Brokerage

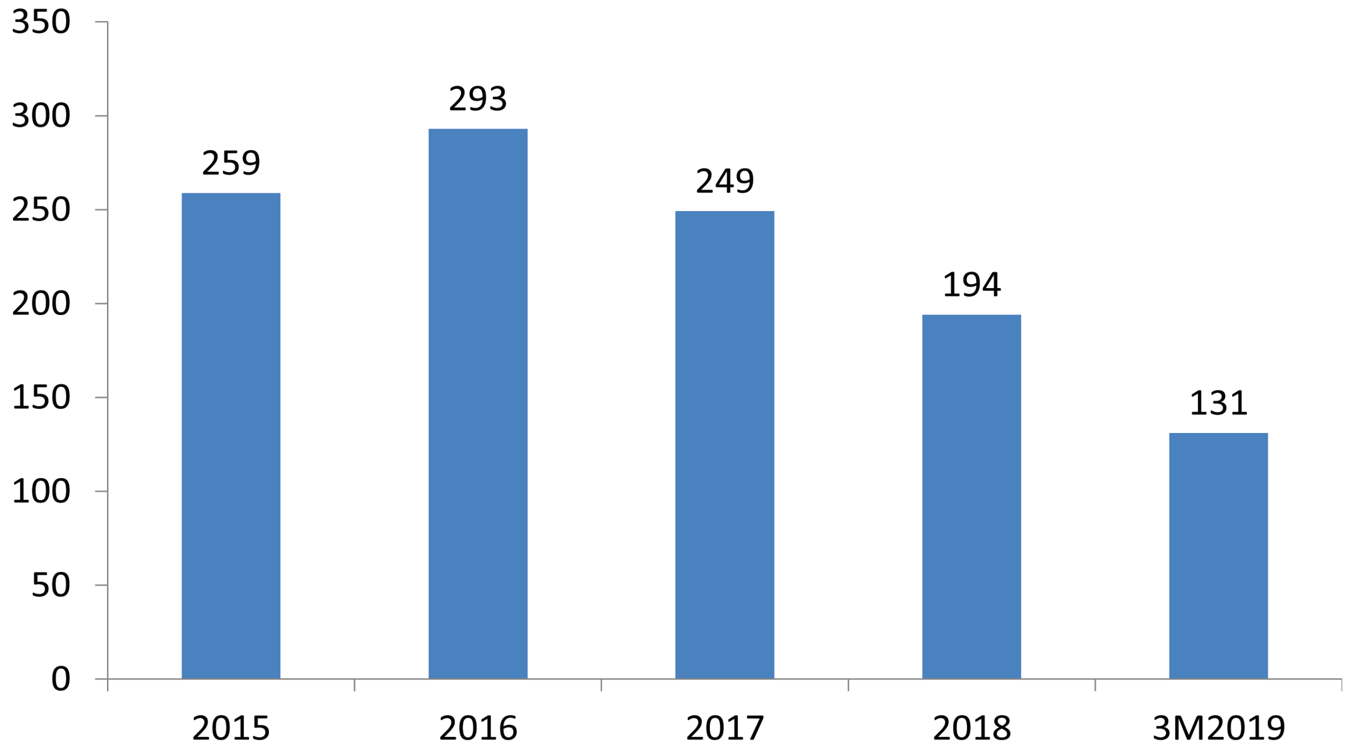
PSX Performance

	9MFY19	FY18	FY17
KSE ALL (Average Daily Volume) m shares	162	174	348
Listed Companies	559	558	560
Listed Capital (Rs. b)	1,308	1,297	1,317
Market Cap (Rs. b)	8,506	8,740	9,522
KSE 100 Return	-8%	-6%	23%
KSE 30 Return	-11%	-11%	11%

