHEPL. See 'B7' below; and • Remaining net assets of KCL at book value.
B7	Valuation of Bank's investment in NHEPL	We understand that we will not have any access to management of NHEPL and the only information that will be made available to us in respect of this company will be its financial statements and other information which is available with the Bank. Accordingly, we will select an appropriate methodology for the valuation of this investment once information is made available to us. In the absence of sufficient information, this investment will be taken on the basis of the book value of net assets of the company.
B8	Valuation of Bank's investment in SFPL	We understand that we will not have any access to management of SFPL and the only information that will be made available to us in respect of this company will be its financial statements and other information which is available with the Bank. Consequently, we understand that we will be able to carry out only a high-level indicative valuation of the company.
B9	Valuation of Bank's investment in ECL	Approach for the valuation of this investment will be decided when we have information on this company.
B10	Valuation of Bank's investments in mutual funds managed by KFL	The investments will be valued at the net asset value of the respective mutual funds as on the Valuation Date.

9. **THE SERVICES SHALL NOT INCLUDE THE FOLLOWING:**

- Financial and tax due diligence and valuation of NHEPL, SFPL, KCL, AJP and ECL.
- Legal due diligence (including review/verification of litigation and verification of title/ownership of assets).
- Information technology due diligence.
- Technical due diligence.
- Commercial due diligence.
- Regulatory due diligence.
- Human resource due diligence.
- Environmental due diligence.
- Valuation of tangible and intangible assets.
- Valuation of financial instruments and contracts.
- Actuarial valuation and related services.
- Transaction structure advice.
- Provision of legal advice including in respect of transaction structure(s) and transaction agreement(s).
- Review of appropriateness of the design and operating effectiveness of internal controls.
- Review of the appropriateness or sufficiency of insurance agreements.

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10. GENERAL LIMITING CONDITIONS RELATING TO THE VALUATION EXERCISE

10.1 The actual price achieved in an open market transaction may be higher or lower than our valuation depending upon the circumstances of the transaction (for example, the competitive bidding environment), the nature of the business (for example, the purchaser's perception of potential synergies), the negotiating ability, the motivation of buyers and sellers, etc.

10.2 Accordingly, the results of our valuation may not necessarily be the price at which any agreement may proceed. The final price is something on which all parties themselves have to agree upon. We also emphasize that valuation is not the only factor that should be considered by a buyer and seller in determining an agreeable price. In this regard, factors other than our valuation will need to be taken into account in determining the transaction price.

10.3 By its very nature, valuation work is not an exact science and the conclusions will necessarily be subjective and dependent on the exercise of individual judgment. While we may consider our valuation to be reasonable and defensible, based on the information available, others might argue for a different value.

10.4 The DCF methodology will involve a review of prospective financial information prepared by managements of the respective bank/modaraba/companies. In carrying out the valuation, we will consider the views of the managements of these entities as well as your views on various matters, including regarding future events which may affect the cashflows of these entities, which, by their nature, cannot be fully substantiated and will likely not occur exactly as forecast.

10.5 By its nature, budgets, projections and forecasts relate to future events and are based on assumptions which may not remain valid for the whole of the relevant period and unanticipated events and circumstances may occur that may materially alter our analyses and conclusions. Consequently, this information cannot be relied upon to the same extent as that derived from audited financial statements for completed accounting periods.

10.6 Although, we may provide a commentary on the key assumptions, we will express no opinion and will not provide any assurance as to how closely the actual results will correspond to those projected and forecast, as reflected in the prospective financial information. We take no responsibility for the achievement of predicted results and disclaim any liability relating to the achievability of these results.

10.7 The valuation will be based on information provided by managements of the respective entities and relevant publicly available information. While our work will involve an analysis of financial information, this will not include an audit in accordance with auditing standards as applicable in Pakistan. In addition, this information will not be subjected to checking or verification procedures. Accordingly, we will assume no responsibility and will not make any representations or provide any assurance with respect to accuracy or completeness of any information that will be provided to us.

10.8 Our valuation will be at a specific point in time (the "Effective Date") and our conclusions will be based upon the information available as at the date specified in our report. Economic conditions, market factors and changes in the performance of the businesses may result in our conclusions becoming quickly outdated and may require updating from time to time or before any major decisions are taken based on our report. We assume no responsibility to update our findings for events and circumstances occurring after the date specified in our report up to which point available information has been used for the purposes of carrying out analysis on which our conclusions are based.

