

Capital Markets

A total of 650 companies were listed on the Karachi Stock Exchange (KSE) as of end-March 2010, with Paid up capital of Rs. 894.2 billion. Aggregate market capitalization as at end March, stood at Rs. 2,890 billion (US\$ 35 billion). Market capitalization to GDP is currently just under 20%, which is low by comparison with many countries in Pakistan’s peer reference group.

July to March FY10, the period under review, saw a recovery phase in the country’s premier capital market. The benchmark KSE-100 index rose 33%, in line with the broad recovery in global equity markets. From its recent trough in January 2009, attained in the aftermath of the ‘floor imposition’ at the KSE in late 2008, the KSE 100 index is up 107%. An influx of foreign portfolio investment during the July to March FY10 period, with inflows crossing US\$ 440 million at their peak, have powered the index, but volumes traded remain a fraction of the period prior to 2008. A large part of the drying up of liquidity in the market is the absence of leveraged products.

Table 12.1: EQUITY MARKET DEVELOPMENT (KSE) 2009-10 (as of March 31)

	%
Market capitalization to GDP	19.7
Paid up capital as a %age of GDP	6.0
Stock Market turnover to paid up capital	3.7
Number of listed companies at KSE as a %age of total registered companies.	1.2

Source: EA Wing, KSE, SECP

12.1 Global Equity Markets

Fiscal year 2009-10 started with hope of recovery from the global financial crisis. The recovery after the financial crisis was fragile at its onset with signs that the world’s markets would recoup, but these were weak and vulnerable. Central banks reacted quickly with exceptionally large interest rate cuts as well as unconventional measures to inject liquidity and sustain credit. The global economy expanded for some time but its effect on employment has not yet been seen.

The vulnerability of the global economic recovery as well as of the bull run in world financial markets has been underscored by the onset of the Greek debt crisis. Global commodities and equities have seen a sharp sell off since early May. US markets plummeted on 6th May 2010 with the Dow Jones Industrial Average falling nearly 1,000 points, in what has been dubbed the “flash crash”. Markets remain wobbly despite the size of the emergency package put together by the Eurozone countries for Greece.

Table 12.2 shows the performance of the global and regional markets since May 2009, as measured by the MSCI-Barra Price Index which measures the price performance of markets. It measures the sum of the free float-weighted market capitalization price returns of all its constituents on a given day.

MSCI Index	28th May 2010	28th May 2009	%age change
EM (EMERGING MARKETS)	917.047	761.744	20.39
EM ASIA	374.527	315.214	18.82
EM EASTERN EUROPE	189.71	160.998	17.83
EM EUROPE	425.326	348.236	22.14
EM EUROPE & MIDDLE EAST	361.569	295.175	22.49
EM FAR EAST	323.02	274.201	17.80
EM LATIN AMERICA	3,680.22	3,000.08	22.67

Source: www.MSCIBarra.com

12.2 Performance of KSE

Mainly on the back of foreign buying, the KSE-100 index has risen 74 per cent since its trough in January 2009. Even after the recent sell off in equities, the KSE-100 index has gained 33% since the start of fiscal year 2009-10. Foreign portfolio investment (FPI) in the KSE has risen sharply for July to March 2009-10. According to National Clearing Company of Pakistan Limited (NCCPL) data, the cumulative net inflow of foreign portfolio investment increased by US\$ 431 million.

The other positives during 2009-10 to which equity investors have responded have included the restoration of macroeconomic stability following the balance of payments crisis of 2008; the IMF program (signed in November 2008) having remained on track for over a year; the upgrading of Pakistan's sovereign rating by Standard and Poor's, and the revision, to stable, of Pakistan's outlook by Moody's, both in August 2009; and the semblance of a growth recovery in the economy, for large scale manufacturing in particular, despite the challenges.

On the back of the net buying by off-shore investors, the KSE-100 index crossed the 10,000 mark on 12th March 2010 after a period of 18 months.

	2005-06	2006-07	2007-08	2008-09	2009-10 (Jul-Mar)
Number of Listed Companies	658	658	652	651	650
New Companies Listed	14	16	7	8	5
Fund Mobilized (Rs billion)	41.4	49.7	62.9	44.9	98.7
Listed Capital (Rs billion)	496	631.1	706.4	781.8	894.1
Turnover of Shares (billion)	79.5	54	63.3	28.2	33.1
Average Daily Turnover of Shares (million)	348.5	262.5	238.2	115.6	179.9
Aggregate Market Capitalization (Rs billion)	2,801.2	4,019.4	3,777.7	2,143.2	2,890.0

Source: KSE

Important Measures Taken at KSE in 2009

- ➔ Introduction of corporate Bonds Automated Trading System.
- ➔ Data Vending and Launch of Mobile KSE Automated Trading System (mKats)
- ➔ Implementation of internationally accepted industry classification Benchmark a jointly developed.
- ➔ Classification system launched by FTSE Group and Dow Jones Index.

