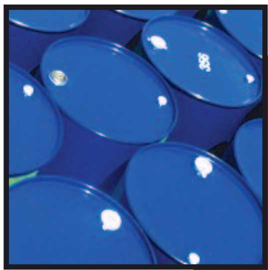
Pakistan Mercantile Exchange

PMEX

PMEX

2017

Annual Report



PAKISTAN MERCANTILE EXCHANGE

2017

Annual Report

PAKISTAN MERCANTILE EXCHANGE

PMEX

Your Futures Exchange

the Exchange of the Future

PMEX launched cash settled futures contracts of Copper, Brent Crude Oil, Platinum and Natural Gas and deliverable contracts of Paddy Super Basmati Rice, Wheat and Red Chilli.

MEX Expands its Product Suite

Pakistan Mercantile Exchange (PMEX) endeavors to offer products that cater to the needs of all types of market participants such as investors who invest in commodities for long term, traders who work with the aim to earn profit based on their market strategy and hedgers who trade to mitigate their risk, using commodity futures market.

To provide a rich mix of products, the Exchange analyzed commodities that Pakistan produces, exports and imports along with products listed at various leading international exchanges of the world. After comprehensive evaluation, the Exchange shortlisted products that are mix of local / physically deliverable futures and international / cash settled futures. The Exchange aims to introduce these products over the next 5 years.

Against this backdrop, in the FY 2016-17, PMEX listed several new products such as cash settled futures contracts of Copper, Brent Crude Oil, Platinum and Natural Gas and deliverable contracts of Paddy Super Basmati Rice, Wheat and Red Chilli. These new products have broadened PMEX range of offerings.

At present, the Exchange offers 14 commodities with 23 contracts of different denominations under four main asset classes: metal, agriculture, energy and financial futures. These new products have not only helped the brokers in attracting new business but also facilitated market participants in diversifying their product portfolio.

Copper ranks as the third-most-consumed industrial metal in the world, after iron and aluminium. In Pakistan, copper is used in industrial manufacturing, cable, electronic and home appliances.

Copper ranks as the third-most-consumed industrial metal in the world, after iron and aluminium. In Pakistan, copper is used in industrial manufacturing, cable, electronic and home appliances. Its consumption centers are located in Karachi, Lahore, Gujrat, Gujranwala, Rawalpindi, Islamabad, Peshawar, Kasur and Kotri. Pakistan is deficient in indigenous production of copper, therefore bulk of the requirement has to be met through import, exposing the consumers to price volatility risk.

To provide a hedging tool for copper, risk mitigation, global price discovery and opportunities for portfolio diversification to a range of market participants, PMEX launched Copper Futures Contract on October 25, 2016.

The Contract is a cash settled with a trading unit of 1,000 pounds. The Contract's price quotation is in USD but margins are paid in PKR.

Cash Settled Futures Contracts:

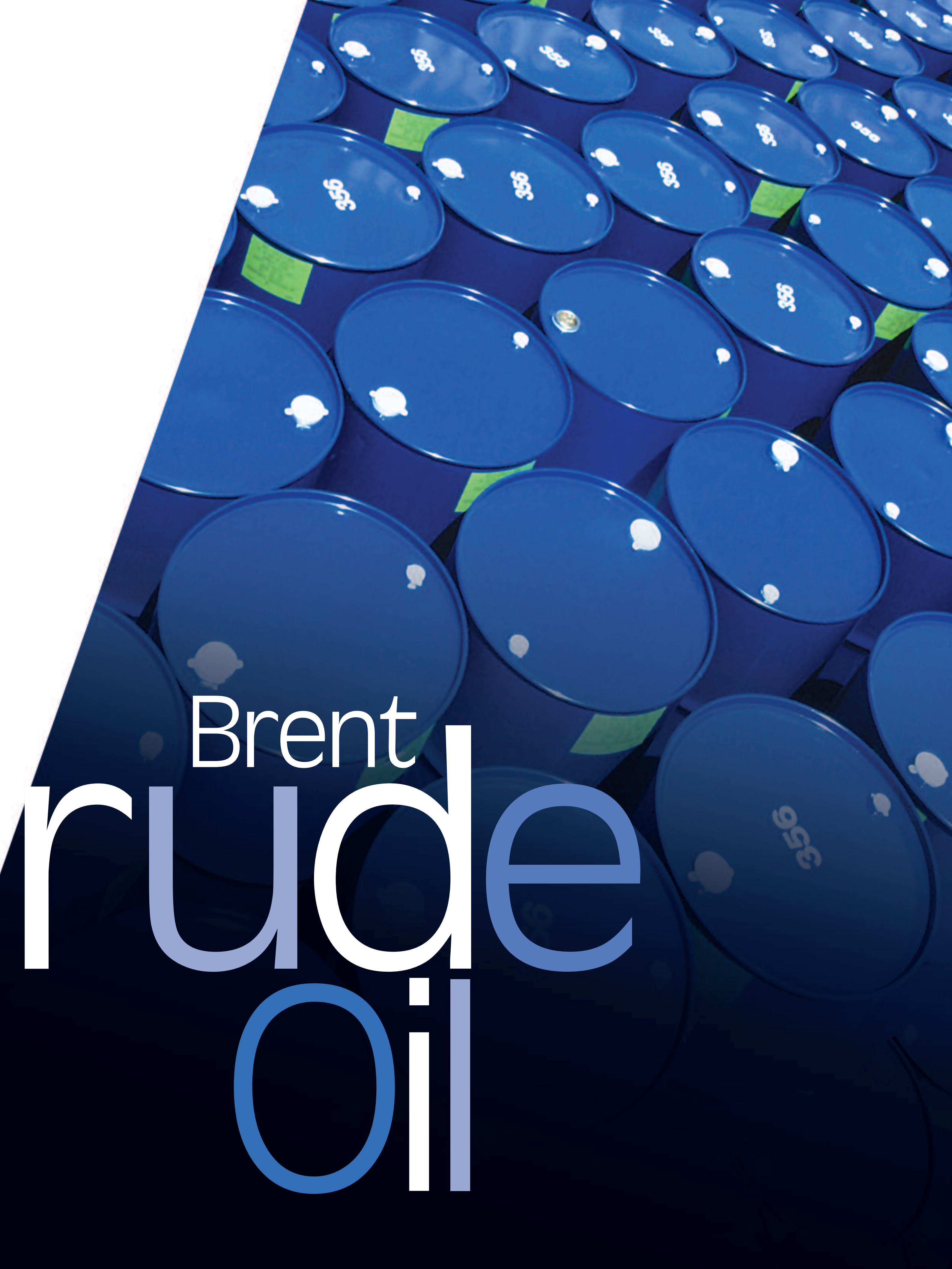
opper

In Pakistan, crude oil is a key component of the economy where transportation and power industries are the major consumers.

Crude oil is one of the most important sources of energy in the world and is therefore critical for global economic growth. In Pakistan, crude oil is extensively used in transportation and power industries.
The country is deficient in indigenous production of crude oil, therefore bulk of the requirement is met through import every year thus exposing the importers to price volatility risk.

PMEX launched Brent Crude Oil Futures Contracts on December 18, 2016. These contracts are cash settled with trading units of 10 and 100 barrels and the price quotation is in USD but margins are paid in PKR.

The Exchange is confident that with the introduction of these contracts in its energy product mix, market participants can now trade in both Brent and WTI benchmarks of crude oil. The new product will provide an excellent opportunity for market participants such as refineries, oil marketing companies, airlines, etc. to hedge their price risk.



Brent rude Oil

The dense, stable and rare metal is widely used in jewelry fabrication, automobile, medical, and electronic industry.

Platinum is one of the least reactive metals and has a number of useful properties, which explains its application in a wide-range of industries. It has remarkable resistance to corrosion, even at high temperatures and is therefore considered a noble metal.

The dense, stable and rare metal is widely used in jewelry fabrication, automobile, medical and electronic industry. Besides, it is also used as physical investment. The demand for the metal has caused platinum's price to be quite volatile. This volatility attracts traders and creates opportunities for trading.

PMEX launched Platinum Futures Contracts and made them available for trading from Tuesday, May 23, 2017. The Contracts are being offered in 5 and 50 troy ounces denominations.
The price quotation for these contracts are in USD, however, margins are paid in PKR.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Onceconsideredanineffectiveby-productofoilproduction,
naturalgasissteadilyfindingafootholdintoday'sworld.
BeingEconomical,environmentallyfriendlyandefficient,
naturalgasisconsideredasthecleanest-burningfossilfuel.

Natural gas is an energy source that is piped directly from fields to the consumers. It is considered a key source for generating electricity and providing energy. It is used extensively for residence and also has important applications in commercial and industrial settings.

Once considered an ineffective by-product of oil production, natural gas is steadily finding a foothold in today's world. Being economical, environmental friendly and efficient, natural gas is considered as the cleanest-burning fossil fuel.

PMEX launched Natural Gas Futures Contracts and made them available for trading from Tuesday, May 23, 2017. The Contracts are being offered in 1,000 and 10,000 mmbtu denominations. The price quotation for these contracts are in USD, however, margins are paid in PKR.

4 Natur

al Gas

Pakistan produces one of the best varieties and grades of long, slender-grained rice, known as Basmati, which enjoys enormous domestic and international demand due to its unique aroma, nutty flavor and best nutrition value.

In line with Exchange's objective of replicating the successful model of red chilli trade for other agricultural commodities, PMEX listed Super Basmati Paddy Rice Weekly Futures Contracts. The contracts of different varieties such as Grade A (1, 2 3 and 4) were made available for trading from December 2, 2016.

This is the second listing of agricultural commodity after red chilli on PMEX's state-of-the-art trading platform. The Exchange collaborated with the value chain partners of red chilli - SGS Pakistan for quality certification and Pakistan Agriculture Coalition (PAC) for trade facilitation.

Super Basmati Paddy

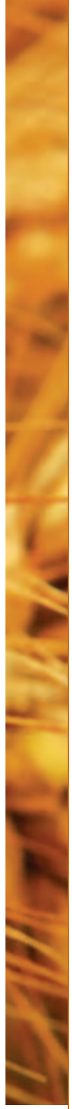
R

Pakistan produces one of the best varieties and grades of long, slender-grained rice, known as Basmati, which enjoys enormous domestic and international demand due to its unique aroma, nutty flavor and best nutrition value.

Physical Deliverable Futures Contracts:

Weekly Futures Contracts

Wheat is the most popular food crop of Pakistan and its products are used in a number of ways. Pakistan is the world's 7th largest wheat producer and its contribution is 3.48% of world production.



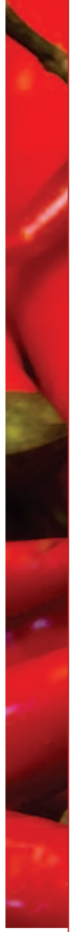
Wheat is the most popular food crop of Pakistan and its products are used in a number of ways. Pakistan is the world's 7th largest wheat producer and its contribution is 3.48% of total world production. Being the staple diet of majority of people in Pakistan, it dominates all crops in acreage and production. Wheat accounts for 10 percent of the value added in agriculture and 2.0% of GDP of Pakistan. Punjab is the major wheat producing province of Pakistan and it alone contributes around 75% of total production followed by Sindh 16% and remaining 9% from Khyber Pakhtunkhwa (KP) and Balochistan.

PMEX launched Wheat Weekly Futures Contracts and made them available for trading from May 9, 2017. For these contracts, the Exchange collaborated with the value chain partners of red chilli, SGS Pakistan for quality certification and Pakistan Agriculture Coalition (PAC) for trade facilitation. The listed contracts are based on the district Sheikhupura/Muridke, the major wheat growing districts of Punjab.

heat

Weekly
Futures
Contracts

The production volume of Hybrid red chilli has increased significantly during the last couple of years as compared to Dandicut/Longi.



Capitalizing on the success achieved in the previous trade season, the Exchange launched PMEX Hybrid Red Chilli Weekly Futures Contracts and made them available for trading from September 07, 2016. Along with this, PMEX listed longer dated Futures Contracts of Dandicut/Longi and Hybrid varieties of red chilli. With the launch of Hybrid along with Dandicut and longer dated Futures Contracts, PMEX now offers the complete range of red chilli.

The production volume of Hybrid red chilli has increased significantly during the last couple of years as compared to Dandicut/Longi. The trade centers for this variety are located all across the country with major trade activity in Kunri, Sindh and Faisalabad, Punjab.

3

New Varieties and Longer Dated Futures Contracts of

R


edChilli

PMEX remains committed to playing its due role in the development of a robust and sustainable ecosystem for commodity trading that can free the growers from the shekels of traditional trading system and enable them to get premium on superior quality produce and guarantee prompt payment.

PMEX Writes a New Chapter in the trading of

During the FY2016-17, under the guidance of Securities and Exchange Commission of Pakistan (SECP) and support of value chain partners, PMEX made great strides in the trading of Red Chilli, commenced on 2015 at its technology driven platform. The trade of Red Chilli at the Exchange surged to 2,200 tons from 600 tons as compared to previous year.

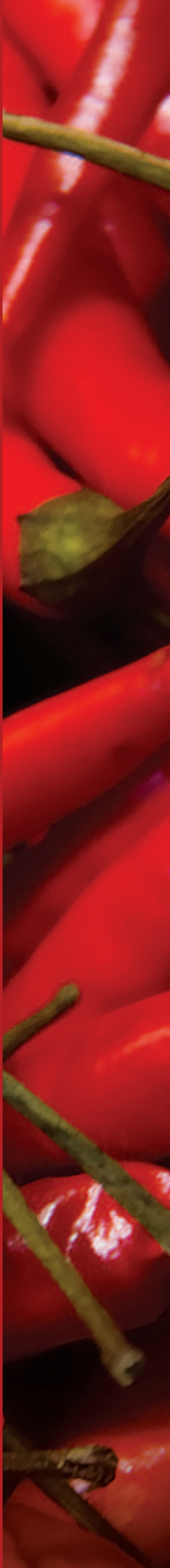
The quantum jump in the traded volume is attributed to various initiatives the Exchange undertook during the financial year. Firstly, PMEX made rigorous efforts to increase awareness and improve participation of buyers and sellers at its trading platform. Several awareness programs and roadshows were organized in Kunri, Faisalabad and Karachi prior to the arrival of crop of 2016. The programs were aimed at creating awareness among the farmers and traders about the benefits of trading at a PMEX's technology driven platform, contracts of different varieties of Red Chilli and trading mechanism. Besides, the programs also highlighted the facility of acquiring credit from the financial institutions against stock of Red Chilli kept at PMEX designated warehouses. These programs brought together market participants, and value chain partners under one roof and provided a platform to the farmers and traders to explore the opportunities and challenges associated with trading of Red Chilli at PMEX.

Secondly, having persuaded the growers and traders to actively trade Red Chilli at its trading platform, PMEX was also successful in bringing onboard the Sindh Enterprise Development Fund (SEDF), Sindh Board of Investment to offer subsidy to Red Chilli growers to bring down the cost of trading and also the funds borrowed from the financial institutions. SEDF graciously agreed to subsidize trading fee of Rs2.50 per kilogram to be paid by the seller and also share part of borrowing cost. To encourage the growers to sell their produce at PMEX, the Fund signed a MoU with the Exchange to pay subsidy upto PKR 25 million for the two seasons, fixing indicative trading target of 3,000 tons per year, for the stipulated period.

