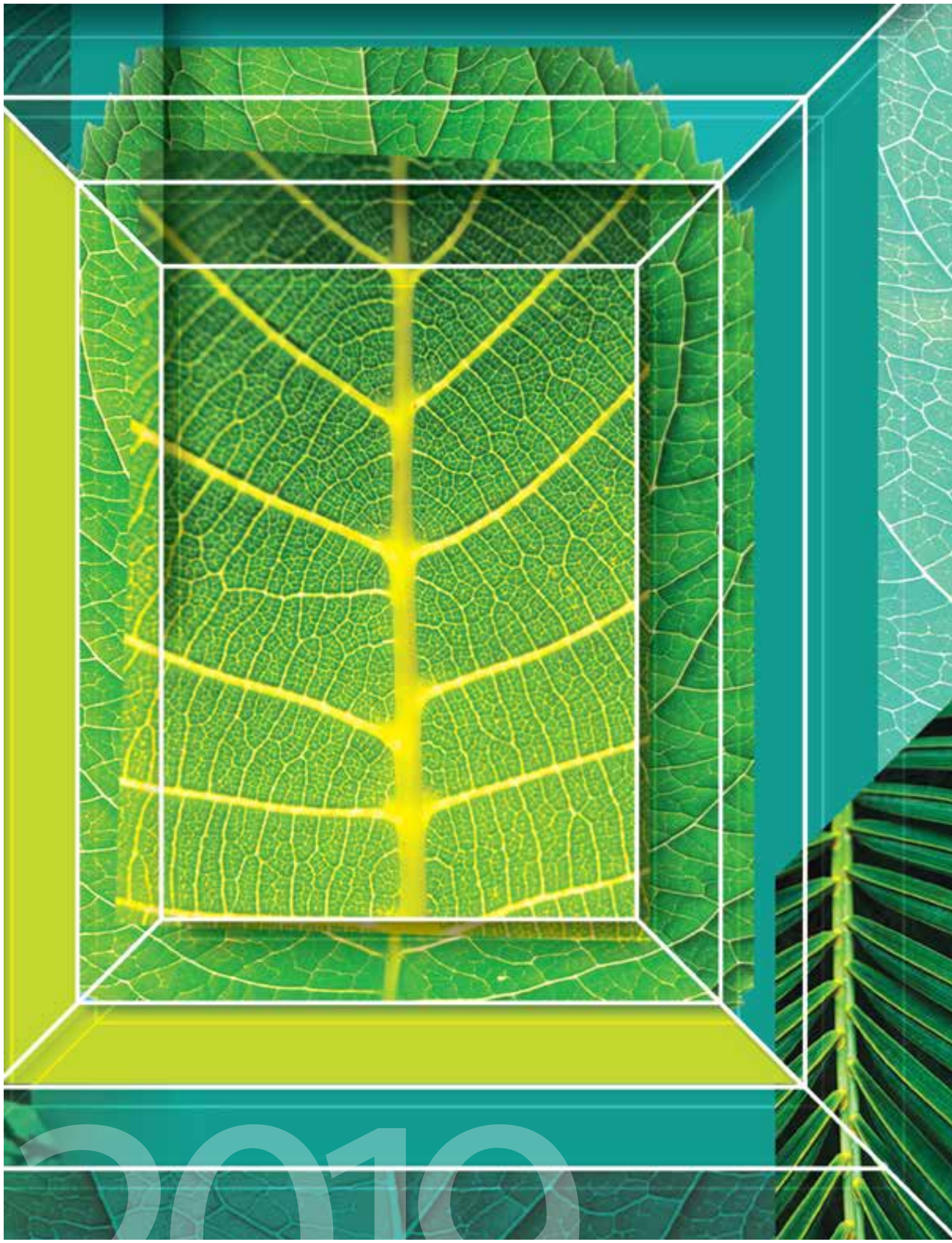
PMEX



2019

Annual Report 2019

Pakistan Mercantile Exchange

PMEX

Annual Report 2019

Growth is the only evidence of life.

John Henry Newman

YOUR FUTURES EXCHANGE

THE EXCHANGE OF THE FUTURE

PAKISTAN MERCANTILE EXCHANGE

P M E X

Understand

PMEX **understands** its role in development of a vibrant and robust commodity futures market in Pakistan with special focus on local commodities. In line with this, the Exchange is relentlessly working to provide a wider choice of international and local commodities on its electronic trading platform(s).

Plan

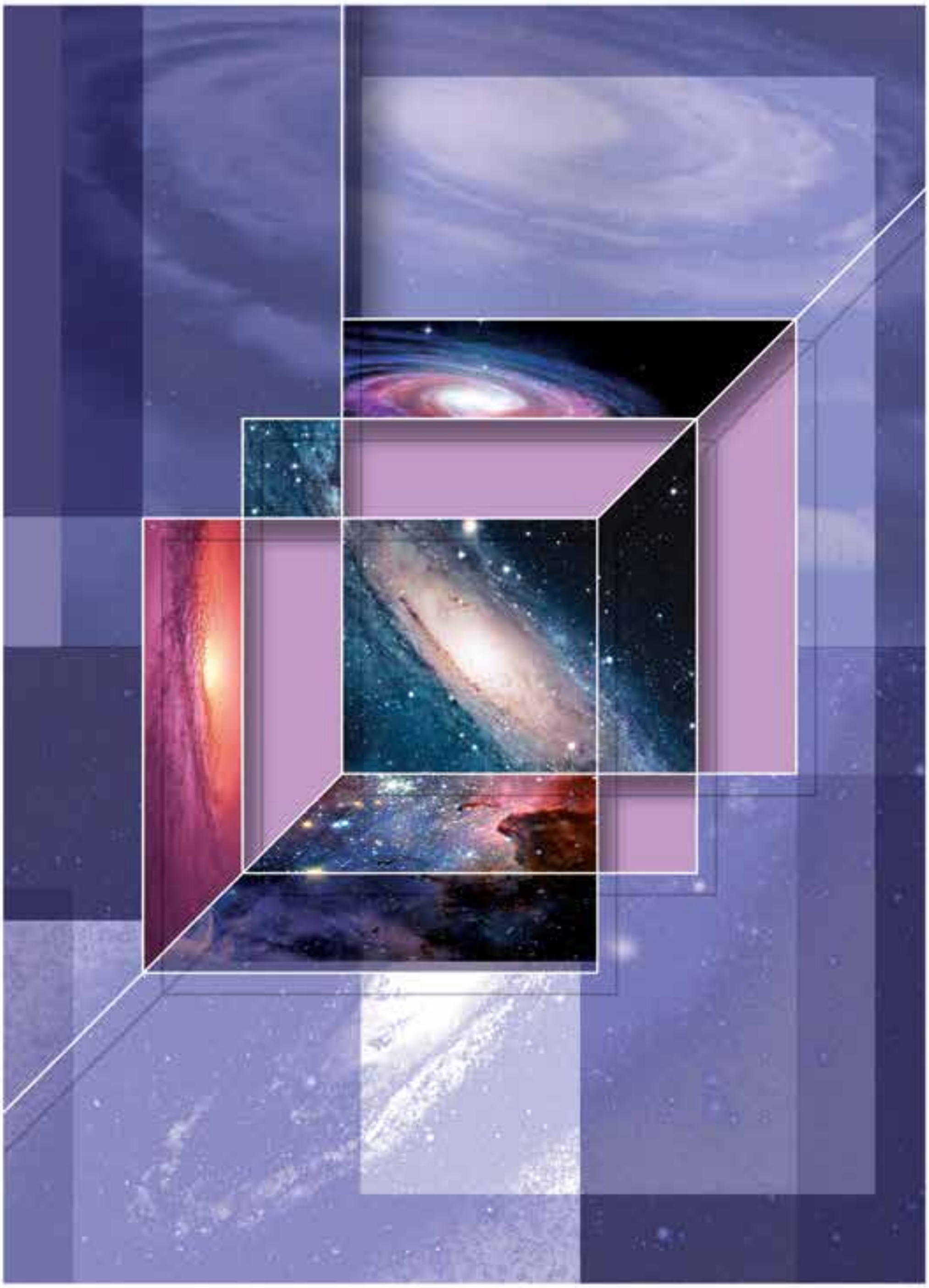
The Exchange **plans** to create further awareness about the opportunities available at its trading platform by engaging the relevant trade bodies, industries, investment forums and educational institutions. In line with its plan, relevant industry players will be further encouraged to hedge the price risk of their raw material through the Exchange platform.