10.9 We reserve the right (but will be under no obligation) to make revisions to our report should we be made aware of facts existing at the Effective Date, which were not known to us when we prepared our report.

10.10 In respect of the Market Approach, the selection of price multiples requires judgment based on an analysis of the value and comparable companies. Application of the Market Transaction Method may be problematic as transactions are often not directly comparable due to a range of operational or structural factors and changes in market conditions over time. A key consideration is the relationship between fair

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value and the ultimate consideration paid in any transaction. An acquirer may be willing to pay a premium to fair value which reflects the special circumstances of a transaction. Conversely, a vendor may be willing to accept consideration below fair value in the situation of a forced sale or where insufficient time is available to conduct an orderly sale process. Accordingly, individual transactions may not provide reliable evidence to support an argument for fair value.

10.11 Our work will involve carrying out an indicative valuation/estimate of value of the Bank's investment in SFPL. This does not constitute a valuation (also known as "comprehensive valuation" or an "opinion of value") which would require significantly more time and cost to complete. Accordingly, we will carry out a moderate level of analysis, investigation and independent corroboration instead of a detailed analysis and corroboration of key assumptions with external data. Consequently, our scope is limited by the nature of our work and our conclusions may be different had we carried out a comprehensive valuation.

10.12 Nothing contained herein or specified in our report should be construed as a legal interpretation, an opinion on any contract or document, or a recommendation to invest or divest.

10.13 Unless otherwise stated, no effort will be made to determine the possible effect, if any, due to future national or local legislation.

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Agreement

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A. F. FERGUSON & CO.

IN WITNESS WHEREOF the Parties above named have set their respective hands this 15th day of December, 2014.

A. F. FERGUSON & CO.

A.F. Ferguson & Co.

Name of engagement Partner: HASSAN NAZIR

ON BEHALF OF STATE BANK OF PAKISTAN

I have read the terms of the Agreement and I accept these Agreement terms on behalf of State Bank of Pakistan and represent that I am authorized by State Bank of Pakistan to do so.

Name: Shaukat Zaman

Designation: Director - BPRD

Signature:

Date: 15-12-2014

ON BEHALF OF KASB BANK LIMITED

I have read the terms of the Agreement and I accept these Agreement terms on behalf of KASB Bank Limited and represent that I am authorized by KASB Bank Limited to do so.

Name: BILAL MUSTAFA

Designation: PRESIDENT

Signature:

Date: 15th Dec, 2014

Witnesses:

1. Muhammad Asim Saleem

2. MUHAMMAD AHMED MURAD

Recoveries of Rs 100 million and above against non-performing loans assumed by Bank's management in financial projections

Party Name	Recoveries assumed by Bank ----------Rupees in million----------							Comments	Revised assumptions ----------Rupees in million----------						
	2015	2016	2017	2018	2019	2020	Total		2015	2016	2017	2018	2019	2020	Total
Chenab Limited	3.60	10.00	10.00	10.00	460.00	55.49	549.09	Based on discussion with Management of the Bank, recovery suit was filed against the customer during 2013 in High Court of Lahore, which is pending. Based on discussion, we understand that the Bank has joint pari passu charge over all present and future current assets of the company. The Management informed us that several proposals were submitted by the customer for settlement. However the settlement did not materialise as the settlement amounts were low. However, the Bank is considering latest proposal submitted by the customer. We have not been provided with details of this proposal. The Bank is looking for case to proceed at an advanced level so that the Bank can negotiate on its own terms. The recovery projections by the Bank are based on Bank's expectation of Court's decision of the case and ongoing considerations on proposal submitted by the customer. Key financial information of company is summarised below.	-	-	-	-	-	-	-

Selected key financial information (Rupees in million)	June 30, 2014 (Audited)	1st Quarter Ended September 30, 2014 (Unaudited)
Loss after tax	399	118
Operating cash flow	72	(42)
Equity	(4,782)	(4,896)
Long term and short term debt	11,367	11,453

Considering the nature of the collateral and in the absence of information on the settlement proposal, recoveries have not been assumed from this customer.