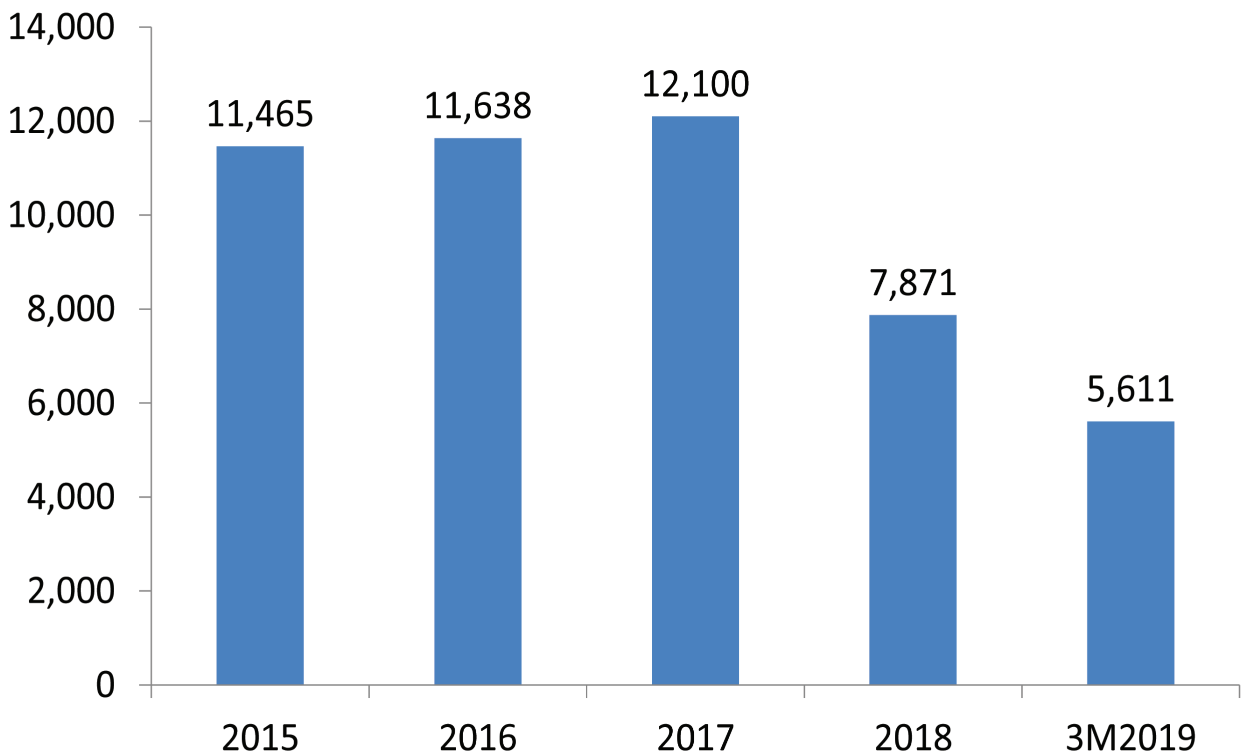
Number of Investor Accounts

Unique Identification Numbers	FY18	FY17
Individual	225,354	233,327
Corporate Company	1,719	1,685
Corporate / Individual Broker	263	302
Fund / Others	1,362	1,304
Foreign Individual	10,065	9,140
Total UINs	238,763	245,758