Nurture

Business relationships are like house plants - if they are not looked after, they eventually die. At PMEX, we focus on **nurturing** relationships with market participants by delivering them seamless customer experience. The Exchange believes that customer services is not about meeting customer expectations, it's about exceeding them!

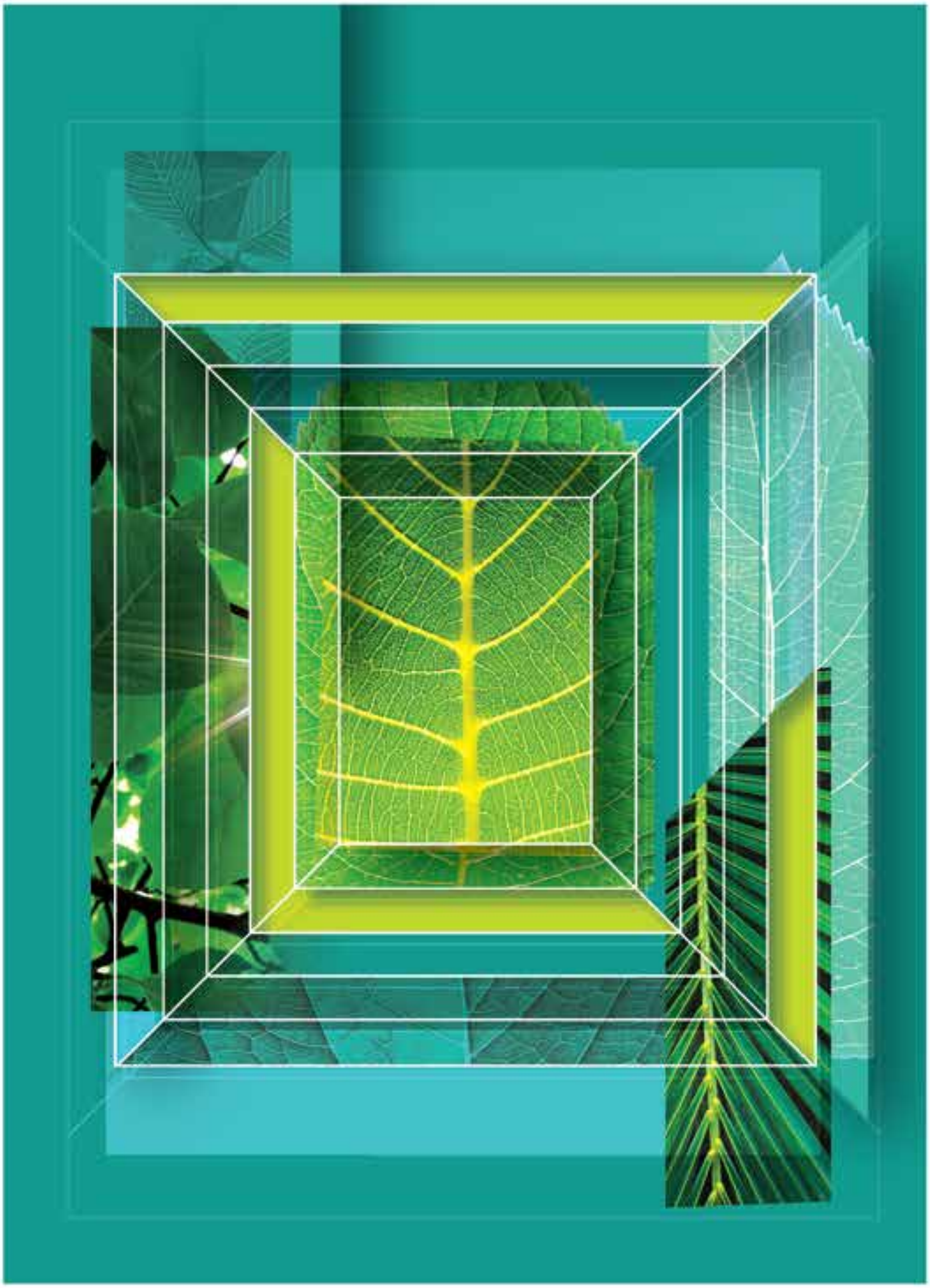
Merge

Providing one window solution to its clientele, PMEX offers all services i.e. trading, settlement, clearing and custody under one roof. PMEX **merges** these functions seamlessly resulting in an efficient, reliable and cost effective market place for the market participants.



Enrich

Every organization must contribute positively to the environment in which it operates. PMEX is committed to **enrich** local economy by bringing trading of local commodities, with special focus on agricultural commodities, on its platform and showcasing them to the international market. This initiative will, on the one hand, facilitate the farmers in getting good return for their produce while, on the other hand, help buyers to get quality assured commodities at competitive prices.



Enhance

In today's day and age, technology is the pillar on which businesses are built. Against this backdrop, the Exchange is constantly improving its technological infrastructure to **enhance** trading experience of market participants as well as working to enrich its product portfolio to offer more opportunities to them.

Resilient Past, Promising Future

The arrival of a new year provides a great opportunity to look back at the challenges and accomplishments of previous years and anticipate and work towards a promising future.

Pakistan Mercantile Exchange Limited (PMEX) commenced operations in 2007. The history, spread over 13 years, may look brief, but it is eventful. Over the years, the Exchange has navigated through challenging times and positioned itself as a robust national institution of the country. It has remained committed to an overarching goal of developing an innovative and sustainable ecosystem for the agricultural commodities by linking itself to the local economy in order to stimulate growth and economic progress.

