





# Annual Report 2018



Your **Futures Exchange**  
the Exchange of the **Future**



Over the last 11 years, PMEX has emerged as a robust and financially strong national institution of the country.

Pakistan Mercantile Exchange Limited (PMEX) commenced its operations in 2007 with the objective to offer facilities for the trading of locally produced agricultural commodities as well as commodities that are actively traded at leading international commodity exchanges.

# Working Towards an Ecosystem for Domestic Commodity Trading

Over the last 11 years, PMEX has emerged as a strong & robust national institution of the country and has managed to successfully expand its product suite, extend outreach by inducting new members and liquidity providers, increase footprint by opening branches in Lahore and Islamabad, upgrade technology and risk management systems. Resultantly, PMEX today offers an efficient and viable platform for trading/investment/hedging in international commodities as its product suite covers almost all active international commodities being offered around the globe.

Having said the above, the Exchange is committed to play its due role in developing a robust and sustainable ecosystem for commodity trading by linking itself to the local economy. To achieve this objective, PMEX has participated in various pilot projects for agri commodities such as red chilli, wheat and paddy rice. The Exchange collaborated with the value chain partners i.e. Pakistan Agricultural Coalition, SGS Pakistan & Agility Pakistan to bring trading of indigenous agri commodities at its state-of-the-art technology driven platform.

Amongst the pilot projects, the red chilli has been the most successful where a sizeable certified quality of the commodity is being traded and delivered through the PMEX trading platform. The Exchange successfully

created the supporting infrastructure that is yielding benefits to the entire value chain today. On one hand, growers are able to contain post-harvest losses, minimize the adverse impact of price fluctuation and avoid distress selling. On the other hand, buyers are able to procure certified quality of produce at prices discovered in real time.

However, during these pilot projects, the Exchange faced various challenges such as inadequate warehousing and logistic facilities, inefficient spot markets, unwillingness of trader to pay trading platform fees or pay upfront for the purchases, absence of mechanism for price discovery and lack of quality conscious buyers. Using technology to overcome most of the challenges, the Exchange is currently working on a conceptual design to create an active local market for agri commodities. However, such an initiative would take time to mature and participation from all stakeholders considering the challenges.

Meanwhile, taking the lead from the successful experience of red chilli and to eliminate the challenges encountered during pilot projects, PMEX is actively working to develop a platform namely Global Trading Platform (GTP) that

will showcase local commodities to the global market by offering an end-to-end one-window solution. The platform will enable the foreign buyers to purchase agricultural as well as non-agricultural commodities with convenience and confidence of quality assurance as per international standards. The GTP will cover: trading, storage, packaging, transport and export of the commodities with accessibility as convenient as a click of a button. The farmers/sellers/exporters will be able to easily access the global markets through a regulated platform and overseas buyers will be able to access the same. The local seller will sell their produce at globally competitive prices and get prompt payment without any additional documentation or charges while foreign buyers will be able to procure certified quality of the commodity conveniently. Moreover, the platform will create ease for financial institutions to extend lending facilities to local farmers and traders due to proper documentation of trades.

Furthermore, one of the advantages of creating GTP is its ability to scale up and link to other regional exchanges thereby connecting to other regional markets. Being a country that has an array of commodities to market, such a development of having access to multiple markets would enable our farmers to fetch a better price for their produce thereby creating a difference at the grass root level. Moreover, such a development would give market access to exporters and ensure price efficiency for importers. Taking the initiative a notch up, cross listings with other exchanges can be accomplished which will reduce the foreign exchange requirements significantly due to net settlement. Furthermore, a unified trading platform for trading, clearing & settlement can evolve in time connecting the region thereby strengthening relationships and creating opportunities for all the participating exchanges. Pakistan, due to its geographical advantage and commodities to offer, can be a major beneficiary in such a development.

At present, the Exchange is in the process of developing the mechanism and plans to launch GTP by the first half of 2019.



PMEX is actively working to develop a platform namely Global Trading Platform (GTP) that will showcase local commodities to the global market by offering an end-to-end one-window solution.



The Exchange is planning to list cash settled futures contracts of Corn, Soybean, Wheat, Palladium and Japan Equity Index.



It is an ongoing pursuit of Pakistan Mercantile Exchange Limited (PMEX) to introduce new products that can help in diversifying its product suite for catering to the increasing needs of the market participants. In this quest, the Exchange remains committed to identify the commodities that Pakistan produces, exports and imports along with the commodities being traded at leading commodity exchanges around the world.

## In a Quest to Diversify Product Suite

Fully cognizant of the expectations of the domestic market participants, the Exchange is planning to list cash settled futures contracts of Corn, Soybean, Wheat, Palladium and Japan Equity Index. These contracts are based on universally traded benchmarks and the trading and operational mechanism is similar to the already listed contracts of international commodities at the Exchange.

The Exchange is confident that with the offering of these contracts for trading, PMEX brokers will be able to cater to the needs of a wider market segment. Moreover, the investors will not only get a diversified range of commodities to broaden their investment portfolio but also enjoy the added advantage to trade and hedge the risk of price volatility in an efficient and convenient manner.

The country produces around

**25** million  
**tons**



of wheat annually and has lately joined the club of wheat exporting countries.

# 1 Corn

In many parts of the world, corn is a staple food and its crop size surpasses aggregate production of wheat and rice. However, bulk of the produce is not consumed directly by the human beings. Some portion of the produce is used for production of corn syrup, starch, ethanol and animal feed. In Pakistan, corn is the fourth largest crop after wheat, rice & cotton and the third most important food cereal after wheat and rice. It accounts for nearly 5 percent of the total cultivated area and 3.5 percent of the value of agricultural output. The poultry industry is the main buyer of corn, consuming almost 65 percent of the production as poultry feed. With the introduction of corn futures contract for trading at PMEX, market participants will get the opportunity to trade and hedge against the price volatility risk in an efficient and convenient manner.

# 2 Soybean

Soybean, commonly known as Golden Bean enjoys a prominent place as the world's most important oil seed. It contributes 25 percent to the global vegetable oil production, about two-thirds of the world's protein concentrate for livestock feeding and as a valuable ingredient in formulated feeds for poultry and fish industries. About 85 percent of the globally produced soybean is processed annually into edible oil and feed. Approximately 98 percent of the soybean meal is crushed and further processed into animal feed. Out of total oil extracted, 95 percent is consumed as edible oil and the rest is used for industrial products such as fatty acids, soaps and biodiesel. With the introduction of soybean futures contract at PMEX, manufacturers of edible soybean oil will get an excellent opportunity to trade and hedge against the price volatility risk in an efficient and convenient manner.



In Pakistan, corn is the fourth largest crop after wheat, rice & cotton and the third most important food cereal after wheat and rice.



The introduction of Japan Equity Index will facilitate market participants to further diversify their investment portfolio.

# 3 Wheat

Wheat is the most cultivated and consumed food grain around the world. Its annual global production is estimated around 750 million tons. Out of this, certain quantity is consumed and balance is retained as buffer stock. In Pakistan, wheat is the most popular staple food and its products are used in a number of ways. Pakistan is the world's 7th largest wheat producer and its contribution is around 3.48 percent in global production. Being the staple diet of majority of people in Pakistan, it dominates all crops in acreage and production. The country produces around 25 million tons of wheat annually and has lately joined the club of wheat exporting countries.

# 4 Palladium

Palladium is a lustrous silvery-white metal mainly used in automobile industry. More than 75 percent supply of the commodity is used as catalytic convertor, which converts 90 percent of the harmful gases present in automobile exhaust into less toxic substances. The other notable user industries are jewellery, hydrogen purification, electronics, medicine, dentistry, groundwater treatment and chemical applications. Russia and South Africa are the biggest producers of Palladium, having a market share of over 60 percent of total mining. Introduction of palladium futures contract at PMEX will provide the market participants such as manufactures of jewellery, electronics and medicine an excellent opportunity to hedge their price risk.

# 5 Japan Equity Index

Japan Equity Index is a USD-denominated futures contract that provides investors an efficient tool to benefit from the opportunities of the Japanese equity market. Japan's premier stock index includes the top 225 blue-chip companies listed at the Tokyo Stock Exchange. PMEX has already listed three leading international equity indices namely NSDQ 100 Index, Industrial Index and SP500 Index. The introduction of Japan Equity Index will facilitate market participants to further diversify their investment portfolio.

Year  
2017 -

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Glance

## PMEX Delegation Visits China

A delegation of PMEX visited China from 25 to 29 September 2017. During the visit, PMEX officials met with the management of Dalian Commodity Exchange (DCE) and Zhengzhou Commodity Exchange (ZCE).

In these meetings, matters relating to development and enhancement of derivatives and financial markets in Pakistan and China through mutual collaboration were discussed. The top of the agenda item centered around cross-listing of commodities. PMEX presented a business model for the cross-listing. The other items discussed included commodities to be cross listed, movement of foreign exchange, warehousing and logistics. The Chinese commodity exchanges expressed keen interest in cross-listing of commodities and assured PMEX of their full cooperation and support in achieving this objective.

PMEX is of the view that cross listing of commodities using futures will spread out the risk of local farmers, traders and processors by having exposure in more than one markets thereby offering their products to a much larger community of traders and investors.



## Revamping of General Regulations

The existing Regulations of the Exchange were developed about a decade ago, prior to the commencement of business by the Exchange.

In the last decade, due to changing business dynamics, the Regulations were adapted / amended where necessary. Considering these changes, the business strategy of the Exchange for the coming years and to incorporate changes with respect to the recently introduced Future Market Act, 2016, it was felt that a complete revamping was required.

Accordingly, the Exchange carried out a comprehensive Regulation revamp to bring the Exchange at par with the leading global exchanges and its future business plans. It has been made sure that the new regulations have enough flexibility for business growth and varied market participation.

The revamped Regulations have been approved by the Board of Directors of PMEX and sent to SECP for approval. The Exchange is now in discussion with SECP to finalize the new regulatory framework.

## PMEX Facilitates Pakistan's First Electronic Commodity Murabaha Transaction

**P**MEX has achieved yet another breakthrough by facilitating the country's first electronic Murabaha transaction, which in essence will pave the way for an Islamic Money Market.



State Bank of Pakistan of Pakistan (SBP) had earlier allowed banks to conduct transaction on PMEX Shariah Compliant Trading Platform (SCTP) in a limited capacity for the pilot period of three months. The first electronic commodity Murabaha transaction was conducted between Meezan Bank Limited (MBL) and Dubai Islamic Bank Pakistan Limited (DIBPL) on December 26, 2017.

This is a revolutionary and landmark achievement in the history of Pakistan, which has the potential of bringing Islamic banks at par with their conventional counterparts in terms of managing liquidity in a convenient, transparent and Shariah-compliant manner. Islamic financial institutions (IFIs) can utilize this facility to deploy liquidity to all potential segments, including the government. The Exchange has ensured, in consultation with its Shariah Advisor, Dr. Imran Usmani, that the product is completely Shariah-compliant. The product has been vetted by Shariah Board of State Bank of Pakistan (SBP) Chaired by Respected Justice (R) Muhammad Taqi Usmani, Securities & Exchange Commission of Pakistan (SECP) and Islamic Banking Sub Committee of Pakistan Banks' Association.



## PMEX Participates in Kish INVEX 2017 Iran

**P**MEX participated in the 9th International Exhibition for Presenting Iran's Investment Opportunities, held on Oct 30 - 31, 2017 in Kish Island, Iran. The event was organized by the Securities and Exchange Organization of Iran. The two-day event brought together luminaries and top officials from other exchanges and capital markets around the world. On the side-lines of this event, Iran Mercantile Exchange (IME) also hosted a special event highlighting the inter-connection between the IME and other partner exchanges in the field of access to the market information and the possibility of posting trade leads on the trading board of the exchanges.

The event provided PMEX with a platform to gain better understanding of Iran's business environment. PMEX had previously signed a Memorandum of Understanding (MoU) with Iran Mercantile Exchange (IME) in 2016. Both PMEX and IME are working together for the development and enhancement of derivatives and financial markets in Pakistan and Iran.

## PMEX Participates in the 11th Meeting of OIC Member States' Stock Exchanges Forum

**P**MEX participated in the 11th Annual Meeting of Organization of Islamic Cooperation (OIC) Member States' Stock Exchanges Forum held on October 31 – November 01, 2017 in Istanbul. The annual meetings of the Forum have been organized by Borsa İstanbul since 2005 to foster cooperation



## Subsidy to Farmers by SEDF on Red Chilli Trade at PMEX

**P**MEX 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 shackles of traditional trading system and enable them to get premium on superior quality produce and guaranteed prompt payment.