- ➔ Risk Management.
- ➔ Introduction of Client Level Margining Regime.
- ➔ Restructuring of Net Capital Balance requirement.
- ➔ Pre-settlement mechanism in Ready & Deliverable Future Contract Market.
- ➔ Introduction of Exposure Dropout Facility during Trading Hours.
- ➔ Introduction of Client wise cash deposits allocation against exposure margin and losses.
- ➔ Change in Penalty requirement on Net Capital Balance Certificate.

12.3 Foreign Investment

After massive outflows in 2H 2008, foreign portfolio investment made a strong comeback in 2009-10. The net portfolio investment during July 2009-March 2010 stood at \$431.93 million in Pakistan, according to NCCPL.

As a result, from an average of 9 per cent in 2009 the share of overseas investment in total volumes at the local bourses increased to 15 per cent in March 2010. During the period, benchmark KSE-100 Index has gained 38 per cent (33 percent in US\$ terms). However, since the end of April, selling by foreign investors has reappeared, in line with the retrenchment witnessed in global financial markets following the eruption of the Greek debt issue.

14 th May 2009			14 th May 2010		
INVESTOR	MARKET TYPE	US DOLLAR	INVESTOR	MARKET TYPE	US DOLLAR
FOREIGN INDIVIDUAL	REGULAR	15,179	FOREIGN INDIVIDUAL	REGULAR	695
	TOTAL	15,179		TOTAL	695
FOREIGN CORPORATES	REGULAR	590,063	FOREIGN CORPORATES	REGULAR	1,497,463
	TOTAL	590,063		TOTAL	1,497,463
OVERSEAS PAKISTANI	REGULAR	3,273	OVERSEAS PAKISTANI	REGULAR	42,412
	TOTAL	3,273		FUTURE CONTRACT	(8,511)
---	GRAND-TOTAL	608,515	OVERSEAS PAKISTANI	TOTAL	33,900
Source: NCCPL				GRANDTOTAL	1,532,058
			Source: NCCPL		

12.4 Corporate Profitability

Corporate profitability has declined dramatically since 2006 (Fig 12.1). After tax profits for the companies listed on the KSE have shrunk 77% between 2006 and 2009. In comparison to 2008, profits after tax declined 67% in 2009, reflecting the impact of a difficult operating environment. A disturbed law and order situation in the country, a balance of payments crisis, and the resultant Rupee depreciation of over 20%, and the energy crisis have all combined to diminish profits. The inter-corporate debt issue in the energy sector has hit the otherwise most profitable listed sector particularly hard.

Since corporate profitability has a large bearing on future investment decisions, the sharp contraction in profits of listed companies over the past few years can partly explain the subdued investment response since 2008.

Profitability is concentrated in a few large companies in the Energy, Telecoms and Banking sector (see Fig-12.2). Concentration has an effect of distortion on the profit calculations. Comparing the loss as well as profit making companies in 2008 and 2009 it can be observed that the decline in profit making companies was 54 (17%) while 21 (9.1%) more companies reported losses.

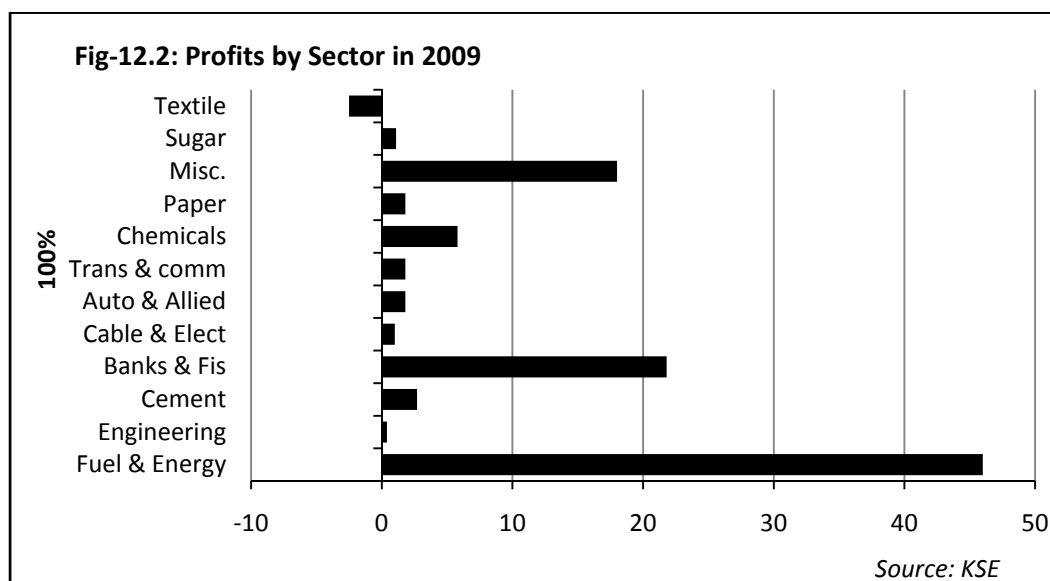
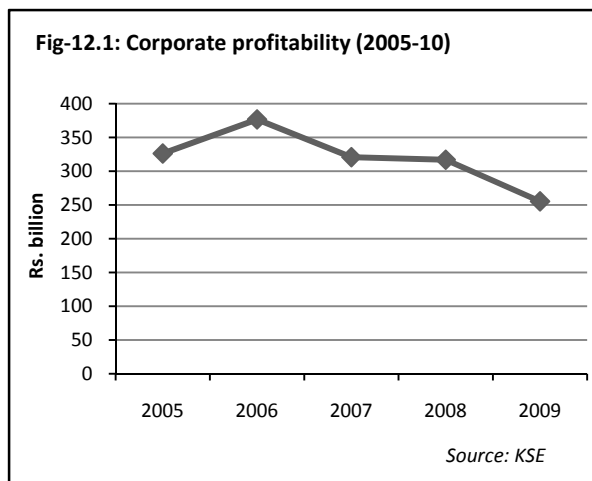