PMEX has made steady and significant progress over the last five years, setting the foundation for next phase of growth. The Exchange has taken several initiatives including upgradation of technology, expansion of product suite, enhancement of customer services, introduction of direct collection and payment model for traders, induction of new members and liquidity providers and expansion of footprint by opening branch offices in Islamabad and Lahore. Other measures included strengthening risk management regime, forging strategic alliances with international futures exchanges and creating awareness about futures trading. This has resulted into an active partaking of market participants leading to record profitability for the Exchange along with exponential growth in trading volume.

Getting ready for a quantum leap

At this juncture, the Exchange is fully equipped to embark upon a sustainable growth trajectory. The growth achieved in the recent years can be used as a launching pad to enter the next phase. As the Exchange gets ready to enter into the next year with a new fervour, the foremost priority is to further consolidate and expand its business. Against this backdrop, the Exchange remains committed to executing the following initiatives to take yet another quantum leap.

Trading of Physical Gold

Capitalizing on the experience of trading of physical gold, the Exchange plans to make gold trading at PMEX a preferred choice for gold value chain.

At present, the gold sector in Pakistan is grossly undocumented. The local demand is met through recycling and import of gold. Although it is officially allowed to import gold, however, import procedure lacks clarity. This has kept the official import of gold to a negligible level and the demand is met through undocumented sources. Lately, the Government of Pakistan (GoP) has started the documentation process of economic activities. Furthermore, to be compliant with the Financial Action Task Force (FATF) requirements, a new ecosystem has to be developed, which can on one hand facilitate in documenting gold trade and on the other hand establishing credible money/gold trail.

In this regard, PMEX is in the process of discussing and developing consensus with different stakeholders of gold trade on a model in which Exchange can play a vital role with regards to ensuring complete documentation of gold trade as well as making the basic raw material available to the jewellers. As per the model, which is in line with the international precedence, PMEX member will be allowed to import gold which will be sold to market participants/jewellers through the trading platform of PMEX.

The Exchange is confident that once the proposed model is approved by the relevant authorities and becomes operational, sale and physical delivery of gold through the proposed mechanism will yield multiple benefits that include documenting gold trade, boosting export of Jewellery from Pakistan and creating a full-fledged gold-backed investment industry along with a formal gold-based lending market.

Trading of Electronic Warehouse Receipts

The Exchange is set to play its due role in trading of Electronic Warehouse Receipts (EWR) which is a very significant development with regards to the agricultural sector in the country. EWR, which is essentially a proof of storage of commodity with quality and quantity held at an accredited warehouse, will be issued and used by farmers for obtaining financing from the financial institutions as well as trading at PMEX.

The objective of introducing EWR is to reduce post-harvest losses, achieve food security, enhance farmers' access to agricultural credit and ensure better returns to growers. Moreover, the aim is to bring efficiency and transparency in the distribution and marketing mechanism of agricultural commodities.

Lately, Securities & Exchange Commission of Pakistan (SECP) has promulgated Collateral Management Companies (CMC) Regulations, 2019 to promote EWR and electronic trading of agricultural commodities. Under these regulations, any private entity can form a CMC which would accredit warehouses to store agricultural commodities and issue EWR eligible for banks loans.

The Exchange is confident that issuance and trading of EWR will not only play a vital role with regards to the E-Commerce platform being developed by the Exchange i.e. Global Trading Platform (GTP) but also go a long way in revolutionizing the agricultural landscape of the country, boosting efficiency and making it more competitive.

E-commerce Platform

PMEX is working on creating Pakistan's first international online trading platform under the name of GTP. This platform will showcase country's premium quality agri and non-agri commodities to the international market. The Exchange envisages that GTP will transform the local commodity markets by linking farmers directly to the international market, improve price discovery and induce transparency in commodity value chain, reduce transaction costs and increase Pakistan's agricultural exports.

Use of Futures Contracts for Cotton Trade

At present, cotton faces significant challenges in the country such as contraction in the cultivated area, unfavourable weather conditions, stunting of crop and attack of pests. However, the most important challenge is wide fluctuation in the price of the commodity.

Cotton is an essential raw material for the textile industry in Pakistan. The industry has the longest production chain, with inherent potential for value addition at each stage of processing, from cotton to ginning, spinning, weaving, dyeing and finishing, made-ups and garments. Keeping in view the lion's share of the textile sector in country's economy, it is imperative to facilitate the industry in growing and expanding its share in the world market. The industry urgently needs a forum for price discovery and tool for price risk management to further boost its growth. One of the ways to mitigate the risk of volatility in cotton prices is through "Hedge/Futures Trading" of cotton.

PMEX under the able guidance and support of Ministry of Textile/Commerce and Securities and Exchange Commission of Pakistan is working to provide a mechanism to the textile industry whereby the participants can hedge the price risk associated with cotton. In this regard, PMEX is in the process of developing consensus among the stakeholders to use its platform for hedging price risk in cotton trade.

Hedging in Futures Contracts of Palm Oil

Although Pakistan produces edible oil locally as well, it is not enough to meet the growing domestic demand. The country imports 75 percent of its edible oil requirement, mainly comprising of palm oil. The local edible oil industry needs a mechanism to hedge the risk of price volatility.

In this regard, PMEX is working towards introduction of deliverable and cash settled futures contracts, in consultation with industry stakeholders, enabling the industry to conveniently and efficiently hedge the price risk.

Year 2018-2019 at a Glance

PMEX Posts Highest Ever Profit for FY19

PMEX has posted the highest-ever profit after tax for the financial year ended June 30, 2019 (FY19), since commencement of its operations in 2007.

The Exchange has earned profit after tax of PKR 52.347 million for the FY19. The operating income of the Exchange grew to PKR 318.976 million for the year under review from PKR 264.607 million posted for FY18, registering an increase of 20.55 percent. The trading volume for FY19 was recorded at PKR 2.912 trillion as compared to PKR 1.442 trillion for FY18.

This outstanding financial performance of the Exchange can be attributed to the several initiatives undertaken by the Exchange during FY19. These include enhancement of product portfolio, induction of new members & liquidity providers, introduction of Direct Fund Model that enabled traders to directly deposit and withdraw funds, improvement in customer support services and increasing awareness about the benefits of futures trading at a regulated exchange.

Commenting on the financial performance, Mr. Ejaz Ali Shah, Managing Director, PMEX, said that customer centric focus has been the key to the ongoing financial success of the Exchange. He further said that the canvas of the Exchange is wide and we are determined to create more opportunities for our brokers and customers in coming years especially with regards to the local commodities under the guidance of our Board of Directors and the Securities and Exchange Commission of Pakistan.

PMEX Posts Highest Ever Monthly Trading Volume in December 2018

The Exchange has posted the highest monthly trading volume in December 2018, since commencement of operations in 2007.

The Exchange registered trading volume of PKR 555 billion for the month of December as compared to PKR 82 billion for the corresponding month last year, posting an increase of 577 percent. This surpasses the previous trading

volume record of PKR 306 billion achieved in October 2018 by 81 percent.