With continued perseverance and support of Securities and Exchange Commission of Pakistan (SECP) along with the value chain partners, PMEX has been successful in developing a



workable model for trading physical commodities and has launched deliverable Red Chilli in 2015. Similar to the last trading season of red chilli, SEDF has graciously extended subsidy payment to attract more farmers to trade at PMEX platform during the current season. This facility became effective from December 28, 2017.

The Exchange is confident that payment of subsidy on the PMEX transaction will go a long way in encouraging farmers to trade actively at PMEX.

## Successful Migration of PMEX Technology Architecture to Cloud

**P**MEX endeavours relentlessly to stay proactive in identifying and exploring how existing and emerging technology can create new value for developing a robust futures market in Pakistan. The Exchange understands that among the emerging digital technologies, cloud infrastructure is the cornerstone of the today's world.

To modernize its technology infrastructure, the Exchange successfully completed the migration of its core technology architecture to cloud. Prior to going live from cloud-based environment, the Exchange conducted a mock trading session on January 01, 2018. The Exchange is confident that the technology overhaul will provide a faster and more efficient trading experience for market participants in line with global standards.



among the exchanges of the OIC Member States. Bursa Istanbul, the Coordinator of the Forum, hosted two adjacent workshops a day before the meeting of the Forum.

Mr Ejaz Ali Shah, Managing Director (PMEX), represented the Exchange at the 11th annual meeting of the forum.

## New Products

**1** PMEX listed the International Equity Index Futures Contracts namely NSDQ 100 Index, Industrial Index and 500 Index. These futures contracts were made available for trading from October 09, 2017. These contracts are cash settled derivatives instruments that give investors exposure to price movements on an underlying Index.

**2** PMEX listed PMEX ICOTTON 50,000 Futures Contract and made it available for trading from December 11, 2017. The contract offers a trading unit of 50,000 pounds. Additionally, the Exchange also arranged liquidity for PMEX International Cotton Futures Contract (ICotton). These contracts are referenced to the price of cotton contract of ICE. The Exchange is confident that these contracts will offer textile mills an opportunity to hedge the risk of change in the price of cotton in a convenient manner at PMEX.

**3** Keeping in view the demand of the market participants, the Exchange introduced Composite Order Trading System (COTS) Order types namely GOLD EUR/GBP, GOLD EUR/JPY, GOLD GBP/JPY, GOLD CHF/JPY, GOLD AUD/JPY, GOLD EUR/CAD, GOLD EUR/AUD, GOLD EUR/CHF, GOLD GBP/CHF, GOLD AUD/CAD. With the introduction of the above order types, PMEX now offers trading in 16 futures contracts of FX pairs namely: EUR/USD, AUD/USD, GBP/USD, USD/CHF, USD/CAD, USD/JPY, EUR/GBP, EUR/JPY, EUR/CHF, EUR/CAD, EUR/AUD, AUD/JPY, CHF/JPY, GBP/CHF, GBP/JPY, AUD/CAD.

**4** PMEX listed Futures Contracts of Silver (5,000 Ounces), Copper (25,000 Pounds), Crude Oil (1,000 barrels) and Brent Crude Oil (1,000 barrels) and made them available for trading from October 04, 2017. Previously, PMEX offered trading in Silver (10, 100 and 500 Ounces), Copper (1,000 Pounds) and WTI and Brent Crude Oil (10 and 100 Barrels). Introduction of these contracts will facilitate the high net worth clients - both individuals and corporates - to participate in the market more actively.



## Signing of MoU with Dalian Commodity Exchange

**P** MEX signed a Memorandum of Understanding (MoU) with Dalian Commodity Exchange (DCE), China at its Head Office in Karachi on March 02, 2018. A seven member delegation of DCE led by their Chairman visited PMEX for the signing ceremony. The objective of MoU is to seek cooperation in broader fields with emphasis on collaborations including market development, business cooperation and experience sharing.

This is the fifth international collaboration for PMEX. In the past, MoU's have been signed with four exchanges namely; Borsa Istanbul, Izmir Commodity Exchange (ICE), Dubai Gold & Commodities Exchange (DGCX) and Iran Mercantile Exchange (IME).

## PMEX Offers MetaTrader 5

**P** MEX started offering MetaTrader 5 facility to all its market participants from February 26, 2018 enabling them to benefit from advanced features of MetaTrader 5 and offer efficient trading and investment facilities to their clients.

The cutting-edge functionality of the popular platform is now available to Pakistani traders, including the most powerful automated trading possibilities through the desktop application, mobile applications (iOS & Android devices) and full-featured web platform.

## Pilot Phase of Electronic Commodity Murabaha Transactions

The pilot phase of PMEX Shariah Compliant Trading Platform (SCTP) ended on March 31, 2018. After getting necessary approvals from State Bank of Pakistan (SBP) and Securities & Exchange Commission of Pakistan (SECP), the Exchange made SCTP available to the market participants on December 22, 2017 to execute Electronic Commodity Murabaha transactions. This landmark achievement has become possible with the support of relevant stakeholders, i.e. Regulators (both SECP and SBP), financial industry players, Shariah Scholars and private sector institutions.

PMEX has been encouraged by the keen interest and enthusiasm shown by the Islamic Financial Institutions (IFIs) on the SCTP during the pilot phase and is confident that in coming times this landmark initiative would strengthen the Islamic financial sector and eventually provide the ground on which the Islamic banking industry will flourish.

## PMEX at 21st Annual Conference of the AFM



PMEX participated in the 21st Annual Conference of the Association of Futures Markets (AFM) held in Bangkok, Thailand on January 25-26, 2018. The event was hosted by Thailand Futures Exchange.

The Conference brought together clearing houses, exchanges, regulators and other stakeholders from around the world to discuss the key market trends and business issues. The two-day conference featured panel discussions on regional collaboration, challenge from technology disruption, commodity product development, quality investor base expansion, and product and investment innovation.

Mr. Ejaz Ali Shah, Managing Director along with Syed Mumtaz Ali, Chief Regulatory Officer represented the Exchange at the event. The conference provided PMEX with a platform for active and engaging discussions. In addition, the event provided the opportunity to the Exchange to establish new partnerships and consolidate existing relationships with AFM members, partner organizations and market participants from AFM region.

PMEX joined the AFM as an Associate Member in March 2012 and was granted full member status in February 2014. As a full member, PMEX plays a proactive role in the formation of policies of the Association and represent Pakistan on its various bodies.

## PMEX Participates at Executive Development Program on Islamic Banking & Takaful

**P**MEX participated at Executive Development Program on Islamic Banking & Takaful, jointly organized by Centre for Islamic Economics (CIE) and IBA-Center for Excellence in Islamic Finance (CEIF) at Serena Hotel Islamabad on February 24, 2018.

Mr. Hasan Mahmood, Head of Business Development, represented PMEX at the event and delivered a comprehensive presentation on Electronic Commodity Murabaha transactions at PMEX Shariah Compliant Trading Platform (SCTP).



## PMEX Campus Recruitment Drive 2018

**I**n an effort to build a diverse workforce, PMEX strives to attract and identify the right talent. The Exchange offers an opportunity to work alongside inspiring people in a culture that values merit, candour, respect, integrity, transparency and innovation.

In this regard, PMEX kicked off recruitment campaign for 2018 with the campus drive at NED University, Iqra University, Sir Syed University for Engineering & Technology (SSUET), Shaheed Zulfikar Ali Bhutto Institute of Science & Technology (SZABIST), National University of Computer & Emerging Sciences (FAST) and Institute of Chartered Accountants of Pakistan (ICAP) during the first quarter 2018 (Jan-Mar). The campus drive focused on offering graduates an opportunity to shape their future and accelerate their personal and professional growth at Pakistan's first and only multi-commodity exchange. Ms. Faiza Hussain, Head of Human Resource at PMEX conducted the engaging and interactive sessions, introduced the Exchange, its core functions and explained the recruitment process to the students and faculty members. These sessions were followed by Q&A and personal interviews.



## Signing of MoU with Belarusian Universal Commodity Exchange



**P**akistan Mercantile Exchange (PMEX), country's first and only multi-commodity futures exchange, signed Memorandum of Understanding (MoU) with Belarusian Universal Commodity Exchange (BUCE). The signing ceremony was hosted by BUCE in Minsk on May 11, 2018 and Mr. Ejaz Ali Shah, Managing Director, PMEX, and Mr. Arkady Salikov, Chairman of BUCE, were the signatories. The MoU is designed to facilitate closer cooperation in areas such as market development, business cooperation and experience sharing.

## PMEX Launches Intraday Trading Functionality

The Exchange has developed an Intraday trading functionality in following futures contracts listed at the Exchange:

### Futures Contracts

**Gold (1,10,100 Oz)** Futures Contracts

**Silver (10, 100, 500, 5000 Oz)** Futures Contracts

**Crude (10, 100, 1000 Barrels)** Futures Contracts

**EUR/USD** through COTS

**GBP/USD** through COTS

**USD/JPY** through COTS

**AUD/USD** through COTS

**USD/CAD** through COTS

**USD/CHF** through COTS

This functionality is especially designed for those traders who wish to trade in the futures contracts and square-off their positions on the same day to avoid overnight market risk. The market makers are offering a better spread in these contracts as an added attraction for the traders. The Exchange is confident that the introduction of intraday functionality will encourage new market participants to trade at the regulated platform thereby increasing activity at the Exchange.

## PMEX Welcomes New Members on Board

The Exchange has embarked upon a journey to expand its broker network in large as well as small cities to ensure nationwide coverage in terms of providing trading opportunities to a broader investor base.

During FY17-18, ten new members joined PMEX. The Exchange welcomes the new members on board. In line with its strategy, the Exchange will continue to make efforts to increase its reach across the country in order to bring Exchange services at the doorstep of investors.

## Awareness Programs

In order to develop a vibrant commodity futures market in Pakistan, PMEX actively conducts awareness programs for educational institutes, which include training workshops, seminars, presentations, and participation in events. During FY17-18, the Exchange organized awareness sessions for Institute of Business Management, Mohammad Ali Jinnah University for Women, Shaheed Zulfikar Ali Bhutto Institute of Science and Technology and Qurtaba University Peshawar.

## Corporate Social Responsibility

PMEX believes in contributing to the community in which it operates. As a socially responsible organization, the Exchange encourages its employees to become "Cause Champions" and help local communities through engaging them in Employee Volunteering Programs.

During FY17-18, the PMEX employees participated in the following activities:

### Rahbar Program

PMEX employees participated in Rahbar, a structured seven weeks mentorship program by The Citizens Foundation (TCF) aimed at developing youth as responsible individuals and productive members of the society.



### Visit to Edhi Orphanage

A group of PMEX employees visited Edhi Orphanage located in Korangi, a home to boys between the ages of 6 to 12 years. The objective of the group was to spend a day with the homeless children and make them feel loved, cared and dignified. The employees distributed clothes, stationery and refreshment among the children. Moreover, for a sustained green future for Karachi, employees also planted saplings of indigenous trees in the premises of the Edhi centre.



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# 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 Values

MERIT

CANDOR

RESPECT

INTEGRITY

TRANSPARENCY

INNOVATION



# Board of Directors



Ruhail Mohammed  
Chairman



Ejaz Ali Shah  
Managing Director



Dr. Khalid Mushtaq  
Director



Rehan Mobin  
Director



Aftab Ahmad Chaudhry  
Director



Ahmed Chinoy  
Director



Ammar-ul-Haq  
Director



Shahnawaz Mahmood  
Director



Syed Talat Mahmood  
Director



Zahid Latif Khan  
Director

# Management



Ejaz Ali Shah  
Managing Director



Shehzad Hussain  
Chief Operating Officer



Syed Mumtaz Ali  
Chief Regulatory Officer



Muhammad Shahzeb  
Chief Risk Officer



**Farhan Tahir**  
Chief Financial Officer &  
Company Secretary



**Hasan Mahmood**  
Head of Business  
Development



**Tariq Nafees Siddiqui**  
Head of Operations



**Faiza Hussain**  
Head of Human Resource



**Kashif Shahzad**  
Head of Internal Audit

# Company Information

## Board of Directors

Mr. Ruhail Mohammed	Chairman
Mr. Ejaz Ali Shah	Managing Director
Mr. Aftab Ahmad Chaudhry	Director
Mr. Ahmed Chinoy	Director
Mr. Ammar-ul-Haq	Director
Dr. Khalid Mushtaq	Director
Mr. Rehan Mobin	Director
Mr. Shahnawaz Mahmood	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

Dubai Islamic Bank Limited

Meezan Bank Limited

## Legal Advisors

MCAS&W Law Associates

## Tax Advisor

KPMG Taseer Hadi & Co.

