SECURITIES FIRMS

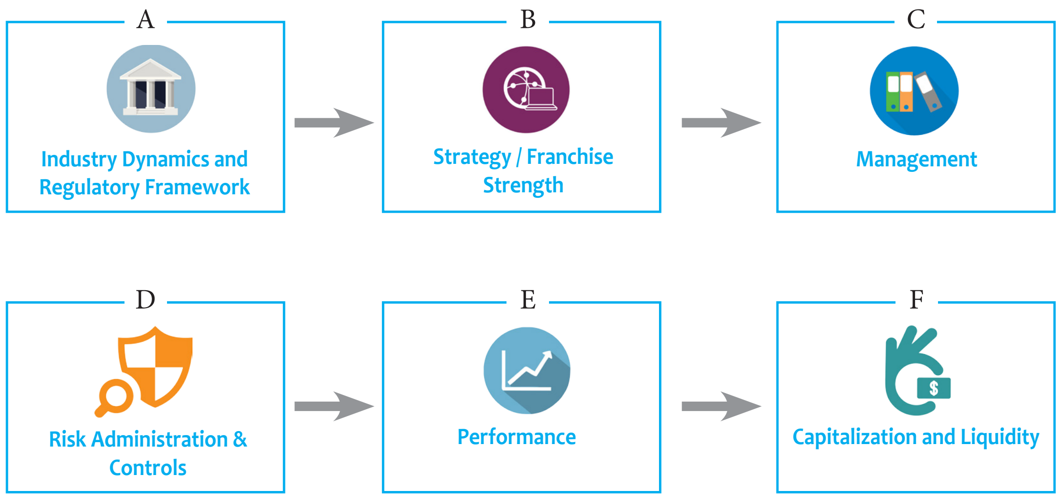
Rating Methodology

JCR-VIS Credit Rating Co. Ltd.'s (JCR-VIS) rating objective for a securities firm is to assess likelihood of the company being able to make timely payment against its obligations. A rating being prospective in nature, JCR-VIS integrates analysis of an entity's recent financial and operating performance with an assessment of the firm's strategic plan. The focus is on evaluating the quality of a firm's balance sheet, the appropriateness of its liquidity and capital funding policies, and the effectiveness of its risk management strategies with regards to various financial and operational risks.

JCR-VIS reviews the quality of the firm's financials, its franchise, its ability to attract adequate funding and generate profitable returns through market cycles. This review is central to the rating process and is supported by consistent monitoring of industry dynamics and competitive forces.

In undertaking its rating assessment, JCR-VIS is reliant on acceptable quality work being done by other independent third parties. In addition to financial audit, securities firms are required to undergo systems audit, and audit by the Central Depository Company Limited (CDC); the results of these various external evaluations provide basis for the veracity of reported financial numbers and the robustness of the internal structure set in place. Level of adoption of international guidelines on conflict of interest and code of ethics will also be evaluated to gauge a firm's adherence to best practices. JCR-VIS also places significant emphasis on the governance, procedures, systems and level of controls in place to arrive at a view on the extent to which a securities firm is being able to discharge its fiduciary responsibilities.

Exhibit I: ANALYTICAL FRAMEWORK



Industry dynamics and regulatory framework

Securities firms are involved in a highly competitive industry in which trading activity can be greatly impacted by interest rates and economic cycles. The industry can also be significantly affected by event risk, particularly resulting from regulatory or political developments. Such factors can lead to greater volatility in earnings and profitability relative to other industry sectors. Generally, securities firms serve the basic function of distributing and trading financial instruments for customers, financing customer positions, and providing advisory and underwriting services. The importance of these functions to a given economy, the size of the customer base, and the availability of substitute products or alternative suppliers will affect the approach to a rating.

Prior to 2012, the stock exchanges were operating as non-profit organizations with a mutualized structure. Under this structure, stock exchanges comprised members who had both trading and ownership privileges. However, when the Stock Exchanges (Corporatization, Demutualization & Integration) Act, 2012 ("Demutualization Act") was promulgated by the Government, 'Members' of stock exchanges ceased to exist. Instead, they have been issued Trading Right Entitlement Certificates ("TRECs") and exchange shares, thus separating trading rights from ownership rights.

All securities firms have to be TREC-holders of Pakistan Stock Exchange Limited (PSX). The PSX is regulated by the Securities & Exchange Commission of Pakistan (SECP).