Table 12.5: Companies Listed on KSE and their Before Tax Profits

S. No.	Sector	No. of Companies		Profit Before Taxation (Rs billion)		Dividend Paying Companies		Profit Making Companies		Loss Making Companies	
		2008	2009	2008	2009	2008	2009	2008	2009	2008	2009
1	Cotton & other Textiles	209	208	7.88	-6.5	37	34	69	61	96	94
2	Chemical & Pharmas	34	34	10.03	14.82	20	19	26	22	6	10
3	Engineering	13	13	2.19	1.12	6	6	8	6	2	2
4	Auto & Allied	25	25	9.09	4.7	11	12	18	13	4	8
5	Cables & Electric Goods	9	9	3.30	2.74	4	4	6	4	1	3
6	Sugar & Allied	37	37	0.45	2.95	11	15	21	25	15	10
7	Paper & Board	10	10	0.35	4.6	4	3	6	5	3	4
8	Cement	21	21	-4.29	6.96	2	3	6	12	15	9
9	Fuel & Energy	27	27	182.32	117.48	17	13	18	17	8	9

Table 12.5: Companies Listed on KSE and their Before Tax Profits

S. No.	Sector	No. of Companies		Profit Before Taxation (Rs billion)		Dividend Paying Companies		Profit Making Companies		Loss Making Companies	
		2008	2009	2008	2009	2008	2009	2008	2009	2008	2009
10	Transport & Comm.	14	15	-44.69	4.69	4	6	5	8	6	4
11	Bank & Fin. Institutions	169	169	90.06	55.66	78	40	90	55	55	71
12	Miscellaneous	85	88	44.64	46.09	37	31	50	41	19	27
Total		653	656	301.32	255.3	231	186	323	269	230	251

Source: KSE

12.5 Primary Mobilization at The KSE

As shown in Table 12.6, banks have historically played a much larger role in primary mobilization in Pakistan as compared to the capital markets, with the exception of the previous two years. The rise in credit disbursed by banks is more pronounced from 2002-03 onwards due to banking sector reforms, in conjunction with a number of other factors. Some of these include:

- ➔ Listing requirements and cost of issuance has been fairly significant, making borrowing from banks a cheaper option.
- ➔ Companies prefer to avoid the “regulatory burden” and greater disclosure associated with listing.
- ➔ Fear of loss of management control

Table 12.6: Primary Mobilization

Year	New capital raised/issued (Rs. In billion)	Bank credit disbursed (Rs. In billion)	New capital raised as a %age of GDP	Bank credit disbursed as a %age of GDP
2004-05	123.7	437.8	1.9	6.7
2005-06	71.1	401.7	0.9	5.2
2006-07	119.2	365.7	1.3	4.2
2007-08	105.4	408.4	1.0	3.9
2008-09	101.4	18.9	0.8	0.14
2009-10*	252.8	147.2	1.7	1.0

* Jul- Mar

Sources: SBP, EA wing.

12.6 Islamabad Stock Exchange (ISE)

At present there are 118 members of ISE out of which 104 are corporate bodies including commercial and investment banks, Development finance institutions (DFIs) and brokerage houses. The other 18 Members are individual persons. The average daily turnover has now crossed the figure of 1 million shares. The ISE-10 index began the fiscal year at 1715.53 points and ended the third quarter at 2442.39 points.

Table 12.7: Profile of Islamabad Stock Exchange

	2005-06	2006-07	2007-08	2008-09	2009-10 (Jul-Mar)
Number of Listed Companies	240	246	248	261	242
New Companies Listed	6	12	7	15	1
Fund Mobilized (Rs. billion)	5.2	30.7	24.6	24.8	61.6
Listed Capital (Rs. billion)	374.5	488.6	551	608.6	-
Turnover of Shares (billion)	0.4	0.2	0.6	0.3	0.20
ISE Index	2,633.9	2,716	2,749.6	1,713	2,330
Aggregate Market Capitalization (Rs billion)	2,101.6	3,060.6	2,872.4	1,705.1	-
- : Not available					Source: ISE

12.7 Lahore Stock Exchange (LSE)

The LSE-25 index, which was 2143.27 points in June 2008, increased to 3201.2 points in March 2009. The market capitalization of the LSE has reduced from Rs. 1953.087 billion till March 2009 to Rs. 2746.325 billion till March 2010. Two new companies and two open-ended funds were listed with the LSE during July-March 2008-09, as compared to 5 new companies and 11 open-ended funds in the fiscal year 2009-10. Total paid up capital with the LSE increased from Rs. 721.064 billion in 2008-09 to Rs. 827.482 billion in March 2009. The average daily turnover of shares on the exchange during July-March 2009-10 was 2.51 billion. It was 8.16 the year before.