Recoveries of Rs 100 million and above against non-performing loans assumed by Bank's management in financial projections

Party Name	Recoveries assumed by Bank ----------Rupees in million----------							Comments	Revised assumptions ----------Rupees in million----------						
	2015	2016	2017	2018	2019	2020	Total		2015	2016	2017	2018	2019	2020	Total
IKMA Builders & Developers	5	5	10	10	10	440.5	480.5	Based on discussion with Management of the Bank, recovery suit was filed during 2012 in High Court of Sindh. The case has been decreed in Bank's favor during 2014 and the Bank filed execution in 2014. Based on discussion, we understand that the Bank has availed benefit in respect of equitable mortgage over 11 properties. FSV of these properties amount to Rs 306.65 million based on the valuation carried out in 2014. However, due to non-availability of documents such as permission to mortgage, mortgage deed, MODTD, we have recommended provision against benefit availed in respect of 7 properties. FSV of these properties amount to Rs 217.74 million. The Management informed us that the Bank entered into negotiation with the customer for an out of Court settlement. The customer wanted to get some properties released from the Bank and was willing to attach other properties for settlement of his exposure. However, this proposal is no longer valid. The recovery projections by the Bank are based on Court's decision of the case. In the absence of information, recoveries have not been assumed from this customer.	-	-	-	-	-	-	-

Recoveries of Rs 100 million and above against non-performing loans assumed by Bank's management in financial projections

Party Name	Recoveries assumed by Bank ----------Rupees in million----------							Comments	Revised assumptions ----------Rupees in million----------						
	2015	2016	2017	2018	2019	2020	Total		2015	2016	2017	2018	2019	2020	Total
Azgard Nine Limited	25.00	25.00	25.00	25.00	254.00	-	354.00	The customer obtained consortium financing from various banks. Based on discussion, we understand that the Bank has pari pasu charge on land, building and plant and machinery of the customer. The Management informed us that a rehabilitation proposal was given by the customer to all banks in which it had shown its intention to settle the outstanding exposure. According to the proposal; (a) the customer was willing to sell its spinning and weaving units and utilise the proceeds: - either in payment of 15% principal and 10% markup to every bank. Banks to waive rest of the principal and markup; or - payment of 10% markup and bank to waive rest of markup. Principal repayment would be made either by issuing TFCs or shares of the company. (b) those banks who do not choose option (a) would be given 10 year repayment plan by the customer. Bank's recovery projection are based on rehabilitation proposal given by the customer. However, subsequetly the Management has informed us that the above proposal is no longer valid.	-	-	-	-	-	-	-

Recoveries of Rs 100 million and above against non-performing loans assumed by Bank's management in financial projections

Party Name	Recoveries assumed by Bank ----------Rupees in million----------							Comments	Revised assumptions ----------Rupees in million----------						
	2015	2016	2017	2018	2019	2020	Total		2015	2016	2017	2018	2019	2020	Total
Azgard Nine Limited								We have not been provided with alternative source of Bank's expectation of recovery projections. Key financial information of the Company is summarised below:							

Selected key financial information (Rupees in million)	June 30, 2014 (Audited)	1st Quarter Ended September 30, 2014 (Unaudited)
Loss after tax	2,125	138
Operating cash flow	178	(294)
Equity	(748)	(1,141)
Long term and short term debt	11,962	11,984

In the absence of rehabiliation proposal and considering the weak financial position of the company, recoveries have not been assumed from this customer.

Recoveries of Rs 100 million and above against non-performing loans assumed by Bank's management in financial projections

Party Name	Recoveries assumed by Bank ----------Rupees in million----------							Comments	Revised assumptions ----------Rupees in million----------						
	2015	2016	2017	2018	2019	2020	Total		2015	2016	2017	2018	2019	2020	Total
Maxco (Private) Limited	40.11	55.65	73.77	83.01	94.70	-	347.24	Based on discussion with Management of the Bank, outstanding exposure in respect of this customer was restructured in 2013. However the customer subsequenly defaulted. The Management informed us that the Bank is in the process of filing recovery suit against this customer along with all other banks in the consortium. Based on discussion, we understand that the Bank has charge over land and building and plant and machinery of the customer. The Management has informed us that the entire plant and machinery of Maxco (Private) Limited is under charge. However, two previous auctions were unsuccessful and no bid was received. The recovery projections are based on the Bank's expectation that all banks will sell the factory to recover their outstanding balances. Considering the above information including in respect of the unsuccessful auction of the factory, recoveries have not been assumed from this customer.	-	-	-	-	-		-