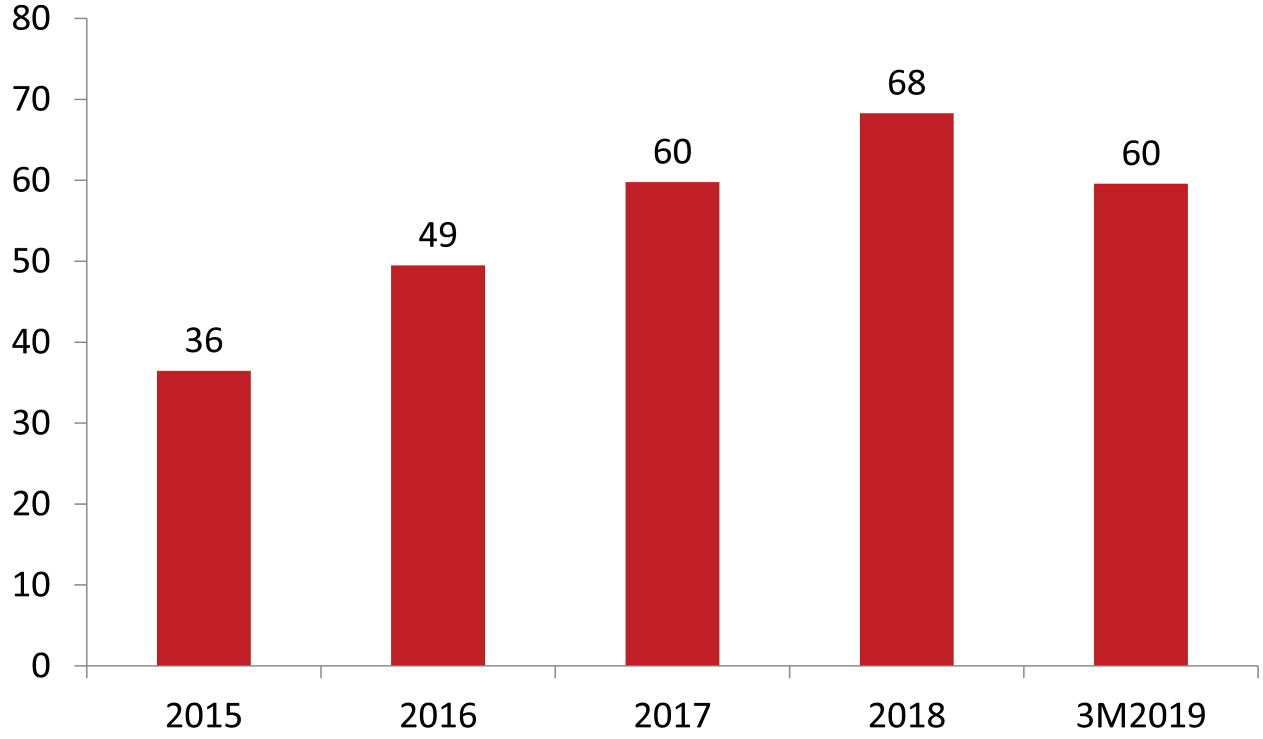
Average Daily Share Turnover – Regular (m shares)