Table 12.8: Profile of Lahore Stock Exchange

	2005-06	2006-07	2007-08	2008-09	2009-10 (Jul-Mar)
Number of Listed Companies	518	520	514	511	509
New Companies Listed	7	10	2	9	5
Fund Mobilized (Rs billion)	24.5	38.8	29.7	32.8	42.3
Listed Capital (Rs billion)	469.5	594.6	664.5	728.3	827.4
Turnover of Shares (billion)	15	8.2	6.5	2.7	2.5
LSE Index	4,379.3	4,849.9	3,868.8	2,132.3	3,201.20
Aggregate Market Capitalization (Rs billion)	2,693.3	3,859.8	3,514.2	2,018.2	2,746.3
					Source: LSE

The total funds mobilized during July-March 2009-10 in the three stock exchanges (KSE, LSE & ISE) amounted to Rs. 252.78 billion, The total turnover of shares in the three stock exchanges during the period was 36.65 billion.

12.8 Debt Capital Markets

The debt capital markets consists of the primary issuance and secondary trading of all bonds and fixed-income securities issued by the Government and private sector, as well as, for the purposes of this discussion, instruments of National Savings.

12.8-1 Pakistan Investment Bonds (PIBs)

Pakistan Investment Bonds (PIBs) form a big chunk of Government securities. They provide the government with long term maturity debt. SBP held five auctions of PIBs in FY07, seven in FY08 and four in FY09. The PIB portfolio was expanded in FY09 with the inclusion of a 7 years paper while rises in

discount rates caused revision of coupon rates.

Within the Permanent debt, PIB retained its dominant share. The breakup of domestic debt servicing data reveals that interest payments on the permanent debt increased significantly during Jul-Jan FY10 compared to same period last year. This increase was largely due to interest payments on 10-year PIBs, in line with its increasing share in the total outstanding stock of PIBs.

The government raised Rs 8.67 billion through auction of Pakistan Investment Bonds (PIBs) on March 17, 2010 increasing the yield on 10-year PIB to 12.75 percent from 12.53 percent. It raised Rs 6.06 billion through the sale of 10-year bond, Rs 1.28 billion through three-year bond, Rs. 1.09 billion through five-year bond and Rs 240 million through seven-year bond. For the three, five and seven-year bonds, the cut-off yields were raised to 12.49 percent from 12.30 percent, 12.59 percent from 12.40 percent and 12.70 percent from 12.50 percent, respectively.

Table 12.9: PIB Coupon Rates for FY10 (Dec 09)

Tenor	Previous coupon Rate (at 30Jun 09)	Current Coupon Rate
3-Years	11.25%	11.25%
5-Years	11.50%	11.50%
7-Years	11.75%	11.75%
10-Years	12.00%	12.00%
15-Years	12.50%	12.50%
20-Years	13.00%	13.00%
30-Years	13.75%	13.75%

Source: SBP

Table 12.10: Interest Rate Structure, FY 2008-09

Tenors	31st Dec'08 (%)	31st Apr'09 (%)	Variance (H2FY09) bps	3-Sep-09 %	11-Nov-09 %	Variance (H1FY10) bps
3-Years	13.70	12.94	-76	12.29	12.26	-0.03
5-Years	10.80	12.95	215	12.36	12.40	0.04
7-Years	14.34	13.14	-120	12.45	12.42	-0.03
10-Years	14.55	13.24	-131	12.5	12.44	-0.06

Source: SBP

From January to June 09 Sukuk bonds worth 19,275 Rs. million were issued while from July to December 09 the figure was 22,076 Rs. million making the total Rs. million 41,351.

Table 12.11: 3-Year Ijara Sukuk Auctions Result For FY10

(Rs. billions)

Date	Target	Offered Amount	Accepted Amount	Cut-off Margin	Variance of Acceptance against Target
Jul08-Jun09 (20-12-08)	10	7.35	6.00	+75bps	-4.00
Jul08-Jun09 (04-03-09)	10	21.43	15.33	+0bps	+5.33
Jul-Dec09 (05-10-2009)	10	30.38	14.4	-5bps	4.40
Total	40	59	42		2

Source: SBP

Banks tended to negotiate higher rates on government guaranteed debt in the wake of low liquidity in the system, in addition to concern about concentration of exposure. Hence, the first issuance of the Term Finance Certificate (TFC) in March 2009 was priced at KIBOR plus 1.75 percent, while the second issuance in September 2009 was at KIBOR plus 2 percent. Similarly, the rates for financing commodity

operations were around KIBOR plus 2.5 to 2.75 percent.