Recoveries of Rs 100 million and above against non-performing loans assumed by Bank's management in financial projections

Party Name	Recoveries assumed by Bank ----------Rupees in million----------							Comments	Revised assumptions ----------Rupees in million----------						
	2015	2016	2017	2018	2019	2020	Total		2015	2016	2017	2018	2019	2020	Total
Dandot Cement Company Limited	-	36.00	252.00	-	-	-	288.00	Based on discussion with Management of the Bank, recovery suit was filed during 2009 in High Court of Lahore, which is pending. Based on discussion, we understand that the Bank has charge over plant and machinery of the customer. Based on information available from financial statements for year ended June 30, 2014, operations were suspended in 2012 due to weak financial condition. However, the Management successfully revived operations in December 2013 after it arranged a loan. Dandot Cement is operating at 32% capacity utilisation and incurred net loss of Rs 527 million. The sponsors of the company are making efforts to inject more capital in the company. However, we have not been provided with details of sponsors/investors of the company and the source of funding to increase the capacity utilisation of the plant. The recovery projections are based on Bank's expectation of company's management to be able to arrange funds and increase the capacity utilization of the plant.	-	-	-	-	-	-	-

Recoveries of Rs 100 million and above against non-performing loans assumed by Bank's management in financial projections

Party Name	Recoveries assumed by Bank (Rupees in million)							Comments	Revised assumptions (Rupees in million)						
	2015	2016	2017	2018	2019	2020	Total		2015	2016	2017	2018	2019	2020	Total
Dandot Cement Company Limted	-	36.00	252.00	-	-	-	288.00	Key financial information of the company is summarised below:	-	-	-	-	-	-	-

Selected key financial information (Rupees in million)	June 30, 2014 (Audited)	1st Quarter Ended September 30, 2014 (Unaudited)
Loss after tax	527	80
Operating cash flow	(284)	(17)
Equity	(3,255)	(3,326)
Long term and short term debt	2,610	2,617

Considering the weak financial position of the company, and absence of information, recoveries have not been assumed from this customer.

Recoveries of Rs 100 million and above against non-performing loans assumed by Bank's management in financial projections

Party Name	Recoveries assumed by Bank ----------Rupees in million----------							Comments	Revised assumptions ----------Rupees in million----------						
	2015	2016	2017	2018	2019	2020	Total		2015	2016	2017	2018	2019	2020	Total
Reshma Power Generation (Private) Limited	100.00	100.00	70.00	-	-	-	270.00	Based on discussion with Management of the Bank, the customer was rescheduled during 2014. The agreement was made on 20 May 2014 under which the concerned party agreed to pay: - Rs 60 million in 4 equal installments of Rs 15 million in year 1 - Rs 120 million in 3 equal installments of Rs 40 million in year 2. - Rs 169 million in 3 equal installments of Rs 56 million in year 3. Based on discussion, we understand that the customer pertains to Haier group and has already repaid first 2 installments amounting, in aggregate, to Rs 30 million. The recovery projections by the Bank are based on performance of the customer after restructuring its financing. However, we have not been provided with the reason for difference in projections and installments as per the agreement. Accordingly, recovery assumptions were revised on the basis of the restructuring terms.	70.00	136.33	112.66	-	-	-	318.99

Recoveries of Rs 100 million and above against non-performing loans assumed by Bank's management in financial projections

Party Name	Recoveries assumed by Bank ----------Rupees in million----------							Comments	Revised assumptions ----------Rupees in million----------						
	2015	2016	2017	2018	2019	2020	Total		2015	2016	2017	2018	2019	2020	Total
Colony Industries	87.00	75.00	2.00	2.00	75.00	-	24100	Based on discussion with Management of the Bank, recovery suit has not been filed against the customer. Account was partially classified in 2009 and in 2012. Based on discussion, we understand that the Bank has shares of Colony Textile Mills and Colony Sugar Mills pledged as security. As per accounts for third quarter ended March 31, 2014, Colony Textile Mills booked net loss of Rs 225 million. The net operating cash flow of the company was Rs 342 million. As per accounts for year ended September 30, 2014, Colony Sugar Mills booked net loss of Rs 127 million and net operating cash flow of the company was Rs 540 million. Based on information available on ksestocks.com, the trading value of the pledged shares was low during the period ended November 30, 2014. The Management informed us that the Bank restructured the exposure during 2014 and the restructuring proposal has been submitted to SBP for its approval. However, we have not been provided with the details of restructuring proposal. The recovery projections assumed by the Bank are based on Bank's expectation of SBP's approval of restructuring. Considering the low trading volume, weak financial position and absence of information regarding the restructuring proposal, recoveries have not been assumed from this customer.	-	-	-	-	-	-	-