The surge in trading volume is the outcome of various initiatives taken by the Exchange such as expansion of the product suite, induction of new members and introduction of world renowned front end trading terminal – MetaTrader 5 etc.

PMEX is moving smoothly towards its goal of creating a robust, transparent and efficient trading platform for international as well as local agricultural commodities of the country.

PMEX Conducts Disaster Recovery Drills

Working with a business model that requires round the clock operations, PMEX relentlessly strives to upgrade its systems and processes in order to provide seamless services to market participants. The Exchange has a comprehensive Business Continuity Program which comprises of a resilient Information Technology infrastructure, crisis management plan and recovery process.

Moreover, PMEX also has a consolidated Business Continuity (BC) and Disaster Recovery (DR) site which provides a durable and flexible structure for resumption of all critical operations in the shortest

possible time without compromising on the quality of services in case of an eventuality.

PMEX conducted four disaster recovery drills from the DR site during FY19. The purpose of the exercises were to ensure the readiness and responsiveness of the Exchange to resume all critical operations from the disaster recovery site in minimum possible time without compromising the quality of services in the event of a disaster.

PMEX Lists New Cash Settled Futures Contracts

PMEX listed cash settled futures contracts of Corn, Wheat, Soybean, Palladium and Japan Equity Index and made them available for trading from November 20, 2018. These futures contracts are based on universally traded benchmarks. The trading and operational mechanism is similar to the already listed contracts of international commodities at the Exchange.

With the introduction of these contracts, PMEX brokers will be able to cater to the needs of a wider market segment. Moreover, the market participants 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.

PMEX Participates at FinTech Conference 2018

The Rawalpindi Chamber of Commerce and Industry (RCCI) organized Financial Technology conference (FinTech) at a local hotel. The key objective of this conference was to promote Information Technology and create awareness among key stakeholders for its use in financial management, lowering cost of production and enhancing innovation towards businesses.

Mr. Ejaz Ali Shah, Managing Director, PMEX represented the Exchange at the conference. He participated in a panel discussion on Technology. He elucidated the role of technology in the commodity trading and also highlighted how PMEX is successfully providing transparent and efficient commodity trading experience to the market participants through technological innovation.

ADB delegation visits PMEX

A delegation of Asian Development Bank (ADB) led by Ms. Xiaohong Yang, Country Director, Pakistan Resident Mission, visited PMEX office. Mr. Ejaz Ali Shah, Managing Director, PMEX welcomed the delegation and gave them a detailed presentation on Exchange business model, current product suite and upcoming products.

IT Minister visits PMEX

The honorable Federal Minister for Information Technology (IT) & Telecommunication, Dr. Khalid Maqbool Siddiqui, visited PMEX on December 22, 2018. Mr. Ejaz Ali Shah, Managing Director of PMEX, along with the management team welcomed the honorable Minister and thanked him for sparing time and taking keen interest in the affairs of the Exchange. Mr. Shah briefed the honorable Minister about the progress made by the Exchange in the last twelve years as well as initiatives it is taking in developing a robust and sustainable ecosystem to link itself to the local economy.

MD PMEX highlighted certain important areas where Ministry of Information Technology can support the efforts of the Exchange. The honorable Minister appreciated the vision of the Exchange for developing an active local market for agriculture commodities. He assured his full cooperation and support in addressing the issues raised by the Managing Director for the development of a vibrant futures market in Pakistan.

PMEX signs MoU with HashMove

PMEX signed a Memorandum of Understanding (MoU) with HashMove for cooperation in developing a digital multimodal logistics platform connecting buyers and sellers of commodity futures anywhere around the globe.

The objective of the MoU is to explore the possibility of handling the logistic arm of Exchange's upcoming Global Trading Platform (GTP). The Exchange is actively working on developing GTP that will showcase local commodities of the country to the global market by offering an end-to-end one-window solution. The GTP will enable international buyers to purchase local commodities of certified quality conveniently and get these delivered at a port of their choice. By removing the middlemen in the process, the platform would be able to offer a better price to both, buyers and sellers.

Once GTP is integrated with HashMove's platform, PMEX will be the first Exchange in the South Asian & Middle Eastern regions that has the ability to provide a unique opportunity to its buyers to search and book their shipment instantly. It will also provide complete visibility of pricing, scheduling and tracking of the same shipment right from the place of purchase till the port of destination.

The Exchange is confident that joining hands with HashMove would further enrich the GTP and go a long way in providing a seamless buying, selling and logistics experience to the clients.

PMEX Participates in the Annual Conference of AFM

PMEX participated in the 22nd Annual Conference of the Association of Futures Markets (AFM) held in Chicago, United States from May 8 - 9, 2019. The theme of the conference revolved around the way innovative technology is influencing the futures markets.

The Conference brought together regulators, exchanges, clearinghouses, and other stakeholders from around the world under one roof to discuss the key market trends and business issues. The two-day Conference featured panel discussions, debates and views from industry players on a wide range of topics. These included the changing landscape of derivatives industry, global market developments and their impact on exchanges, mapping the regulatory landscape, the challenges facing start-up futures exchanges, FinTech in the Exchange Space, Cryptocurrencies and Digital Asset Exchanges.

Mr. Ejaz Ali Shah, Managing Director PMEX, represented the Exchange at the event. The Conference provided PMEX with a platform for active and engaging discussions on a comprehensive range of contemporary topics. In addition, the event provided 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 Launches Direct Funds Model

Protecting the interest of market participants has been one of the key objectives of PMEX, since inception. To meet this objective, the Exchange has been undertaking various measures for the creation and development of a robust and transparent futures market.

In its latest endeavour, PMEX has launched the Direct Funds Model (DFM). Under this arrangement, the Exchange directly collects funds from the clients as well as directly transfers the withdrawals into their bank accounts. In a nutshell, DFM allows the investors to directly deposit and withdraw cash from their account without involvement of the broker. In essence, the DFM empowers the market participants to get complete control of their assets at all the times and restricts the role of the brokers primarily to service the existing clients and solicit new business.

To maintain the sanctity of the clients' information and curb misuse of funds, the Exchange has incorporated additional features i.e. security checks and alerts in cash collection and withdrawal processes. These checks include approval of profile by the client, tagging of IBAN, email and mobile number to a single UIN and system generated SMS/email alerts for each trade and funds movement.

The Exchange is confident that the introduction of DFM will not only help the Exchange in strengthening its risk management system, but also in protecting the interest of the clients and boosting their confidence to actively trade at the regulated platform of PMEX.

KCCI Delegation Visits PMEX

A delegation of Karachi Chamber of Commerce & Industry (KCCI) led by Junaid Esmail Makda, President KCCI, visited PMEX office. The other distinguished members of the delegation were Asif Sheikh Javid, Vice President, Abdul Basit Abdul Razak, Former Senior Vice President, Eng. Farrel Menezes, Deputy Secretary and Arif Doni, CEO, Doni & Company.