Red Chilli

Lastly, the Exchange achieved another milestone by arranging commodity based financing for the first time in the country for agri products kept at its designated warehouse for trading. The Exchange brought on board Habib Bank Limited (HBL) and Zarai Taraqiati Bank Limited (ZTBL) to extend loans against the commodity as collateral.

Going forward, the Exchange plans to offer its physical deliverable commodity trading platform to the international market. This will enable foreign buyers to buy local commodities such as Red Chilli, Rice, etc. with convenience of trading and confidence of quality assured produce as per international standards.



Year 2016-2017 at a Glance

Ejaz Ali Shah Reappointed as Managing Director of PMEX

Mr. Ejaz Ali Shah has been reappointed as Managing Director for another term of three years.

During the last three years as Managing Director, Mr. Shah took successful initiatives to enhance profits and increase business at the Exchange. This included introduction of new products, induction of new members and market makers, collaborations with international exchanges, organization of awareness programs, integration of technology and formation of business continuity and disaster recovery setup.

Furthermore, Mr. Shah made concerted efforts to link PMEX with the real economy by bringing trading of agricultural commodities at the Exchange's platform. In this regard, introduction of Red Chilli trade at the technology driven platform of PMEX, in association with value chain participants such as Agility Pakistan (Pvt.) Limited, Pakistan Agriculture Coalition (PAC) and SGS Pakistan (Pvt.) Limited, set a good example of a successful collaborative model. PMEX plans to replicate this model for other agricultural commodities in near future.

Mr. Shah, has over two decades of diversified experience in domestic and international markets. Previously, he served for 16 years as General Manager - Head of Marketing & Customer Support Services at Central Depository Company of Pakistan Limited (CDC) where he played a vital role in developing, positioning and nurturing CDC as a diversified service provider. As a part of CDC's founding team, he also played an instrumental role in developing its brand value and recognition as one of Pakistan's most established financial institutions.

PMEX Launches **New Website**

PMEX unveiled its new website which boasts user-friendly experience for current and future market participants and business partners. The new website combines elements of highly-intuitive interface such as contemporary visual appeal, easy navigation, improved functionality and rich content.

The website has been designed using cutting-edge technology, making the site compatible with new age browsers, smartphones and tablets thus allowing users to access information on the go.

Commenting on the new website, Mr. Ejaz Ali Shah, Managing Director PMEX said “We are delighted to welcome visitors to our new website.
As we continue to grow and increase our footprint, we believe our mobile-friendly website will keep providing access to valuable and timely information.”

Our newly built website will be updated on a regular basis with news of product launches, notifications, regulations, business activity, corporate milestones, events and financial information. The Exchange invites its visitors to explore the new website by visiting www.pmex.com.pk and learn more about PMEX and its products & services.

Extending Outreach: PMEX opens branch offices in Lahore and Islamabad

PMEX relentlessly strives to expand its broker network across the country to offer trading opportunities to a broader investor base. In line with this objective, the Exchange has initiated a nationwide membership drive to bring new brokers on its trading platform. The cities being explored includes Rahim Yar Khan, Sahiwal, Sargodha, Chakwal, Rawalpindi, Hyderabad, Sukkur, Larkana and Quetta. Moreover, metropolitan cities such as Karachi, Lahore, Faisalabad, Multan and Peshawar are also being given special attention to ensure greater participation from all over the country.

To efficiently serve the clientele in the above mentioned cities and to further expand the business, the Exchange has opened up branch offices in Islamabad and Lahore. PMEX is confident that the newly established branches are a step forward towards increasing its footprint and developing better relationship with the brokers in these cities. Moving forward, the Exchange plans to add more branches in other cities such as, Hyderabad, Multan, Faisalabad, Sialkot, Quetta and Peshawar.

PMEX at World Islamic Finance Forum (WIFF) **2016 Conference**

PMEX participated at the World Islamic Finance Forum (WIFF) 2016 held on 5-6 September, 2016, at Movenpick Hotel, Karachi. The event was organized by Centre of Excellence in Islamic Finance (CEIF), Institute of Business Administration (IBA).

The conference brought together practitioners, academicians, regulators, legal and Shariah Advisers on one platform for developing a multipronged strategy to spread the footprint of Islamic finance in Pakistan and across the globe.

Mr. Ejaz Ali Shah, Managing Director, PMEX, represented the Exchange at the event. He participated as one of the panelists in “Policy Dialogue on Islamic Capital Markets and Takaful” and spoke about the Exchange’s Murabaha facility. The conference participants appreciated the efforts made by PMEX with regards to the Murabaha product and looked forward for its timely implementation for the betterment and growth of Islamic Finance Industry.

PMEX Explores Cross-Listing Futures Contracts with **Iran and Chinese Commodity Exchanges**

The world has transformed into an interconnected global village, where countries now complement each other, rather than entering into competition. As part of its growth strategy, PMEX is committed to developing strategic ties with international exchanges to explore new business opportunities and adopting best practices. Last year, PMEX signed a Memorandum of Understanding (MoU) with Iran Mercantile Exchange (IME) to share information, expertise, cross-list products and introduce staff training programmes and similar agreements are planned to be signed with two Chinese exchanges in 2017, namely: Dalian Commodity Exchange (DCE) and Zhengzhou Commodity Exchange (ZCE).

Pakistan, China and Iran, enjoy longstanding cordial relations. Keeping in view the excellent global trade opportunities, PMEX is working closely for cross-listing of commodities, a phenomena which is gaining momentum all around the world. It is expected that cross listing of commodities using futures derivatives will spread out the risk of local farmers, traders and processors by offering exposure in more than one markets while mitigating the change in price.

Moreover, this will help the local producers of all three countries to offer their products to a much larger community of traders and investors. The added advantage is that buyers will get certified quality as well as efficient warehousing and logistics facilities.

PMEX is working closely with ZCE, DCE and IME to develop a working model and sort out regulatory, cost & liabilities, logistics and warehousing modalities. This initiative will pave the way for PMEX to replicate this model with other leading commodity exchanges of the world.

PMEX is confident that cross-listing of products will go a long way in achieving its vision of supporting economic growth in the country by making Pakistani financial products available globally and meeting the needs of its investors' community for global products.

Commodity Based Financing Commences for **Agri Products traded at PMEX**

In 2017, the Exchange achieved another milestone by arranging commodity based financing for the first time in the country against the warehouse receipt issued by PMEX as opposed to traditional mode of lending against the land papers. With the support of Habib Bank Limited (HBL) and Zarai Taraqiati Bank Limited (ZTBL), financing against warehouse receipts were extended to local farmers. This facility enabled the farmers to get better prices for their produce as they now have the power to hold on to the commodity until the prices of their commodities become favorable for them and avoid distress selling.

PMEX at 4th Global Commodity Outlook Conference

PMEX participated in the fourth Global Commodity Outlook Conference (GCOC) held on February 12, 2017 in Dubai. The event was hosted by Richcomm Global Services and DMCC in association with Dubai Gold Commodity Exchange (DGCX) and Thomson Reuters.

Under the theme “Changing of the Guard”, the Conference welcomed over 400 trade specialists, regulatory professionals and government officials who discussed the key drivers and constraints in the global commodity market.

The event hosted five panel sessions discussing the outlook on the macro economy, energy, agriculture, base and precious metals, as well as the role of block chain technology in the commodity market.

Mr. Ejaz Ali Shah, Managing Director, and Mr. Hasan Mahmood, Head of Product Development and Agri Business, represented PMEX at the event. Mr. Mahmood participated in a panel discussion on agriculture outlook and provided his valuable opinion about bright prospects of trading of agriculture commodities at PMEX platform.

PMEX Participates in FIA Conference

Futures Industry Association (FIA), the leading global trade organization for the futures, options and centrally cleared derivatives markets, holds a range of events throughout the year. These events are designed to bring the industry participants together to discuss current issues, update delegates on industry developments and provide specialist presentations of interest to both regional and global audiences.

This year, the FIA Law & Compliance Division organized its 39th Annual Law & Compliance Conference on the Regulation of Futures, Derivatives and over-the-counter (OTC) Products from May 3-5, 2017 in Washington, DC. Mr. Ejaz Ali Shah, Managing Director, PMEX, represented the Exchange at the Conference. The event provided the Exchange an opportunity to learn about the legal and regulatory issues impacting the derivatives industry, identify best practices and practical considerations for developing effective compliance strategies and network with FIA members, partner organizations and market participants.

In this two-day conference, leading experts delivered tailored presentations about diverge range of regulatory developments and their practical implications. The key topics discussed during the conference included: 1) European Regulations and Brexit, 2) New U.S. Administration Impact, 3) Bankruptcy and Customer Protection, 4) Automated Trading and Regulation, 5) End-User Compliance, 6) Aggregation and Position Limits and 7) Cross-Border Rules.

Red Chilli Farmer Subsidy
Handover Ceremony at PMEX

On October 18, 2016, PMEX organized a ceremony at its head office in Karachi, to mark the handing over of subsidy by Sind Enterprise Development Fund (SEDF)/Sindh Board of Investment. Ms. Naheed Memon, Chairperson, SEDF, handed over a subsidy cheque for the Red Chilli farmers to Mr. Ejaz Ali Shah, Managing Director, PMEX.

SEDF graciously decided to provide subsidy to farmers on the trading fee and interest rate (on financing against their produce), which would not only encourage the farmers to trade at the technology-driven trading platform of PMEX, but also reduce the transaction cost for the farmers significantly thereby passing the benefits to the grass root level.

Commenting on the occasion, Mr. Ejaz Ali Shah said, “I am grateful to SEDF for reposing confidence in the Red Chilli trading platform of PMEX and consenting to provide subsidy to red chilli growers. PMEX is relentlessly striving to link the Exchange with the real economy by bringing agricultural commodities trade on its platform. Our Red Chilli project in association with value chain participants such as Agility, Pakistan Agricultural Coalition (PAC) and SGS has set a good example of a successful collaborative model which will be replicated for other commodities in the future.”

Moreover, he said, “Once modern warehouses are established and certification along with credit facilities are made available to farmers, they will be able to avoid ‘distress’ selling and will be in a better position to get a fair price for their produce in an efficient manner. PMEX will remain committed towards playing its due role in the development and success of the required eco system.”

Ms. Naheed Memon, Chairperson, SEDF said, “Government of Sindh (GoS) has devised a new strategy to facilitate electronic trade of agricultural produce. This strategy will bring revolutionary changes towards traditional agri-practices in Sindh by minimizing the role of ‘middle-men’ and connect the farmers to local and international markets. Accordingly, SEDF is glad to announce a subsidy on PMEX’s e-trading fee of Rs. 2.5 per KG for 6,000 tons per season for two seasons. Total amount of subsidy under the scheme will be Rs. 30 million. SEDF in consultation with PMEX is devising a mechanism to ensure that subsidy reaches to wider range of growers. SEDF is also further subsidizing the financing cost under the Warehouse Receipt Financing Scheme through ZTBL.

We believe that these revolutionary steps will lead to provide premium price to farmers for their quality produce eventually resulting in quality crop inputs over the period of time. Moreover, providing prompt payments to farmers within 72 hours through Warehouse Receipt Financing Scheme will enable them to timely invest in other crops.”, she added.

Mr. Akif Saeed, Commissioner, Securities and Exchange Commission of Pakistan along with other Senior Executives from SEDF, World Bank, Sind Agricultural Growth Project, Agility, PAC, SGF, National Foods, Pak Brunei Investment Company and World Bank graced the ceremony.

Con

tent

Vision

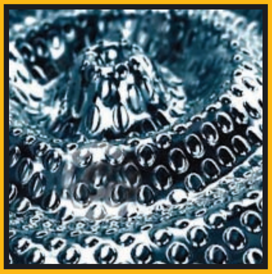
To be amongst the leading mercantile exchanges of the region extending from Istanbul to Jakarta in terms of knowledge, efficiency, innovation, value traded, credibility and standing.

Mission

To build and develop PMEX capacity to satisfy the diverse needs of our customers, contribute towards shareholders equity and constantly endeavor to integrate national supply chains with domestic and international Product, Commodity and Financial markets through innovative financial products and instruments. Creating state of the art trading and settlement platforms and infrastructure that engenders confidence, brings the domestic economic players to the Exchange platform thereby creating maximum economic value for our stakeholders and the country.

Core Val

ues



- MERIT
- CANDOR
- RESPECT
- INTEGRITY
- TRANSPARENCY
- INNOVATION

Board of Directors

Ruhail Mohammed
Chairman

Ejaz Ali Shah
Managing Director

Abdul Majeed Adam
Director

Aftab Ahmad Chaudhry
Director

Ahmed Chinoy
Director

Ammar-ul-Haq

Director

Dr. Khalid Mushtaq

Director

Risha Mohyeddin

Director

Syed Talat Mahmood

Director

Zahid Latif Khan

Director

Management

Ejaz Ali Shah
Managing Director

Shehzad Hussain
Head of Risk & Market Surveillance

Farhan Tahir
Chief Financial Officer & Company Secretary

Hasan Mahmood
Head of Product Development & Agri Business

Nauman Lakhani
Head of Marketing, Business Development & Customer Support Services

Syed Mumtaz Ali

Chief Compliance Officer

Syed Jawaid Raza

Chief Technology Officer

Tariq Nafees Siddiqui

Head of Operations

Muhammad Rizwan Siddiqui

Chief Internal Auditor

Brig (R) Sabur Ahmed Khan

Head of Human Resources & Administration

Company Information

Board of Directors

Mr. Ruhail Muhammad	Chairman
Mr. Ejaz Ali Shah	Managing Director
Mr. Abdul Majeed Adam	Director
Mr. Aftab Ahmad Chaudhry	Director
Mr. Ahmed Chinoy	Director
Mr. Ammar-ul-Haq	Director
Mr. Dr. Khalid Mushtaq	Director
Mr. Risha Mohyeddin	Director
Syed Talat Mahmood	Director
Mr. Zahid Latif Khan	Director

CFO & Company Secretary

Mr. Farhan Tahir

Auditors

Deloitte Yousuf Adil

Chartered Accountants

Bankers

MCB Bank Limited

Standard Chartered Bank Pakistan Limited

Bank Alfalah Limited

Meezan Bank Limited

Legal Advisors

MCAS&W Law Associates

Regulator

Securities and Exchange Commission
of Pakistan

Registered Office

3B, 3rd Floor, Bahria Complex IV,
Chaudhry Khaliq-uz-Zaman Road,
Gizri, Karachi

Committees

Audit Committee

Mr. Aftab Ahmad Chaudhry	Chairman
Mr. Risha Mohyeddin	
Mr. Ahmed Chinoy	
Mr. Zahid Latif Khan	

Human Resource Committee

Mr. Ruhail Mohammed	Chairman
Syed Talat Mahmood	
Mr. Zahid Latif Khan	
Mr. Ahmed Chinoy	

Regulatory Affairs Committee

Dr. Khalid Mushtaq	Chairman
Mr. Risha Mohyeddin	
Syed Talat Mahmood	
Mr. Aftab Chaudhry	
Mr. Ejaz Ali Shah	