Chartered Accountant

## Regulator

Securities and Exchange Commission of Pakistan

## Registered Office

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

## Branch Offices

**Islamabad:** Office No. G-9 (B), ISE Towers,  
Jinnah Avenue, Blue Area, Islamabad

**Lahore:** Office # 01, P2 Floor, Ali Tower,  
105- B2, M.M Alam Road, Gulberg 3, Lahore

## Committees

### Audit Committee

Mr. Aftab Ahmad Chaudhry	Chairman
Mr. Ahmed Chinoy	
Mr. Ammar-ul-Haq	
Mr. Rehan Mobin	
Mr. Zahid Latif Khan	

### Human Resource Committee

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

### Regulatory Affairs Committee

Dr. Khalid Mushtaq	Chairman
Mr. Aftab Ahmad Chaudhry	
Mr. Ruhail Mohammed	

### Risk Committee

Dr. Khalid Mushtaq	Chairman
Mr. Aftab Ahmad Chaudhry	
Mr. Ejaz Ali Shah	Managing Director
Mr. Shahnawaz Mahmood	
Syed Mumtaz Ali	Chief Regulatory Officer

### Steering Committee

Mr. Ejaz Ali Shah	Managing Director
Mr. Farhan Tahir	Chief Financial Officer & Company Secretary
Mr. Shehzad Hussain	Chief Operating Officer
Mr. Hasan Mahmood	Head of Business Development

# Operational Highlights

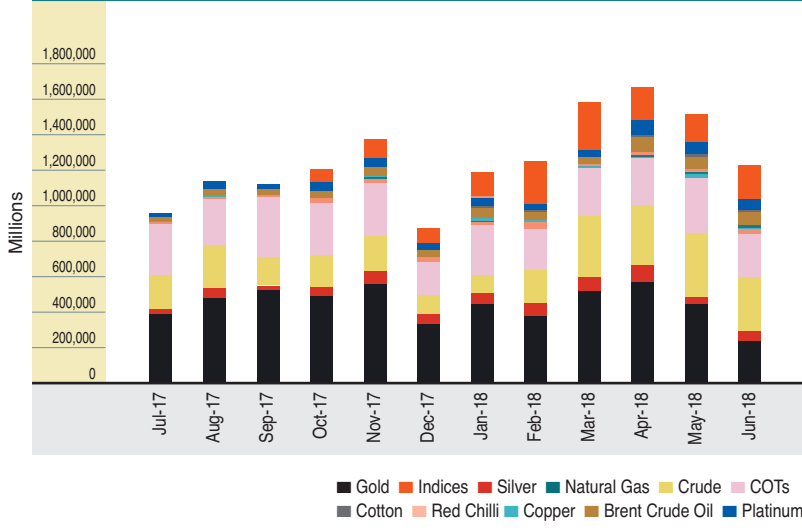
Traded Volume	Rupees		
	2016-2017	2017-2018	Change
<b>Total traded volume</b>	<b>1,303,358,094,455</b>	<b>1,442,491,042,110</b>	<b>10.67%</b>
Crude Oil	243,393,593,023	272,354,501,775	11.90%
Brent Crude Oil	623,813,858	5,241,405,469	740.22%
Natural Gas	421,593,827	12,582,733,639	2884.56%
Gold	528,188,890,470	531,208,850,467	0.57%
Silver	53,039,444,527	69,234,087,810	30.53%
Platinum	1,585,991,013	59,014,882,676	3621.01%
Copper	9,608,441,867	19,395,768,261	101.86%
Cotton	1,290,061,035	3,595,913,052	178.74%
Red chilli	380,893,116	263,208,731	-30.90%
Currencies	464,825,371,719	326,050,566,887	-29.86%
Indices	—	143,549,123,343	—

## Top Ten Brokers

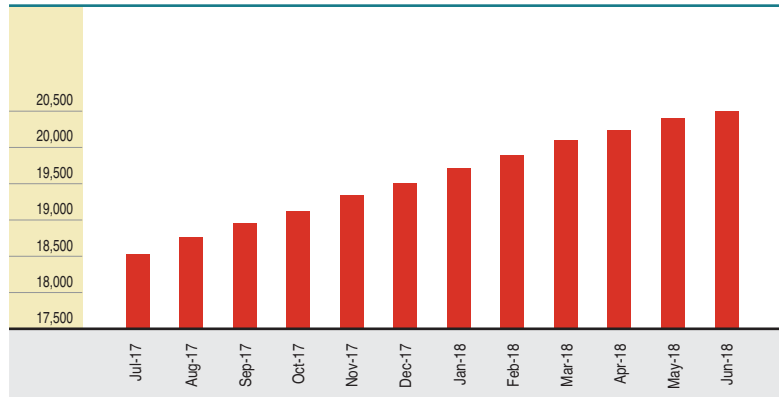
Ranking	Based on Traded Contracts	Based on Traded Value
1	H.G Markets (Pvt.) Limited	H.G Markets (Pvt.) Limited
2	Arsh Commodities (Pvt.) Limited	Arsh Commodities (Pvt.) Limited
3	JS Global Capital Limited	Arif Habib Commodities (Pvt.) Limited
4	Arif Habib Commodities (Pvt.) Limited	JS Global Capital Limited
5	Enrichers (Pvt.) Limited	Enrichers (Pvt.) Limited
6	BIPL Securities Limited	Blink Capital Management (Pvt.) Limited
7	Jahanzaib Commodities (Pvt.) Limited	Jahanzaib Commodities (Pvt.) Limited
8	Blink Capital Management (Pvt.) Limited	BIPL Securities Limited
9	WE Commodities (Pvt.) Limited	IGI Finex Securities Limited
10	AKD Commodities (Pvt.) Limited	Khadija Commodities (Pvt.) Limited



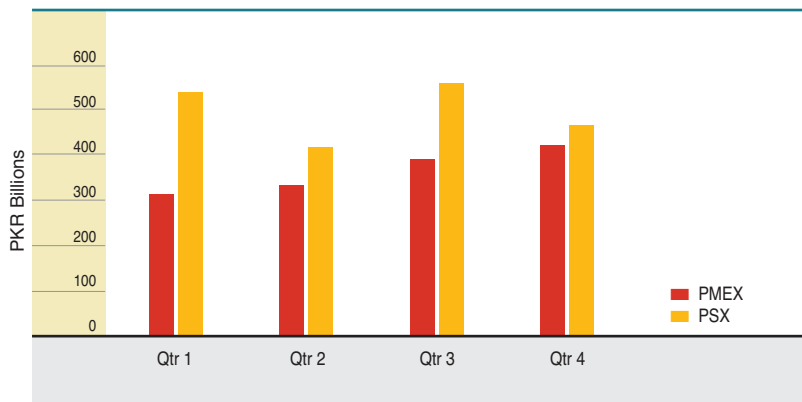
## Traded Value



## Total Number of Investors (UINs)



## PMEX Volume Comparison with Pakistan Stock Exchange





# Managing Director's Review

The fiscal year 2017-18 was an exceptional year in the history of Pakistan Mercantile Exchange Limited (PMEX) as it made unprecedented progress on almost all the fronts. Not only the Exchange achieved an important landmark of completing ten years of operations, it also earned profit after tax of PKR 41.113 million for the year ended June 30, 2018, the highest profit since commencement of operations in 2007.

The Exchange continued to increase market depth and create new opportunities for the market participants by listing several cash settled as well as physically deliverable contracts of new commodities in different denominations. The Exchange also introduced an intraday trading functionality in certain futures contracts. This functionality is designed for those traders who wish to trade in the futures contracts and square-off their positions on the same day to avoid overnight market risk. The Exchange is confident that the introduction of intraday functionality and new commodity contracts will encourage new market participants to trade at a regulated exchange.

Another area where PMEX experienced growth is new membership. The Exchange expanded its member base, especially in the northern region, and welcomed ten new members on board. In parallel, the Exchange also conducted various awareness sessions about the benefits of trading at its regulated trading platform so that potential investors could benefit from the opportunities being offered by the Exchange.

On the technology front, a state-of-the-art front end application namely MetaTrader5 was offered to the brokers and their clients without any additional cost thereby providing them a faster and efficient trading experience in line with global standards. Moreover, the Exchange successfully migrated its core technology architecture to cloud computing to have a

more resilient technology setup. Exchange is also actively working to revamp its back end system, which is planned to be deployed by June 2019.

The Exchange is also steadily progressing towards creating a mechanism for showcasing local commodities to global buyers, enabling them to purchase and have the commodity delivered at their doorstep with utmost convenience. The Exchange is confident that the initiative would go a long way in achieving the goal of creating a robust, transparent and efficient trading platform for the local agricultural commodities of the country.

Finally, I would like to acknowledge the invaluable support and guidance of PMEX Board of Directors, Securities & Exchange Commission of Pakistan and continued trust of market participants in the Exchange. I would also like to express my heartfelt appreciation to the entire team of PMEX for their dedication and hard work.



**Ejaz Ali Shah**  
Managing Director

Karachi: September 03, 2018

# Directors' Report

to the Shareholders of  
Pakistan Mercantile Exchange Limited

For the Year Ended June 30, 2018

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, 2018 (FY2017-18) together with the Audited Financial Statements and Auditor's Report thereon.

## Global Environment

The global economy grew by 3.8 percent in 2017, the strongest since 2011. The growth was driven by higher investment in developed economies and continued robust growth in Asia and Europe along with the recovery in commodity exporting countries. The global growth is expected to reach 3.9 percent in 2018. This acceleration in the growth will be supported by favourable market sentiment, accommodative financial conditions, and the expansionary fiscal policy of the United States.

During the period under review, the commodity prices remained on upward trajectory. The broad-based increase in prices was driven primarily by rising prices of oil and natural gas. The prices of metals and agricultural commodities also rose, though at a slower pace as compared to energy prices.

Crude oil price witnessed upward trend due to heightened geopolitical uncertainty and an agreement between Organization of the Petroleum Exporting Countries (OPEC) and major non-OPEC oil producers to extend production cuts through 2018. Per barrel price of WTI Crude Oil closed the year at around USD 74 from USD 47 at the beginning of the year. The price of gold remained

volatile throughout the year. Per ounce price of yellow metal closed the year at USD 1,254 from USD 1,219, at the beginning of the year.

## Pakistan Overview

Pakistan's economy grew by 5.8 percent in FY18, which is the highest rate during the past 12 years. The economy started on a positive note fuelled by China Pakistan Economic Corridor (CPEC), recovery in the agriculture sector and healthy growth in services sector. However, political uncertainty before the general election dampened the prospects resulting in deterioration of almost all the economic indicators.

During the fiscal year under review, the local currency depreciated against the US dollar. Moreover, to deal with the inflationary pressure due to rupee depreciation and high imports, the Central Bank increased the key interest rate by 75 basis points to 6.5 percent during the period under review. Further, the foreign direct investment dropped by 1.3 percent to USD 2.47 billion compared to USD 2.50 billion in the last fiscal year. On the equity front, Pakistan Stock Exchange (PSX) posted a negative return of 10 percent this year.

## Business Review

### **New Products**

During the period under review, to increase the market depth and create new opportunities for the market participants, the Exchange successfully diversified its product suite by introducing cash settled futures contracts of three International Equity Indices, new COTS order types and higher denomination contracts for International Cotton, Silver, Crude Oil, Brent Crude Oil and Copper. The listing of these new futures contracts at the Exchange not only provided market participants portfolio diversification opportunities, but also helped brokers to attract new business.

### **Shariah Compliant Trading Platform**

After getting the necessary approval from State Bank of Pakistan (SBP) and Securities & Exchange Commission of Pakistan (SECP), the Exchange made Shariah Compliant Trading Platform (SCTP) available to the market participants on December 22, 2017 on pilot basis to execute Electronic Commodity Murabaha transactions. The Exchange successfully completed the pilot phase on March 31, 2018 and submitted a comprehensive report to SBP through Pakistan Banks Association (PBA) seeking approval to formally initiate Commodity Murabaha transactions at PMEX SCTP.

PMEX has been encouraged by the keen interest and enthusiasm shown by the Islamic Financial Institutions in

the SCTP during the pilot phase. The Exchange is confident that in coming times this landmark initiative would strengthen the Islamic financial sector and eventually provide the ground for Islamic banking industry to flourish.

### **Subsidy on Red Chilli Trade**

The Exchange once again brought on board Sindh Enterprise Development Fund (SEDF) to continue with the payment of subsidy on the trading fee to the red chilli farmers selling their produce at PMEX Platform.