Mr. Ejaz Ali Shah, Managing Director, PMEX welcomed the delegation and briefed the members about the crucial role being played by the only multi commodity futures exchange in bringing local agricultural commodities at its platform. Mr. Shah also shed light on upcoming E-commerce platform i.e. Global Trading Platform (GTP), which will showcase local agricultural commodities to the overseas buyers enabling them to have the commodities delivered at the port of their choice.

Mr. Junaid Esmail Makda thanked Mr. Shah for making an elaborate presentation about the operations of the Exchange and also assured the best support of the Chamber in PMEX's future endeavors.

PMEX Enhances Customer Experience of Trading Futures

The technology and digital transformation have given birth to a generation of informed and socially engaged customers, who demand speedy and comprehensive solution. Fully cognizant of the growing demand of technology savvy customers, PMEX has remained proactive in extending superior quality services to its valued members and their clients in line with is philosophy that customer services is not about meeting customer expectations, it's about exceeding them!

In order to ensure that clients have a direct access to customer services, the Exchange has introduced a dedicated UAN: 111-11-PMEX (7639) for Customer Support Services. Using the dedicated UAN, members and their clients are able to raise enquiries and receive responses from the Exchange's highly responsive Customer Service team in a simple and speedy manner.

Moving forward, PMEX plans to integrate Customer Relationship Management (CRM) software with Customer Support Services. Using CRM, the Exchange will be able to create full 360-degree view of its members and their clients, getting end-to-end picture of their journey and experience of trading futures with the Exchange. Moreover, this will facilitate the Exchange in personalizing communications, strengthening relations, quickly accessing information of the members and their clients along with improving their satisfaction level.

PMEX is confident that once CRM is integrated with Customer Support Services, members and their clients would be even better equipped to access the support required for their trading, investing and hedging needs.

PMEX deploys Microsoft Office 365 across all offices

PMEX deployed Microsoft Office 365 solutions at its head office and branch offices to provide its employees with more powerful, creative and contemporary ways to communicate, collaborate and share insights with one another.

Office 365 enabled PMEX to take its applications and storage to the cloud, providing Exchange enormous benefits with ease of access, security and comprehensive functionality.

Office 365 for business is a Microsoft subscription service, hosted in secure data centres and accessed via the Internet. It includes services such as access to latest Office applications and online productivity services, as well as business services such as web conferencing, hosted email, and online storage.

PMEX Participates in a Seminar held for PSATF

PMEX participated in a seminar organized by Sindh Government for the visiting delegation of Pakistan South Africa Trade Federation (PSATF) on April 18, 2019 at a hotel in Karachi. The purpose of PSATF visit was to strengthen business relations and increase bilateral trade between Pakistan and Southern African countries.

Mr. Hasan Mahmood, Head of Business PMEX made a detailed presentation at the event about the role of the Exchange in the country. The focus of his presentation was the Global Trading Platform (GTP). This platform will enable the Exchange to showcase locally produced agriculture products to the international market and ensure their delivery at the doorsteps of buyers. He briefed the audience that GTP on one hand will enable the buyers to buy products of certified standards at attractive prices and on the other hand facilitate the sellers in getting a better price of the products being offered.

The Members of the delegation expressed keen interest in the proposed PMEX model and invited the Exchange to attend an upcoming conference in Johannesburg.

Showcasing of Pakistani agri-products to global consumers is likely to boost export of these commodities, particularly coarse varieties of rice to South African countries. The prime advantage is that both the buying and selling countries will benefit from the technology driven platform of PMEX that will offer real-time price discovery, certified quality products and ease of payment.

PMEX Participates in Career Fairs

PMEX actively participated in career fairs at some of the leading universities of Karachi. These included Institute of Business Administration (IBA), Bahria University, Iqra University, Karachi University and Institute of Business Management (IoBM). The purpose of participating in job fairs was to offer graduates an opportunity to shape their future and accelerate their personal and professional growth by joining Pakistan's first and only multi-commodity exchange. The students and the faculty members were briefed about the core business of the Exchange and its workings with especial emphasis on recruitment process.

Awareness Programs

In order to create awareness about the benefits of trading commodities at its regulated platform, PMEX regularly conducts awareness programs for organizations, associations and educational institutes. During FY19, the Exchange organized the following sessions:

Futures Training 101

The Exchange conducted several training sessions during FY19 under the banner "Futures Trading 101". These sessions were attended by a wide array of potential investors from different walks of life. The training provided in-depth knowledge about futures trading at a regulated platform of PMEX.

These weekly free of cost training sessions are held on every Wednesday from 4:00 pm to 5:00 pm at PMEX premises.

Organizations

The awareness sessions were conducted for the staff members of Hascol Petroleum, Hub Power Company, Central Depository Company of Pakistan Limited (CDC) and National Clearing Company of Pakistan Limited (NCCPL) at their respective offices. These sessions started with screening of PMEX documentary that was followed by a comprehensive presentation about the Exchange's integrated business model, technology infrastructure and existing and upcoming products. The sessions were concluded after Q&A.

Educational Institutes

The Exchange conducted interactive awareness sessions for the students and faculty members of Iqra University, ILMA University, City University of Science and Information Technology (CUSIT), Barret Hodgeson, Jamiat-ur-Rasheed University, Institute of Business Administration (IBA), Tabani's School of Accountancy, National University of Sciences and Technology (NUST) and CECOS University of IT and Emerging Sciences. The participants were briefed about the benefits of trading commodities at a regulated platform and the role being played by the Exchange. To acquaint newcomers with commodity trading, the students were also briefed about the facility of MetaTrader 5 Demo Trading Account service, which is similar to the real account with the exception that trading is done with virtual money.

Clubs & Chambers

Rotary Club invited Mr. Ejaz Ali Shah, Managing Director, PMEX, at its weekly meeting to address the members of the Club. The event was held at PC Hotel Karachi and attended by a large number of guests. Mr. Shah made an elaborate presentation covering commodity futures market in Pakistan and the role being played by the Exchange. He talked about PMEX business model, products currently being traded and upcoming products.

An awareness session about Commodity Futures Trading at PMEX was conducted for the members of Karachi Chamber of Commerce. Mr. Hasan Mahmood, Head of Business Development represented the Exchange at the session. Mr. Mahmood briefed the members of the chambers about commodity futures market in Pakistan and the role being played by PMEX. He also elaborated on the topics such as the benefits of hedging against market volatility, price discovery, transparency and risk management mechanism in trading and settlement of transactions.

Corporate Social Responsibility

PMEX encourages its employees to become cause champions and help local communities where they live and work. The Exchange empowers its employees through volunteering programs which resonate with organization's own values and culture.

In line with this, PMEX employees participated in Rahbar, a structured seven weeks mentorship program of The Citizens Foundation (TCF) aimed at developing responsible youth. Through this program, PMEX employees have not only helped many underprivileged children to learn how to improve academically and become good citizens but also improved their own well-being.

A group of PMEX employees donated their time at UJALA, a school for children with special abilities and vocational training center, established by the NGO Parents Voice Association. The objective of the group was to spend a day with the children with special abilities and make them feel loved, cared and dignified. The employees distributed books and stationery among the children.