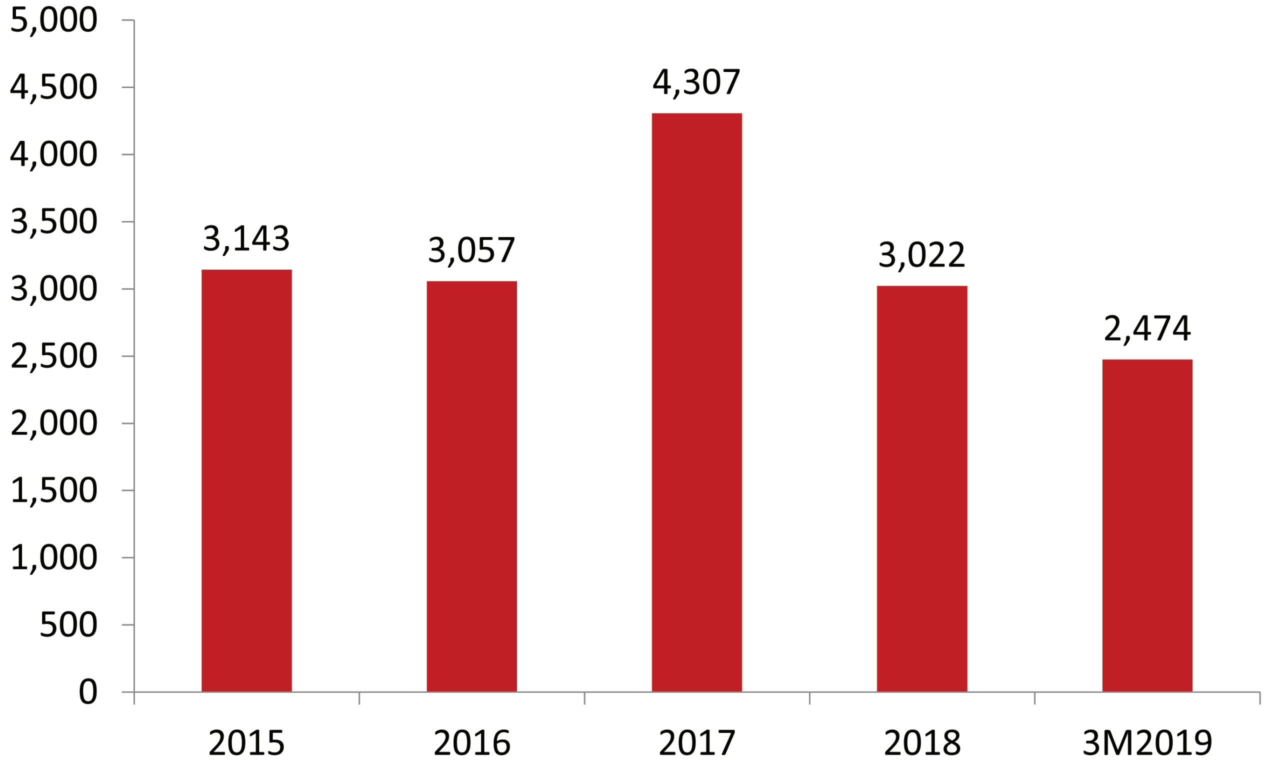
Average Value of Daily Turnover – Regular (Rs. m)



Average Daily Share Turnover – Future (m shares)



Average Value of Daily Turnover – Future (Rs. m)