### **Intraday Trading Functionality**

The Exchange introduced an Intraday trading functionality in certain futures contracts. This functionality is designed for those traders who wish to trade in the future contracts and square-off their positions on the same day to avoid overnight market risk. These contracts are being offered at lower spreads to attract day traders. The Exchange is confident that the introduction of intraday functionality will encourage new market participants to trade at a regulated exchange.

### **Introduction of MT5 and Development of Backend**

To keep pace with the rapidly changing technology, PMEX initiated a technology overhaul program. A state-of-the-art front end application namely MetaTrader5 was offered to the brokers and their clients without any additional cost thereby providing them a faster and more efficient trading experience in line with global standards. The Exchange also successfully migrated its core technology architecture to cloud computing in order to have a more resilient technology setup.

### **New Memberships**

To offer trading opportunities to a wider 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, ten new members joined the Exchange platform.

### **Strategic Alliances with International Futures Exchanges**

The Exchange plans to create a mechanism to showcase local agriculture commodities to global buyers enabling them to purchase and have the commodity delivered at their doorstep with utmost convenience and reduced cost. In line with this objective, during the period under review, the Exchange explored collaboration opportunities with regional commodity exchanges for enhancing trade among the regional countries. In this regard, the Exchange signed memorandum of understanding with Dalian Commodity Exchange (DCE) and Belarusian Universal Commodity Exchange (BUCE). PMEX will collaborate with these exchanges to facilitate closer cooperation in areas such as market development, business and experience sharing.

### **Awareness, Education & Engagement Programs**

During the period under review, the Exchange remained committed to creating awareness about futures trading in Pakistan. The Exchange organized awareness, education and engagement programs at its premises and also conducted such programs at business schools and universities. Going forward, the Exchange plans to take this initiative to the next level by conducting awareness sessions for the employees of leading corporates and members of federation, chambers and trade associations. Moreover, the

Exchange will strengthen its investor awareness drive by conducting such programs in collaboration with PMEX brokers in Karachi, Lahore and Islamabad. The purpose of these programs is to increase general awareness of futures trading at PMEX amongst the market participants.

### **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. 93.864 million as at June 30, 2018.

### **Equity Injection**

The Exchange has 15.84 million unsubscribed right shares for which various parties have shown interest. The primary consideration would be to partner with an investor who would add value to the workings of the Exchange. Although progress has been slow, the Exchange is confident to find the right partner in near future.

### **Financial Results**

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

	30-Jun-18	30-Jun-17
	(Rs. in million)	
Operating income	264.60	202.93
Profit / (loss) before taxation	49.49	(12.08)
Net profit / (loss) after taxation (total comprehensive income)	41.11	(14.57)
Earnings per share - basic and diluted	1.31	(0.46)

The main reasons for increase in operating income are twofold. Firstly trading fee increased from Rs. 114.11 million to Rs. 151.44 million due to introduction of new contracts and revision of trading fee. Secondly, new membership sales increased during the year, resulting in higher entrance fee i.e. from Rs.7.5 million to Rs. 20.75 million.

The positive reflections of deferred tax of Rs. 70.008 million (Note 27.2) and unascertained value of 20 Offices in Old Hyatt Regency Hotel Building (Note 17) have not been recorded due to uncertainties attached with respect to timings, etc.

On the taxation contingencies side, as detailed in note 14 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 decisions, 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, the Exchange will keep expanding its product suite. The Exchange plans to list cash settled futures contracts

of corn, soybean, wheat, palladium and Japan Equity Index. Moreover, to facilitate investors who want to invest, trade and hedge in gold for long term, the Exchange plans to list cash settled futures contracts of gold in different denominations. Furthermore, the focus of the Exchange will remain on extending its outreach by inducting brokers across the country in order to provide trading opportunities to a broader investor base.

To reach its full potential, the Exchange is aggressively working towards creating a platform for trading local commodities as well as exposing the proposed platform to global audience in order to have a real connection to the economy thereby passing the benefits to the grass root level.

## 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 Exchange Limited, and one each from ISE Towers REIT and LSE Financial Services.

Current Board of Directors is comprised of the following:

Name	Designation	Status
1. Mr. Ruhail Mohammed	Chairman	Independent-Non-executive
2. Mr. Ejaz Ali Shah	Managing Director	Executive
3. Mr. Aftab Ahmed Chaudhry	Director	Independent-Non-executive
4. Dr. Khalid Mushtaq	Director	Independent-Non-executive
5. Mr. Ahmed Chinoy*	Director	Non-executive
6. Mr. Ammar-ul-Haq	Director	Non-executive
7. Mr. Rehan Mobin	Director	Non-executive
8. Mr. Shahnawaz Mahmood	Director	Non-executive
9. Mr. Talat Mahmood	Director	Non-executive
10. Mr. Zahid Latif Khan	Director	Non-executive

\*Appointed subsequent to June 30, 2018 upon resignation of Mr. Sulaiman Mehdi.

The names of the persons who, at any time during the financial year, were directors of the Exchange, along with complete attendance of Board meeting during 2017-18 is annexed at "A".

The details of Board Committees are annexed at "B".

## Directors' Remuneration

Non-executive directors are paid fee for attending Board and Committee meetings along with reasonable reimbursement for travelling and accommodation for the purpose of meeting as approved by the Board and authorised in Articles of Association of the Exchange.

## Corporate Governance

Under Regulation 5(2)(k) of Futures Exchanges (Licensing & Operations) Regulations, 2017, the Exchange is to comply with Code of Corporate Governance for listed companies to the extent consistent with the Futures Market Act, 2016 and the rules or regulations made thereunder.

## Principal Risks and Uncertainties

Accompanied with the continual increase in client base from the past few years, the Exchange may witness multifold increase in trading volumes. Such situation may lead to exhaustion of Market Maker's financial capacity and result in financial/opportunity loss to market participants.

Foreseeing above, the Exchange has cultivated multiple Market Makers who maintains excess liquidity to cater large volumes. However, the Exchange is making efforts to induct liquidity providers with strong financial backbone and creditworthiness (like banks) to minimize this risk.

Being an actively regulated entity, PMEX face tough competition with unregulated grey market, offering similar product base with lower transaction cost to the investors. This leaves Exchange directly exposed to business risk. In order to cater this, the Exchange conducts investor awareness sessions and is making continuous efforts to bring investors on regulated platform of the Exchange.

## Details of Shareholding

Details of Shareholding are annexed at "C".

## Auditors

The present auditors Deloitte Yousuf Adil, Chartered Accountants retire and being eligible have offered themselves for reappointment. The Board Audit Committee has suggested and the Board of Directors has recommended their reappointment as statutory auditors for the approval of the shareholders with rotation of engagement partner due to completion of five years.



Chairman

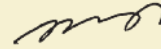
Karachi  
Dated: September 03, 2018

## 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 completed.

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



Managing Director



## Annexure A

### Board Meeting Attendance

Total four meetings of Board of Directors were held during 2017-18. Attendance history during the tenure of directorship was as follows:

Director	Meeting held during the tenure	Meetings attended
Mr. Ruhail Mohammed	4	4
Dr. Khalid Mushtaq	4	4
Mr. Risha Mohyeddin*	2	2
Mr. Ahmed Chinoy*	4	4
Mr. Ammar-ul-Haq	4	0
Mr. Aftab Ahmed Chaudhry	4	3
Mr. Abdul Majeed Adam*	1	0
Mr. Zahid Latif Khan	4	3
Mr. Talat Mahmood	4	4
Mr. Samir Ahmed	3	3
Mr. Rehan Mobin	2	2
Mr. Shahnawaz Mahmood	0	0
Mr. Sulaiman Mehdi	0	0

\* These directors are no more board members

## 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, 2018 and attendance during the year was as under:

Committees / Members	Meeting held during the tenure	Meetings attended
<b>Audit Committee</b>		
Mr. Aftab Ahmad Chaudhry – Chairman	5	5
Mr. Risha Mohyeddin*	3	2
Mr. Ahmed Chinoy*	5	5
Mr. Rehan Mobin	1	1
Mr. Zahid Latif Khan	5	3
<b>Human Resource Committee</b>		
Mr. Ruhail Mohammad – Chairman	3	3
Mr. Talat Mahmood	3	3
Mr. Ahmed Chinoy*	3	3
Mr. Zahid Latif Khan	3	1
<b>Regulatory Affairs Committee</b>		
Dr. Khalid Mushtaq – Chairman	4	4
Mr. Ruhail Mohammed	3	3
Mr. Aftab Ahmad Chaudhry	4	3
Mr. Talat Mahmood	1	1
Mr. Risha Mohyeddin*	1	1
Mr. Abdul Majeed Adam*	1	0
Mr. Zahid Latif Khan	1	1
Mr. Ammar-ul-Haq	1	0
<b>Risk Committee</b>		
Mr. Aftab Ahmad Chaudhry - Chairman	2	1
Dr. Khalid Mushtaq	2	2

\* These directors are no more committee members.

# Annexure C

## Shareholding pattern as of June 30, 2018

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 11,000,000 shares	1	10,653,860
<b>Total</b>	<b>18</b>	<b>31,355,162</b>

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	–
<b>Total</b>	<b>18</b>	<b>31,355,162</b>	<b>100.0%</b>

# Six Years' Financial Highlights

Financial year ended on June 30

	2018	2017	2016	2015	2014	2013
<b>BALANCE SHEET</b>						
Shareholders' equity	(37,714,923)	(78,827,951)	(64,254,052)	(105,792,321)	(86,817,267)	(160,304,348)
Long term deposits	197,650,000	198,400,000	196,150,000	196,150,000	195,400,000	196,250,000
Deferred Liability - gratuity	-	-	-	-	45,227,574	53,966,360
Staff gratuity payable to fund	44,674,627	43,432,994	44,569,896	46,254,609	-	-
Dividend on preference shares	-	-	-	7,638,398	7,638,398	4,740,398
Margins and deposits	2,085,665,389	1,801,296,114	1,667,544,562	1,116,812,206	1,158,960,085	1,649,849,092
Fixed assets	29,283,048	33,715,520	38,409,003	38,961,365	36,454,107	20,101,811
Investment in associates	20	20	20	20	20	20
Total Current assets	2,314,109,099	1,986,678,087	1,853,233,634	1,282,579,309	1,343,216,648	1,772,367,403
<b>OPERATIONAL RESULTS</b>						
Total Income	276,199,319	209,601,325	223,843,309	174,639,118	171,925,380	184,309,849
Total Expenses	226,706,170	221,686,071	188,698,145	187,630,466	185,110,993	171,985,967
Profit / (loss) after taxation	41,113,028	(14,573,899)	29,651,607	(14,630,935)	(13,185,613)	12,759,264
Earnings per share (EPS)	1.31	(0.46)	1.09	(0.69)	(0.83)	0.46

## INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Pakistan Mercantile Exchange Limited

### Review Report on the Statement of Compliance contained in Listed Companies (Code of Corporate Governance) Regulations, 2017

We have reviewed the enclosed Statement of Compliance with the Listed Companies (Code of Corporate Governance) Regulations, 2017 (the Regulations) prepared by the Board of Directors of **Pakistan Mercantile Exchange Limited** (the Exchange) for the year ended June 30, 2018, complied with the Regulations as required under Regulation 5(2)(k) of Futures Exchanges (Licensing & Operations) Regulations, 2017 and in accordance with the requirements of regulation 40 of the regulations.

The responsibility for compliance with the Regulations is that of the Board of Directors of the Company. Our responsibility is to review whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Regulations and report if it does not and to highlight any non-compliance with the requirements of the Regulations. A review is limited primarily to inquiries of the Company's personnel and review of various documents prepared by the Company to comply with the Regulations.

As a part of our audit of the 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 of Directors' statement on internal control covers all risks and controls or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

The Regulations require the Company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval, its related party transactions and also ensure compliance with the requirements of section 208 of the Companies Act, 2017. We are only required and have ensured compliance of this requirement to the extent of the approval of the related party transactions by the Board of Directors upon recommendation of the Audit Committee. We have not carried out procedures to assess and determine the Company's process for identification of related parties and that 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 of Compliance does not appropriately reflects the Company's compliance, in all material respects, with the Regulations as applicable to the Company for the year ended June 30, 2018.

Further, we highlight below instance of non-compliance with the requirements of the Regulations as reflected in the note/paragraph reference where it is stated in the Statement of Compliance:

S.no	Paragraph reference	Description
i	18	Functions of Company Secretary have been performed by CFO. However, as mentioned in FAQs of the Regulations, it is required to have separate persons handling the functions of CFO and Company Secretary.