JCR-VIS reviews the regulatory framework applicable to the securities firms and changes thereto from time to time to arrive at a view on the level of protection afforded to market participants and the risk which may be assumed by a securities firm. JCR-VIS reviews regulations that promote money and capital markets through regulation of stock-trading commissions or other transaction costs and taxes, and examines policies & procedures. These rules and regulations provide creditors protection through minimum capital, exposure limit and margin requirements. In addition to these, the company's efforts at prudent risk control in accordance with its business lines are also analyzed.

Strategy / Franchise Strength

While developing an understanding of the management's business strategy, JCR-VIS evaluates its competitive positioning and niche, and the viability of the company to operate in that niche and at the same time grow its business volumes. A lot depends on the company's ability to adapt to the changing needs of its clientele and offer innovative services & products which are consistent with the changing dynamics of the industry and market. Services could include convenience of online customer trading/account status or other pertinent information, and ancillary products could include research reports and other publications, which provide value addition to the basic trading facilities offered by any firm. Market share and trends on business & client growth are effective tools to gauge the company's franchise.

JCR-VIS also reviews the responsiveness of the company towards globalization and increasing trend towards foreign investing. The company's ability to handle inward foreign investments in capital markets in a cost-effective manner is a valuable diversification in revenue sources while adding to the franchise of the firm. Depending on the firm's business, JCR-VIS examines the size of marketing force, customer profile, customer retention & growth, and average turnover in trading activity.

Management

Success of any organization is in the continuity of its business strategies and depth & stability in its management team. A view on the corporate structure is developed. This area also involves reviews of managerial involvement in risk control, its ability to innovate, focus of management on core competencies and the management's flexibility in responding to competition. Importance given to planning & implementation processes, and the decision-making hierarchy also provide insight into the level of controls in place in the company and the confidence in the management team itself. Per employee revenues and costs would help determine management efficiency and economic utilization of resources. Management expertise should pertinently be reflected in the financial performance of the company.

Risk Administration & Controls

Broad parameters of risk include price and interest rate risk, credit / counter party risk and operational risk. A company's vulnerability to these risk factors may be measured by the volatility in revenues and pre-tax income. Earnings of a securities firm are exposed to fluctuating market conditions. Securities firms' sources of income include brokerage from client trading in money and capital markets, income from proprietary portfolio, consulting and advisory fee, underwriting income and financing margin trades. Firms that manage to build a continuous source of revenues through more stable channels like fixed income investments are likely to be able to fare better during periods of low trading activities and are viewed positively from a ratings perspective.

JCR-VIS reviews the company's asset liability management procedures and any long term mismatches in its funding structures. Diversifying client base and developing a strong retail clientele is also vital to manage client turnover. Risks for smaller companies may be higher due to their inability to participate in the broader market or manage a large client base.

JCR-VIS reviews the risk management guidelines, which have been developed by the company and the extent of any deviation from these guidelines. These would also include the level of exposure taken on any client and the client assessment procedures being followed. Margin requirements from clients can mitigate the counter party exposure of the securities firm.

JCR-VIS also takes note of the internal policies defining the allowable aggregate amount of underwriting at any point as compared to the institutions own equity; this reflects the possible level of risk that may be undertaken by a firm. Exposure limits in terms of sector & business type supported by firewalls between underwriting and own trading as well as financial resources available to undertake multiple avenues of businesses will be important factors. Identification of skill and experience within the company to evaluate and handle underwriting transactions including evaluation models and financial indicators used, will be appraised.

Better rated securities firm are expected to have in place strong internal controls to mitigate operational risks. Mechanisms in place to eliminate chances of front running, errors in trading and investment, frauds and embezzlements will also be evaluated. Since at any given point, large numbers of transactions are being handled, losses from operational negligence could be substantial and may have long term consequences on the reputation of the company. Assessment also includes evaluation of any risk, which may be peculiar to the company.

Risk management should be a continuous process in the company. JCR-VIS evaluates the level of risk and the risk measurement & management tools being used and the extent of transparency. These tools should be robust enough to adapt to the changing needs of the company and the market. JCR-VIS places significant emphasis on the reliability of settlement and exposure management systems in place for handling trades on the stock exchange and with the clients. The management information system (MIS) should enable the company to carry out scenario and stress tests, identify concentration areas and signal non-compliance. Technology is one of the forces that have driven change in the capital markets. JCR-VIS reviews the pace of adoption of technology at securities firms and the degree of competitive advantage it may create, the prospect for new entrants resulting from technological change, such as online trading facilities, and the need for technological capital spending as a barrier to entry.