12.8-2 National Savings Scheme (NSS)

National Savings Organisation is the biggest non-bank borrowing institution for the government, with over six million account holders investing more than Rs. 1,500 billion. Special Savings Certificates and Special Savings Accounts remained the attractive instruments for the investor despite the higher interest rate offered by Bahbood Saving Certificates and Pensioner's Benefit Account.

Table 12.12: Floatation of TFCs, July 09 - March 10 (Rs. billions)

Name of Company	Listed at	Issue Size
Allied Bank Ltd.	KSE	3.00
Askari Bank Ltd.	LSE	3.00
Engro Chemical Pakistan Ltd.	KSE	2.50
Total		8.50

Source: SECP

Mobilization through prize bonds saw a significant improvement. This was mainly due to the decision of the government to increase the amount of prizes on different denominations in Feb 2009. The interest payments on the matured stock of DSCs still constitute a major share in the total interest payments on unfunded debt.

Within the permanent debt, a major development was the introduction of first ever tradable National Saving Bond (NSB) in Jan 2010. The government was able to attract Rs 3.7 billion through NSB during Jan 2010. The National Savings bonds (NSBs) are authorized by the Ministry of Finance and backed by a sovereign guarantee of the government of Pakistan. The National Savings Bonds (NSBs) mark a paradigm shift of government borrowings from the banking sector to the non-banking sector — the latter being relatively less inflationary. The NSB bonds are relatively of a small size of Rs. 3.6 billion at the start, but they would extend the outreach of the stock exchanges as they would deepen the domestic debt market. National Savings Organisation already manages over Rs. 1 trillion of public money in various savings schemes. The current year target for fresh investment is set at Rs. 240 billion.

Debt servicing cost being incurred against matured stock of DSCs forms more than 50% of the total debt servicing cost on the unfunded debt. However it is pertinent to note here that the outflow in the form of interest payments on DSC is declining overtime. Also the debt servicing cost of Behbood Saving Certificates (BSC) and Special Saving Certificates (SSC) increased significantly in the period under discussion, as the major amount raised against these certificates was issued at significantly higher interest rates during FY09.

Table 12.13: Net Accruals in National Savings Schemes (Rs. billions)

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10 July-Mar
Defence Savings Certificates	-8.7	-7.6	-5.8	-4.3	(27.4)	(35.07)
Special Savings Certificates (R)	-83.3	-57.7	7.0	13.8	128.4	51.97
Savings Accounts	-2.9	0.2	9.2	9.0	(10.9)	(1.2)
Special Savings Accounts	-1.9	-0.7	6.5	5.5	21.6	29.75
Regular Income Certificates	-40.7	-15.6	-17.0	-0.3	40.1	33.93
Pensioner's Benefit Accounts	17.7	16.4	11.5	18.7	22.2	14.16
Bahbood Savings Certificates	60.7	59.6	47.2	38.8	78.5	45.10
National Prize Bonds	9.4	3.3	9.0	8.3	14.6	27.32
Postal Life Insurance	10.3	10.8	-	-	-	-
Grand Total	-39.4	8.7	67.6	89.5	267.1	165.96

Source: Central Directorate of National Savings

The NSS during the first ten months of 2009-10 attracted Rs. 166 billion compared to Rs. 267 billion for the whole of last year. Non-bank finance, especially from NSS, made it possible to arrest the borrowings from the banking system in FY10.

12.9 Investor Base

12.9-1 Leasing

Due to a competitive operating environment and liquidity problems, leasing companies have undergone significant transformation in the last few years. Most visible are structural changes in the leasing sector on account of mergers and amalgamations. During the period July-December, 2009, Al-Zamin Leasing Corporation Ltd. was merged with and into Invest Capital Investment Bank Ltd. and ORIX Investment Bank Limited was merged with and into ORIX Leasing Pakistan Limited. . During the period July, 2009-March, 2010, one housing company was acquired by another group and three leasing companies were merged with other entities. Despite consolidations /mergers, there are still significant challenges for the leasing sector.

As on March 31, 2010 there are nine (9) active licensed leasing companies. The major financial indicators of the sector are summarized as under:

Total Assets	(Rs. in million):	40,266
Total Equity	(Rs. in million):	5,316
Total Deposits	(Rs. in million):	3,187

12.9-2 Investment Banks

Investment Banks have not been able to make any significant contribution as primarily they focused on the analogous financial services as offered by the conventional banking sector. Investment Banks were not able to compete owing to their limited access to resource mobilization coupled with low capitalization and limited branch network when compared to the commercial banks offering the similar services. Investment banks are being encouraged for a more viable and sustainable business model to be tilted more towards offering of non-funded i.e. fee and commission based, financial services

As on March 31, 2010 there are eight (8) active licensed investment banks.