*Nadeem Yousuf Adil*

**Chartered Accountants**

**Engagement Partner:**  
Nadeem Yousuf Adil

**Place:** Karachi  
**Date:** September 03, 2018

Member of  
Deloitte Touche Tohmatsu Limited

# Pakistan Mercantile Exchange Limited Statement of Compliance with Listed Companies (Code of Corporate Governance) Regulations, 2017

Year ended June 30, 2018

Pakistan Mercantile Exchange Limited (the Exchange/Company) is required under Regulation 5(2)(k) of Futures Exchanges (Licensing & Operations) Regulations, 2017 to comply with Code of Corporate Governance for listed companies to the extent consistent with the Futures Market Act, 2016 and the rules or regulations made thereunder. The Exchange has complied with the requirements of the Listed Companies (Code of Corporate Governance) Regulations, 2017 in the following manner:

1. The total number of directors are 10 as per the following:

- a) **Male: 10**
- b) **Female: 0**

2. The composition of board is as follows:

Category	Name
a) Independent Directors	- Mr. Ruhail Mohammed - Mr. Aftab Ahmad Chaudhry - Dr. Khalid Mushtaq
b) Executive Director	- Mr. Ejaz Ali Shah – Managing Director
c) Non-Executive Directors	- Mr. Ammar-ul-Haq - Mr. Shahnawaz Mahmood - Mr. Sulaiman Mehdi* - Syed Rehan Mobin - Syed Talat Mahmood - Mr. Zahid Latif Khan

\* Resigned subsequent to June 30, 2018.

3. The directors have confirmed that none of them is serving as a director on more than seven listed companies, including this Exchange (excluding the listed subsidiaries of listed holding companies where applicable).
4. The Exchange has prepared a Code of Conduct and has ensured that appropriate steps have been taken to disseminate it throughout the company along with its supporting policies and procedures.
5. The Board has developed a vision/mission statement, 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.
6. All the powers of the Board have been duly exercised and decisions on relevant matters have been taken by board / shareholders as empowered by the relevant provisions of the Companies Act, 2017 and these Regulations.
7. All the meetings of the Board were presided over by the Chairman. The Board has complied with the requirements of Act and the Regulations with respect to frequency, recording and circulating minutes of meeting of Board.
8. The Board of directors have a formal policy and transparent procedures for remuneration of directors in accordance with the Act and these Regulations.
9. No Directors' Training program was required to be arranged during the year.
10. The Board has approved appointment of Head of Internal Audit, including his remuneration and terms and conditions of employment. There was no new appointment of CFO and Company Secretary during the year.

11. CFO and CEO duly endorsed the financial statements before approval of the Board.

12. The Board has formed committees comprising of members given below:

**a) Audit Committee**

- Mr. Aftab Ahmad Chaudhry – Chairman
- Mr. Ammar ul Haq
- Mr. Rehan Mobin
- Mr. Zahid Latif Khan

**b) HR and Remuneration Committee**

- Mr. Ruhail Mohammed – Chairman
- Mr. Talat Mahmood
- Mr. Ahmed Chinoy
- Mr. Zahid Latif Khan
- Mr. Shahnawaz Mahmood

**c) Nomination Committee**

HR and Remuneration Committee has been additionally assigned to perform the functions of Nomination Committee.

**d) Risk Committee**

- Mr. Aftab Ahmad Chaudhry - Chairman
- Dr. Khalid Mushtaq
- Mr. Ejaz Ali Shah
- Syed Mumtaz Ali

13. The terms of reference of the aforesaid committees have been formed, documented and advised to the committees for compliance.

14. The frequency of meetings of all the committee is quarterly except HR committee having frequency of semi-annually.

15. The Board has set up an effective internal audit function.

16. The statutory auditors of the company have confirmed that they have been given a satisfactory rating under the quality control review program of the ICAP and registered with Audit Oversight Board of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the company 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 ICAP.

17. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Act, these regulations or any other regulatory requirement and the auditors have confirmed that they have observed IFAC guidelines in this regard.

18. We confirm that all other requirements of the Regulations have been complied with except requirement to have separate persons handling the functions of Company Secretary and Chief Financial Officer as clarified in FAQs for Listed Companies (Code of Corporate Governance) Regulations, 2017.



Managing Director

Karachi

Dated: September 03, 2018



Chairman

## INDEPENDENT AUDITOR'S REPORT

To the members of Pakistan Mercantile Exchange Limited

Report on the Audit of the Financial Statements

### Opinion

We have audited the annexed financial statements of **Pakistan Mercantile Exchange Limited** (the Exchange), which comprise the statement of financial position as at June 30, 2018, and the statement of profit or loss and other comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, 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 the audit.

In our opinion and to the best of our information and according to the explanations given to us, the statement of financial position, statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows together with the notes forming part thereof conform with the accounting and reporting standards as applicable in Pakistan and give the information required by the Companies Act, 2017 (XIX of 2017), 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, 2018 and of the profit and other comprehensive income, the changes in equity and its cash flows for the year then ended.

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Pakistan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Exchange in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* as adopted by the Institute of Chartered Accountants of Pakistan (the Code) and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Emphasis of Matter

Without 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 14.1.1 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.

### Information Other than the Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the information include in Annual Report, but does not include the financial statements and our auditor's report thereon.

The Annual Report is expected to be made available to us after the date of this auditor's report. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

### **Responsibilities of Management and Board of Directors for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting and reporting standards as applicable in Pakistan and the requirements of Companies Act, 2017 (XIX of 2017) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Exchange's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Exchange or to cease operations, or has no realistic alternative but to do so.

Board of directors are responsible for overseeing the Exchange's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs as applicable in Pakistan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs as applicable in Pakistan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Exchange's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Exchange's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Exchange to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

#### Report on Other Legal and Regulatory Requirements

Based on our audit, we further report that in our opinion:

- a) proper books of account have been kept by the Exchange as required by the Companies Act, 2017 (XIX of 2017);
- b) the statement of financial position, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows together with the notes thereon have been drawn up in conformity with the Companies Act, 2017 (XIX of 2017) and are in agreement with the books of account and returns;
- c) investments made, expenditure incurred and guarantees extended during the year were for the purpose of the Exchange's business; and
- d) no zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

The engagement partner on the audit resulting in this independent auditor's report is Mr. Nadeem Yousuf Adil.

*Nadeem Yousuf Adil*

**Chartered Accountants**

**Place: Karachi**

**Dated: September 03, 2018**

# Statement of Financial Position

As at June 30, 2018

	Note	Rupees	
		2018	2017
<b>EQUITY AND LIABILITIES</b>			
<b>Share capital and reserves</b>			
Authorised capital 50,000,000 (2017: 50,000,000) ordinary shares of Rs. 10 each		<b>500,000,000</b>	500,000,000
Issued, subscribed and paid-up capital 31,355,162 (2017: 31,355,162) ordinary shares of Rs. 10 each	6	<b>313,551,620</b>	313,551,620
Capital reserve - premium on issue of ordinary shares		<b>22,250,000</b>	22,250,000
Accumulated loss		<b>(373,516,543)</b>	(414,629,571)
		<b>(37,714,923)</b>	(78,827,951)
<b>Non-current liabilities</b>			
Long-term deposits	7	<b>197,650,000</b>	198,400,000
<b>Current liabilities</b>			
Staff gratuity	8	<b>44,674,627</b>	43,432,994
Staff provident fund	9	<b>1,081,988</b>	1,124,180
Margins and deposits	10	<b>1,350,773,957</b>	1,299,354,277
Payable to SGF Trust	11	<b>2,091,202</b>	1,667,326
Gold held on behalf of brokers/clients	10.3	<b>732,800,230</b>	500,274,511
Advance annual subscription and other fee	12	<b>16,553,657</b>	14,914,165
Advance members admission fee		<b>750,000</b>	-
Creditors, accrued and other liabilities	13	<b>34,731,429</b>	40,054,125
		<b>2,183,457,090</b>	1,900,821,578
<b>Contingencies and commitments</b>	14		
		<b>2,343,392,167</b>	2,020,393,627

The annexed notes from 1 to 34 form an integral part of these financial statements.



Managing Director

		Rupees	
	Note	2018	2017
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property and equipment	15	15,824,374	23,471,770
Intangible assets	16	13,458,674	10,243,750
Investment in associates	17	20	20
<b>Current assets</b>			
Supplies and consumables	18	568,988	709,696
Annual subscription receivable - considered good		44,606,320	32,800,000
Advances, deposits and short term prepayments	19	9,873,846	9,371,846
Other receivables	20	40,077,361	29,774,070
Short term investments	21	1,364,835,692	1,332,980,380
Gold held on behalf of brokers/clients	10.3	732,800,230	500,274,511
Taxation - net		42,191,695	42,724,558
Cash and bank balances	22	79,154,967	38,043,026
		<b>2,314,109,099</b>	1,986,678,087
		<b>2,343,392,167</b>	2,020,393,627



Chairman

# Statement of Profit or Loss and Other Comprehensive Income

For the year ended June 30, 2018

	Note	Rupees	
		2018	2017
Operating income	23	264,607,782	202,931,496
Administrative and operating expenses	24	(223,191,961)	(219,426,674)
		41,415,821	(16,495,178)
Other income	25	11,591,537	6,669,829
Other charges		(1,414,389)	(121,695)
Finance costs	26	(2,099,820)	(2,137,702)
Profit / (loss) before taxation		49,493,149	(12,084,746)
Taxation - net	27	(8,380,121)	(2,489,153)
<b>Net profit / (loss) after taxation</b>		<b>41,113,028</b>	<b>(14,573,899)</b>
Other comprehensive income for the year		-	-
<b>Total comprehensive income for the year</b>		<b>41,113,028</b>	<b>(14,573,899)</b>
Earnings per share - basic and diluted	28	1.31	(0.46)

The annexed notes from 1 to 34 form an integral part of these financial statements.



Managing Director



Chairman

# Statement of Cash Flows

For the year ended June 30, 2018

		Rupees	
	Note	2018	2017
<b>A. CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	29	42,409,829	8,085,999
Long-term deposits		(750,000)	2,250,000
Taxes paid - net		(7,847,258)	(3,057,689)
Gratuity paid		(6,757,016)	(9,425,274)
<b>Net cash generated from / (used in) operating activities</b>		<b>27,055,555</b>	<b>(2,146,964)</b>
<b>B. CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of property and equipment	15	(1,431,459)	(12,050,908)
Purchase of intangible assets	16	(9,114,005)	-
Proceeds from disposal of equipment		-	123,600
Proceeds from sale of investment in government securities		265,808,275	255,563,590
Purchase of investment in government securities		(273,959,814)	(254,525,200)
Mark-up received on bank deposits		622,237	476,331
<b>Net cash used in investing activities</b>		<b>(18,074,766)</b>	<b>(10,412,587)</b>
Net increase / (decrease) in cash and cash equivalents	(A+B)	<b>8,980,789</b>	(12,559,551)
Cash and cash equivalents at the beginning of the year		<b>3,439,492</b>	15,999,043
<b>Cash and cash equivalents at the end of the year</b>	22	<b>12,420,281</b>	3,439,492
Cash and cash equivalents relating to margins and deposits at the end of the year		<b>66,734,686</b>	34,603,534
<b>Cash and cash equivalents at end of the year including relating to margins and deposits</b>		<b>79,154,967</b>	38,043,026

The annexed notes from 1 to 34 form an integral part of these financial statements.