Steering Committee

Mr. Ejaz Ali Shah	Managing Director
Mr. Farhan Tahir	Chief Financial Officer and Company Secretary
Mr. Hasan Mahmood	Head of Product Development & Agri Business
Syed Jawaid Raza	Chief Technology Officer
Mr. Shehzad Hussain	Head of Risk & Market Surveillance
Mr. Nauman Lakhani	Head of Marketing, Business Development and Customer Support Services (Secretary to the Steering Committee)

Operational Highlights 2016-2017

Rupees

Traded Volume

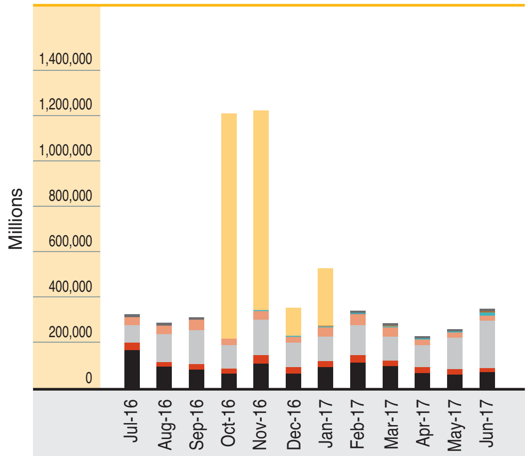
Traded Volume	2015-2016	2016-2017	Change
Total traded volume	**1,295,996,741,468**	**1,297,918,208,351**	**0.15%**
Crude Oil	221,016,201,034	243,393,593,023	10.12%
Currencies	522,017,471,335	464,825,371,719	-10.96%
Gold	526,690,493,391	528,118,104,188	0.27%
Silver	25,557,511,001	47,655,514,687	86.46%
Red Chilli	124,189,000	395,723,134	218.65%
Cotton	590,875,707	1,290,061,035	118.33%
Platinum	—	1,585,991,013	—
Natural Gas	—	421,593,827	—
Copper	—	9,608,441,867	—
Brent Crude Oil	—	623,813,858	—

Rupees

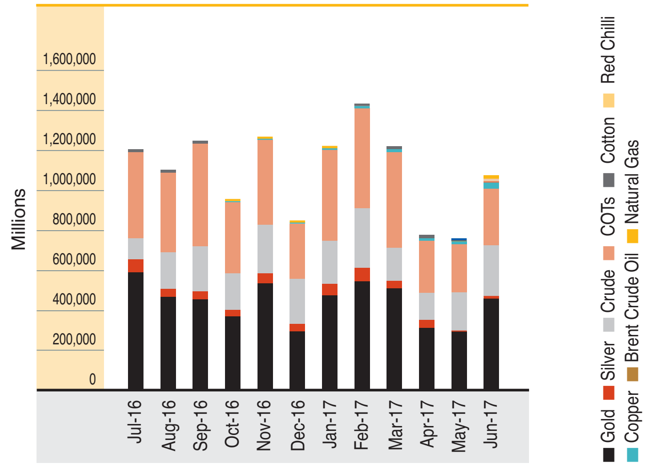
Traded Lots

Traded Lots	2015-2016	2016-2017	Change
Total traded lots	**3,692,895**	**3,390,156**	**-8.20%**
Crude Oil	1,835,774	1,506,803	-17.92%
Currencies	418,156	404,761	-3.20%
Gold	1,129,604	1,109,641	-1.77%
Silver	306,960	317,997	3.60%
Red Chilli	605	2,244.90	271.06%
Cotton	1,796	3,414	90.09%
Platinum	—	1,771	—
Natural Gas	—	831	—
Copper	—	35,212	—
Brent Crude Oil	—	7,481	—

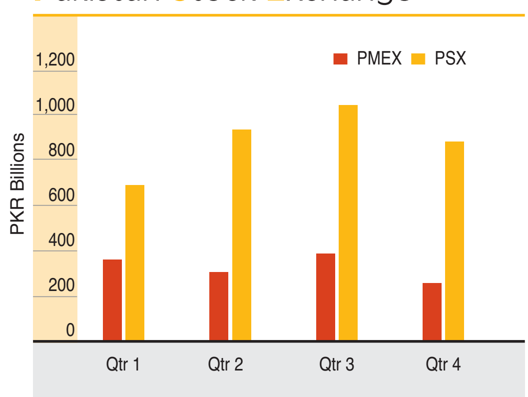
Traded Lots



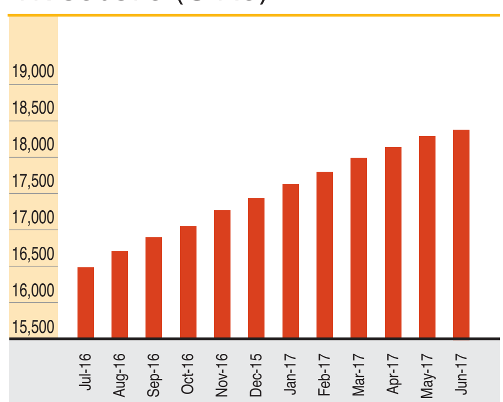
Traded Value



PMEX Volume Comparison with Pakistan Stock Exchange



Total Number of Investors (UINs)



Top Ten Brokers

Ranking	Based On Traded Contracts	Based On Traded Value
1	H.G Markets (Pvt.) Limited	H.G Markets (Pvt.) Limited
2	Arsh Commodities (Pvt.) Limited	Arif Habib Commodities (Pvt.) Limited
3	Arif Habib Commodities (Pvt.) Limited	Enrichers (Pvt.) Limited
4	Enrichers (Pvt.) Limited	JS Global Capital Limited
5	JS Global Capital Limited	Khadija Commodities (Pvt.) Limited
6	Abbasi & Co. (Pvt.) Limited	MHB Markets (Pvt.) Limited
7	BIPL Securities Limited	Jahanzeb
8	Blink Capital Management (Pvt.) Limited	Abbasi & Co. (Pvt.) Limited
9	Murtaza Trading Grid (Pvt.) Limited	Arsh Commodities (Pvt.) Limited
10	Khadija Commodities (Pvt.) Limited	IGI Finex Securities Limited

Managing Director's Review

I am pleased to inform that the Pakistan Mercantile Exchange (PMEX) is growing at a rapid pace turning into a vibrant and strong institution of the country. During the year under review, the Exchange made progress on almost all fronts. It successfully managed to expand the product suite and listed cash settled as well as physically deliverable contracts of new commodities of different denominations.

Along with this, the Exchange expanded its footprint by opening up branch offices in Lahore and Islamabad, adding new members, creating awareness about the benefits of trading at a regulated exchange, implementing enterprise risk management plan and revamping the regulatory framework.

Having said the above, the prime objective of the Exchange is to carve its way into providing an efficient and transparent mechanism of agricultural trade through its platform. You would be pleased to know that the Exchange has already embarked towards this goal and has made steady progress during the year. In addition to creating a platform for red chilli trade on its platform, pilot projects were conducted on certain other commodities to ascertain their potential.

Furthermore, Exchange is also working on various other initiatives such as cross listing of commodities with exchanges of neighbouring countries as well as creating a mechanism to showcase local commodities to global buyers enabling them to purchase and have the commodity delivered at their doorstep with utmost convenience. I am confident that these initiatives would go a long way in achieving our goal of creating a robust, transparent and efficient trading platform for the agricultural produce of the country.

Looking ahead to FY2017-18, the Exchange is confident to sustain the growth trajectory. We intend to remain focused on modernizing our technology infrastructure and electronic trading system, introducing new products, developing an international trading platform and cross-listing commodities. We are confident that our plans will open new vistas for the Exchange.

In conclusion, I would like to express my sincerest gratitude to PMEX Board of Directors and Securities and Exchange Commission of Pakistan for their continued support and guidance. I would also like to convey my heartfelt appreciation to the entire team of PMEX for their dedication and hard work. The combined efforts of all stakeholders have been instrumental in propelling the Exchange ahead. I am confident of a bright future of PMEX.

Ejaz Ali Shah
Managing Director

Karachi: August 29, 2017

Directors' Report

On behalf of the Board of Directors of Pakistan Mercantile Exchange Limited, we are pleased to present the Annual Report for the financial year ended June 30, 2017 (FY2016-17) together with the Audited Financial Statements and Auditor's Report thereon.

Global Environment

Global economy having grown by around 3 percent in 2016 is expected to expand at an accelerated rate at 3.5 percent in 2017. The faster pace is being attributed to robust growth in the advanced economies as well as emerging markets & developing economies.

In United States, although growth was lacklustre in 2016, economic activity has gained momentum after the election of the new president. The private consumption is increasing as a result of a 16-year-low unemployment rate and soft inflation. The Eurozone economy has emerged as a bright spot in global growth. So far, neither the risks stemming from Brexit nor the risk of populistic parties gaining power in European countries has had a noticeable effect. The job market recovery is well underway, with the unemployment rate falling to an eight-year-low.

Although growth in China has decelerated, it is expected to remain robust throughout 2017. Elsewhere, Japan has relapsed into recession, though unemployment remains low. India's growth remains strong, but capital spending has slackened in 2017. The Gulf economy nosedived because of geopolitical crisis, after several countries, led by Saudi Arabia decided to sever diplomatic ties with Qatar abruptly in early June.

The price of gold remained volatile throughout the year. Per ounce price which was USD 1,320 at the beginning of the year, plunged to USD 1,130 but finally closed the year at USD 1,244. Crude oil price remained volatile due to a number of factors, the foremost being the prevailing glut. Despite efforts by Saudi-led OPEC to curtail output, per barrel price of Brent crude plunged to less than USD 45 in June 2017 due to unabated rise in crude oil production in the U.S.

Pakistan Overview

Pakistan's economy grew by 5.3 percent in FY17, up from 4.5 percent growth recorded in FY16. This acceleration was achieved on the back of a strong performance of agriculture and services sectors, which grew by 3.5 percent and 6 percent respectively in FY17, compared to 0.3 percent and 5.5 percent last year respectively. Some of the other macroeconomic indicators, such as subdued inflation, investment growth, and rising private sector credit, also showed an encouraging picture.

Foreign Direct Investment (FDI) inflows continued to maintain a moderate pace marked by improvement in multinationals' confidence in the country's economy. The major FDI inflows during the period under review were from China, Netherland, France, Turkey, US, U.A.E, UK, Italy, Japan and Germany. Food, Power, Construction, Electronics, Oil & Gas exploration, Financial Business and Communication remained the main recipient sectors.

Revival of investor's confidence and the inclusion of Pakistan in the Emerging Markets Index by Morgan Stanley Capital International empowered the Pakistan Stock Exchange (PSX) to outperform its regional peers over the last four years. During the period under review, PSX reached historical high of 52,000 mark.

Business Review

Introducing New Products

During the period under review, to provide an enriched product suite to market participants, several new products were introduced. These products included cash settled futures contracts of Copper, Brent Crude Oil, Platinum, Natural Gas and deliverable contracts of Paddy Super Basmati Rice, Wheat and various varieties & tenors of Dandicut & Hybrid Red Chilli. The listing of new products at the Exchange not only helped the brokers to attract new business but also provided portfolio diversification opportunities to the market participants.

Red Chilli, which was introduced last year, has witnessed an increase of almost four fold in terms of trading volume this year. The increase in trading volume can be attributed to Exchange's concerted efforts to create awareness about the benefits of trading Red Chilli at the Exchange and the success achieved in bringing onboard Sindh Enterprise Development Fund (SEDF), Government of Sindh, to provide subsidy on trading fee to the farmers.

The Exchange achieved another milestone by arranging commodity based financing for the first time in the country for agri products kept at its designated warehouse for trading. The Exchange brought on board Habib Bank Limited (HBL) and Zarai Taraqiati Bank Limited (ZTBL) to extend loans against the commodity as collateral for the first time in the history of the country.

Going forward, the Exchange plans to expose its physical deliverable commodity trading platform to the international market thereby enabling foreign buyers to buy local commodities such as Red Chilli, Rice, etc. with convenience of trading and confidence of quality assured produce as per international standards.

Extending Outreach

To efficiently serve the clientele nationwide and to further expand the business, the Exchange opened branch offices in Islamabad and Lahore. PMEX is confident that the newly established branches are a step forward towards increasing its footprint in the country and developing mutually beneficial relationships with the stakeholders located in the northern part of the country.

New Memberships

To offer trading opportunity to a wide spectrum of investors in small as well as large cities, the Exchange remained committed to expanding its network by inducting new members and activating dormant member across the country. During the period under review, PMEX welcomed three new members joined the Exchange platform.

Awareness, Education & Engagement

The Exchange continued its efforts for creating awareness about futures trading in Pakistan. In this regard, PMEX organized awareness, education and engagement programs at its premises and also conducted such programs at Business Institutes and Universities. These interactive sessions were aimed at equipping existing/potential market participants and investors with the knowledge of the commodity trading fundamentals and providing hands-on experience of the trading system at PMEX.

Revamping of Regulations

The existing Regulations of the Exchange were developed over a decade ago and since then the scope and manner of PMEX's conduct of business has evolved. Additionally, a new Future Market Act, 2016 was enacted to repeal the Securities & Exchange Ordinance 1969. In view of these changes, it was pertinent to ensure the Exchange regulations not only incorporate the evolving business & regulatory environment but also provide the necessary regulatory space for the Exchange to grow to its true potential.

From this standpoint, the Exchange initiated a regulation revamping exercise and is currently in the process of obtaining necessary approvals.

Enterprise Risk Management Exercise

PMEX is determined to continuously evolve the risk management framework by taking a wider view of risks that could affect Exchange's ability to achieve its mission, vision and strategic objectives. Accordingly, it was empirical to take a macro view at an enterprise level to develop a robust risk framework which would enable the Exchange to be more pro-active towards risk identification & management. The above was achieved during the year and a complete manual covering the risk at the enterprise level was developed. Going forward, the Exchange intends to attain risk management certifications in line with international best practices.

Settlement Guarantee Fund

In accordance with the SECP directives, the Exchange established a separate trust of Settlement Guarantee Fund (SGF) which has grown to Rs. 68.84 million during the year under review.

Equity Injection

The Exchange has 15.84 million unsubscribed right shares for which various parties have shown interest. The Board has appointed a financial advisor to keep the process transparent and fetch the best investor with the required expertise and capacity. This matter is expected to be closed during the financial year 2017-18.

Financial Results

Following is the summary of results for the current and last year:

	30-Jun-17	30-Jun-16
	(Rs. in million)	
Operating income	**202.93**	211.35
Profit / (loss) before taxation	**(12.08)**	35.15
Net profit / (loss) after taxation (total comprehensive income)	**(14.57)**	29.65
	(Rupees)	
Earnings per share - basic	**(0.46)**	1.09

The main reasons for decrease in operating income are three fold, firstly trading fee decreased from 119.18 million to Rs. 114.11 million due to comparatively stable commodity prices during the year. Secondly, due to low interest rates, Exchanges share in income from investment of margins and deposits has decreased from Rs. 45.44 million to Rs. 35.09 million. Lastly, due to new regulatory requirements stemming from Futures Market Act, 2016, new membership sales have become difficult resulting in lower entrance fee from Rs. 14 million to Rs. 7.5 million during the year.

The positive reflections of deferred tax of Rs. 88.38 million (Note 25.2) and unascertained value of 20 Offices in Old

Hyatt Regency Hotel Building (Note 15.1) have not been recorded due to uncertainties attached with respect to timings, etc.