Recoveries of Rs 100 million and above against non-performing loans assumed by Bank's management in financial projections

Party Name	Recoveries assumed by Bank ----------Rupees in million----------							Comments	Revised assumptions ----------Rupees in million----------						
	2015	2016	2017	2018	2019	2020	Total		2015	2016	2017	2018	2019	2020	Total
Arif Ali Shah Bukhari	248.77	-	-	-	-	-	248.77	Based on discussion with Management of the Bank, recovery suit has not been filed by the Bank. Based on discussion, we understand that the Bank has mortgage over Industrial property and open land. FSV of industrial property and open land amounted, in aggregate, to Rs 309.537million, The FSV was carried out in March 2014. The Management informed us that the Bank is following up with the customer for settlement and settlement proposal has been submitted to SBP for approval. The Management informed us that the customer had earlier been restructured and did not comply with restructuring terms. Considering absence of information including in respect of the restructuring proposal recoveries have not been assumed from this customer.	-	-	-	-	-	-	-

Recoveries of Rs 100 million and above against non-performing loans assumed by Bank's management in financial projections

Party Name	Recoveries assumed by Bank ----------Rupees in million----------							Comments	Revised assumptions ----------Rupees in million----------						
	2015	2016	2017	2018	2019	2020	Total		2015	2016	2017	2018	2019	2020	Total
Byco Petroleum	35.26	45.34	46.56	48.60	6.38	-	182.14	Based on discussion with Management of the Bank, recovery suit has not been filed against the customer. The Management informed us that, during 2012, Habib Bank Limited (as the lead Bank) restructured overall principal exposure to term finance facility. Customer has already started payments to lead bank as per the retructuring agreement. However, payments to other banks, including KASB Bank, will commence from June 2015.	35.26	45.34	46.56	48.6	6.38	-	182.14
Agro Oil	50.00	40.00	40.00	40.00	33.47	-	203.47	Based on discussion with Management of the Bank, recovery suit was filed during 2009 in High Court of Sindh. The proceedings are at as advanced stage, however decree has still not been issued. Based on discussion, we understand that the Bank has mortgage on industrial land and residential property of customer. FSV of the industrial and residential property amounted to Rs 75 and Rs 66 million, respectively. The FSV of these properties was carried out in March 2013 and February 2014, respectively. The Management informed us that the customer is trying for out of court settlement and has submitted several proposals to the Bank. However, the Bank has rejected all proposals. The recovery projections are based on Bank's expectation of Court's decision of the case and any out of court settlement. Recoveries have been revised from this customer.on the basis of the FSV of mortgaged properties.	-	14100	-	-	-	-	14100

Recoveries of Rs 100 million and above against non-performing loans assumed by Bank's management in financial projections

Party Name	Recoveries assumed by Bank ----------Rupees in million----------							Comments	Revised assumptions ----------Rupees in million----------						
	2015	2016	2017	2018	2019	2020	Total		2015	2016	2017	2018	2019	2020	Total
Salman Taseer	99.40	100.00	-	-	-	-	199.40	Based on discussion with Management of the Bank, recovery suit was filed during 2012 in High Court of Sindh, which is pending. Based on discussion, we understand that the Bank has pledged shares of three companies i.e. First Capital Securities Corporation Limited, First Capital Equity Securities Limited, Media Times Limited and units of First Capital Mutual Fund. Based on quarterly accounts for quarter ended September 30, 2014, First Capital Securities Corporation booked net loss of Rs 3.2 million with net operating cash flow of Rs 1.3 million. Based on financial statements for year ended June 30, 2013, First Capital Equities Limited booked net loss of Rs 17.7 million with negative operating cash flow of Rs 72.2 million. Based on accounts for quarter ended September 30, 2014, Media Times Limited booked net loss of Rs 5.3 million with net operating cash flow of Rs 3.6 million. The Management informed us that the Bank has submitted application to the Court for blanket approval to sell shares pledged with the Bank and the Bank is hopeful that shares will be sold once it has obtained approval from Court. The recovery projections are based on Bank's expectation of Court's decision of the case and blanket approval from Court. Based on information available on ksestocks.com, shares of First Capital Equities Limited and First Capital Securities Corporation have low trading volumes. In view of the above information, we have assumed recoveries to the extent of market value of shares of Media Times Limited and units of First Capital Mutual Fund as at December 31, 2014.	-	23.00	-	-	-	-	23.00