Managing Director



Chairman

# Statement of Changes in Equity

For the year ended June 30, 2018

Rupees

	Issued, subscribed and paid-up capital	Capital reserve premium on issue of ordinary shares	Accumulated loss	Total
<b>Balance at June 30, 2016</b>	<b>313,551,620</b>	<b>22,250,000</b>	<b>(400,055,672)</b>	<b>(64,254,052)</b>
<b>Total comprehensive income for the year ended June 30, 2017</b>				
- Loss for the year	-	-	(14,573,899)	(14,573,899)
- Other comprehensive income for the year	-	-	-	-
	-	-	(14,573,899)	(14,573,899)
<b>Balance at June 30, 2017</b>	<b>313,551,620</b>	<b>22,250,000</b>	<b>(414,629,571)</b>	<b>(78,827,951)</b>
<b>Total comprehensive income for the year ended June 30, 2018</b>				
- Profit for the year	-	-	41,113,028	41,113,028
- Other comprehensive income for the year	-	-	-	-
	-	-	41,113,028	41,113,028
<b>Balance at June 30, 2018</b>	<b>313,551,620</b>	<b>22,250,000</b>	<b>(373,516,543)</b>	<b>(37,714,923)</b>

The annexed notes from 1 to 34 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, 2018

## 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 the 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. After promulgation of the Futures Market Act (FMA), 2016, the Exchange has been granted license of Futures Commodity Exchange effective from June 15, 2017. Its registered office is situated at 3B, 3rd Floor, Bahria Complex IV, Chaudhry Khaliq-uz-Zaman Road, Gizri, Karachi, Pakistan. The Exchange has also two branch offices situated at Islamabad and Lahore.
- 1.2** The Exchange has been set-up principally to establish, regulate, control and provide physical facilities and marketplace necessary for trading in Commodity Futures 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. During the year, BOD in its meeting dated August 29, 2017, approved and submitted the revised Pakistan Mercantile Exchange Limited (PMEX) General Regulations to SECP which are presently pending before SECP for approval.
- 1.3** As at June 30, 2018, the Exchange has negative equity of Rs. 37.72 million (June 30, 2017: Rs. 78.83 million) and accumulated loss amounts to Rs. 373.52 million (June 30, 2017: Rs. 414.63 million). During the year ended June 30, 2018, the Exchange has net profit after tax of Rs. 41.11 million. Pursuant to the license as Futures Exchange, the Exchange is required to meet minimum capital of Rs. 500 million net of losses by June 2020. The Exchange is in process of raising equity and certain potential parties who expressed their interest have been evaluated by the Exchange with the assistance of a financial advisor, however the final decision and approval are pending. Further, the Exchange is also in the process of introducing certain new products that are also in the process of evaluation and approval before launching. These financial and operating measures are expected to improve the financial position of the Exchange.

## 2 BASIS OF PREPARATION

### 2.1 Statement of compliance

These financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan. The accounting and reporting standards applicable in Pakistan comprise of:

- International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017; and
- Provisions of and directives issued under the Companies Act, 2017.

Where provisions of and directives issued under the Companies Act, 2017 differ from the IFRS, the provision of and directives issued under the Companies Act, 2017 have been followed.

## 2.2 Accounting convention

These financial statements have been prepared under the historical cost convention except certain investments which 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 to IFRS that are effective for the year ended June 30, 2018

The following amendments to IFRS are effective for the year ended June 30, 2018. These amendments 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 existing standards	Effective date (accounting periods beginning on or after)
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

### b) New accounting standards / amendments and IFRS interpretations that are not yet effective and have not been early adopted by the Exchange

The following standards, amendments and interpretations are only effective for accounting periods, beginning on or after the date mentioned against each of them. These standards, interpretations and the amendments 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.

New standards, 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
IFRS 4 'Insurance Contracts': Amendments regarding the interaction of IFRS 4 and IFRS 9.	An entity choosing to apply the overlay approach retrospectively to qualifying financial assets does so when it first applies IFRS 9. An entity choosing to apply the deferral approach does so for annual periods beginning on or after 1 January 2018.
IFRS 9 'Financial Instruments'	July 01, 2018
Amendments to IFRS 9 'Financial Instruments' - Amendments regarding prepayment features with negative compensation and modifications of financial liabilities	January 01, 2019
IFRS 15 'Revenue' - This standard will supersede IAS 18, IAS 11, IFRIC 13, 15 and 18 and SIC 31 upon its effective date.	July 01, 2018
IFRS 16 'Leases': This standard will supersede IAS 17 'Leases' upon its effective date.	January 01, 2019
Amendments to IAS 19 'Employee Benefits' - Amendments regarding plan amendments, curtailments or settlements.	January 01, 2019



New standards, Amendments or Interpretations	Effective date (accounting periods beginning on or after)
Amendments to IAS 28 'Investments in Associates and Joint Ventures' - Amendments regarding long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.	January 01, 2019
Amendments to 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': Provides guidance on transactions where consideration against non-monetary prepaid asset / deferred income is denominated in foreign currency.	January 01, 2018
IFRIC 23 'Uncertainty over Income Tax Treatments': Clarifies the accounting treatment in relation to determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12 'Income Taxes'.	January 01, 2019

Other than the aforesaid standards, 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 14 – Regulatory Deferral Accounts
- IFRS 17 – Insurance Contracts

### 3 SUMMARY OF SIGNIFICANT TRANSACTIONS AND EVENTS

The Exchange incurred major expenditure as a part of its business plan which are as follows:

- License for front-end software (Meta Quotes). Reflected in Intangible Assets - Computer Softwares note 16.
- Cloud hosting at PTCL. Reflected in Administrative and Operating Expenses note 24.

During the year, 10 new contracts of FX pairs and 07 international contracts of Brent, silver, copper, indices etc. were launched. For detail review of Exchange, refer Directors' Report.

### 4 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.

#### 4.1 Margins and Deposits

Margins and deposits represents initial margins and clearing house deposits received from brokers / clients. Assets acquired from the margins and deposits comprise of cash and investments in government securities etc. These are recorded and remeasured at fair value. In addition, Exchange holds gold on behalf of their brokers and clients in fiduciary capacity which is valued using the closing rates.

#### 4.2 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.

#### 4.3 Taxation

Income tax expense comprise of current and deferred tax. Income tax expense is recognized in the statement of profit or loss and other comprehensive income 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.

#### 4.4 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 statement of profit or loss and other comprehensive income using the straight-line method in accordance with the rates specified in note 14 to these financial statements after taking into account residual value, if significant. The residual values and useful lives 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 statement of profit or loss and other comprehensive income in the year of disposal. Repairs and maintenance are charged to statement of profit or loss and other comprehensive income 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.

#### 4.5 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 15 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 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 statement of profit or loss and other comprehensive income 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.

#### **4.6 Impairment**

##### **4.6.1 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 statement of profit or loss and other comprehensive income. Impairment losses recognized in the statement of profit or loss and other comprehensive income on equity instruments are not reversed through the statement of profit or loss and other comprehensive income.

##### **4.6.2 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 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 statement of profit or loss and other comprehensive income. 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.

#### **4.7 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.

#### **4.8 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.

#### 4.9 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 investment.

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 statement of profit or loss and other comprehensive income.

##### **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 statement of profit or loss and other comprehensive income 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 statement of profit or loss and other comprehensive income.

##### **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.

#### 4.10 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.

#### **4.11 Staff retirement benefits**

The Exchange operates two defined contribution plans for its permanent employees. Obligation for contribution to defined contribution plans are recognised in the statement of profit or loss and other comprehensive income when it is due. Both the funds are separate recognised legal entities and their assets are being held separately under the control of its trustees. The details are as follows:

##### **Gratuity fund**

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

##### **Provident fund**

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

#### **4.12 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 statement of profit or loss and other comprehensive income.

#### **4.13 Financial instruments**

Financial instruments carried on the statement of financial position include receivables, investments, advances and deposits, cash and bank balances, long term deposits, margins and deposits, creditors, accrued and other liabilities, payable to SGF trust, staff provident fund and staff gratuity.

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.

#### **4.14 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.

#### **4.15 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.

#### **4.16 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.

## 5 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, 2017.

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;
- Useful lives and residual values of intangible assets (note 4.5);
- Classification of short term investments (note 4.9);
- Impairment of investments and recoverable amounts (note 4.6); and
- Taxation (note 4.3).

## 6 ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

Number of Shares			Rupees	
2018	2017		2018	2017
31,355,162	31,355,162	Ordinary shares of Rs 10 each	313,551,620	313,551,620

### 6.1 Ordinary shares were held by:

	2018		2017	
	Shareholding %	Number of shares	Shareholding %	Number of shares
<b>Associates</b>				
National Bank of Pakistan	33.98%	10,653,860	33.98%	10,653,860
Pakistan Stock Exchange Limited	28.41%	8,909,052	28.41%	8,909,052
ISE Tower REIT Management Limited	17.76%	5,568,181	17.76%	5,568,181
LSE Financial Services Limited	7.25%	2,272,727	7.25%	2,272,727
Zarai Taraqiat Bank Limited	2.90%	909,091	2.90%	909,091
<b>Others</b>				
Pak Brunei Investment Company Limited	6.80%	2,133,115	6.80%	2,133,115
Pakistan Kuwait Investment Company (Private) Limited	2.90%	909,090	2.90%	909,090
Others - individuals	0.00%	46	0.00%	46
	<b>100.00%</b>	<b>31,355,162</b>	<b>100.00%</b>	<b>31,355,162</b>

## 7 LONG-TERM DEPOSITS

		Rupees	
	Note	2018	2017
Security deposits from members	7.1	194,750,000	195,500,000
Clearing house deposits	7.2	2,900,000	2,900,000
		<b>197,650,000</b>	198,400,000

**7.1** 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.

**7.2** It represents interest free, adjustable and refundable clearing house deposits of Rs. 100,000 received from each member 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.

## 8 STAFF GRATUITY

		Rupees	
	Note	2018	2017
Staff gratuity payable	8.1	44,674,627	43,432,994

**8.1.** Movement of staff gratuity payable is as follows:

Opening balance as at July 01		43,432,994	44,569,896
Charge for the year		5,898,830	6,150,671
Payments made to the fund		(5,831,243)	(6,180,487)
Payments made to outgoing employees on behalf of the fund		(925,774)	(3,244,787)
Accrued finance cost	8.2	2,099,820	2,137,701
Closing balance as at June 30		<b>44,674,627</b>	43,432,994

**8.2** The Exchange makes accrual of finance cost at the average rate of income earned by the Exchange on the accumulated balance of gratuity payable related to earlier gratuity scheme.

**8.3** The fund has been invested in accordance with the provisions of section 218 of the Companies Act, 2017 and the conditions specified thereunder.

## 9 STAFF PROVIDENT FUND

		Rupees	
	Note	2018	2017
Payable to provident fund trust	9.1	1,081,988	1,124,180

**9.1** Movement of payable to provident fund trust is as follows:

Opening balance as at July 01		1,124,180	1,099,344
Employer contribution for the year		5,903,359	6,160,779
Employee contribution for the year		5,903,359	6,160,779
		<b>11,806,718</b>	12,321,558
Payments made to the fund		(11,848,910)	(12,296,722)
Closing balance as at June 30		<b>1,081,988</b>	1,124,180

- 9.2** Contributions towards the fund have been deposited in a separate bank account of fund the balance of which as at June 30, 2018 is Rs.414,422 (2017: Rs. 233,603). Contribution from fund's account has permanently been withdrawn on monthly basis to respective employees' VPS accounts.

## 10 MARGINS AND DEPOSITS

Rupees			
	Note	2018	2017
Clearing house deposits relating to brokers	10.1	135,502,496	130,972,108
Initial margins relating to brokers and clients	10.1	1,215,271,461	1,168,382,169
	10.2	1,350,773,957	1,299,354,277

- 10.1** The margins and deposits have been applied as follows:

<b>Clearing house deposits</b>		
Balance with banks (saving and current)	175,403	604,092
Investment in Treasury Bills	135,549,669	130,541,493
Less: amount allocated for transfer to SGF Trust	(222,576)	(173,477)
	135,502,496	130,972,108
<b>Initial margins</b>		
Balance with banks (saving and current)	66,559,283	33,999,442
Investment in Treasury Bills	1,150,544,804	1,135,840,576
Security deposit / prepayments - Locker (Gold)	36,000	36,000
Less: amount allocated for transfer to SGF Trust	(1,868,626)	(1,493,849)
	1,215,271,461	1,168,382,169
	1,350,773,957	1,299,354,277

- 10.2** All brokers are required to pay and maintain a minimum clearing house deposit of Rs. 500,000, or such other amount, as may be specified by the Exchange from time to time with the Exchange prior to being eligible to trade for their own account as well as on behalf of their clients. Clearing house deposits determine the maximum value of open positions or exposure that a broker can take across all his clients and across all contracts in all commodities. Brokers can increase their exposure with additional clearing house deposits. Margins, as determined by the Exchange from time to time, are deposited and maintained by brokers on all open positions of their own and clients.

The Exchange has established a SGF Trust as required by SECP through its letter dated August 17, 2015. 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 23. However, from March 01, 2018, distribution to brokers and client has been withheld and the same has become part of residual amount.

- 10.3** 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.