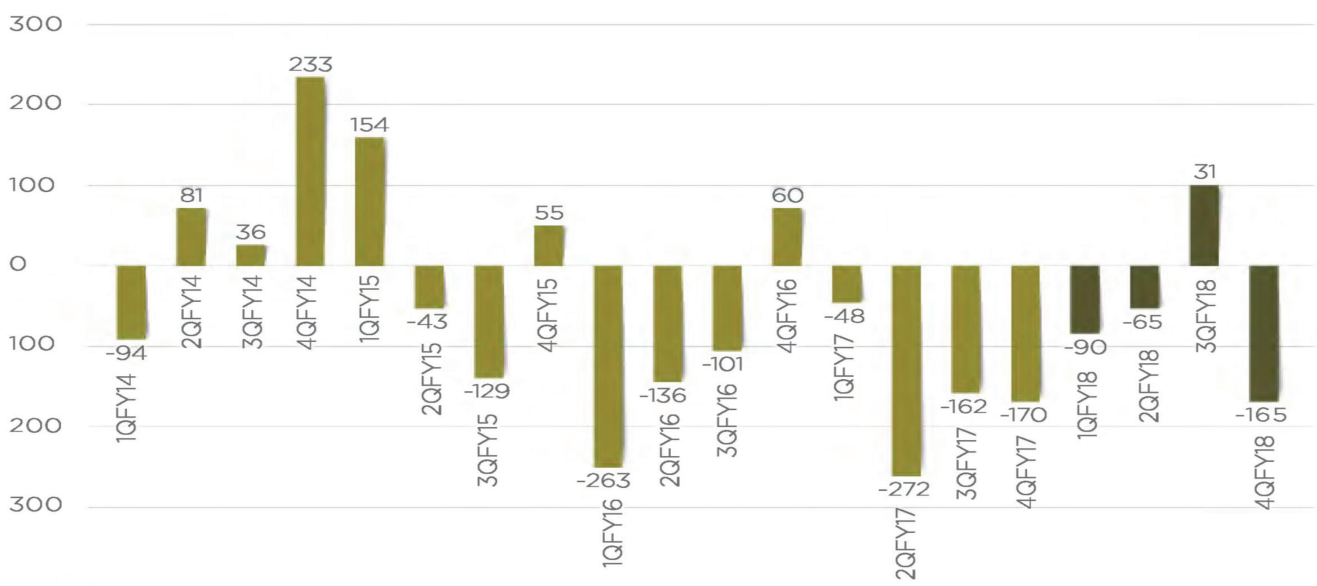


Overall Market Volumes and Outlook

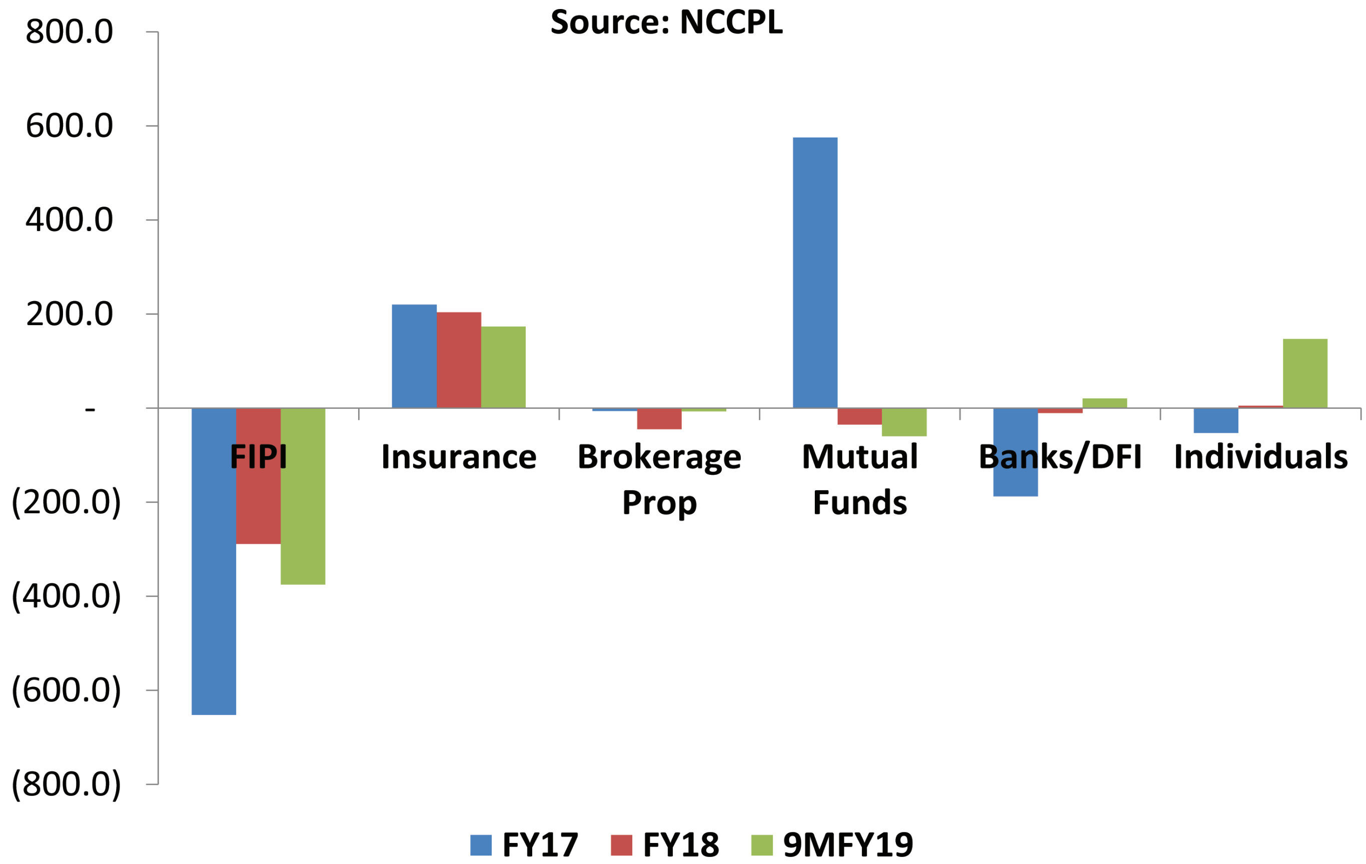
PSX Data (Ready + Future)	Volumes (m)	Value (m)
FY17	100,345	4,756,168
FY18	58,401	2,881,120
% change in FY18	-42%	-39%
1HFY19	31,182	1,304,415
Annualized % change in 1HFY19 vis-à-vis FY18	7%	-9%