Recoveries of Rs 100 million and above against non-performing loans assumed by Bank's management in financial projections

Party Name	Recoveries assumed by Bank ----------Rupees in million----------							Comments	Revised assumptions ----------Rupees in million----------						
	2015	2016	2017	2018	2019	2020	Total		2015	2016	2017	2018	2019	2020	Total
City Textile (Pvt) Ltd	50.00	130.76	-	-	-	-	180.76	Based on discussion with Management of the Bank, recovery suit was filed during 2009 in High Court of Lahore. Consent decree in favor of the Bank was given during 2014 and the Bank has also filed execution in 2014. Based on discussion, we understand that the Bank has security structure consisting of joint pari passu charge on current assets of the company, mortgage on properties, first exclusive charge on fixed assets of the company and joint paripassu charge over present and future fixed assets of company. The Management informed us that the customer has sold its property for Rs 55 million, out of which Rs 15 million has been paid to the Bank and the remaining amount of Rs 40 million is payable. Due to the moratorium on the Bank, buyer of the property cannot make further payment to customer as his bank account is in the KASB Bank . The recovery projections are based on Bank's expectation of case and customer's intention to repay once moratorium is lifted. Considering the weak security structure, recoveries have not been assumed for this customer. However we have assumed recovery of Rs 40 million relating to proceeds of property sold by the customer.	40.00	-	-	-	-	-	40.00

Recoveries of Rs 100 million and above against non-performing loans assumed by Bank's management in financial projections

Party name	Recoveries assumed by Bank ----------Rupees in million----------							Comments	Revised assumptions ----------Rupees in million----------						
	2015	2016	2017	2018	2019	2020	Total		2015	2016	2017	2018	2019	2020	Total
Nazir Rice Mills (Pvt) Limited	-	167.24	-	-	-	-	167.24	Based on discussion with Management of the Bank, recovery suit was filed during 2013 in High Court, Lahore. The case has been decreed in favor of the Bank. Based on discussion, we understand that the Bank has mortgage over fixed assets of the company i.e. agricultural land. FSV of the land amounted to Rs 3018 million. The FSV was carried out in October 2014. The recovery projections are based on Bank's expectation of Court's decision of the case.	-	167.24	-	-	-	-	167.24
Patel Food	20.00	20.00	20.00	20.00	35.01	-	115.01	Based on discussions with the Management of the Bank, we understand that the Bank filed recovery suit during 2010 in High Court of Sindh and also submitted an application to SBP to refer the case to NAB, which SBP has accepted. However, these proceedings are pending. Based on discussion, we understand that the Bank has mortgage over industrial property of the customer. FSV of this industrial property amounts to Rs 236.5 million. This FSV was carried out in April 2013. As per discussion with Management of the Bank, the case is at an advanced stage and the customer has acknowledged the liability in court. The recovery projections are based on Bank's expectation of Court's decision of the case.	20.00	20.00	20.00	20.00	35.01	-	115.01

Recoveries of Rs 100 million and above against non-performing loans assumed by Bank's management in financial projections

Party name	Recoveries assumed by Bank ----------Rupees in million----------							Comments	Revised assumptions ----------Rupees in million----------						
	2015	2016	2017	2018	2019	2020	Total		2015	2016	2017	2018	2019	2020	Total
Amtex Limited	20.89	30.90	29.08	20.90	20.90	-	122.68	Based on discussion with Management of the Bank, recovery suit was filed during 2011 in High Court, Lahore. Consent decree was given in Bank's favor and Bank filed for execution in 2015. Based on information provided, we understand that the Bank has joint pari pasu charge over all present and future current assets of the company. The Management informed us that after consent decree was given in favor of the Bank, the customer approached the Bank for an out of court settlement, which was accepted. We have not been provided with details of this settlement. However, the settlement did not materialise and the Bank filed for execution in the High Court, Lahore. The recovery projections are based on Bank's expectation of Court's decision of the case. Considering the nature of the collateral and in the absence of information on the settlement proposal, recoveries have not been assumed from this customer.	-	-	-	-	-	-	-