On the taxation contingencies side, as detailed in note 12.1 to the financial statements, there are two major cases where PMEX is in dispute with the tax authorities. Although, the monetary impact of the tax disputes will be significant in case of unfavourable decision, we expect a favourable resolution of these cases and therefore, based on legal opinion, have not made any provision for these contingencies in the financial statements.

Future Outlook

Going forward, to provide its brokers and their clients a reliable and efficient trading experience, PMEX is working towards enhancing its technology infrastructure and electronic trading system. Moreover, under the able guidance of SECP and Board of Directors, the Exchange intends to expand and diversify its product mix in order to attract new market participants. Furthermore, PMEX is also looking into the possibility of cross listing commodities with neighbouring exchanges such as Iran Mercantile Exchange and Chinese commodity exchanges.

Board of Directors

The current Board is comprised of 10 directors including Managing Director, of which 6 directors represent shareholders and remaining three are independent directors appointed by SECP. Directors representing shareholders comprised of two from National Bank of Pakistan, two from Pakistan Stock Exchanges Limited, and one each from ISE Towers REIT and LSE Financial Services.

Current Board of Directors is comprised of the following:

Name	Designation	Status
Mr. Ruhail Mohammed	Chairman	Independent-Non-executive
Mr. Ejaz Ali Shah	Managing Director	Executive
Mr. Aftab Ahmed Chaudhry	Director	Independent-Non-executive
Dr. Khalid Mushtaq	Director	Independent-Non-executive
Mr. Abdul Majeed Adam	Director	Non-executive
Mr. Ahmed Chinoy	Director	Non-executive
Mr. Ammar-ul-Haq	Director	Non-executive
Mr. Risha Mohyeddin	Director	Non-executive
Syed Talat Mahmood	Director	Non-executive
Mr. Zahid Latif Khan	Director	Non-executive

Attendance of Board meeting during 2016-17 is annexed at “A”.

The details of Board Committees are annexed at “B”.

Corporate Governance

The Exchange is subject to limited application of Code of Corporate Governance applicable for listed companies by virtue of voluntary adoption to ensure compliance with best corporate governance practices.

Directors’ declaration on corporate and financial reporting framework:

a) The financial statements present fairly Exchange’s state of affairs, the result of its operations, cash flow and changes in equity.

b) Proper books of accounts of the Exchange have been maintained.

c) Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment. There was no change in accounting policy during the year.

d) International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.

e) There has been no material departure from the best practices of corporate governance.

f) The system of internal control is sound in design and has been effectively implemented and monitored.

g) No overdue statutory payments on account of taxes, duties, levies and charges are outstanding.

h) Details of Shareholding are annexed at “C”.

i) Four directors of the Exchange certified under the Directors Training Program offered by SECP approved professional institutions.

j) Key operating and financial data for last six years is annexed at “D”.

k) There are no significant doubts upon the Exchange’s ability to continue as a going concern.

l) The value of investments / assets of provident and gratuity funds are Rs. 1,973,627 and Rs. 8,804,846, respectively, as per their audited financial statements of June 30, 2016.

Auditors

The retiring auditors Deloitte Yousuf Adil Chartered Accountants have offered themselves for reappointment. The Board Audit Committee has suggested and the Board of Directors has recommended their re-appointment for the approval of the shareholders.

Acknowledgement

The Directors acknowledge appreciation for the continuous support and guidance by the market regulators, the Securities and Exchange Commission of Pakistan and State Bank of Pakistan.

We are also thankful to the employees of the Exchange for their dedication and hard work throughout the year and also our valued brokers without which the equation cannot be complete.

Lastly, we appreciate the confidence of the shareholders in the endeavour to realise the vision of a thriving commodity and futures market in Pakistan.

Chairman

Managing Director

Karachi: August 29, 2017

Annexure A

Board Meeting Attendance

Total nine meetings of Board of Directors were held during 2016-17. Attendance history during the tenure of directorship was as follows:

Director	Meeting held during the tenure	Meetings attended
Mr. Ruhail Muhammad	9	9
Dr. Khalid Mushtaq	9	7
Mr. Risha Mohyeddin	9	7
Mr. Ahmed Chinoy	9	9
Mr. Amaar-ul-Haq	9	2
Mr. Aftab Ahmed Chaudhry	9	9
Mr. Abdul Majeed Adam	9	7
Mr. Zahid Latif Khan	9	8
Syed Talat Mahmood	9	8

Annexure B

Committees of Board of Directors

The Board constituted following committees comprising of members of the Board. The composition of the Committees as on June 30, 2017 and attendance during the year was as under:

Director	Meeting held during the tenure	Meetings attended
Audit Committee		
Mr. Aftab Ahmad Chaudhry – Chairman	4	3
Mr. Risha Mohyeddin	4	2
Mr. Ahmed Chinoy	4	3
Mr. Zahid Latif Khan	4	4
Human Resource Committee		
Mr. Ruhail Muhammad – Chairman	4	4
Syed Talat Mahmood	4	4
Mr. Ahmed Chinoy	4	4
Mr. Zahid Latif Khan	4	4
Regulatory Affairs Committee		
Dr. Khalid Mushtaq – Chairman	2	1
Mr. Aftab Ahmad Chaudhry	2	1
Syed Talat Mahmood	0	0
Mr. Risha Mohyeddin	0	0
Mr. Abdul Majeed Adam*	2	2
Mr. Ammar-ul-Haq*	2	2

* These directors are no more committee members.

Annexure C

Shareholding pattern as of June 30, 2017

Shareholdings	No. of shareholders	Total shares held
From 1 to 100 shares	11	46
From 101 to 900,000 shares	–	–
From 900,001 to 1,000,000 shares	2	1,818,181
From 1,000,001 to 3,000,000 shares	2	4,405,842
From 3,000,001 to 6,500,000 shares	1	5,568,181
From 6,500,001 to 8,950,000 shares	1	8,909,052
From 8,950,001 to 9,000,000 shares	1	10,653,860
Total	**18**	**31,355,162**

Categories of shareholders		No. of shareholders	Share held	Percentage
Directors, Chief Executive Officer, and their spouse and minor children.		4	22	–
1. Ruhail Mohammed	3			
2. Aftab Ahmad Chaudhry	3			
3. Dr. Khalid Mushtaq	2			
4. Abdul Majeed Adam	14			
Associated Companies, undertakings and related parties (including banks)		4	27,403,820	87.4%
1. National Bank of Pakistan	10,653,860			
2. Pakistan Stock Exchange	8,909,052			
3. ISE Tower REIT	5,568,181			
4. LSE Financial Services	2,272,727			
NIT and ICP		–	–	–
Banks Development Financial Institutions, Non-Banking Financial Institutions (excluding related parties)		3	3,951,296	12.6%
Insurance Companies		–	–	–
Modarabas and Mutual Funds		–	–	–
Other Shareholders holding 10% or more		–	–	–
Others (individual promoters excluding included above)		7	24	–
Total		**18**	**31,355,162**	**100.0%**

Annexure D

Six Years' Financial Highlights

Financial years ended on June 30

	2017	2016	2015	2014	2013	2012
BALANCE SHEET						
Shareholders' equity (negative)	**(78,827,951)**	(64,254,052)	(105,792,321)	(86,817,267)	(160,304,348)	(172,047,002)
Finance lease liabilities	**–**	–	–	–	–	825,925
Long term deposits	**198,400,000**	196,150,000	196,150,000	195,400,000	196,250,000	196,100,000
Deferred Liability - gratuity	**–**	–	–	45,227,574	53,966,360	48,453,368
Staff gratuity payable to fund	**43,432,994**	44,569,896	46,254,609	–	–	–
Dividend on preference shares	**–**	–	7,638,398	7,638,398	4,740,398	772,400
Margin and deposit	**1,801,296,114**	1,667,544,562	1,116,812,206	1,158,960,085	1,649,849,092	1,517,913,878
Fixed assets	**33,715,520**	38,409,003	38,961,365	36,454,107	20,101,811	12,697,171
Investment in associates	**20**	20	20	20	20	20
Total Current assets	**1,986,678,087**	1,853,233,634	1,282,579,309	1,343,216,648	1,772,367,403	1,615,065,737
OPERATIONAL RESULTS						
Total Income	**209,601,325**	223,843,309	174,639,118	171,925,380	184,309,849	158,343,410
Total Expenses	**221,686,071**	188,698,145	187,630,466	185,110,993	171,985,967	166,587,617
Profit / (loss) after taxation	**(14,573,899)**	29,651,607	(14,630,935)	(13,185,613)	12,759,264	(9,569,436)
Earnings per share (EPS)	**(0.46)**	1.09	(0.69)	(0.83)	0.46	(0.54)

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the shareholders of Pakistan Mercantile Exchange Limited will be held at 02:30 on Friday, October 27, 2017, at the registered office of the Exchange, situated at 3B, 3rd Floor, Bahria Complex IV, Ch. Khalique-uz-Zaman Road, Gizri, Karachi, to transact the following business:

Ordinary Business:

1. To confirm the minutes of the last Annual General Meeting held on October 14, 2016.

2. To receive and consider the Directors' Report and Audited Annual Financials statement together with Auditors ' report thereon for the year ended June 30, 2017.

3. To appoint auditors' for the year ending june30, 2018 and fix their remuneration. The retiring auditors' Deloitte Yousuf Adil Chartered Accountants have offered themselves for reappointment.

By Order of the board of Directors

Company Secretary

Dated: Ocobter 6, 2017
Karachi

Deloitte Yousuf Adil
Chartered Accountants
Cavish Court, A-35, Block 7 & 8
Karachi-75350
Pakistan

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REVIEW REPORT TO THE MEMBERS ON THE STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

We have reviewed the Statement of Compliance with the best practices (the Statement) contained in the Code of Corporate Governance (the Code) for the year ended June 30, 2017 prepared by the Board of Directors of **Pakistan Mercantile Exchange Limited** (the Exchange) to voluntarily comply with the Code issued by the Securities and Exchange Commission of Pakistan contained in the rule book issued by the Pakistan Stock Exchange.

The responsibility for compliance with the Code is that of the Board of Directors of the Exchange. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement reflects the status of the Exchange's compliance with the provisions of the Code and report if it does not and to highlight any non-compliance with the requirement of the Code. A review is limited primarily to inquiries of the Exchange's personnel and review of various documents prepared by the Exchange to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Exchange's corporate governance procedures and risks.

The Code requires the Exchange to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval of its related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price and recording proper justification for using such alternate pricing mechanism. We are only required and have ensured compliance of this requirement to the extent of approval of related party transactions by the Board of Directors upon recommendation of Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement does not appropriately reflect the Exchange's compliance, in all material respects, with the best practices contained in the Code, as applicable to the Exchange for the year ended June 30, 2017.

Deloitte Yousuf Adil

Chartered Accountants

Engagement Partner:
Nadeem Yousuf Adil

Dated: August 29, 2017
Karachi

Member of
Deloitte Touche Tohmatsu Limited

Statement of Compliance with the Code of Corporate Governance

For the year ended June 30, 2017

The Code of Corporate Governance (the Code), being part of the Rule book of Pakistan Stock Exchange Limited is mandatory for listed companies. However, Pakistan Mercantile Exchange Limited (the Exchange) has voluntarily adopted and implemented the Code for improving the governance and transparency in corporate and financial reporting. Accordingly, this Statement is being presented to comply voluntarily with the requirements of the Code for the purpose of establishing a framework of good governance.

The Exchange has adopted the Code and applied the principles contained in it in the following manner:

1. The Exchange has three independent non-executive directors on its Board of Directors who have been nominated and declared as "Independent" by Securities and Exchange Commission of Pakistan (SECP). At present, the Board comprises of:

Category	Names
Independent Directors	Mr. Ruhail Mohammed
	Mr. Aftab Ahmad Chaudhry
	Dr. Khalid Mushtaq
Executive Director	Mr. Ejaz Ali Shah – Managing Director
Non-Executive Directors	Mr. Abdul Majeed Adam
	Mr. Ahmed Chinoy
	Mr. Ammar-ul-Haq
	Syed Talat Mahmood
	Mr. Zahid Latif Khan
	Mr. Risha Mohyeddin

   The independent directors meets the criteria of independence under clause 5.19.1.(b) of the CCG.

2. The directors have confirmed that they are not serving as director in more than seven listed companies.

3. All the directors of the Exchange have confirmed that they are registered as taxpayers and none of them has defaulted in payment of any loan to a banking Company, a Development Financial Institution (DFI) or a Non-Banking Finance Institution (NBFI) or, being a member of a Stock Exchange, has been declared as a defaulter by that Stock Exchange.

4. No casual vacancy was occurred on the Board during the year.

5. The Exchange has prepared a "Statement of Ethics and Business Practices" and has ensured that appropriate steps have been taken to disseminate it throughout the Exchange along with its supporting policies and procedures.

6. The Board has developed the Vision and Mission statements, overall corporate strategy and significant policies of the Exchange. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained by the Exchange.

7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive Officer, have been taken by the Board.

8. All the meetings of the Board were presided over by the Chairman. The Board met nine times during the year including once in every quarter. Written notices of the board meetings, along with agenda, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

9. The directors of the Exchange are individuals with vast diversified experience of the financial and corporate affairs. They are also directors in other companies and are well conversant with their duties and responsibilities. Copies of Memorandum of Association, Article of Association and Pakistan Mercantile Exchange Limited (PMEX) General Regulations have been made available to them. Four directors of the Exchange have certification under the directors training program offered by professional institutions that meet the criteria specified by SECP. The Board of the Exchange is committed to provide training to the remaining members of the Board to ensure the compliance with the requirements of the Code.

10. There was no new appointment of Chief Financial Officer, Company Secretary and Head of Internal Audit during the year.

11. The Directors' Report for the year ended June 30, 2017 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

12. The financial statements of the Exchange were duly endorsed by Chief Executive Officer and Chief Financial Officer before approval of the Board.

13. The directors, Chief Executive Officer and executives do not hold any interest in the shares of the Exchange other than that disclosed in the pattern of shareholding.

14. The Exchange has complied with all the material corporate and financial reporting requirements of the Code.

15. The Board has formed an Audit Committee which comprises of four members all of whom, including the Chairman are non-executive directors.

16. The meetings of the Audit Committee were held at least once in every quarter prior to the approval of interim and final results of the Exchange and as required by the Code. The terms of reference of the Committee have been formed and advised to the Committee for compliance.

17. The Board has formed a Human Resource and Remuneration Committee. It comprises of four members all of whom are non-executive directors and the Chairman of the Committee is an independent director.

18. The Board has established an effective internal audit function. Head of Internal Audit is considered suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Company and is involved in the internal audit function on a full time basis. However, subsequent to the year end, Head of Internal audit has resigned and appointment of new Head of Internal Audit is in process.

19. The statutory auditors of the Exchange have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Exchange and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on Code of Ethics as adopted by the Institute of Chartered Accountants of Pakistan.

20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

21. Being an un-listed Company, the requirements relating to the 'closed period' are not applicable on the Exchange.

22. Being an un-listed Company, the requirements relating to the dissemination of material or price sensitive information are not applicable on the Exchange.

23. Being an un-listed Company, the requirements relating to maintenance of register and related records of persons having access to insider information and related records are not applicable to the Exchange.

24. We confirm that all other material principles enshrined in the Code have been complied with.

Managing Director

Chairman

Dated: August 29, 2017
Karachi

Fina

ncial

Statements

Deloitte.