Content

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

Dr. Rashid Bajwa
Chairman

Ejaz Ali Shah
Managing Director

Board of Directors

Rehan Mobin
Director

Rehmat Ali Hasnie
Director

Aftab Ahmad Chaudhry
Director

Ahmed Chinoy
Director

Dr. Fatima Khushnud
Director

Shahnawaz Mahmood
Director

Dr. Yusuf Zafar
Director

Zahid Latif Khan
Director

Management

Ejaz Ali Shah
Managing Director

Farhan Tahir
Chief Financial Officer & Company Secretary

Tariq Nafees Siddiqui
Head of Operations

Syed Mumtaz Ali
Chief Regulatory Officer

Hasan Mahmood

Head of Business Development

Shehzad Hussain

Chief Risk Officer

Muhammad Atif

Head of Information Technology

Faiza Hussain

Head of Human Resource

Kashif Shahzad

Head of Internal Audit

Company Information

Board of Directors

Dr. Rashid Bajwa	Chairman
Mr. Ejaz Ali Shah	Managing Director
Mr. Aftab Ahmad Chaudhry	Director
Mr. Ahmed Chinoy	Director
Dr. Fatima Khushnud	Director
Mr. Rehan Mobin	Director
Mr. Rehmat Ali Hasnie	Director
Mr. Shahnawaz Mahmood	Director
Dr. Yusuf Zafar	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	
Dr. Yusuf Zafar	Chairman
Mr. Aftab Ahmad Chaudhry	Member
Mr. Ahmed Chinoy	Member
Mr. Rehmat Ali Hasnie	Member
Mr. Zahid Latif Khan	Member

Human Resource Committee	
Dr. Yusuf Zafar	Chairman
Mr. Ahmed Chinoy	Member
Mr. Shahnawaz Mahmood	Member
Mr. Zahid Latif Khan	Member

Regulatory Affairs Committee	
Dr. Rashid Bajwa	Chairman
Dr. Fatima Khushnud	Member
Dr. Yusuf Zafar	Member

Risk Committee	
Dr. Rashid Bajwa	Chairman
Dr. Fatima Khushnud	Member
Dr. Yusuf Zafar	Member
Mr. Ejaz Ali Shah (CEO)	Member
Syed Mumtaz Ali (CRO)	Member

Operational Highlights

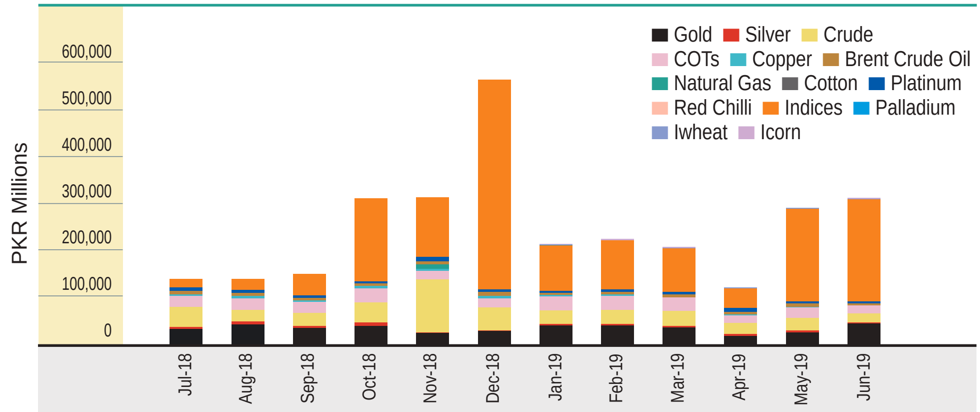
Rupees

Traded Volume	2017-2018	2018-2019	Change
Total traded volume	**1,442,491,042,110**	**2,912,535,008,150**	**101.91%**
Crude Oil	272,354,501,775	458,651,213,951	**68.40%**
Brent Crude Oil	5,241,405,469	7,452,363,743	**42.18%**
Natural Gas	12,582,733,639	21,185,082,166	**68.37%**
Gold	531,208,850,467	432,547,399,059	**-18.57%**
Silver	69,234,087,810	47,128,615,863	**-31.93%**
Copper	19,395,768,261	15,179,072,925	**-21.74%**
Platinum	59,014,882,676	67,847,205,180	**14.97%**
Palladium	—	3,063,873,340	**—**
Currencies through COTS	326,050,566,887	281,971,109,459	**-13.52%**
Indices	143,549,123,343	1,573,267,349,143	**995.98%**
Red chilli	263,208,731	359,651,046	**36.64%**
Cotton	3,595,913,052	2,777,629,629	**-22.76%**
Icorn	—	99,465,903	**—**
Iwheat	—	859,340,428	**—**

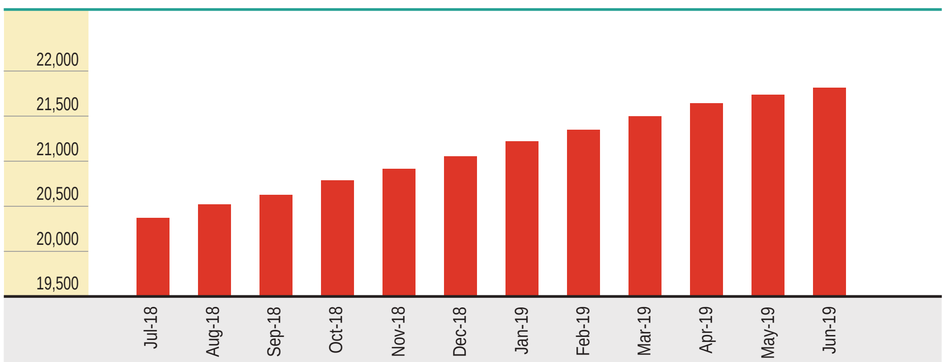
TopTen Brokers

Ranking	Based on Traded Contracts	Based on Traded Value
1	**Azam Gold Trading (Pvt.) Limited**	Azam Gold Trading (Pvt.) Limited
2	**H.G Markets (Pvt.) Limited**	Jahanzaib Commodities (Pvt.) Limited
3	**Jahanzaib Commodities (Pvt.) Limited**	H.G Markets (Pvt.) Limited
4	**Rays Commodities (Pvt.) Limited**	Rays Commodities (Pvt.) Limited
5	**Arif Habib Commodities (Pvt.) Limited**	Abbasi & Co. (Pvt.) Limited
6	**Enrichers (Pvt.) Limited**	FinTech (Pvt.) Limited
7	**Abbasi & Co. (Pvt.) Limited**	Arif Habib Commodities (Pvt.) Limited
8	**JS Global Capital Limited**	Arsh Commodities (Pvt.) Limited
9	**FinTech (Pvt.) Limited**	Enrichers (Pvt.) Limited
10	**BIPL Securities Limited**	JS Global Capital Limited