## 11 PAYABLE TO SETTLEMENT GUARANTEE FUND (SGF) TRUST

		Rupees	
	Note	2018	2017
Payable to SGF Trust as allocated from income earned on			
- clearing house deposits	11.1	222,576	173,477
- initial margins	11.1	1,868,626	1,493,849
		<b>2,091,202</b>	1,667,326

### 11.1 Movement for the year is as follows:

Opening balance as at July 01		1,667,326	46,340,919
Amount allocated from income earned on:			
- clearing house deposits		2,213,963	2,295,279
- initial margins		18,916,673	20,208,239
		<b>21,130,636</b>	22,503,518
Amount transferred during the year		<b>(20,706,760)</b>	(67,177,111)
		<b>2,091,202</b>	1,667,326

## 12 ADVANCE ANNUAL SUBSCRIPTION AND OTHER FEE

Advance annual subscription fee		14,803,657	13,034,168
Advance transfer fee		1,750,000	1,550,000
Others		-	329,997
		<b>16,553,657</b>	14,914,165

## 13 CREDITORS, ACCRUED AND OTHER LIABILITIES

Creditors		2,786,688	3,476,845
Accrued expenses		15,490,563	20,904,732
Withholding tax payable		2,212,096	1,368,963
Payable to market makers		473,724	2,342,858
Payable to SECP	13.1	3,176,920	3,114,656
Payable to NCCPL	13.2	4,559,000	-
Other liabilities	13.3	6,032,438	8,846,071
		<b>34,731,429</b>	40,054,125

13.1 This represents SECP transaction fee and supervision fee of Rs. 1,175,403 (2017: Rs. 1,030,465) and Rs. 1,995,929 (2017: Rs. 2,084,191) respectively.

13.2 This represents amount recovered from clients against CGT processing charges payable to NCCPL.

13.3 This includes reimbursement of travelling and conveyance expenses to directors amounting to Rs. 102,000 (2017: Rs.102,000).

## 14 CONTINGENCIES AND COMMITMENTS

### 14.1 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:

#### 14.1.1 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. In 2009, the Exchange filed an appeal before Sindh High Court, which is still pending.

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. In 2011, the Exchange filed an appeal in the Sindh High Court and has obtained stay order for recovery of entire demand upto the next hearing date which is still continuing.

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.

#### 14.1.2 Tax years 2005 and 2006

The tax authorities have disallowed expenses of tax year 2005 and 2006 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). In 2012, 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.

### 14.2 Withholding income tax

During the year ended June 30, 2012, the tax authorities passed an order under sections 161 and 205 of the Income Tax Ordinance, 2001 treating the Exchange as 'assessee 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. In 2013, 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.

### 14.3 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 rectify the demand by Rs. 740,060 and reducing penalty by amounted to Rs. 74,004. Subsequently, Appellate Tribunal through its order AT-25/2017 dated November 15, 2017 has also allowed partial relief on penalty of amounted to Rs. 910,226. Currently, Exchange has filed an application to Sindh High Court on demand of sales tax of Rs.12,566,092 along with penalty of Rs. 600,000 and stay order for the same has also been granted. 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.

## 14.4 Commitments

	Rupees	
	2018	2017
Commitments in respect of capital expenditure and services	8,305,000	8,305,000

These represents capital expenditure to be incurred for Exchange's back end software.

## 15 PROPERTY AND EQUIPMENT

	Note	Rupees	
		2018	2017
Operating assets	15.1	13,729,374	21,376,770
Capital work-in-progress	15.2	2,095,000	2,095,000
		15,824,374	23,471,770

### 15.1 Operating assets

	Owned							Total
	Leasehold improvements	Furniture and fittings	Office equipment	Electrical equipment	Computer equipment	Motor vehicles		
Rupees								
<b>As at July 1, 2016</b>								
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)
<b>Net book value</b>	<b>7,234,268</b>	<b>2,252,578</b>	<b>530,803</b>	<b>1,379,905</b>	<b>6,196,523</b>	<b>3,267,941</b>		<b>20,862,018</b>
<b>For the year ended June 30, 2017</b>								
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)
<b>Closing net book value</b>	<b>7,229,359</b>	<b>3,021,749</b>	<b>701,502</b>	<b>2,619,490</b>	<b>5,493,199</b>	<b>2,311,471</b>		<b>21,376,770</b>
<b>As at June 30, 2017</b>								
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)
<b>Net book value</b>	<b>7,229,359</b>	<b>3,021,749</b>	<b>701,502</b>	<b>2,619,490</b>	<b>5,493,199</b>	<b>2,311,471</b>		<b>21,376,770</b>
<b>For the year ended June 30, 2018</b>								
Opening net book value	7,229,359	3,021,749	701,502	2,619,490	5,493,199	2,311,471		21,376,770
Additions during the year	77,661	170,000	161,517	158,312	863,969	-		1,431,459
Disposals during the year								
Cost	-	-	-	-	-	-		-
Accumulated depreciation	-	-	-	-	-	-		-
	-	-	-	-	-	-		-
Depreciation for the year	(2,857,899)	(969,893)	(275,145)	(925,377)	(3,094,071)	(956,470)		(9,078,855)
<b>Closing net book value</b>	<b>4,449,121</b>	<b>2,221,856</b>	<b>587,874</b>	<b>1,852,425</b>	<b>3,263,097</b>	<b>1,355,001</b>		<b>13,729,374</b>
<b>As at June 30, 2018</b>								
Cost	14,354,211	5,247,927	1,882,704	7,802,303	37,069,410	5,977,940		72,334,495
Accumulated depreciation	(9,905,090)	(3,026,071)	(1,294,830)	(5,949,878)	(33,806,313)	(4,622,939)		(58,605,121)
<b>Net book value</b>	<b>4,449,121</b>	<b>2,221,856</b>	<b>587,874</b>	<b>1,852,425</b>	<b>3,263,097</b>	<b>1,355,001</b>		<b>13,729,374</b>
<b>Rate of depreciation (%)</b>	20	20	20	20	25	20		

## 15.2 Capital work-in-progress

	Rupees	
	2018	2017
Advance for capital expenditure	2,095,000	2,095,000

15.3 Cost of property and equipment includes fully depreciated assets still in use aggregating to Rs. 36.66 million (2017: Rs.24.52 million).

## 16 INTANGIBLE ASSETS - COMPUTER SOFTWARES

	Rupees	
Note	2018	2017
<b>Gross carrying value</b>		
Cost	53,882,125	44,768,119
Accumulated amortization	(40,423,451)	(34,524,369)
<b>Net book value</b>	<b>13,458,674</b>	<b>10,243,750</b>
<b>Net carrying value</b>		
Opening net book value	10,243,750	16,838,145
Additions during the year	9,114,006	–
Amortization for the year	(5,899,081)	(6,594,395)
Closing net book value	13,458,675	10,243,750
Rate of amortization (%)	25	25

## 17 INVESTMENT IN ASSOCIATES

NCEL Building Management Limited (1 share of Rs. 10)	17.1	10	10
Institute of Financial Market of Pakistan (200 shares of Rs. 5,000 each)	17.2		
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.

17.1 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.

**17.2** The Exchange holds 2.63% (2017: 2.63%) ordinary shares of the Institute of Financial Markets of Pakistan.

**17.3** Investment in associate companies have been made in accordance with the requirement under the Companies Act, 2017.

## 18 SUPPLIES AND CONSUMABLES

		Rupees	
	Note	2018	2017
Universal Serial Bus (USB) keys	18.1	568,988	709,696

**18.1** Movement of USB keys is as follows:

Opening as of July 01		709,696	243,620
Purchases during the year		-	561,600
Issued during the year	18.2	(140,708)	(95,524)
Closing as of June 30		568,988	709,696

**18.2** To provide secured direct online access to the trading system, the Exchange issues USB keys with identity recognition software to all the brokers as well as to the staff of the Exchange.

## 19 ADVANCES, DEPOSITS AND SHORT-TERM PREPAYMENTS

		Rupees	
	Note	2018	2017
Advances and deposits		2,360,788	1,974,211
Prepaid expenses		7,513,058	7,397,635
		9,873,846	9,371,846

## 20 OTHER RECEIVABLES – Considered good

Rupees		
Note	2018	2017
	<b>1,168,925</b>	1,168,925
Receivable from NCEL Building Management Limited		
	<b>4,445,245</b>	3,847,768
Technology fee from members		
20.1	<b>3,676,140</b>	6,682,734
Receivable from market maker		
	<b>11,862,400</b>	7,305,000
Infrastructure Fee		
	<b>169,033</b>	37,571
Accrued markup on bank saving accounts		
	<b>18,755,618</b>	10,732,072
Others		
	<b>40,077,361</b>	29,774,070

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

## 21 SHORT TERM INVESTMENT – at fair value through profit or loss

Rupees		
Note	2018	2017
	<b>1,286,094,473</b>	1,266,382,069
Investment in Treasury bills - margins and deposits		
	<b>78,741,219</b>	66,598,311
Investment in Treasury bills - others		
21.1	<b>1,364,835,692</b>	1,332,980,380

21.1 These Treasury Bills carry markup ranging from 6.22% to 6.76% (June 30, 2017: 5.90% to 5.99%) per annum and will mature on various dates upto September 13, 2018.

## 22 CASH AND BANK BALANCES

Rupees		
Note	2018	2017
<b>With banks</b>		
- in current accounts	<b>73,850</b>	248,019
22.1	<b>79,057,520</b>	37,762,972
- in saving accounts		
	<b>79,131,370</b>	38,010,991
Cash in hand	<b>23,597</b>	32,035
	<b>79,154,967</b>	38,043,026

22.1 These accounts carry mark up at the rate of 4.5% per annum (2017: 3.75%)

## 23 OPERATING INCOME

			Rupees	
	Note	2018	2017	
Trading fee		151,446,542	114,107,315	
Share of PMEX in the income from margins and deposits	10.2 & 23.1	43,880,120	36,085,544	
Annual membership fee		24,299,164	20,350,833	
Entrance fee		20,750,000	7,500,000	
Income from IT related services		8,520,000	9,388,778	
Infrastructure fee		7,173,362	7,025,000	
Advertisement income	23.1	1,500,000	2,868,450	
Fee for membership transfer and issuance of certificates		1,800,000	1,600,000	
Auto liquidation charges		308,400	254,200	
Front end charges		330,899	226,667	
Application fee		225,000	50,000	
Gain on sale of USB keys		239,289	162,876	
Recovery of gold custody charges		4,135,006	3,311,833	
		<b>264,607,782</b>	<b>202,931,496</b>	

23.1 This represents net off sales tax Rs. 200,464 and Rs. 195,000 on management fee on SGF Trust and advertisement income respectively.

## 24 ADMINISTRATIVE AND OPERATING EXPENSES

			Rupees	
	Note	2018	2017	
Salaries and benefits	24.1	127,001,188	130,972,731	
Gratuity	8	5,898,830	6,150,671	
Provident fund	9	5,903,359	6,160,779	
Directors' fee		1,500,000	2,460,000	
Depreciation	15	9,078,855	9,879,775	
Amortization	16	5,899,081	6,594,395	
Communication		5,982,908	4,956,292	
Cloud hosting		8,912,848	-	
Utilities		2,282,814	2,138,930	
Legal and professional		8,005,434	2,225,266	
Rent		12,592,472	12,854,483	
Repairs and maintenance		7,861,038	8,582,674	
Market making / liquidity expenses		2,289,897	8,875,423	
Travelling and conveyance				
- Employees and others		1,101,527	716,251	
- Directors		2,843,850	3,095,513	
		<b>3,945,377</b>	<b>3,811,764</b>	
Fee and subscription		5,512,992	1,436,241	
Security services		645,920	621,720	
Insurance		427,061	569,616	
SECP supervision fee	24.2	2,056,941	1,450,589	
Auditors' remuneration	24.3	645,000	673,000	
Marketing expense		5,517,077	7,834,297	
Printing and stationery		262,231	345,199	
Entertainment		970,638	832,829	
		<b>223,191,961</b>	<b>219,426,674</b>	

**24.1** Total number of employees as at June 30, 2018 is 81 (June 30, 2017: 74). Average number of employees during the year ended June 30, 2018 is 78 (June 30, 2017: 70).

**24.2** 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.

**24.3 Auditors' remuneration**

	Note	Rupees	
		2018	2017
Annual audit fee		420,000	420,000
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		45,000	73,000
		<b>645,000</b>	<b>673,000</b>

**25 OTHER INCOME - NET**

<b>Income from financial assets</b>			
Mark-up on bank deposits		753,699	479,554
Mark-up on government securities		4,000,324	3,421,450
Unrealized gain on remeasurement of investment at fair value through profit or loss		–	10,682
Realized loss on sale of investment at fair value through profit or loss		(8,954)	(7,023)
<b>Income from non - financial assets</b>			
Loss on disposal of property and equipment		–	(146,621)
CGT processing charges		5,499,240	–
Others		1,347,228	2,911,787
		<b>11,591,537</b>	<b>6,669,829</b>

**26 FINANCE COSTS**

In respect of accumulated balance of staff gratuity charged to profit or loss account and other comprehensive income	26.1	2,099,820	2,137,702
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**26.1** 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 8.