Deloitte Yousuf Adil
Chartered Accountants
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AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **PAKISTAN MERCANTILE EXCHANGE LIMITED** (the Exchange) as at June 30, 2017 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Exchange's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

a) in our opinion, proper books of account have been kept by the Exchange as required by the Companies Ordinance, 1984;

b) in our opinion:

i. the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

ii. the expenditure incurred during the year was for the purpose of the Exchange's business; and

iii. the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Exchange;

c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan and give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Exchange's affairs as at June 30, 2017 and of the loss, cash flows and its changes in equity for the year then ended; and

d) in our opinion, no zakat was deductible at source under the Zakat and Ushr Ordinance, 1980.

Whithout qualifying our opinion, we draw attention to:

i) note 1.3 of the financial statements which explains the financial and operating measures being taken by the Exchange to improve profitability and financial position of the Exchange; and

ii) note 12.1.1 to the financial statements regarding tax implication relating to security deposits of members on the Exchange for the tax year 2003. The ultimate outcome of the matter cannot presently be determined.

Deloitte Yousuf Adil

Chartered Accountants

Engagement Partner:
Nadeem Yousuf Adil

Dated: August 29, 2017
Karachi

Member of
Deloitte Touche Tohmatsu Limited

Balance Sheet As at June 30, 2017

	Note	2017	2016
		Rupees	
EQUITY AND LIABILITIES			
Share capital and reserves			
Authorised capital 50,000,000 (2016: 47,200,000) ordinary shares of Rs. 10 each		**500,000,000**	472,000,000
Nil (2016: 2,800,000) preference shares of Rs. 10 each		**–**	28,000,000
Issued, subscribed and paid-up capital 31,355,162 (2016: 31,355,162) ordinary shares of Rs. 10 each	5	**313,551,620**	313,551,620
Capital reserve - premium on issue of ordinary shares		**22,250,000**	22,250,000
Accumulated loss		**(414,629,571)**	(400,055,672)
		(78,827,951)	(64,254,052)
Non-current liabilities			
Long-term deposits	6	**198,400,000**	196,150,000
Current liabilities			
Staff gratuity payable	7	**43,432,994**	44,569,896
Margins and deposits	8	**1,299,354,277**	1,236,074,981
Payable to SGF Trust	9	**1,667,326**	46,340,919
Gold held on behalf of brokers/clients	8.3	**500,274,511**	385,128,662
Advance annual subscription and other fee	10	**14,914,165**	10,216,779
Advance members admission fee		**–**	2,500,000
Creditors, accrued and other liabilities	11	**41,178,305**	34,915,472
		1,900,821,578	1,759,746,709
Contingencies and commitments	12		
		2,020,393,627	1,891,642,657

The annexed notes from 1 to 33 form an integral part of these financial statements.

Managing Director

Rupees

	Note	2017	2016
ASSETS			
Non-current assets			
Property and equipment	13	**23,471,770**	21,570,858
Intangible assets	14	**10,243,750**	16,838,145
Investment in associates	15	**20**	20
Current assets			
Supplies and consumables	16	**709,696**	243,620
Annual subscription receivable - considered good		**32,800,000**	24,425,000
Deposits and prepayments	17	**9,371,846**	11,637,753
Other receivables	18	**29,774,070**	34,601,613
Short term investments	19	**1,332,980,380**	1,229,873,219
Gold held on behalf of brokers/clients	8.3	**500,274,511**	385,128,662
Taxation - net		**42,724,558**	42,156,022
Cash and bank balances	20	**38,043,026**	125,167,745
		1,986,678,087	1,853,233,634
		2,020,393,627	1,891,642,657

Chairman

Profit and Loss Account For the year ended June 30, 2017

	Note	2017	2016
		Rupees	
Operating income	21	**202,931,496**	211,346,992
Administrative and operating expenses	22	**(219,426,674)**	(186,096,620)
		(16,495,178)	25,250,372
Other income	23	**6,669,829**	12,496,317
Other charges		**(121,695)**	(78,946)
Finance costs	24	**(2,137,702)**	(2,522,579)
(Loss) / profit before taxation		**(12,084,746)**	35,145,164
Taxation - net	25	**(2,489,153)**	(5,493,557)
Net (loss) / profit after taxation		**(14,573,899)**	29,651,607
Other comprehensive income for the year		**–**	–
Total comprehensive income for the year		**(14,573,899)**	29,651,607
Earnings per share - basic	26	**(0.46)**	1.09
- diluted	26	**(0.46)**	0.96

The annexed notes from 1 to 33 form an integral part of these financial statements.

Managing Director

Chairman

Statement of Cash Flows For the year ended June 30, 2017

Rupees

	Note	2017	2016
A. CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	27	**8,085,999**	18,659,177
Long-term deposits		**2,250,000**	–
Taxes paid - net		**(3,057,689)**	(3,095,745)
Gratuity paid		**(9,425,274)**	(13,083,487)
Long term prepayment		**–**	63,883
Net cash (used in) / generated from operating activities		**(2,146,964)**	2,543,828
B. CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	13	**(12,050,908)**	(2,843,080)
Purchase of intangible assets	14	**–**	(12,431,406)
Proceeds from disposal of equipment		**123,600**	153,658
Proceeds from sale of government securities		**255,563,590**	437,874,667
Investment in government securities		**(254,525,200)**	(415,865,682)
Mark-up received on bank deposits		**476,331**	456,688
Net cash (used in) / generated from investing activities		**(10,412,587)**	7,344,845
C. CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of shares		**–**	6,331,150
Dividend on preference shares		**–**	(4,099,798)
Finance cost paid		**–**	(2,327,207)
Net cash used in financing activities		**–**	(95,855)
Net (decrease) / increase in cash and cash equivalents **(A+B+C)**		**(12,559,551)**	9,792,818
Cash and cash equivalents at the beginning of the year		**15,999,043**	6,206,225
Cash and cash equivalents at the end of the year	20	**3,439,492**	15,999,043
Cash and cash equivalents relating to margins and deposits at the end of the year		**34,603,534**	109,168,702
Cash and cash equivalents at end of the year including relating to margins and deposits		**38,043,026**	125,167,745

The annexed notes from 1 to 33 form an integral part of these financial statements.

Managing Director

Chairman

Statement of Changes in Equity

For the year ended June 30, 2017

Rupees

	Issued, subscribed and paid-up capital	Preference share capital	Capital reserve premium on issue of ordinary shares	Accumulated loss	Total
Balance at June 30, 2015	275,681,870	28,000,000	22,250,000	(431,724,191)	(105,792,321)
Total comprehensive income for the year ended June 30, 2016					
- Profit for the year	–	–	–	29,651,607	29,651,607
- Other comprehensive income for the year	–	–	–	–	–
	–	–	–	29,651,607	29,651,607
Reversal of finance cost on preference shares	–	–	–	2,016,912	2,016,912
Conversion of preference shares into ordinary shares	28,000,000	(28,000,000)	–	–	–
Conversion of accumulated unpaid dividend into ordinary shares	3,538,600	–	–	–	3,538,600
Issue of shares at Rs. 10 each	6,331,150	–	–	–	6,331,150
Balance at June 30, 2016	**313,551,620**	**–**	**22,250,000**	**(400,055,672)**	**(64,254,052)**
Total comprehensive income for the year ended June 30, 2017					
- Loss for the year	–	–	–	(14,573,899)	(14,573,899)
- Other comprehensive income for the year	–	–	–	–	–
	–	–	–	(14,573,899)	(14,573,899)
Balance at June 30, 2017	**313,551,620**	**–**	**22,250,000**	**(414,629,571)**	**(78,827,951)**

The annexed notes from 1 to 33 form an integral part of these financial statements.

Managing Director

Chairman

Notes to and Forming Part of the Financial Statements

For the year ended June 30, 2017

1 LEGAL STATUS AND NATURE OF BUSINESS

1.1 Pakistan Mercantile Exchange Limited ('the Exchange') was incorporated in Pakistan as a public limited company on April 20, 2002 under the repealed Companies Ordinance, 1984 now Companies Act, 2017. The Certificate of Commencement of Business under the repealed Companies Ordinance, 1984 was granted to the Exchange by the Securities and Exchange Commission of Pakistan (SECP) on May 20, 2002. The Certificate of Registration under Securities and Exchange Ordinance, 1969 to start operations as commodity exchange was granted by SECP on May 10, 2007 when the Exchange commenced its operations. Its registered office is situated at 3B, 3rd Floor, Bahria Complex IV, Chaudhry Khaliq-uz-Zaman Road, Gizri, Karachi, Pakistan.

1.2 The Exchange has been set-up principally to establish, regulate, control and provide physical facilities and marketplace necessary for trading in Commodity Future Contracts and to perform all allied and incidental functions. This is a technology driven, de-mutualized, on-line commodity futures Exchange in Pakistan, regulated by SECP. The operations of the Exchange are governed by the Pakistan Mercantile Exchange Limited (PMEX) General Regulations, which were approved by the SECP on May 10, 2007 as amended from time to time.

1.3 During the year, the Exchange incurred a loss after tax of Rs. 14.57 million and has an accumulated loss of Rs. 414.63 million as of the reporting date. However, the management considers the Exchange as an institution of national importance and is receiving cooperation and support from all the stakeholders. Moreover, new products are in the process of being designing or approval for trading on the Exchange, which include Murabaha, Soya bean, Mill-specific Sugar, Palm Olien, Heating oil, Rough rice etc. Further, the Exchange is in process of raising fresh equity for which various parties have submitted their expression of interest which are being evaluated by the Exchange with the help of appointed financial advisor. These financial and operating measures are expected to improve the profitability and financial position of the Exchange.

2 BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with the requirements of the repealed Companies Ordinance, 1984 (the Ordinance), directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the provisions of the Ordinance. Wherever, the requirements of the Ordinance or directives issued by the SECP differ with the requirements of these standards, the requirements of the Ordinance or the requirements of the said directives take precedence.

During the year, the Companies Act, 2017 was enacted on May 30, 2017 and came into force at once. Subsequently, Securities and Exchange Commission of Pakistan has notified through Circular No. 17 of July 20, 2017 that companies whose financial year closes on or before June 30, 2017 shall prepare their financial statements in accordance with the provisions of the repealed Companies Ordinance, 1984. Therefore, these financial statements have been prepared under the requirements of repealed Companies Ordinance 1984.

2.2 Accounting convention

These financial statements have been prepared under the historical cost convention except that certain investments are carried at fair value.

2.3 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Exchange operates. These financial statements are presented in Pak Rupees which is the Exchange's functional and presentation currency.

2.4 Initial application of amendments to existing standards

a) Amendments which became effective during the year

The following amendments to existing standards are effective for the year ended June 30, 2017. These amendments to existing standards are either not relevant to the Exchange's operations or are not expected to have significant impact on the Exchange's financial statements other than certain additional disclosures.

Amendments to exisitng standards	Effective date (accounting periods beginning on or after)
IFRS 10 – 'Consolidated Financial Statements', IFRS 12 – 'Disclosure of Interests in Other Entities' and IAS 28 – 'Investments in Associates and Joint Ventures' – Investment Entities: Applying the consolidation exception	January 01, 2016
IFRS 11 – 'Joint Arrangements' - Accounting for acquisitions of interests in joint operations	January 01, 2016
IFRS 12 – Disclosure of Interests in Other Entities	January 01, 2016
IAS 1 – Presentation of Financial Statements' - Disclosure initiative	January 01, 2016
IAS 16 – 'Property, Plant and Equipment' and IAS 41 – 'Agriculture' – Measurement of bearer plant	January 01, 2016
IAS 16 – 'Property, Plant and Equipment' and IAS 38 – 'Intangible Assets' – Clarification of acceptable methods of depreciation and amortization	January 01, 2016
IAS 27 – 'Separate Financial Statements' - Equity method in separate financial statements	January 01, 2016

b) Amendments to published standards and interpretations that are not yet effective and have not been early adopted by the Exchange

The following amendments and interpretations are only effective for accounting periods, beginning on or after the date mentioned against each of them. These amendments and interpretations are either not relevant to the Exchange's operations or are not expected to have significant impact on the Exchange's financial statements other than certain additional disclosures.

Amendments or Interpretations	Effective date (accounting periods beginning on or after)
Amendments to IFRS 2 – 'Share-based Payment' - Clarification on the classification and measurement of share-based payment transactions	January 01, 2018
Amendments to IFRS 10 – 'Consolidated Financial Statements' and IAS 28 – 'Investments in Associates and Joint Ventures' - Sale or contribution of assets between an investor and its associate or joint venture	Effective date is deferred indefinitely. Earlier adoption is permitted.
Amendments to IAS 7 – 'Statement of Cash Flows' - Amendments as a result of the disclosure initiative	January 01, 2017
Amendments to IAS 12 – 'Income Taxes' - Recognition of deferred tax assets for unrealised losses	January 01, 2017
IAS 40 – 'Investment Property': Clarification on transfers of property to or from investment property	January 01, 2018
IFRIC 22 – 'Foreign Currency Transactions and Advance Consideration'	January 01, 2018
IFRIC 23 – 'Uncertainty over Income Tax Treatments'	January 01, 2019

Other than the aforesaid interpretations and amendments, the International Accounting Standards Board (IASB) has also issued the following standards which have not been adopted locally by the Securities and Exchange Commission of Pakistan:

- IFRS 1 – First Time Adoption of International Financial Reporting Standards
- IFRS 9 – Financial Instruments
- IFRS 14 – Regulatory Deferral Accounts
- IFRS 15 – Revenue from Contracts with Customers
- IFRS 16 – Leases
- IFRS 17 – Insurance Contracts

During the year, the Companies Act, 2017 (the new Companies Act) was enacted and promulgated by the SECP on May 30, 2017. However, SECP has notified through Circular No. 17 of July 20, 2017 that companies whose financial year closes on or before June 30, 2017 shall prepare their financial statements in accordance with the provisions of the repealed Companies Ordinance, 1984. Accordingly, the Company shall prepare the financial statements for periods closing after June 30, 2017 in accordance with the provisions of the new Companies Act. The Company is currently in process of determining impact, if any, on future financial statements due to implementation of the Act.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1 Margins and Deposits

Margins and deposits represents initial margins and clearing house deposits received from brokers / clients. Assets acquired from the margins and deposits comprises of cash, investments in Government securities, gold holdings etc. Those assets are recorded and remeasured at fair value.

3.2 Provisions

Provisions are recognized when the Exchange has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

3.3 Taxation

Income tax expense comprise of current and deferred tax. Income tax expense is recognized in the profit and loss account except to the extent that it relates to the items recognized directly in other comprehensive income.

Current

Provision for current taxation is based on taxable income at the current tax rates after taking into account tax credits and rebates available, if any or on turnover at the specified rates or Alternate Corporate Tax as defined in section 113C of the Income Tax Ordinance, 2001, whichever is higher. The charge for current tax also includes adjustments, where necessary, relating to prior years which arise due to assessment framed / finalized during the year.

Deferred

Deferred tax is recognized using the balance sheet liability method for all temporary differences arising between the tax base of assets and liabilities and their carrying amounts appearing in the financial statements. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that the temporary differences will reverse in the future and taxable income will be available against which the temporary differences can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantially enacted by the reporting date.