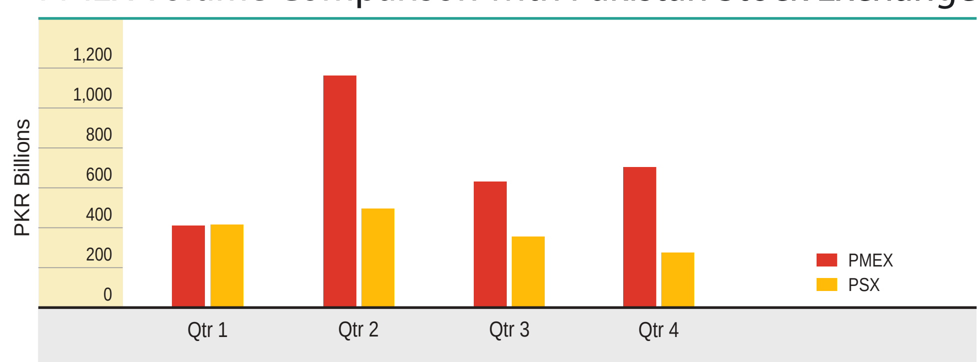
Traded Value



Total Number of Investors (UINs)



PMEX Volume Comparison with Pakistan Stock Exchange



Managing Director's Review

The financial year 2019 was another successful year for Pakistan Mercantile Exchange Limited (PMEX). The growth momentum continued at the Exchange on the back of technological advancements, diversified product suite, expanded footprint and enhanced customer services. I am delighted to inform you that the Exchange earned profit after tax of PKR 52.347 million and registered trading volume of PKR 2.912 trillion for the year ended June 30, 2019, the highest since commencement of operations.

The significant surge in profit and volume exhibits the growing interest of market participants in using our diversified product suite to invest, trade and hedge at a regulated platform. We are confident that trading volume will increase further over the years.

During the outgoing year, we continued efforts to further enhance our product portfolio and create opportunities for the market participants. We listed new cash settled futures contracts of wheat, corn, soybean, palladium and Japan Equity Index during the year.

In order to protect the interest of clients and boost their confidence in futures market, Direct Fund Model (DFM) was deployed during the year. This model empowers the investor(s) to directly deposit and withdraw funds from their account without going through their broker(s) thereby having full control over the account. To provide enhanced and seamless trading experience to market participants, a dedicated Universal Access Number (UIN) was also deployed.

In the coming year, we plan to focus on linking to the local economy by connecting to the Collateral Management setup and facilitate trading of Electronic Warehouse Receipts (EWRs) on our electronic trading platform. This is in addition to the Global Trading Platform (GTP) which will cater to export of local commodities especially agricultural commodities. Moreover, in addition to further enriching the market by upgrading the technology platform, we are focusing on physical gold in terms of providing a retail market place to buy and sell physical gold on the Exchange's platform conveniently and efficiently. The above is to be achieved on the back of enhanced awareness of the Exchange and its services to the potential customers/investors.

Finally, I take this opportunity to thank PMEX Board of Directors, Securities Exchange Commission of Pakistan and market participants for their continued patronage and confidence in the PMEX management team.

Ejaz Ali Shah
Managing Director

Dated: 01 October, 2019

Directors' Report

to the Shareholders of
Pakistan Mercantile Exchange Limited

For the Year Ended June 30, 2019

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, 2019 (FY2018-19) together with the Audited Financial Statements and Auditor's Report thereon.

Global Environment

Global economy during financial year 2018-19 (FY19) continued to suffer from uncertainties. The trade tensions between United States and China kept global economic prospects subdued. Not only trade tensions escalated but Brexit uncertainty also persisted longer than expected. Geopolitical tensions and political uncertainties intensified in Middle East and North Africa and weather-related shocks persisted. The global slowdown also reflected impact of fiscal stimulus measures in the United States, disruptions to the automobile sector in Europe and factors such as power shortages in South Africa and oil production cuts by OPEC and other oil producers. Following a growth of 3.6 percent in the first half of FY19, the growth is expected to reduce further to 3.3 percent in 2019 and likely to remain under pressure in 2020.

The commodity prices witnessed unexpected volatility. The crude oil prices experienced major fluctuations due to a slowdown in economic growth, geopolitical events in the Middle East, civil unrest in Venezuela, a tougher US stance against Iran and Venezuela, and slower-than-expected US production growth. The price of the commodity hit its highest level to reach USD 76.21 per barrel and lowest level being USD 44.22 per barrel. Gold prices, on the other hand, inched up as investors took refuge in safe haven assets due to volatile global equities, worsening US-China trade war and promise of interest rate cuts.

Pakistan Overview

The pace of economic growth slowed down during FY19, hitting a nine-year low at 3.29 per cent against the target of 6.2 percent. Major challenges during the fiscal year were rising macroeconomic imbalances i.e. high and increasing fiscal and current account deficits. To curb twin deficits, the Government of Pakistan (GoP) took tough policy measures i.e. increase in energy tariffs to stop further accumulation of circular debt, reduction in imports through regulatory duties and withdrawal of some of the tax relaxations given in the last budget. Moreover, to achieve macroeconomic stability, GoP negotiated with International Monetary Fund an Extended Fund Facility.

The agriculture sector suffered due to the shortage of water, increase in fertilizer prices and reduction in area under cultivation while the industrial sector demonstrated moderate growth. The services sector was also affected by the decline in Commodity Producing Sector and registered a less than expected growth.

The Pak rupee depreciated by 31.73 percent against US Dollar, which led to cost pushed inflation. To anchor inflationary pressures and to stabilize the macroeconomic situation, the Central Bank followed a tight monetary policy and increased policy rate to 12.25 percent, up by cumulative 650 bps.

On the external front, the current account deficit declined on the back of lower import payments of goods and services and decent growth in workers remittances. The extension of foreign exchange support by China, Saudi Arabia, United Arab Emirates and Qatar helped in ensuring timely repayment of previous loans. On the equity front, Pakistan Stock Market plunged by 19 percent.

Business Review

Profit after tax

The Exchange earned profit after tax of Rs. 52.347 million during FY19 as compared to a net profit of Rs. 41.113 million for the corresponding period FY18.

Trading Volume

The trading volume of the Exchange grew to Rs. 2,912 billion during FY19 from Rs. 1,442 billion in FY18, posting an increase of 102%.

Technology

PMEX actively worked on multiple initiatives which include introducing a new back end trading system, multiple platforms for local commodities as well as launch of Office 365 application and optimization of current Electronic Trading System.

Direct Collection and Payment Model for Traders

To mitigate risks related to client funds handling and increase clients' confidence in futures market, the Exchange implemented a new mechanism which has empowered the investors to handle the cash themselves instead of going through the broker for funds collection and withdrawal. According to this mechanism, the clients directly deposit funds into their PMEX account and withdrawals are being directly credited into client bank accounts.

To maintain the sanctity of the clients' information and curb misuse of funds, the Exchange has incorporated additional features i.e. security checks and alerts in cash collection and withdrawal processes. These checks include approval of profile by the client, tagging of IBAN, email and mobile number to a single UIN and system generated SMS/email alerts for each trade and funds movement.

This is an extremely important initiative for the development of the futures industry as it will help lowering the brokerage licensing conditions thereby expanding its footprint across the country.