The major financial indicators of the sector are summarized as under:

Total Assets	(Rs. in million):	31,499.97
Total Equity	(Rs. in million):	3,358.37
Total Deposits	(Rs. in million):	27,616.27

12.9-3 MODARABAS

During the last two decades, notwithstanding the challenges of already deeply entrenched interest-based financing system and resource mobilization constraints, the sector has performed reasonably well and shown a steady growth in the past few years. There is a decrease in the assets of the Modaraba sector from Rs. 26,626 million as on 30.6.2009 to Rs. 24,397 million as on 31.12.2009. Similarly, investments in the listed securities has also shown a marginal decline from Rs. 2,616 million to Rs. 1,854 million from the corresponding period. However, there is a slight increase in the equity from Rs. 11,334 million (30.6.2009) to Rs. 11,556 million (31.12.2009). It is expected that the financial indicators will

improve on the betterment in the financial and economic conditions of the country.

The approval and certification by the Religious Board for twelve new Islamic financing agreements would eliminate disparity and bring Modarabas at a same level with other financial institutions for resource mobilization.

The assets of the Modaraba sector stood at Rs. 24,516 million as on 31,03,2010 as compared to Rs.24,397 million as on 31,12,2009. Similarly, investment in the listed securities was 1,497 million. Moreover the equity was Rs. 10,779 million as on 31,03,2010.

As on March 31st 2010, there were 41, registered Modaraba Companies and 26 Modarabas in existence. 6 Modarabas are in the process of winding up. The major financial indicators of the sector are summarized as under:

Total Assets	(Rs. In million)	24.51
Total liabilities	(Rs. In million)	13.32
Total Equity	(Rs. In million)	10.77

12.9-4 Real Estate Investment Trusts (REITs)

Pakistan has witnessed a property boom in the last decade and the launching of REITs as a new investment product will: (i) provide retail investors the opportunity to share the dividends from the robust real-estate sector; (ii) facilitate professional developers in undertaking mega-construction projects without the traditional liquidity issues that property development companies are confronted with; and (iii) maximize the efficiency of property utilization by creating an equilibrium between demand and supply of property on the one hand and provide more efficiently managed shared use rental properties on the other.

In March 2009, the Commission granted two permissions to incorporate REIT Management Companies (RMC) in Pakistan who would launch REIT schemes after obtaining the prerequisite approvals from the Commission.

12.9-5 Private Equity & Venture Capital Fund (PE & VCF)

Private Equity and Venture Capital Fund (PE & VCF) is a unlisted closed-end unit trust fund open only to high net-worth individuals and institutions, due to its intrinsic nature of being a high risk asset class. In August 2008, Securities and Exchange Commission of Pakistan approved the regulatory framework for registration and regulation of PE&VC Funds in Pakistan

Unfortunately due to dismal law and order situation and general economic downturn, there has not been much activity in this area.

12.9-6 Voluntary Pension System

Seven Pension Funds (four Islamic and three conventional) have been launched under the Voluntary Pension System Rules, 2005. While the seed capital generated was Rs. 690 million, the industry stood at Rs. 1,004 million as on December 31, 2009, while the industry was at Rs. 1,068 billion as on March 31st, 2010.

12.9-7 Mutual Funds

Mutual Funds marched on the road to recovery during the period July – December, 2009 with net assets showing an increase of 42%, i.e. increasing from Rs. 182 billion in January, 2009 to Rs. 258 billion in December, 2009. The total number of mutual funds stood at 116 in December, 2009 compared to 95 in January, 2009 substantiating an uptrend in the industry both in terms of growth in net assets as well as number of mutual funds launched. Growth was primarily evidenced in the categories of money market, income, and capital-protected funds. This shift, however, was anticipated especially keeping in view the fact that appetite towards risk had subdued in the aftermath of the crisis that entangled the industry in late 2008, effects of which carried forward till the first half of 2009. The net assets of the mutual fund industry amounted to Rs 253 billion, as on 28th February 2010* as compared to Rs. 258 billion in December, 2009. The total number of mutual funds stood at 121 as at March 31, 2010 compared to 116 in December, 2009 substantiating marginal growth in the number of mutual funds launched.

Despite the unprecedented financial turmoil, mutual fund industry in general withstood the down turn and successfully managed mounting redemption pressure by repaying in excess of Rs. 90 billion to the investors.

	Leasing Companies	Investment Banks	Modaraba's
Total Assets	39,153	31,289	23,016
Total Liabilities	34,091	27,101	13,069
Total Equity	4,991	4,181	9,171
Total Deposits	3,553	10,808	4,151

Source: SECP

12.10 Capital Market Reforms

The focus of the reforms was to improve risk management of the market.

The concept of Concentration Margins was introduced, and amendments pertaining to the implementation of the same in place of special margins on derivative products, were approved in the Regulations governing Risk Management of the Stock Exchanges.

Another important measure was the phase-wise implementation of the client-level margining system at the stock exchanges and the NCCPL. The said system would assist in eliminating chances of misuse of one client's margins against exposure requirements of other clients.