3.4 Property and equipment

These are stated at cost less accumulated depreciation and impairment losses, if any, except for capital work-in-progress which is stated at cost less impairment losses, if any.

Subsequent costs are included in the assets carrying amounts or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Exchange and the cost of the item can be measured reliably.

Depreciation is charged to the profit and loss account using the straight-line method in accordance with the rates specified in note 13 to these financial statements after taking into account residual value, if significant. The residual values, useful lives and depreciation methods are reviewed, and adjusted, if appropriate, at each reporting date.

Depreciation on additions is charged from the month in which assets are available for use while no depreciation is charged in the month in which the assets are disposed off.

Gains or losses arising on disposal of property and equipment are included in the profit and loss account in the year of disposal. Repairs and maintenance are charged to profit and loss account in the period in which these are incurred.

Capital work in progress

All expenditure connected with specific assets incurred during installation and construction period are carried under capital work in progress. These are transferred to specific assets as and when assets are available for use.

3.5 Intangible assets

An intangible asset is recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the Exchange and that the cost of such asset can also be measured reliably. Generally, costs associated with developing or maintaining computer software programmes are recognized as an expense as incurred. However, costs that are directly associated with identifiable software and have probable economic benefits exceeding the cost beyond one year, are recognized as intangible assets. Direct costs include the purchase cost of software and related overhead costs.

Intangible assets having a finite useful life are stated at cost less accumulated amortization and accumulated impairment losses, if any. Such intangible assets are amortized using the straight-line method with the rates specified in note 14 to these financial statements. Amortization on additions and deletions of intangible assets during the year is charged in proportion to the period of use. The useful lives and amortization method are reviewed, and adjusted, if appropriate, at each reporting date.

Intangible assets having an indefinite useful life are stated at cost. Provisions are made for permanent impairment in value of these assets, if any.

Gains and losses on disposal of intangible assets are taken to the profit and loss account in the period in which these arise.

Expenditure which enhances or extends the performance of computer software beyond its original specification and useful life is recognized as a capital improvement and added to the original cost of the software.

3.6 Impairment

3.6.1 Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. If any such evidence exists for available-for-sale investments, the cumulative loss is removed from other comprehensive income and recognized in the profit and loss account. Impairment losses recognized in the profit and loss account on equity instruments are not reversed through the profit and loss account.

3.6.2 Non-financial assets

The carrying amounts of non-financial assets are assessed at each reporting date to ascertain whether there is any indication of impairment. If such an indication exists, the asset's recoverable amount is estimated to determine the extent of impairment loss, if any. An impairment loss is recognized, as an expense in the profit and loss account. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. Value in use is ascertained through discounting of the estimated future cash flows using a discount rate that reflects current market assessments of the time value of money and the risk specific to the assets. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

An impairment loss is reversed if there is a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

3.7 Supplies and consumables

Universal Serial Bus (USB) keys held are valued at the lower of cost determined on the weighted average method and net realizable value.

3.8 Annual subscription receivables

Annual subscription is recognized initially at invoice value, which approximates fair value, and subsequently measured at amortized cost using the effective interest method, less provision for impairment, if any. A provision for impairment is recognized when there is objective evidence that the Exchange will not be able to collect the amount due in accordance with the original terms of the receivable. Significant financial difficulties of the members, probability of members bankruptcy, default or delinquency are considered as indicators that the receivable may be impaired. Balances considered bad and irrecoverable are written off when identified.

3.9 Investments

All purchases and sales of investments that require delivery within the time frame established by regulation or market convention ('regular way' purchases and sales) are recognized at trade date, which is the date that the Exchange commits to purchase or sell the asset.

Investments are derecognized when the right to receive cash flows from the investments have expired or investments have been realized or transferred, and the Exchange has transferred substantially all the risks and rewards of ownership.

The investment portfolio of the Exchange is categorized below:

Investments at fair value through profit or loss

An investment is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Exchange manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Exchange's investment strategy. All investments classified as investments at fair value through profit or loss are initially measured at cost being fair value of consideration given. At subsequent dates, these investments are measured at fair value, determined on the basis of prevailing market prices, with any resulting gain or loss recognized directly in the profit and loss account .

Available-for-sale
Investments intended to be held for indefinite period, which may be sold in response to the needs for liquidity or change in prices, are classified as 'available-for-sale'.

These investments are initially recognized at fair value plus transaction costs. Premium or discount on acquisition of investments is capitalized and amortized through the profit and loss account over the remaining period till maturity.

Subsequent to initial recognition, 'available-for-sale' investments are marked to market. The surplus / deficit arising on remeasurement of available-for-sale investments to fair value is recognized directly in other comprehensive income. At the time of disposal, the respective surplus or deficit is transferred to the profit and loss account.

Held-to-maturity
These are securities with fixed or determinable payments and fixed maturity acquired by the Exchange with the intention and ability to hold them up to maturity. These securities are initially recognized at fair value plus transaction costs and are subsequently carried at amortized cost using the effective interest rate method. Premium or discount on acquisition of securities are amortized on effective rate basis over the term of respective securities.

Investments in associates
Investments in associates are carried at cost less impairment loss, if any, as these are unquoted companies and the Exchange does not have significant influence over the associated entities as defined in IAS 28 - 'Investment in Associates'.

Impairment of investments is recognized when there is a permanent diminution in their values.

3.10 Cash and cash equivalents
For the purpose of cash flow statement, cash and cash equivalents comprise of cash in hand, balances with banks in current, deposit and saving accounts.

3.11 Staff retirement benefits

Gratuity scheme
The Exchange is operating a defined contribution gratuity fund for all its permanent employees. The Exchange contributes monthly @ 8% of basic salary.

Provident fund
The Exchange is operating a defined contribution provident fund for all its permanent employees. Both the Exchange and employees contribute equally @ 8% of basic salary on a monthly basis.

3.12 Foreign currency transactions and translation
Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing on the date of the transaction. Monetary assets and liabilities in foreign currencies if any, are translated into Pak Rupees at the rates of exchange approximating those prevailing on the reporting date. Exchange differences are taken to the profit and loss account.

3.13 Financial instruments
Financial instruments carried on the balance sheet include receivables, investments, advances and deposits, cash and bank balances, long term deposits, margins and deposits, creditors, accrued and other liabilities.

At the time of initial recognition, all financial assets and liabilities are measured at cost, which is the fair value of the consideration given or received for it. The particular recognition method adopted for recognition of financial assets and liabilities subsequent to initial recognition is disclosed in the policy statement associated with each item.

3.14 Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount is reported in the financial statements only when the Exchange has a legally enforceable right to offset the recognized amounts and the Exchange intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

3.15 Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefit will flow to the Exchange and the revenue can be reliably measured. Revenue is measured at fair value of consideration received or receivable in the usual course of business. Specific recognition criteria for different types of revenue are as follows:

- Entrance fee, fee for membership transfer and issuance of certificate are recognized on accrual basis.
- Trading fee is recognized on execution of transactions.
- Annual membership fee is recognized on a time proportion basis.
- Markup / interest income on investments in government and other debt securities is recognized on time proportionate basis using the effective interest method.
- Return on bank deposits is recognized on accrual basis.
- Capital gain is recognised at the time of sale of investments.

3.16 Earnings per share

The Exchange presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Exchange by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of these financial statements in conformity with approved accounting standards as applicable in Pakistan, requires management to make estimates, assumptions and use judgements that affect the application of policies and reported amounts of assets and liabilities and income and expenses. Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Revisions to accounting estimates are recognized prospectively commencing from the period of revision.

In preparing these financial statements, the significant judgements made by management in applying the Exchange's accounting policies and the key resources of estimation were the same as those that applied to the financial statements as at and for the year ended June 30, 2016.

Areas where various assumptions and estimates are significant to the Exchange's financial statements or where judgement was exercised in application of accounting policies are as follows:

- Useful lives and residual values of property and equipment (note 13);
- Useful lives and residual values of intangible assets (note 3.5 and 14);
- Classification of short term investments (note 3.9 and 19);
- Impariment of investments and recoverable amounts (note 3.6); and
- Taxation (note 3.3 and 25).

5 ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

Number of Shares			Rupees	
2017	2016		**2017**	2016
31,355,162	31,355,162	Ordinary shares of Rs 10 each	**313,551,620**	313,551,620

5.1 Reconciliation of number of ordinary shares of Rs. 10 each

Number of shares

	2017	2016
At beginning of the year	**31,355,162**	27,568,187
Add: Conversion of preference shares	–	2,800,000
Conversion of accumulated unpaid dividend on preference shares	–	353,860
Issue of shares at Rs. 10 each	–	633,115
At end of the year	**31,355,162**	31,355,162

5.2 Ordinary shares were held as at June 30 by:

	2017	2016
Associates		
National Bank of Pakistan	**10,653,860**	10,653,860
Pakistan Stock Exchange Limited	**8,909,052**	8,909,052
ISE Tower REIT Management Limited	**5,568,181**	5,568,181
LSE Financial Services Limited	**2,272,727**	2,272,727
Zarai Taraqiati Bank Limited	**909,091**	909,091
Others		
Pak Brunei Investment Company Limited	**2,133,115**	2,133,115
Pakistan Kuwait Investment Company (Private) Limited	**909,090**	909,090
Others - individuals	**46**	46
	31,355,162	31,355,162

6 LONG-TERM DEPOSITS

Rupees

	Note	2017	2016
Security deposits from members	6.1	**195,500,000**	193,250,000
Clearing house deposits	6.2	**2,900,000**	2,900,000
		198,400,000	196,150,000

6.1 It represents security deposits of Rs. 750,000 and Rs. 500,000 each for universal and specific memberships, respectively, received from members who were granted memberships before July 04, 2007. These deposits are interest free, adjustable on default, and refundable on transfer of membership.

6.2 It represents interest free, adjustable and refundable clearing house deposits of Rs. 100,000 received from members who have deposited this amount before commencement of operations of the Exchange for futures trading but have not yet commenced trading. These deposits will be transferred to 'margins and deposits' upon commencement of trading by the respective members.

7 STAFF GRATUITY PAYABLE

	Note	2017 (Rupees)	2016 (Rupees)
Staff gratuity payable	7.1	**43,432,994**	44,569,896

7.1 Movement of staff gratuity payable is as follows:

Opening balance		**44,569,896**	49,466,191
Charge for the year	7.2	**6,150,671**	5,664,613
Payments made to the Fund		**(6,180,487)**	(5,219,134)
Payments made to outgoing employees on behalf of the Fund		**(3,244,787)**	(7,864,353)
Accrued finance cost	7.3	**2,137,701**	2,522,579
Closing balance		**43,432,994**	44,569,896

7.2 The Exchange is operating a defined contribution gratuity fund (the Fund) since October 01, 2014. The Exchange contributes monthly @ 8% of basic salary.

7.3 The Exchange makes accrual of finance cost at the average rate of income earned by the Exchange on the accumulated balance of gratuity payable to the Fund.

8 MARGINS AND DEPOSITS

	Note	2017 (Rupees)	2016 (Rupees)
Clearing house deposits relating to brokers	8.1	**130,972,108**	136,032,267
Initial margins relating to brokers and clients	8.1	**1,168,382,169**	1,100,042,714
	8.2	**1,299,354,277**	1,236,074,981

8.1 The margins and deposits have been applied as follows:

Clearing house deposits		
Balance with banks (saving and current)	**604,092**	17,278,049
Investment in Treasury Bills	**130,541,493**	123,663,922
Less: amount allocated for transfer to SGF Trust	**(173,477)**	(4,909,704)
	130,972,108	136,032,267
Initial margins		
Balance with banks (saving and current)	**33,999,442**	91,890,653
Investment in Treasury Bills	**1,135,840,576**	876,621,030
Investment in Pakistan Investment Bonds (PIBs)	**–**	165,376,674
Accrued markup on PIBs and saving accounts	**–**	7,549,572
Security deposit / prepayments - Locker (Gold)	**36,000**	36,000
Less: amount allocated for transfer to SGF Trust	**(1,493,849)**	(41,431,215)
	1,168,382,169	1,100,042,714
	1,299,354,277	1,236,074,981

8.2 All brokers are required to maintain a minimum clearing house deposit and margins as may be specified by the Exchange. Margins and clearing house deposits determine the maximum value of exposure that a broker can take across all his clients and across all contracts in all commodities.

SECP through its letter dated August 17, 2015 had advised the Exchange to establish a SGF Trust through a trust deed registered with registrar of Trusts. During the year, the Exchange established the Trust and transferred the fund as mentioned in note 9 below. The Exchange shall utilize the SGF Trust's and other monies of the brokers to the extent necessary to fulfill its obligations, as specified under the Regulations whenever a broker fails to meet his settlement obligations arising out of the transactions, or whenever a broker is declared as a defaulter.

As per the above SECP letter, Exchange is distributing 50% of the amount calculated by applying a rate 50 basis points below the minimum bank profit rate to brokers and clients on their average monthly balance, and remaining 50% is transferred to SGF Trust. The residual amount from income / profit / gain from investment of margins and deposits is accounted for as a share of the PMEX in the income from margins & deposits, disclosed in note 21.

8.3 In addition to margins and deposits from brokers and clients, Exchange holds gold on behalf of their brokers and clients in fiduciary capacity which is valued using the closing rates.

9 PAYABLE TO SETTLEMENT GUARANTEE FUND (SGF) TRUST

	Note	2017 Rupees	2016 Rupees
Payable to Settlement Guarantee Fund (SGF) trust	9.1	**1,667,326**	46,340,919

9.1 Movement for the year is as follows:

	2017	2016
Opening balance as at July 01	**46,340,919**	–
Amount allocated from income earned on:		
- clearing house deposits	**2,295,279**	4,909,704
- initial margins	**20,208,239**	41,431,215
	22,503,518	46,340,919
Amount transferred during the year	**(67,177,111)**	–
	1,667,326	46,340,919

10 ADVANCE ANNUAL SUBSCRIPTION AND OTHER FEE

	2017 Rupees	2016 Rupees
Advance annual subscription fee	**13,034,168**	8,450,000
Advance transfer fee	**1,550,000**	750,000
Technology fee	**–**	4,280
Others	**329,997**	1,012,499
	14,914,165	10,216,779

11 CREDITORS, ACCRUED AND OTHER LIABILITIES

	Note	2017	2016
		Rupees	
Creditors		**3,476,845**	4,964,340
Accrued expenses	11.1	**20,904,732**	10,084,695
Withholding tax payable		**1,368,963**	4,591,415
Payable to market makers		**2,342,858**	1,253,507
SECP fee payable	11.2	**3,114,656**	7,021,885
Other liabilities	11.3	**9,970,251**	6,999,630
		41,178,305	34,915,472

11.1 This includes directors' meeting fee amounting to Rs. Nil (2016: Rs.280,000).

11.2 This represents SECP transaction fee and supervision fee of Rs. 1,030,465 (2016: Rs. 6,388,283) and Rs. 2,084,191 (2016: Rs. 633,602) respectively.

11.3 This includes reimbursement of travelling and conveyance expenses to directors amounting to Rs. 102,000 (2016: Rs.78,076).

12 CONTINGENCIES AND COMMITMENTS

12.1 Income tax assessments

The assessment for the tax years 2003 to 2006 have been amended by the tax authorities, details of which are as follows:

12.1.1 Tax year 2003

The tax authorities have treated advance membership fee of Rs. 65 million (tax impact of Rs. 27.95 million) as income in the year of receipt, which was offered for tax by the Exchange upon receipt of Certificate of Registration as Commodity Exchange from SECP i.e. in 2007. The appeal of Exchange is pending before High Court.

