

BROKER MANAGEMENT RATING REPORT

Foundation Securities (Private) Limited

REPORT DATE:

May 28, 2018

RATING ANALYSTS:

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Rating Category	Latest Rating
Broker Management Rating	BMR2
Rating Rationale	The rating signifies sound internal and external control framework, client relationship, risk management and HR & IT infrastructure while financial management and regulatory compliance level are adequate.
Rating Date	28 May 2018

APPLICABLE METHDOLOGY:

Broker Management Ratings 2017:

<http://jcrvis.com.pk/docs/BMR201701.pdf>

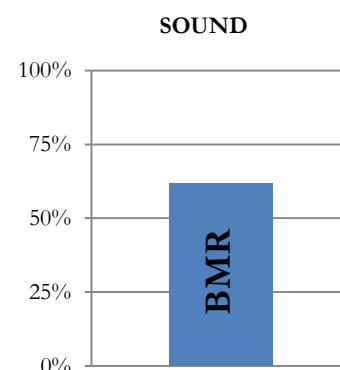
COMPANY INFORMATION

Incorporated in 2005	External auditors: Grant Thornton Anjum Rahman
Public limited Company	Chairman of the Board: Brig. Wajahat Nazir (Retd)
Key Shareholders (with stake 5% or more): Fauji Foundation Pakistan – 95.74%	Chief Executive Officer: Syed Ahmad Abbas Zaidi

Corporate Profile

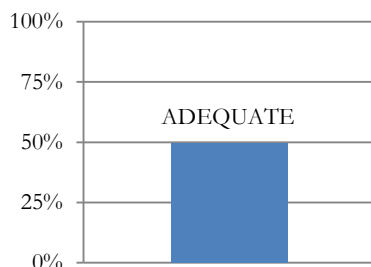
Foundation Securities Private Limited (FSL) was incorporated as a private limited company on January 18, 2005 under the Companies Ordinance 1984. FSL was established through a partnership between Fauji Foundation and industry professionals to commence operations in equity and commodities brokerage, equity research and corporate financial advisory services. The company was engaged in investment banking services, however; this segment has been inactive since the past three years. FSL also issues research publications in collaboration with Macquarie; a global provider of banking, financial advisory, investment and funds management services.

The company holds a Trading Right Entitlement (TRE) certificate issued by the Pakistan Stock Exchange Limited (PSX). Majority shareholding of FSL rests with Fauji Foundation with a stake of approximately 96%. Remaining stake is held by four different individuals. External auditors of the company are Grant Thornton Anjum Rahman. Auditors are on the approved list of auditors in category 'A', published by the State Bank of Pakistan (SBP).



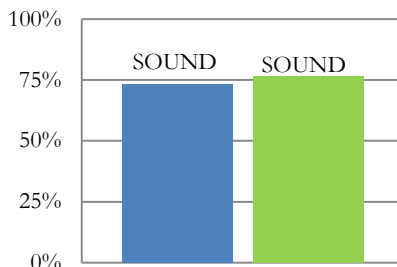
Rating Factors Scores

Regulatory Requirements & Supervision



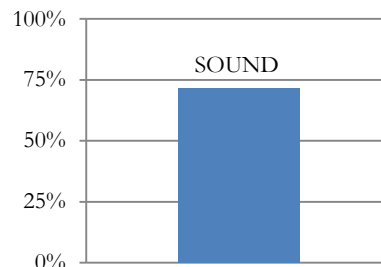
- Strengthening of the board quorum and inclusion of an independent director would add to corporate governance framework.
- An independent director chairing the Board Audit Committee would be consistent with the international best practices.
- Directors' training programs needs to be encouraged.

Internal & External Control Framework



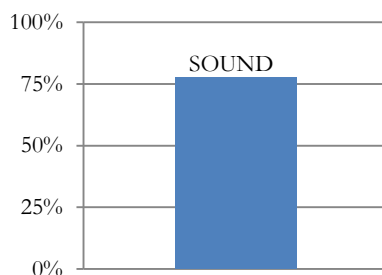
- Internal control framework is considered sound, however; the policies may be more comprehensive for clarity and control purposes.
- Control levels may be improved through more well-defined employee trading guidelines. Holding periods may be extended for better management of conflict of interest.
- Comprehensive director's report would be consistent with best practices.

Client Relationship & Fairplay



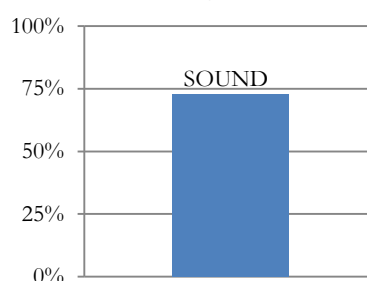
- Customer order placement mechanism and reporting to customers is sound. Moreover, there is room for improvement in risk disclosure policy document.
- Client handling and services are comprehensive and proactive.

HR & Infrastructure



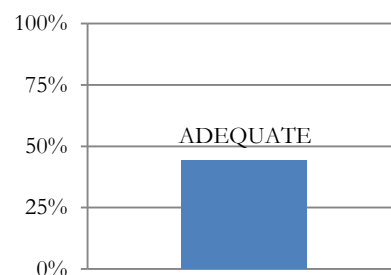
- The organizational structure is well defined.
- Fully integrated IT infrastructure is in place as per the needs of organization.
- More frequent DR exercises may minimize the operational risk and ensure continuity of business.

Compliance & Risk Management



- Risk management policies are sound entailing no proprietary book.
- Internal Audit function needs to be independent from Compliance and Compliance & Risk Management may independently function.

Financial Management



- Revenue stream is focused on brokerage income only leading to market risk. Diversification in the same would reduce concentration risk.
- Profitability has improved over the years, however; leverage indicators are relatively high.

JCR-VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: BROKER MANAGEMENT RATING

BMR1A

Excellent regulatory compliance, control environment, and financial management; governance and risk management frameworks are extremely effective; HR, IT, and customer services are strongly proactive.

BMR1++, BMR1+, BMR1

Strong regulatory compliance, control environment, and financial management; governance and risk management frameworks are highly effective; HR, IT, and customer services are highly proactive.

BMR2++, BMR2+, BMR2

Sound regulatory compliance, control environment, and financial management; governance and risk management frameworks are effective; HR, IT, and customer services are proactive.

BMR3++, BMR3+, BMR3

Adequate regulatory compliance, control environment, and financial management; governance and risk management frameworks are satisfactory; HR, IT, and customer services are adequate.

BMR4++, BMR4+, BMR4

Inadequate regulatory compliance, control environment, and financial management; governance and risk management frameworks need improvements; HR, IT, and customer services are insufficient.

BMR5

Weak regulatory compliance and business practices

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

JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

REGULATORY DISCLOSURES		Appendix II		
Name of Rated Entity	Foundation Securities (Private) Limited			
Sector	Brokerage			
Type of Relationship	Solicited			
Purpose of Rating	Broker Management Rating (BMR)			
Rating History	Rating Date	Rating	Rating Outlook	Rating Action
	RATING TYPE: BMR			
	28/05/2018	BMR2	Stable	Initial
Instrument Structure	N/A			
Statement by the Rating Team	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.			
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