Recoveries of Rs 100 million and above against non-performing loans assumed by Bank's management in financial projections

Party name	Recoveries assumed by Bank ----------Rupees in million----------							Comments	Revised assumptions ----------Rupees in million----------						
	2015	2016	2017	2018	2019	2020	Total		2015	2016	2017	2018	2019	2020	Total
Gulistan Textile Mills Limited	-	32.20	25.00	25.00	32.20	-	114.40	Based on discussion with the Management of the Bank recovery suit was filed during 2013 in High Court of Sindh. In addition, UBL has also filed winding-up petition against the customer. Based on information provided, the Bank has secured leased assets by applying to the court to get preferential treatment at the time of winding-up settlement. However, the customer has filed a plea under article 10 - A of the Constitution of Pakistan. Therefore, proceedings are pending. The recovery projections are based on Bank's expectation of Court's decision of the case. Due to the uncertainty associated with recoveries from the customer due to litigation proceedings, the assumptions were revised and recoveries have not been assumed.	-	-	-	-	-	-	-
Agri Farm Services	15.00	30.00	27.98	28.02	22.98	-	123.98	Based on discussion with the Management of the Bank, recovery suit was filed during 2011 in High Court of Lahore, which is still pending. Based on information provided, the collateral comprises of pledge of chemical stocks and mortgage over commercial property in Multan, which has FSV of Rs 1122 million as at March 2014. However, we have not been provided with details of pledged stock. The recovery projections are based on Bank's expectation of Court's decision of the case. In the absence of information, recoveries equivalent to FSV of mortgaged commercial property have been assumed.	1122	-	-	-	-	-	1122

Recoveries of Rs 100 million and above against non-performing loans assumed by Bank's management in financial projections

Party name	Recoveries assumed by Bank ----------Rupees in million----------							Comments	Revised assumptions ----------Rupees in million----------						
	2015	2016	2017	2018	2019	2020	Total		2015	2016	2017	2018	2019	2020	Total
Sayyed Engineering	24.88	18.00	24.07	30.00	36.00	-	132.95	Based on discussion with Management, recovery suit has not been filed by the Bank. The Management informed us that the Bank has restructured the facilities in October 2012. As per restructuring agreement, Bank has converted principal and markup of running finance facility to demand finance I and II, respectively. Payments for demand finance I commenced from January 1, 2014 and payments for demand finance II will commence from July 1, 2020. As per restructuring agreement, the customer will pay monthly installments as follows:	12.00	18.00	24.00	30.00	36.00	21.00	141.00

Year	Amount of monthly installment (Rupees in million)
2014	0.75
2015	1
2016	1.5
2017	2
2018	2.5
2019	3
2020	3.5

Recoveries of Rs 100 million and above against non-performing loans assumed by Bank's management in financial projections

Party name	Recoveries assumed by Bank ----------Rupees in million----------							Comments	Revised assumptions ----------Rupees in million----------						
	2015	2016	2017	2018	2019	2020	Total		2015	2016	2017	2018	2019	2020	Total
Sayyed Engineering								The Management has informed us that the customer has started making payments for demand finance I as per the agreement. The recovery projections by the Bank are based on regular payments by the customer. Considering the restructuring agreement and regular payments by the customer, recoveries have been assumed in accordance with the restructuring terms.							

Value of shares in KSE has been determined on the basis of break-up value as at September 30, 2014 of Rs 10.17