The tax authorities have also treated the security deposit of members amounting to Rs. 193.75 million (tax impact of Rs. 83.30 million) as income of the Exchange while assuming it to be non-refundable and non-adjustable. The Exchange filed an appeal in the High Court and has obtained stay order for recovery of entire demand upto the next hearing date.

Based on the opinion of tax / legal advisors, the management is confident that the ultimate outcome of above matters will be in favor of the Exchange. Accordingly, no provision is made in these financial statements.

12.1.2 Tax years 2005 and 2006

The tax authorities have disallowed expenses of Rs. 4.91 million and Rs. 3.14 million respectively incurred by the Exchange on refurbishment and tax depreciation claimed in these years on the assumption that the Exchange has not started its business in the said years. The appeal of the Exchange has been declined by Commissioner Inland Revenue (Appeals) and Appellate Tribunal Inland Revenue (ATIR). The Exchange has filed rectification application against its order. Based on the advice of tax advisor, the management is confident that the ultimate outcome of the matter would be in favor of the Exchange. Accordingly, no provision is made in this regard in these financial statements.

12.2 Withholding income tax

During the year ended June 30, 2012, the tax authorities passed an order under section 161 and section 205 of the Income Tax Ordinance, 2001 treating the Exchange as 'assesse in default' for non-deduction of tax on payments made and created a demand of Rs. 2.70 million including default surcharge of Rs. 0.41 million. A rectification application has been filed against the aforesaid order which is pending. As the Exchange has not defaulted in deduction of any applicable withholding tax, the management is confident that the ultimate outcome of the matter would be in favor of the Exchange. Accordingly, no provision is made in this regard in these financial statements.

12.3 Sindh sales tax on services - Tax year 2012 to 2014

In 2015-2016, a demand of sales tax of Rs. 14,042,311 along with penalty of Rs. 1,584,230 was raised by Assistant Commissioner SRB, Karachi against the Exchange under various sections of Sales tax on Services Act, 2011 in respect of non collection and submission of Sindh sales tax on various IT and alleged management services rendered by the Exchange to its brokers and clients. The Exchange has filed appeal before Commissioner (Appeals) Sindh Revenue Board, Karachi against the said order on which Commissioner (Appeals) has granted partial relief in Sales Tax of Rs. 740,060 and related penalty of Rs. 74,004. Currently, the case is with Appellate Tribunal and stay order on the same has also been granted by the Sindh High Court. The management is confident that based on merit of the case the ultimate outcome of the matter would be in favor of the Exchange. Accordingly no provision is made in this regard in these financial statements.

12.3 Commitments

	Note	2017 Rupees	2016 Rupees
Commitments in respect of capital expenditure and services		**8,305,000**	463,260

13 PROPERTY AND EQUIPMENT

	Note	2017 Rupees	2016 Rupees
Operating assets	13.1	**21,376,770**	20,862,018
Capital work-in-progress	13.2	**2,095,000**	708,840
		23,471,770	21,570,858

13.1 Operating assets

	Owned						
	Leasehold improvements	Furniture and fittings	Office equipment	Electrical equipment	Computer equipment	Motor vehicles	Total
As at July 1, 2015							
Cost	11,627,000	3,684,449	1,467,151	5,219,490	31,005,763	5,977,940	58,981,793
Accumulated depreciation	(2,103,623)	(973,448)	(702,896)	(3,481,416)	(21,274,732)	(1,753,529)	(30,289,644)
Net book value	**9,523,377**	**2,711,001**	**764,255**	**1,738,074**	**9,731,031**	**4,224,411**	**28,692,149**
For the year ended June 30, 2016							
Opening net book value	9,523,377	2,711,001	764,255	1,738,074	9,731,031	4,224,411	28,692,149
Additions during the year	39,590	213,969	174,351	403,007	1,703,323	2,534,240	
Disposals during the year							
Cost	–	10,000	362,266	201,116	–	–	573,382
Accumulated depreciation	–	(10,000)	(154,572)	(82,966)	–	–	(247,538)
	–	–	(207,694)	(118,150)	–	–	(325,844)
Depreciation for the year	(2,328,699)	(672,392)	(200,109)	(643,026)	(5,237,831)	(956,470)	(10,038,527)
Closing net book value	**7,234,268**	**2,252,578**	**530,803**	**1,379,905**	**6,196,523**	**3,267,941**	**20,862,018**
As at June 30, 2016							
Cost	11,666,590	3,888,418	1,279,236	5,421,381	32,709,086	5,977,940	60,942,651
Accumulated depreciation	(4,432,322)	(1,635,840)	(748,433)	(4,041,476)	(26,512,563)	(2,709,999)	(40,080,633)
Net book value	**7,234,268**	**2,252,578**	**530,803**	**1,379,905**	**6,196,523**	**3,267,941**	**20,862,018**
For the year ended June 30, 2017							
Opening net book value	7,234,268	2,252,578	530,803	1,379,905	6,196,523	3,267,941	20,862,018
Additions during the year	2,609,960	1,893,872	441,951	2,222,610	3,496,355	–	10,664,748
Disposals during the year							
Cost	–	704,363	–	–	–	–	704,363
Accumulated depreciation	–	(434,142)	–	–	–	–	(434,142)
	–	(270,221)	–	–	–	–	(270,221)
Depreciation for the year	(2,614,869)	(854,480)	(271,252)	(983,025)	(4,199,679)	(956,470)	(9,879,775)
Closing net book value	**7,229,359**	**3,021,749**	**701,502**	**2,619,490**	**5,493,199**	**2,311,471**	**21,376,770**
As at June 30, 2017							
Cost	14,276,550	5,077,927	1,721,187	7,643,991	36,205,441	5,977,940	70,903,036
Accumulated depreciation	(7,047,191)	(2,056,178)	(1,019,685)	(5,024,501)	(30,712,242)	(3,666,469)	(49,526,266)
Net book value	**7,229,359**	**3,021,749**	**701,502**	**2,619,490**	**5,493,199**	**2,311,471**	**21,376,770**
Rate of depreciation (%)	20	20	20	20	25	20	

13.2 Capital work-in-progress

	Rupees	
	2017	2016
Advance for capital expenditure	**2,095,000**	708,840

13.3 Cost of property and equipment includes fully depreciated assets still in use aggregating to Rs. 24,515,190 (2016: Rs.15,887,224).

14 INTANGIBLE ASSETS - COMPUTER SOFTWARES

Rupees

	2017	2016
Gross carrying value		
Cost	**44,768,119**	44,768,119
Accumulated amortization	**(34,524,369)**	(27,929,974)
Net book value	**10,243,750**	16,838,145
Net carrying value		
Opening net book value	**16,838,145**	9,869,216
Additions during the year	**–**	12,431,406
Amortization for the year	**(6,594,395)**	(5,462,477)
Closing net book value	**10,243,750**	16,838,145
Rate of amortization (%)	**25**	25

15 INVESTMENT IN ASSOCIATES - AT COST

Rupees

	Note	2017	2016
NCEL Building Management Limited (1 share of Rs. 10)	15.1	**10**	10
Institute of Financial Market of Pakistan (200 shares of Rs. 5,000 each)	15.2		
Cost		**1,000,000**	1,000,000
Less: Impairment		**(999,990)**	(999,990)
		10	10
		20	20

These are associated companies due to common directorship without any significant influence.

15.1 The Exchange, during 2003-04, received advances of Rs. 645.2 million from its contributing members (Rs. 2.5 million against each office space) for the acquisition of Old Hyatt Regency Hotel Building (the Building) on Pakistan Railways land in Karachi. The Building, alongwith certain equipment, was offered for sale by the Privatization Commission, Government of Pakistan (PC). In 2003, Aqeel Karim Dhedhi Securities (Private) Limited (AKDS) participated in the bidding on behalf of the Exchange and was declared successful bidder on the bid price of Rs. 530 million which was paid by the Exchange from the advances received from members to the PC directly. PC transferred the leasehold rights of the Building to AKDS for Commodity Exchange. The Exchange had simultaneously entered into a Property Sale Agreement with AKDS for acquisition of the Building on behalf of its members to construct building and rooms for contributing members. However, to transfer the leasehold rights of the land from AKDS, a No Objection Certificate (NOC) from Pakistan Railways is still awaited.

On April 26, 2007, the Exchange decided to transfer all the assets and liabilities relating to the Building to a separate entity. Accordingly, a new company NCEL Building Management Limited (NCELBM) was incorporated on June 12, 2007. Presently, the Exchange holds one share and one seat on the Board of Directors of NCELBM.

According to the novation agreement executed between the Exchange, AKDS, NCELBM and representatives of contributing members on November 27, 2007, in consideration of facilitating the acquisition of rights, titles and interests in the Building and for facilitating the arrangement in relation to ownership, construction, refurbishment and management and coordination of all efforts in relation to the project pertaining to the Building up to November 30, 2007, the Exchange will be entitled to the following on completion of project:

- issuance of 20 fully paid ordinary shares of NCEL Building Management Limited representing its ownership of allotment rights in 20 office units without being required to pay any consideration in cash or otherwise;
- allotment of 20,000 square feet on a gross basis of adjoining fully completed and finished floor space representing 20 office units; and
- a permanent seat on the Board of NCEL Building Management Limited.

15.2 The Exchange holds 2.63% (2016: 2.63%) ordinary shares of the Institute of Financial Markets of Pakistan.

16 SUPPLIES AND CONSUMABLES

	Note	2017 (Rupees)	2016 (Rupees)
Universal Serial Bus (USB) keys	16.1	**709,696**	243,620

16.1 To provide secured direct online access to the trading system, the Exchange issues USB keys with identity recognition software to the staff of the Exchange as well as to all the brokers. During the year, USB keys costing Rs. 95,524 (2016: Rs. 118,932) were issued.

17 DEPOSITS AND PREPAYMENTS

	2017 (Rupees)	2016 (Rupees)
Security deposits	**1,974,211**	2,017,971
Prepaid expenses	**7,397,635**	9,619,782
	9,371,846	11,637,753

18 OTHER RECEIVABLES - Considered good

	Note	2017 (Rupees)	2016 (Rupees)
Receivable from NCEL Building Management Limited		**1,168,925**	1,168,925
Technology fee from members		**3,847,768**	2,684,435
Mark to market gain on investments of margins and deposits	18.1	**–**	11,546,237
Receivable from market maker	18.2	**6,682,734**	4,453,750
Infrastructure Fee from members		**7,305,000**	3,580,000
Accrued markup on PIBs and saving accounts		**37,571**	7,583,920
Others		**10,732,072**	3,584,346
		29,774,070	34,601,613

18.1 This represents the impact of mark to market gain on investments of margins and deposits.

18.2 This represents receivable as a reimbursement of service charges paid for the facilitation to the market makers in pricing the commodities.

19 SHORT TERM INVESTMENT - at fair value through profit or loss

	Note	2017	2016
		Rupees	
Investment in Treasury bills	19.1 & 19.2	**1,332,980,380**	1,064,496,545
Investment in Pakistan investment bonds (PIBs)		**–**	165,376,674
		1,332,980,380	1,229,873,219

19.1 The aggregate cost of these Treasury Bills is Rs. 1,266.382 million (June 2016: Rs. 988.605 million). These Treasury Bills carry markup ranging from 5.90% to 5.99% (June 2016: 5.9% to 6.2%) per annum and will mature on various dates till September 28, 2017

19.2 This includes investment of the Exchange amounting to Rs. 66.598 million (2016: Rs. 64.212 million) in three month Treasury bills carrying markup rate ranging from 5.95% to 5.99% (2016: 5.9%) that will mature on various dates upto August 17, 2017.

20 CASH AND BANK BALANCES

	Note	2017	2016
		Rupees	
With banks			
- in current accounts		**248,019**	162,057
- in saving accounts	20.1	**37,762,972**	125,005,677
		38,010,991	125,167,734
Cash in hand		**32,035**	11
		38,043,026	125,167,745

20.1 These accounts carry mark up at the rate of 3.75% per annum (2016: 3.75%)

21 OPERATING INCOME

	Note	2017	2016
		Rupees	
Trading fee		**114,107,315**	119,176,929
Share of PMEX in the income from margins and deposits	8.2	**36,085,544**	45,443,580
Annual membership fee		**20,350,833**	17,175,000
Entrance fee		**7,500,000**	14,000,000
Income from IT related services		**9,388,778**	5,566,248
PMEX infrastructure fee		**7,025,000**	3,580,000
Advertisement income		**2,868,450**	2,680,000
Fee for membership transfer and issuance of certificates		**1,600,000**	1,000,000
Auto liquidation charges		**254,200**	789,701
Front end charges		**226,667**	111,548
Application fee		**50,000**	115,000
Gain on sale of USB keys		**162,876**	211,068
Recovery of gold custody charges		**3,311,833**	1,497,918
		202,931,496	211,346,992

22 ADMINISTRATIVE AND OPERATING EXPENSES

	Note	2017	2016
		Rupees	
Salaries and benefits	22.1 & 22.2	**130,972,731**	103,319,649
Gratuity	7 & 22.2	**6,150,671**	5,664,613
Provident fund	22.2	**6,160,779**	5,645,495
Directors' fee		**2,460,000**	1,845,000
Depreciation	13	**9,879,775**	10,038,527
Amortization	14	**6,594,395**	5,462,477
Communication		**4,956,292**	6,011,797
Utilities		**2,138,930**	1,960,148
Legal and professional		**2,225,266**	4,051,343
Rent		**12,854,483**	8,886,820
Repairs and maintenance		**8,582,674**	5,253,626
Market making / liquidity expenses		**8,875,423**	9,074,554
Travelling and conveyance			
- Employees and others		**716,251**	1,535,557
- Directors		**3,095,513**	2,735,553
		3,811,764	4,271,110
Fee and subscription		**1,436,241**	2,150,428
Security services		**621,720**	553,520
Insurance		**569,616**	715,194
SECP supervision fee	22.3	**1,450,589**	1,550,788
Auditors' remuneration	22.4	**673,000**	600,000
Marketing expense		**7,834,297**	7,946,584
Printing and stationery		**345,199**	366,572
Entertainment		**832,829**	728,375
		219,426,674	186,096,620

22.1 Total number of employees as at June 30, 2017 is 74 (June 30, 2016: 69). Average number of employees during the year ended June 30, 2017 is 70 (June 30, 2016: 66).

22.2 The aggregate amount charged in the financial statements for remuneration, including all benefits, to Managing Director (MD) of the Exchange are given below:

	2017	2016
	Rupees	
Managerial remuneration	**12,156,072**	10,583,700
Bonus	**2,261,175**	1,573,000
Retirement benefits - Gratuity	**884,076**	789,360
Provident fund	**884,076**	789,360
Others	**240,000**	240,000
	16,425,399	13,975,420
Number of persons	**1**	1

In addition to above, the Managing Director has been provided with a fully Company maintained vehicle.

22.3 This represents 1% supervision fee on operating income of the Exchange as levied by SECP vide its S.R.O.1351(I)/2012 dated October 25, 2012.