The Deliverable Futures Contract Market was relaunched in view of the market need for a derivative product. This re-launch was characterized by measures for revamped risk management of the said product.

Also, the SECP is facilitating the stock exchanges in exploring avenues for introduction of Index based Market Halts, which is geared at reducing the risk associated with trading at the stock exchanges by progressively increasing the circuit breakers on individual scrips thereby allowing the securities a wider range for movement, in line with international best practices.

12.11 Developmental Activities

The SECP, in the earlier half of the year 2009, had constituted national-level forums comprising of all the

prominent stakeholders. The Consultative Group on Capital Markets is acting as an independent think tank for important policy decisions in relation to the development of capital markets. In the later half of the year, the Group submitted its report on Margin Financing, which was to serve as an alternate leverage product to cater for the financing appetite of the market after the discontinuation of CFS Mk-II. A final concept paper, after detailed deliberations with all relevant stakeholders, has been submitted by the SECP and the KSE and NCCPL have been advised to develop necessary systems and to formulate requisite regulatory framework for the said product. This product will be available for both proprietary trade and clients of brokerage houses. The Consultative Group also submitted its recommendations with respect to a revised brokers' regime encompassing the capital adequacy requirements and code of conduct for the brokers. An important feature of the said regime is the linkage it creates between the capital adequacy requirements of a broker and his risk profile. The said regime is to be implemented in a phased manner.

In view of the above and the in-principle approval earlier granted by the SECP to the NCCPL for the development of a Securities Lending and Borrowing mechanism, the SECP is currently in the process of framing the Securities (Margin Financing, Securities Lending and Borrowing and Pledging) Rules, in order to provide a broader legal framework for the above mentioned concepts.

TABLE 9.1
NUMBER OF LISTED COMPANIES, FUND MOBILISED AND TOTAL TURNOVER OF SHARES IN VARIOUS
STOCK EXCHANGES

	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	Jul-Mar 2009-10
KARACHI STOCK EXCHANGE											
i) Total Listed Companies	762	747	712	702	668	659	658	658	652	652	650
ii) New Companies Listed	1	4	4	2	16	15	14	12	5	8	5
iii) Fund Mobilized (Rs billion)	0.4	3.6	15.2	23.8	4.2	54.0	41.4	49.7	49.2	42.3	98.7
iv) Total Turnover of Shares (In billion)	48.1	29.2	29.1	53.1	97.0	88.3	104.7	68.8	56.9	17.1	33.7
LAHORE STOCK EXCHANGE											
i) Total Listed Companies	-	614	581	561	647	524	518	520	514	512	511
ii) New Companies Listed	2	3	3	2	18	5	6	8	2	2	5
ii) Fund Mobilized (Rs billion)	0.4	2.5	14.2	4.1	3.1	42.1	24.5	38.8	28.1	35.3	92.4
iv) Total Turnover of Shares (In billion)	1.6	7.8	18.3	28.2	19.9	17.5	15.0	8.3	5.4	1.5	2.7
ISLAMABAD STOCK EXCHANGE											
i) Total Listed Companies	-	281	267	260	251	232	240	246	247	240	242
ii) New Companies Listed	0	5	3	1	8	5	2	7	3	4	1
ii) Fund Mobilized (Rs billion)	0	0.8	3.7	11.5	2.6	27.6	5.2	30.7	28.1	24.8	61.7
iv) Total Turnover of Shares (In billion)	3.1	1.4	2.7	2.1	1.4	0.7	0.4	0.3	0.9	0.158	0.2

Source: SECP, KSE, LSE, ISE

TABLE 9.2

NATIONAL SAVING SCHEMES (NET INVESTMENT)

Name of Scheme	(Rs. Million)								
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	Jul-Mar 2009-10
1 Defence Savings Certificates	22,037.3	21,990.5	3,238.3	(8,759.1)	(7,551.0)	(6,976.8)	(4,317.4)	(27,411.3)	(35,076.5)
2 National Deposit Scheme	(6.3)	(5.7)	(6.8)	(1.3)	(2.5)	(1.1)	0.0	(2.7)	0.2
3 Khaas Deposit Scheme	(12.1)	(13.5)	(23.4)	(5.4)	(2.8)	(5.6)	7.0	(1.6)	(3.7)
4 Premium Savings Scheme	-	-	-	-	-	-	-	-	-
5 Special Savings Certificates (R)	36,443.2	84,899.1	(13,199.3)	(83,311.9)	(57,737.1)	6,667.5	13,800.6	128,469.0	51,975.7
6 Special Savings Certificates (B)	(203.3)	(11.1)	(2.6)	(4.6)	(0.6)	(0.1)	(0.2)	(8.5)	(0.3)
7 Regular Income Certificates	11,046.3	(14,923.9)	(49,090.5)	(40,663.0)	(15,563.9)	18,369.1	(273.5)	40,094.3	33,935.7
8 Pensioners' Benefit Account	-	10,170.0	13,209.3	17,737.2	16,382.9	11,468.6	18,695.9	22,215.7	14,163.4
9 Savings Accounts	(329.8)	1,638.1	(729.6)	(2,891.4)	(202.7)	12,825.7	8,989.1	(10,899.2)	(1,257.5)
10 Special Savings Accounts	4,266.9	5,135.0	2,894.1	(19,048.0)	(709.6)	9,417.6	5,521.5	21,627.1	29,753.3
11 Bahbood Saving Certificates	-	-	22,691.0	60,654.6	59,636.6	47,214.5	38,799.7	78,537.4	45,104.7
12 Mahana Amdani Accounts	92.8	129.5	120.9	85.9	45.7	56.9	(25.0)	(50.0)	(172.8)
13 Prize Bonds	11,588.0	26,840.1	22,841.9	9,357.0	3,325.8	9,007.3	8,277.1	14,650.0	27,324.2
14 Postal Life Insurance	6,448.3	7,367.7	8,668.7	10,335.2	10,804.5	-	-	-	-
15 National Savings Bonds	-	-	-	-	-	-	-	-	3,650.2
Grand Total	91,371.3	143,215.8	10,612.0	(39,371.6)	8,830.7	71,305.5	89,460.8	267,220.7	169,396.7