Performance

Both trend analysis and industry comparison is conducted to determine the relative financial performance of the company. Revenue and cost structures are broken down into the separate business / product lines and contribution from different categories of customers. The quality of the company's own investment portfolio, return from proprietary trading, and income from client dealing and any other stable sources of income are taken into consideration. Across time and industry comparison determine how well a securities firm has been able to manage its risk relative to other players.

Performance measures would include the pre-tax return on funds employed, volatility in revenues, efficiency and any over/under-performance relative to the broader market and the reason for such results. Performance is also evaluated relative to projections and reasons for deviations are explored.

JCR-VIS assesses the financial flexibility of any company in managing its costs. The ability of the company to rationalize costs in times of sluggish market conditions and spread fixed costs over a larger volume is critical. Coverage of fixed and variable components of cost on an ongoing basis from core earnings also reflects upon the financial flexibility. Costs per transaction would help indicate the flexibility in pricing available to the company. Larger companies are expected to fare well on the back of economies of scale.

Capitalization and Liquidity

The stock exchanges have established capital requirements for TREC-holders and have also imposed allowable trade limits in relation to capital which establishes the maximum trading activity that can be undertaken by a firm. This, in addition to the risk arising from other lines of business undertaken by a company, will be evaluated to determine the adequacy of capitalization. While credit, liquidity, concentration and market risks may be apparent from the company's financial statements, judgment is required as to the level of operational risks, litigation and reputational risks involved in the business being undertaken. Composition of funding sources, maturity profile, and diversity is also taken into consideration, while future funding needs and sources are also identified. Analysis of liquidity would include the company's ability to liquidate its investment portfolio in a short span, raise borrowings / un-utilized credit lines and cover repayment of liabilities.

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

Faheem Ahmad

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

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

Faryal Ahmad Faheem

Deputy CEO

Faryal Ahmad Faheem has been associated with JCR VIS Credit Rating Company since 2006. She has primarily been involved in rating assignments of financial institutions as well as corporate organizations besides her role in the general management of the company. She has worked extensively in the areas of in-depth financial and risk analysis of the banking as well as mutual fund industry with specific focus on management quality ratings and fund rankings. She has also been involved in the methodology development process at JCR-VIS.
She holds a Master's degree in Business Administration from the Institute of Business Administration, Karachi (2005) and also a Risk and Corporate Management certification from Columbia University, USA.
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Jazib Ahmad, CFA

Senior Manager

Jazib Ahmed possesses 5+ years experience in portfolio management, islamic finance and general management. He possesses management experience in the fields of financial risk, and asset management. He has been actively involved in capital market research.
He obtained his Bachelors and Masters in Business Administration from IBA, Karachi. He has also completed his CFA examinations and received his charter in 2014.
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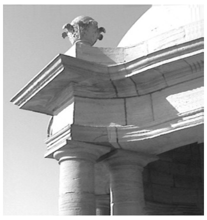
<u>*Jahangir Kothari Parade (Lady LLoyd Pier)*</u>
Inspired by Her Excellency, The Honorable Lady Lloyd, this promenade pier and pavillion was constructed at a cost of 3 Lakhs and donated to the public of Karachi by Jahangir Kothari to whose genrosity and public spirit the gift is due. Foundation stone laid on January 5, 1920. Opened by Her Excellency, The Honorable Lady Lloyd on March 21, 1921.

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

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


<u>*Jahangir Kothari Parade*</u>

National Excellence, International Reach

JCR-VIS Credit Rating Company Limited is committed to the protection of investors and offers a blend of local expertise and international experience to serve the domestic financial markets. With its international reach, JCR-VIS is positioned to aim for an international mark. In this regard, the global experience of our principal, Japan Credit Rating Agency, Ltd. has been invaluable towards adding depth to our ongoing research endeavors, enriching us in ways, that enable us to deliver our responsibilities to the satisfaction of all investors.

The edifice of the Jahangir Kothari Parade has stood proudly through the years and is a symbol of our heritage. Its 'Dome' as the most stable of building structures, exemplifies architectural perfection. Committed to excellence, JCR-VIS continues its endeavor to remain an emblem of trust.

JCR-VIS Credit Rating Company Limited

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