22.4 Auditors' remuneration

	2017	2016
	Rupees	
Annual audit fee	**420,000**	370,000
Fee for review of:		
Half yearly financial information	**150,000**	150,000
Statement of compliance with Code of Corporate Governance	**30,000**	30,000
Out of pocket expenses	**73,000**	50,000
	673,000	600,000

23 OTHER INCOME - NET

	2017	2016
	Rupees	
Income from financial assets		
Mark-up on bank deposits	**479,554**	444,024
Mark-up on government securities	**3,421,450**	5,203,614
Unrealized gain on remeasurement of investment at fair value through profit or loss	**10,682**	2,978
Realized (loss) / gain on sale of investment at fair value through profit or loss	**(7,023)**	11,138
Income from non - financial assets		
Loss on disposal of property and equipment	**(146,621)**	(172,182)
Others	**2,911,787**	7,006,745
	6,669,829	12,496,317

24 FINANCE COSTS

	Note	2017	2016
		Rupees	
In repsect of accumulated balance of staff gratuity charged to profit and loss account	24.1	**2,137,702**	2,522,579

24.1 This represents finance costs charged at the average rate of income earned by the Exchange on the accumulated balance of gratuity payable to the staff gratuity fund as further explained in note 7.

25 TAXATION

	Note	2017	2016
		Rupees	
Current - for the year	25.1	**2,092,147**	5,579,343
- prior year		**397,006**	(85,786)
		2,489,153	5,493,557

25.1 The provision for current income tax is based on Minimum Tax @ 1% as defined in section 113 of the Income Tax Ordinance, 2001 ('the Ordinance'). However, last year, it was based on Alternate Corporate Tax under section 113C of the Ordinance. Accordingly reconciliation of tax expense with the accounting profit is not presented.

25.2 The Exchange has not recognised net deferred tax asset amounting to Rs. 88.384 million as at June 30, 2017 (2016: Rs 79.107 million) on net deductible temporary differences aggregating to Rs. 285.109 million as at June 30, 2017 (2016: Rs. 248.341 million) as timing of availability of sufficient taxable profits cannot be determined due to applicability of minimum tax and alternative corporate tax under section 113 and 113C respectively. These net deductible temporary differences arise on normal business losses, unused tax depreciation and provision for staff gratuity aggregating to Rs. 132.581 million, Rs. 115.384 million and Rs. 43.333 million respectively net of taxable temporary difference of Rs. 6.29 million representing difference between tax base and carrying value of property and equipment.

26 EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

26.1 Basic earnings per share

		Rupees 2017	2016
(Loss) / profit for the year		**(14,573,899)**	29,651,607
Finance cost on preference shares		**–**	2,016,912
(Loss) / profit attributable to ordinary shareholders		**(14,573,899)**	31,668,519
Weighted average number of ordinary shares	Number	**31,355,162**	28,981,235
Basic earnings per share		**(0.46)**	1.09

26.2 Diluted earnings per share

		2017	2016
(Loss) / profit for the year		**(14,573,899)**	29,651,607
Weighted average number of ordinary shares	Number	**31,355,162**	28,981,235
Weighted average number of notionally convertible preference shares	Number	**–**	1,790,959
		31,355,162	30,772,194
Diluted earnings per share		**(0.46)**	0.96

27 CASH FLOW FROM OPERATIONS

	Note	Rupees 2017	2016
(Loss) / profit before taxation		**(12,084,746)**	35,145,164
Adjustments for non-cash and other items:			
Depreciation		**9,879,775**	10,038,527
Amortization		**6,594,395**	5,462,477
Gratuity		**6,150,671**	5,664,613
Finance cost		**2,137,702**	2,522,579
Unrealized gain on remeasurement of investment at fair value through profit or loss		**(10,682)**	(11,138)
Realized loss / (gain) on investment at fair value through profit or loss		**7,023**	(2,978)
Mark-up on government securities		**(3,421,450)**	(5,203,614)
Mark-up on bank deposits		**(479,554)**	(444,024)
Loss on disposal of property and equipment		**146,621**	172,182
Working capital changes	27.1	**(833,756)**	(34,684,611)
		8,085,999	18,659,177

27.1 Working capital changes

	Rupees 2017	Rupees 2016
(Increase) / decrease in current assets		
Supplies and consumables	**(466,076)**	118,932
Annual subscription receivable	**(8,375,000)**	(8,675,000)
Deposits and prepayments	**2,265,907**	(7,140,276)
Other receivables	**(2,718,806)**	(13,634,534)
	(9,293,975)	(29,330,878)
Increase / (decrease) in current liabilities		
Advance annual subscription and other fee	**4,697,386**	350,372
Advance members admission fee	**(2,500,000)**	–
Creditors, accrued and other liabilities	**6,262,833**	(5,704,105)
	(833,756)	(34,684,611)

28 PROVIDENT FUND

Effective from October 01, 2014, the Exchange started an approved funded contributory provident fund for its permanent employees. Contributions towards the fund have been deposited in a separate bank account the balance of which as at June 30, 2017 is Rs. 233,603 (2016: Rs. 926,860).

29 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

29.1 Financial Instruments by category

	Rupees 2017	Rupees 2016
Financial assets as per balance sheet		
Fair value through profit or loss		
- Exchange's investment in government securities	**66,598,311**	64,211,593
- Margins and deposit's investments	**1,266,382,069**	1,165,661,626
Investments in associates	**20**	20
Loans and receivables		
- Annual subscription receivable - considered good	**32,800,000**	24,425,000
- Deposits	**1,974,211**	2,017,971
- Other receivables	**29,774,070**	34,601,613
- Cash and bank balances	**38,043,026**	125,167,745
	1,435,571,707	1,416,085,568
Financial liabilities as per balance sheet		
Financial liabilities measured at amortized cost		
- Long-term deposits	**198,400,000**	196,150,000
- Margins and deposits	**1,299,354,277**	1,236,074,981
- Payable to SGF Trust	**1,667,326**	46,340,919
- Creditors, accrued expenses and other liabilities	**36,694,686**	23,302,172
	1,536,116,289	1,501,868,072

29.1.1 Fair values of financial assets and liabilities

(a) IFRS 13 “Fair Value Measurement” defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The carrying amount of the financial assets and liabilities reflected in the financial statements approximate their fair values.

(b) Fair Value estimation

The Exchange has measured financial instruments at fair values using following three level fair value hierarchy that refelcts the significance of the inputs used in measured fair value of financial instruments.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3: Inputs for asset or liability that are not based on observable market data (unobservable inputs).

The Exchange has investments in Treasury Bills (T-Bills) amounting to Rs. 66.598 million (2016: Rs. 64.211 million), investments made from margins and deposits in PIBs amounting to Rs. Nil (2016: Rs. 153.729 million) and treasury bills of Rs. 1,266.382 million (2016: Rs. 989.602 million) which are valued under Level 2 valuation method. The Exchange does not have any investment valued under Level 1 or Level 3 category.

29.2 Financial risk factors

The Exchange is exposed to market risk (including price risk and interest rate risk), credit risk and liquidity risk arising from its business activities. The Exchange overall risk management strategy seeks to minimize adverse effects from the unpredictability of financial markets on the Exchange’s financial performance.

The Board of Directors has overall responsibility for the oversight of financial risk management for the Exchange. To assist the Board in discharging its oversight responsibility, the management has been made responsible for identifying, monitoring and managing the Exchange's financial risk exposures.

The main financial risks that the Exchange is exposed to and how they are managed are set out below:

29.2.1 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing returns. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk, such as equity risk. Financial instruments affected by market risk include short term investments designated at fair value through profit or loss and investments made out of Margins and deposits (refer note 20).

a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in the market interest rates. As the Exchange has no significant interest-bearing assets and liabilities, the Exchange’s income and operating cash flows are substantially independent of changes in market interest rates.

At June 30, 2017, if interest rates on Exchange’s net financial assets had been 1% higher / lower with all other variables held constant, profit for the year would have been lower / higher by Rs. 608,242 (2016: Rs. 1,001,624) mainly as a result of higher / lower interest exposure on fixed rate financial instruments.

At the balance sheet date, the interest rate risk profile of the Exchange's interest bearing financial instruments is as follows:

	2017	2016
	Rupees	
	Carrying Amount	
Fixed rate instruments		
Financial assets		
Exchange's investment in government securities	**66,598,311**	64,211,593
Margins and deposit's investments	**1,266,382,069**	1,165,661,626
	1,332,980,380	1,229,873,219

b) **Currency risk**
Foreign currency risk arises mainly where receivables and payables exist due to transactions with foreign undertakings. However, the Exchange is not exposed to any foreign currency risk.

c) **Other price risk**
The Exchange is not exposed to other price risk as at June 30, 2017.

29.2.2 Credit risk

Credit risk and concentration of credit risk
Credit risk represents the risk of loss if the counter parties fail to perform as contracted. The Exchange's credit risk is primarily attributable to its receivables, balances at banks and other financial assets. Total financial assets of the Exchange are subject to credit risk except cash.

Credit risk related to financial instruments and cash deposits
The Exchange limits its exposure to credit risk by investing in liquid securities and only with counterparties that have a good credit rating. The credit quality of Exchange's bank balance can be assessed with reference to external credit rating as follows:

Name of Bank	Rating agency	Rating	
		short term	long term
Bank Alfalah Limited	PACRA	A1+	AA
Bank Islami Pakistan Limited *	PACRA	A1	A+
Bank Al-Habib Limited	PACRA	A1+	AA+
Faysal Bank Limited	PACRA	A1+	AA
Standard Chartered Bank (Pakistan) Limited	PACRA	A1+	AAA
Habib Bank Limited	JCR-VIS	A-1+	AAA
JS Bank Limited *	PACRA	A1+	A+
MCB Bank Limited	PACRA	A1+	AAA
Summit Bank Limited *	JCR-VIS	A-1	A-
Meezan Bank Limited	JCR-VIS	A-1+	AA
United Bank Limited	JCR-VIS	A-1+	AAA

* These banks are used only for channelizing the funds to clearing house.

29.2.3 Liquidity risk
Prudent liquidity risk management implies maintaining sufficient cash and the availability of funds. Currently the Exchange is in consolidating phase of its operations and foresee continuing profitable operations in future and also in process of raising fresh equity. The Exchange has an effective cash management and planning policy in order to maintain flexibility in its funding. In future years the management of the Exchange believes that it will have enough funds through profitable operations to have minimal liquidity risk. Currently, the Exchange has no material external borrowings.

Following are the contractual maturities of financial liabilities.

	Rupees		
	2017		
	Carrying amount / contractual cash flow	**Maturity up to one year**	**Maturity after one year**
Financial liabilities			
Long-term deposits	**198,400,000**	**–**	**198,400,000**
Margins and deposits	**1,299,354,277**	**1,299,354,277**	**–**
Payable to SGF Trust	**1,667,326**	**1,667,326**	**–**
Creditors, accrued expenses and other liabilities	**36,694,686**	**36,694,686**	**–**
	1,536,116,289	**1,337,716,289**	**198,400,000**

	Rupees		
	2016		
	Carrying amount / contractual cash flow	Maturity up to one year	Maturity after one year
Financial liabilities			
Long-term deposits	196,150,000	–	196,150,000
Margins and deposits	1,236,074,981	1,236,074,981	–
Payable to SGF Trust	46,340,919	46,340,919	–
Creditors, accrued expenses and other liabilities	23,302,172	23,302,172	–
	1,501,868,072	1,305,718,072	196,150,000

29.3 Capital risk management

The Exchange has a policy of active capital management through which it seeks to maintain an optimal structure to reduce its cost of capital and to provide returns to its shareholders, whilst fulfilling its obligations to the relevant regulatory authorities and other stakeholders.

The Exchange's prime objective when managing capital is to safeguard its ability to continue as a going concern in order to provide adequate returns for shareholders and benefits for other stakeholders in future and to maintain an optimal capital structure to reduce the cost of capital.

Capital is defined as the financial resources that are raised by the Exchange from its shareholders (equity capital) and from its lenders / members (debt capital). Security deposits and clearing house deposits received from the members are treated as debt for the purposes of risk management. Details of the Exchange's capital are stated in note 5 to these financial statements.

30 TRANSACTIONS WITH RELATED PARTIES

The related parties comprise of associated companies, directors, key management personnel and staff retirement benefit. Transactions carried out with related parties during the year are as follows:

Rupees

Relationship with Exchange	Nature of transaction	2017	2016
Associates	Conversion of preference shares	**–**	13,000,000
	Conversion of accumulated unpaid dividend	**–**	3,538,600
	Reversal of finance cost on preference shares	**–**	(2,016,913)
	Payment to Investor Protection Fund Trust	**2,081,585**	2,011,256
	Receipt of deposit against initial margin	**32,698,500**	2,641,000
	Repayment of deposit against initial margin	**28,591,868**	4,308,366
	Receipt of annual subscription	**225,000**	–
	Receipt of technology fee	**120,000**	–
	Payment to Gratuity fund	**6,122,029**	4,526,127
	Payment to Provident Fund	**12,408,878**	11,171,688
	Payment to SGF Trust	**67,177,112**	–
	Payment to associates - ISE REIT Management Ltd	**1,696,340**	–
Directors	Directors' meeting fee	**2,460,000**	1,845,000
Key management personnel	Salaries and benefits	**50,301,045**	34,516,418
(Excluding Directors)	Post-employment benefits	**5,243,382**	5,609,112

30.1 Certain key management personnel are also provided with fixed education and car allowances in accordance with the policy of the Exchange.

30.2 The outstanding balances with related parties as at June 30, 2017 are included in the respective notes to the financial statements.

30.3 The remuneration to the Managing Director is disclosed in note 22.2 to the financial statements.

31 CORRESPONDING FIGURES

Comparative figures have been re-arranged and re-classified for the purpose of better presentation, major reclassifications pertain to margins and deposits that were part of SGF previously and presented separately now in this financial statements.

From	To	Rupees 2016
Assets relating to Settlement guarantee fund		
Security deposits - lockers	Deposits and prepayments	36,000
Accrued markup on PIBs and savings accounts	Other receivables	7,549,572
Investments	Short term investments	1,165,661,626
Cash and bank balances	Cash and bank balances	109,168,702
Settlement Guarantee Fund		
Clearing house deposits relating to brokers	Margins and deposits	136,032,267
Initial margin relating to brokers and clients	Margins and deposits	1,100,042,714
Amount allocated for transfer to SGF Trust	Payable to SGF Trust	46,340,919
Accrued finance cost	Staff gratuity payable	5,734,161

32 DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on August 29, 2017 by the Board of Directors of the Exchange.

33 GENERAL

Figures have been rounded off to the nearest Rupee.

Managing Director

Chairman

Proxy Form

PAKISTAN MERCANTILE EXCHANGE LIMITED

I / we, ______________________, son / daughter / wife of ______________________, being

a shareholder of **PAKISTAN MERCANTILE EXCHANGE LIMITED** hereby appoint

______________________, son / daughter / wife of ______________________, as

my / our Proxy in my/ our absence to attend and vote for me / us, and on my / our behalf at

the Annual General Meeting of the Company to be held on October 27, 2017, or at any

adjournment thereof.

Signed on ______________________, 2017.

____

Signature of Appointer

____

Signature of Proxy

Revenue stamp
of Rs. 5/-

WITNESS 1

Signature:

Name:

CNIC No.:

WITNESS 2

Signature:

Name:

CNIC No.:

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