Figures in Parenthesis represent negative signs

Source : Central Directorate of National Savings

R : Registered

B : Bearer

- : Not available

TABLE 9.3

MARK UP RATE/PROFIT RATE ON DEBT INSTRUMENTS CURRENTLY AVAILABLE IN THE MARKET

S.No.	Schemes	Markup/Profit Rate	Maturity Period	Tax Status	
1.	Foreign Exchange Bearer Certificate (FEBC)				
	a. If Certificate of Rs 1000 encashed before 1 year investor will get Rs 1000 (face value)				
	b. If Certificate of Rs 1000 encashed after 1 year investor will get Rs 1145				
	c. If Certificate of Rs 1000 encashed after 2 year investor will get Rs 1310			Sale under this scheme has already been discontinued, from December 1999 however, on outstanding balance till maturity, rate will be applicable	
	d. If Certificate of Rs 1000 encashed after 3 year investor will get Rs 1520				
	e. If Certificate of Rs 1000 encashed after 4 year investor will get Rs 1740				
	f. If Certificate of Rs 1000 encashed after 5 year investor will get Rs 1990				
	g. If Certificate of Rs 1000 encashed after 6 year investor will get Rs 2310				
2.	Foreign Currency Bearer Certificate (FCBC), 5 years	Scheme has already been discontinued w.e.f. February 1999. Only repayment is made			
3.	Special US\$ Bonds		The rates are effective from Sept. 1999. If bonds are encashed before one year no profit will be paid. Profit is payable @ LIBOR + 2.00% on bonds reinvested for 3 years on Special US\$ Bonds redeemed against 3 and 7 years maturity. However, the facility of reinvestment has been discontinued since October 2002.		
	a) 3 year maturity	LIBOR+1.00%			
	b) 5 year maturity	LIBOR+1.50%			
	c) 7 year maturity	LIBOR+2.00%			
4.	<u>Pakistan Investment Bonds</u>				
	<u>Tenor</u>	<u>Rate of Profit</u>			
	3-Year Maturity	11.25% p.a	Coupon rate are given for 30th August 2008 issue.		
	5-Year Maturity	11.50% p.a			
	7-Year Maturity	11.75% p.a			
	10-Year Maturity	12.00% p.a			
	15-Year Maturity	12.50% p.a			
	20-Year Maturity	13.00% p.a			
	30-Year Maturity	13.75% p.a			
5.	<u>Unfunded Debt</u>				
	Defence Saving Certificates	12.15% p.a (m)	10 Years	Taxable for deposits exceeding Rs. 150,000 made on or after 01-07-2002	
	National Deposits Schemes	13.00% p.a.	7 Years	Taxable and discontinued	
	Special Saving Certificates (R)	11.67% p.a	3 Years	Taxable for deposits exceeding Rs. 150,000 made on or after 01-07-2002	
	for each of 1st five profit	11.60% p.a.			
	for the last one profit	12.00% p.a.			
	Special Saving Certificates (B)	13.00%	3 Years	Taxable and discontinued	
	Regular Income Certificates	12.00%	5 Years	Taxable	
	Khas Deposit Scheme	13.42% p.a.	3 Years	Taxable and discontinued	
	Mahana Amdani Accounts	10.41% p.a.(m)	7 Years	Taxable and discontinued	
	Saving Accounts	8.50% p.a.	Running Account	Taxable for balances exceeding Rs. 150,000	
	Bahood Savings Certificate	14.16% p.a.	10 Years		
	Pensioners' Benefit Account	14.16% p.a.	10 Years		
	Prize Bonds	10.00% p.a.			
	p.a : Per annum	R : Registered		Source: State Bank of Pakistan and	
	B : Bearer	m : on maturity		Central Directorate of National Savings	