**27 TAXATION**

	Note	Rupees	
		2018	2017
Current - for the year	27.1	8,413,835	2,092,147
- prior year		(33,714)	397,006
		<b>8,380,121</b>	<b>2,489,153</b>



**27.1** The provision for current income tax is based on Alternate Corporate Tax @ 17% of accounting profit under section 113C of the Income Tax Ordinance, 2001 ('the Ordinance'). However, last year, it was based on Minimum Tax @ 1% as defined in section 113 of the Ordinance. Accordingly reconciliation of tax expense with the accounting profit is not presented.

**27.2** The Exchange has not recognised net deferred tax asset amounting to Rs. 70.008 million as at June 30, 2018 (2017: Rs 88.384 million) on net deductible temporary differences aggregating to Rs. 228.478 million as at June 30, 2018 (2017: Rs. 285.109 million) as timing of availability of sufficient taxable profits cannot be determined due to applicability of alternative corporate tax and minimum tax under section 113C and 113 respectively. These net deductible temporary differences arise on normal business losses, unused tax depreciation and provision for staff gratuity aggregating to Rs. 47.205 million, Rs. 123.153 million and Rs. 44.675 million (2017: Rs. 132.581 million, Rs. 115.384 million and Rs. 43.333 million) respectively net of taxable temporary difference of Rs. 11.354 million (2017: 6.29 million) representing difference between tax base and carrying value of property and equipment and deferred tax on minimum tax amounting to Rs. 2.092 million.

## 28 EARNINGS PER SHARE - BASIC AND DILUTED

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

### 28.1 Earnings per share

		Rupees	
		2018	2017
Profit / (loss) attributable to ordinary shareholders	Rupees	41,113,028	(14,573,899)
Weighted average number of ordinary shares	Number	31,355,162	31,355,162
Earnings per share	Rupees	1.31	(0.46)

## 29 CASH FLOW FROM OPERATIONS

		Rupees	
		2018	2017
Profit / (loss) before taxation	Note	49,493,149	(12,084,746)
Adjustments for non-cash and other items:			
Depreciation		9,078,855	9,879,775
Amortization		5,899,081	6,594,395
Gratuity		5,898,830	6,150,671
Finance cost		2,099,820	2,137,702
Unrealized gain on remeasurement of investment at fair value through profit or loss		-	(10,682)
Realized loss on investment at fair value through profit or loss		8,954	7,023
Mark-up on government securities		(4,000,324)	(3,421,450)
Mark-up on bank deposits		(753,699)	(479,554)
Loss on disposal of property and equipment		-	146,621
Working capital changes	29.1	(25,314,837)	(833,756)
		42,409,829	8,085,999

**29.1 Working capital changes**

	Rupees	
	2018	2017
<b>Increase / (decrease) in current assets</b>		
Supplies and consumables	140,708	(466,076)
Annual subscription receivable	(11,806,320)	(8,375,000)
Advances, deposits and prepayments	(502,000)	2,265,907
Other receivables	(10,171,829)	(2,718,806)
	(22,339,441)	(9,293,975)
<b>(Increase) / decrease in current liabilities</b>		
Staff provident fund	(42,192)	(24,836)
Advance annual subscription and other fee	1,639,492	4,697,386
Advance members admission fee	750,000	(2,500,000)
Creditors, accrued and other liabilities	(5,322,696)	6,287,669
	(25,314,837)	(833,756)

**30 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES****30.1 Financial Instruments by Category**

	Rupees	
	2018	2017
<b>Financial assets as per statement of financial position</b>		
<b>Fair value through profit or loss</b>		
- Exchange's investment in government securities	78,741,219	66,608,993
- Margins and deposit's investments	1,286,094,473	1,266,382,069
<b>Investments in associates</b>	20	20
<b>Loans and receivables</b>		
- Annual subscription receivable - considered good	44,606,320	32,800,000
- Deposits	2,360,788	1,974,211
- Other receivables	40,077,361	29,774,070
- Cash and bank balances	79,154,967	38,043,026
	1,531,035,148	1,435,582,389
<b>Financial liabilities as per statement of financial position</b>		
<b>Financial liabilities measured at amortized cost</b>		
- Long-term deposits	197,650,000	198,400,000
- Staff gratuity	44,674,627	43,432,994
- Staff provident fund	1,081,988	1,124,180
- Margins and deposits	1,350,773,957	1,299,354,277
- Payable to SGF Trust	2,091,202	1,667,326
- Creditors, accrued expenses and other liabilities	29,342,413	35,570,506
	1,625,614,187	1,579,549,283

### 30.1.1 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 reflects 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. 78.741 million (2017: Rs. 66.598 million), investments made from margins and deposits in Treasury Bills (T-Bills) of Rs. 1286.095 million (2017: Rs. 1,266.382 million) which are valued under Level 2 valuation method. The Exchange does not have any investment valued under Level 1 or Level 3 category.

### 30.2 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:

#### 30.2.1 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 21).

##### a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of 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, 2018, 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. 743,130 (2017: Rs. 608,242) 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:

	Rupees	
	2018	2017
<b>Fixed rate instruments</b>	Carrying Amount	
Financial assets		
Exchange's investment in government securities	78,741,219	66,598,311
Margins and deposit's investments	1,286,094,473	1,266,382,069
	<b>1,364,835,692</b>	<b>1,332,980,380</b>

#### 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, 2018.

### 30.2.2 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 Limited	PACRA	A1+	AAA
Habib Bank Limited	JCR-VIS	A-1+	AAA
JS Bank Limited *	PACRA	A1+	AA-
MCB Bank Limited	PACRA	A1+	AAA
Summit Bank Limited *	JCR-VIS	A-1	A-
Meezan Bank Limited	JCR-VIS	A-1+	AA
Dubai Islamic Bank Limited*	JCR-VIS	A-1	AA-

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

### 30.2.3 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		
	2018		
	Carrying amount / contractual cash flow	Maturity up to one year	Maturity after one year
<b>Financial liabilities</b>			
Long-term deposits	197,650,000	–	197,650,000
Staff gratuity	44,674,627	44,674,627	–
Staff provident fund	1,081,988	1,081,988	–
Margins and deposits	1,350,773,957	1,350,773,957	–
Payable to SGF Trust	2,091,202	2,091,202	–
Creditors, accrued expenses and other liabilities	29,342,413	29,342,413	–
	<b>1,625,614,187</b>	<b>1,427,964,187</b>	<b>197,650,000</b>

	Rupees		
	2017		
	Carrying amount / contractual cash flow	Maturity up to one year	Maturity after one year
<b>Financial liabilities</b>			
Long-term deposits	198,400,000	–	198,400,000
Staff gratuity	43,432,994	43,432,994	–
Staff provident fund	1,124,180	1,124,180	–
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	–
	<b>1,580,673,463</b>	<b>1,382,273,463</b>	<b>198,400,000</b>

### 30.3 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 6 to these financial statements.

The exchange is required to meet minimum capital of Rs. 500 million net of losses under the Futures Market Act, 2016 by June 2020 which is presently negative Rs.37.714 million (2017: negative Rs. 78.077 million).

Steps being taken by the Exchange are disclosed in note 1.3 to the financial statements.

## 31 REMUNERATION OF DIRECTORS, CHIEF EXECUTIVE OFFICER AND EXECUTIVES

**31.1** The aggregate amounts charged during the year in respect of directors' meeting fee and reimbursement for their travelling and accommodation, is disclosed in note 24. No other remuneration or benefit is given during the year.

**31.2** During the year the amount charged in respect of remuneration, including certain benefits, to the Chief Executive Officer, Executives (Employees with annual basic salary exceeding Rs. 1.2 million) of the Exchange are given below:

	Rupees			
	2018	2017	2018	2017
	Managing Director		Executives	
Managerial remuneration	13,979,484	12,156,072	50,221,737	50,858,508
Allowances	–	–	14,278,396	14,140,988
Bonus	2,026,013	2,261,175	4,016,105	4,489,232
Retirement benefits - Gratuity	1,016,688	884,076	3,178,181	3,573,906
Provident fund	1,016,688	884,076	3,178,181	3,573,906
Others	240,000	240,000	–	–
	<b>18,278,873</b>	<b>16,425,399</b>	<b>74,872,600</b>	<b>76,636,540</b>
Number of persons	1	1	27	18

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

## 32 TRANSACTIONS WITH RELATED PARTIES

The related parties comprise of associated companies, staff retirement benefit funds, investors' funds, directors and key management personnel. The Exchange in the normal course of business carries out transactions with related parties. Detail of related parties (with whom the Exchange has transacted) along with relationship and transactions carried out with related parties during the year, other than those which have been disclosed elsewhere in these financial statements, are as follows:

Name & Relationship with Exchange	Nature of transaction	Rupees	
		2018	2017
Associated undertakings Zahid Latif Securities (Private) Ltd.	Receipt of deposit against initial margin	7,225,886	32,698,500
	Repayment of deposit against initial margin	6,074,266	28,591,868
	Receipt of clearing house deposit	10,000	–
	Receipt of annual subscription	75,000	225,000
	Receipt of technology fee	120,000	120,000
Associated undertakings - ISE REIT Management Ltd	Rent and utilities payment to ISE REIT Management Ltd	1,712,956	1,696,340
Associated undertakings - Zarai Taraqati Bank Ltd	Reimbursement to ZTBL for directors travelling etc.	292,885	357,516
PMEX Investor Protection Fund Trust	Payment to fund	1,819,146	2,081,585
PMEX Gratuity Fund Trust	Payment to fund	5,831,244	6,180,487
PMEX Provident Fund Trust	Payment to fund	11,848,910	12,296,722
PMEX Settlement Guarantee Fund Trust	Payment to fund	20,706,760	67,177,111
Directors - non executive	Directors' meeting fee	1,500,000	2,460,000
	Travelling and conveyance expense	2,843,850	3,095,513
Key management personnel (excluding Managing Director)	Salaries and benefits	44,091,770	50,301,045
	Post-employment benefits	3,928,238	5,243,382

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

**32.2** The outstanding balances with related parties as at June 30, 2018 are included in the respective notes to the financial statements.

**32.3** The remuneration to the Managing Director is disclosed in note 31 to the financial statements.

### **33** DATE OF AUTHORIZATION FOR ISSUE

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These financial statements were authorized for issue on September 03, 2018 by the Board of Directors of the Exchange.

### **34** GENERAL

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Figures have been rounded off to the nearest Rupee.



Managing Director



Chairman

# Notice of Annual General Meeting

Notice is hereby given that the 17th Annual General Meeting of the shareholders of Pakistan Mercantile Exchange Limited will be held at 11:00am on Friday, October 26, 2018, at the Registered Office of the Exchange, situated at 3B, 3rd Floor, Bahria Complex IV, Ch. Khaliq-uz-Zaman Road, Gizri, Karachi, to transact the following business:

## **Ordinary Business:**

1. To confirm the minutes of the 16th Annual General Meeting held on October 27, 2017.
2. To receive and consider the Directors' Report and Audited Annual Financial Statements together with Auditors' Report thereon for the year ended June 30, 2018
3. To appoint auditors for the year ending June 30, 2019 and fix their remuneration.

By order of the Board of Directors



**Farhan Tahir**  
**Company Secretary**

**Karachi: October 05, 2018**



# Proxy Form



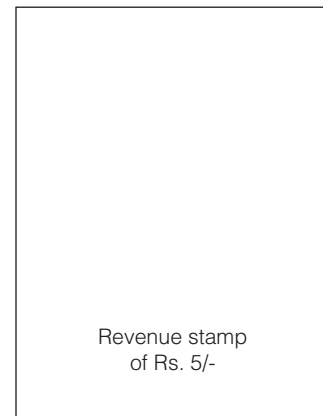
## PAKISTAN MERCANTILE EXCHANGE LIMITED

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 26, 2018, or at any  
adjournment thereof.

Signed on \_\_\_\_\_, 2018.

Signature of Appointer

Signature of Proxy



### ▶ WITNESS 1

Signature: \_\_\_\_\_

Name: \_\_\_\_\_

CNIC No.: \_\_\_\_\_

### ▶ WITNESS 2

Signature: \_\_\_\_\_

Name: \_\_\_\_\_

CNIC No.: \_\_\_\_\_

**Pakistan Mercantile Exchange Limited**

**Head Office:**

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Ch. Khaliq-uz-Zaman Road  
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**Branch Office Islamabad:**

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