- Overall market volumes have depicted a notable decline during FY18.
- Some recovery has been noted during 1HFY18 but market volumes continue to remain subdued.
- Given low base effect of ready market volumes & growing volumes in the future segment along with Pakistan's expected entry into the IMF Programme and improved valuations post two consecutive years of decline in benchmark index, overall market volumes during FY20 are expected to be higher vis-à-vis FY19 and FY18.
- Pakistan's downgrade to MSCI frontier market from MSCI emerging market is expected to improve foreign flows given the low weight of Pakistan in MSCI emerging market
- Weak macro economic indicators will continue to be a drag on market performance

Foreign Investors Net Inflows / Outflows USD (in m)



NET BUY(SELL) US DOLLAR MILLIONS



Pakistan’s Emerging Market status

- In June 2017, Pakistan was promoted from the MSCI Frontier Markets Index to the MSCI Emerging Markets Index.
- Since then, US$ 44 of equity value has been erased. As a result, Pakistan’s weight in MSCI Emerging Markets Index has narrowed to just above 3bps.
- The MSCI usually requires at least three stocks to remain at a market cap above US$1.6b for a country to maintain the emerging-market status. None of the three stocks for Pakistan fulfill the free-float requirement.
- In view of above developments, Pakistan may get demoted from Emerging Markets to Frontier Markets status during the ongoing year.

Business Risk

- Brokerage industry continues to be impacted by economic cycles.
- Political uncertainty due to elections, aggressive foreign selling, weakening in macro-economic indicators and uncertainty & delay regarding entry into the IMF Programme has translated into dismal performance of the benchmark index over the last 22 months.
- Given the operating environment, players with efficient and variable cost structures focusing on high margin business and diversification in revenue streams have fared better vis-à-vis peers.
- Players with large proprietary books have also witnessed losses given weak market performance.
- Focus of brokerage companies during the period has remained on cost rationalization, increased portfolio diversification into derivatives and concentration on higher margin business.

Financial Risk (Profitability)

- Given the decline in market volumes, overall brokerage revenues were noticeably lower in FY18. In percentage terms, decline in brokerage revenues of VIS's credit rating universe was 35%.
- Decline in commission paisa per share due to lower share prices also contributed to lower brokerage income.
- Given the weak capital market performance & limited IPOs, corporate finance income also witnessed a decline of 27% in FY18.
- Given the challenging operating environment, a number of players have taken steps to reduce cost including closure of branches and reduction in staff levels.
- Despite cost rationalization, cost to income ratios of most players depicted an increase. Median cost to income ratio of VIS's credit rating universe for FY18 increased to 101% from 89% in FY17.
- Profit after tax during FY18 reduced to one-fourth of FY17 level given lower volumes and absence of capital gains.

Financial Risk (Capitalization & Liquidity)

- With decline in business volumes, debt levels were lower for most players on a timeline basis.
- Equity base declined on account of losses incurred and dividends paid for FY17
- With decline in debt levels being higher vis-à-vis reduction in equity base, leverage indicators for most players witnessed improvement
- With surplus liquidity and higher benchmark rates , treasury income for most players is expected to increase, going forward.

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