- We understand that 4,007,383 shares in Karachi Stock Exchange Ltd. ("KSE") were allotted to KSL under the terms of the Stock Exchange (Corporatization, Demutualization and Integration) Act, 2012 ("Demutualisation Act"). Under the demutualisation process, KSE was converted from a company limited by guarantee to a company limited by shares and equal number of shares and a 'Trading Rights Entitlement Certificate' ("TREC") was issued to each membership card holder of KSE.
- The carrying value of the membership card of KSE at the time of receipt of the above shares and TREC was Rs 4.95 million. In the absence of an active market for the shares of KSE and TREC, the Management of KSL allocated the carrying value of the membership card of KSE between shares (financial asset) and TREC (intangible asset) in the ratio of 73% and 27% on the basis of face value of ordinary shares of KSE (approximately Rs 40.1 million) and the notional value of TREC of Rs 15 million assigned by KSE for base minimum capital requirement purposes. Consequently, the proportionate carrying value of Bank's investment in shares of KSE amounted to Rs 3.6 million.
- In accordance with the Demutualisation Act, 60% of KSL's investment in KSE (i.e. 2,404,430 shares) are kept in a blocked sub-account opened in KSL's name under KSE's participant ID with Central Depository Company of Pakistan Ltd. ("CDC"). We have been given to understand that 2/3rd of these shares will be sold to strategic investor(s) and the remaining shares (i.e. 1/3rd of the blocked 60% of KSL's investment in KSE) will be issued to the public through an 'Initial Public Offer'. In addition, we understand that Deutsche Bank AG is advisor and sole book-runner for the purpose of placement of KSE's shares. There is no restriction on KSL for sale of the remaining 40% of its investment in KSE (i.e. 1,602,953 shares).
- As per an article dated September 11, 2014 on website www.pakistantoday.com.pk, Deutsche Bank AG has released a per share value of 'Rs 10.15 or Rs 10.30' for the 40% strategic stake.
- As per the financial statements of KSE for the period of three months ended September 30, 2014, the net assets of KSE amounted to Rs 8,149.2 million and the break-up value per share works out to Rs 10.17 per share. The break-up of total assets of KSE as at September 30, 2014, based on these financial statements, is summarised below:

Rupees in million		
Property and equipment	3,454.0	Revaluation of operating fixed assets was carried out in 2012.
Investment properties	680.7	The fair value of these properties was determined as at June 30, 2014.
Investments in associates, namely CDC and National Clearing Company of Pakistan Ltd.	1,218.2	The investments are recorded under the "equity method" of accounting. The share of KSE in the net assets of these companies, as at June 30, 2014, amounted to Rs 1,166.8 million.
Long-term investments, mainly in PIBs	2,029.8	PIBs have a carrying value of Rs 1,952.5 million and are classified as 'held to maturity'.
Cash and bank balances	2,663.7	
Other assets	853.3	
	10,899.7	

Source: www.kse.com.pk

- The net assets approach (where appropriate) represents a "controlling interest" level of value. In addition, KSE is an unlisted entity. Therefore, appropriate discounts may be applicable. However, in the absence of information, and after taking into consideration the above, we have assumed the value of KSL's investment in KSE on the basis of KSE's break-up value.

Glossary

Term	Definition
11M 2014	Period of eleven months ended November 30, 2014
AFF	A. F. Ferguson & Co.
Agreement	'Tripartite Agreement' dated December 15, 2014, entered into between the State Bank of Pakistan, KASB Bank Limited and A. F. Ferguson & Co.
Bank/KASB Bank	KASB Bank Limited
CAGR	Compound annual growth rate
CAPM	Capital Asset Pricing Model
DCF	Discounted cash flow
Discussions with Management	Information obtained from respective managements during meetings or through telephone.
Due Diligence Report	Due Diligence report prepared under the Agreement
EBIT	Earnings before interest and tax
ECL	Evolvence Capital Ltd.
ERP	Equity Risk Premium
KCL	KASB Capital Limited
KFL/KASB Funds	KASB Funds Limited
KIBOR	Karachi Inter Bank Offer Rate
KIL	KASB Invest (Pvt.) Limited
KM	KASB Modaraba
KSL/KASB Securities	KASB Securities Limited

Glossary

Term	Definition
Management Information	Information provided via e-mail/hardcopy/usb by respective managements of company
Management	The management of the respective companies
MSCL/My Solutions	MY Solutions Corporation Limited
NBFC Rules and Regulations	Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 and the Non-Banking Finance Companies and Notified Entities Regulations, 2008
NHEPL	New Horizon Exploration and Production Limited
PMEL	Pakistan Mercantile Exchange Limited
POAMCL	Pak Oman Asset Management Company Limited
RoA	Return on assets
RoE	Return on equity
SBP	State Bank of Pakistan
SECP	Securities and Exchange Commission of Pakistan
SFPL	Shakarganj Food Products Limited
SVL	Structured Venture (Pvt.) Ltd.
Valuation Date	December 31, 2014
WACC	Weighted average cost of capital

pwc

A. F. FERGUSON & CO.

a member firm of the PwC network