New Market Maker Model

In order to strengthen the risk management regime at the Exchange and incentivize the existing Market Makers to increase their investor base, PMEX introduced a new model for market making. With the introduction of new model for market making, market makers at the Exchange can now avail any of the three options: to act as Market Makers only for their in-house clients, to act as Market Makers for their in-house clients as well as other clients, or to act as universal Market Makers for all clients without any distinction between in-house and other clients.

Enhancement of Product Portfolio

During the period under review, PMEX increased the market depth and created new opportunities for the market participants by introducing new cash settled futures contracts of Corn, Wheat, Soybean, Palladium and Japan Equity Index. These contracts are based on universally traded benchmarks. The trading and operational mechanism is similar to the already listed contracts of international commodities at the Exchange. With the introduction of these contracts, PMEX brokers can cater to the needs of a wider market segment.

E-commerce Platforms

The Exchange continued its efforts to build e-commerce platforms for local agriculture commodities. On domestic front, the Exchange worked towards developing an Electronic Pakistan

Agriculture Market (ePAM). The objective is to develop an online marketplace by connecting all mandis to create a unified national market for agricultural commodities in the country.

On the international front, PMEX continued to work on creating Pakistan's first international online trading platform under the name of Global Trading Platform (GTP). The objective of the platform is to showcase country's premium quality agri and non-agri commodities to the international market. GTP will function as a one window solution, which would allow the international buyers to purchase the desired produce with convenience and guaranteed quality standard from local sellers/exporters as per PMEX Contract Specifications. The Exchange is confident that establishment of GTP will transform the local commodity markets by linking farmers directly to the international market, improve price discovery and induce transparency in commodity value chain, reduce transaction costs and increase Pakistan's agricultural exports.

New Members

During FY19, five entities showed keen interest in obtaining universal membership and their documents were sent for pre-approval to SECP.

Customer Support Services

Fully cognizant of the growing demand of technology savvy customers, PMEX remained proactive in extending superior quality services to its valued members and their clients. During the period under review, the Exchange introduced a dedicated UAN: 111-11-PMEX (7639) for Customer Support Services. Using the dedicated UAN, members and their clients were equipped to raise enquiries and receive responses from the Exchange's highly responsive Customer Service team in a simple and speedy manner.

Awareness, Education & Engagement

The Exchange continued its efforts for creating awareness about futures trading in Pakistan. In this regard, during the period under review, PMEX organized awareness, educational and engagement programs at its premises and also conducted such programs at various organizations, associations, chambers and educational Institutes.

Financial Results

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

	30-Jun-19	30-Jun-18
	(Rs. in million)	
Operating income	**318.97**	264.60
Profit / (loss) before taxation	**63.06**	49.49
Net profit / (loss) after taxation (total comprehensive income)	**52.34**	41.11
	(Rupees)	
Earnings / (loss) per share - basic and diluted	**1.67**	1.31

The main reasons for increase of Rs. 47.24 million in operating income is trading fee which was increase from Rs. 151.446 million to Rs. 195.932 million due to introduction of new contracts and full year impact of revision of trading fee.

The positive reflections of deferred tax of Rs. 43.37 million (Note 28.2) 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, a favourable decision was announced during the year by Sindh High Court on the matter of taxability of membership deposits of Rs. 193 million which was treated by tax department as revenue of tax year 2004 resulting in tax contingency of Rs. 83 million in earlier years. This has resulted in major relief for the Exchange. Now, as detailed in note 14 to the financial statements, there one major case 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 this case as well and therefore, based on legal opinion, have not made any provision in the financial statements.

Future Outlook

Going forward, under the able guidance of Securities & Exchange Commission of Pakistan (SECP) and Board of Directors, the focus of the Exchange will remain on increasing the trading volume through creating UINs and increasing awareness about futures trading among the target audience.

Moreover, the Exchange is working towards bringing trading of physical gold at its platform which will facilitate in documenting gold trade, boosting export of jewellery from Pakistan and creating a full-fledged gold-backed investment industry along with a formal gold-based lending market.

The Exchange is also working to provide a mechanism to the textile industry whereby the participants can hedge the price risk associated with cotton. In this regard, PMEX is in the process of developing consensus among the stakeholders to use its platform for hedging price risk in cotton trade.

Furthermore, SECP has recently promulgated Collateral Management Company (CMC) Regulations and thereby establishment of Pakistan's first CMC is underway. The CMC, through its electronic warehouse receipt system, will issue Electronic Warehouse Receipts (EWR) which can be used by farmers/depositors of agricultural commodity for financing from financial institutions as well as trading at PMEX. In this regard, PMEX is collaborating with the relevant stakeholders to finalize the operational modalities for the trading of EWR at its platform.

Board of Directors

During the year, election of six directors was held in May, 2019 as the three-year term of the previous Board, elected in May 2016, was completed. However, three independent directors were appointed subsequent to the year end. The Board is now comprised of 10 directors including Managing Director, in which 6 directors represent shareholders and remaining three are independent directors. Directors representing shareholders comprised of two from National Bank of Pakistan, two from Pakistan Stock Exchange and two from ISE Towers REIT.

Current Board of Directors is comprised of the following:

Name	Designation	Status
1. Dr. Rashid Bajwa*	Chairman	Independent-Non-executive
2. Mr. Ejaz Ali Shah	Managing Director	Executive
3. Dr. Fatima Khushnud*	Director	Independent-Non-executive
4. Dr. Yusuf Zafar*	Director	Independent-Non-executive
5. Mr. Aftab Ahmed Chaudhry	Director	Non-executive
6. Mr. Ahmed Chinoy	Director	Non-executive
7. Mr. Rehan Mobin	Director	Non-executive
8. Mr. Rehmat Ali Hasnie	Director	Non-executive
9. Mr. Shahnawaz Mahmood	Director	Non-executive
10. Mr. Zahid Latif Khan	Director	Non-executive

* Appointed subsequent to June 30, 2019.

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 2018-19 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

As communicated last year, 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.

Further, 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 to appoint Grant Thornton Anjum Rahman, Chartered Accountants as statutory auditors for the approval of the shareholders in place of retiring auditors.

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.

Chairman

Managing Director

Karachi
Dated: 01 October, 2019

Annexure A

Board Meeting Attendance

Total four meetings of Board of Directors were held during 2018-19. Attendance history during the tenure of directorship was as follows:

Director	Meeting held during the tenure	Meetings attended
Mr. Ruhail Muhammad*	6	6
Dr. Khalid Mushtaq*	6	6
Mr. Ahmed Chinoy	5	5
Mr. Ammar-ul-Haq*	6	3
Mr. Aftab Ahmed Chaudhry	6	6
Mr. Zahid Latif Khan	6	5
Syed Talat Mahmood*	2	1
Mr. Rehan Mobin	6	5
Mr. Shahnawaz Mahmood	6	6
Mr. Sulaiman Mehdi*	1	1
Mr. Rehmat Ali Hasnie	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, 2019 and attendance during the year was as under:

Committees / Members	Meeting held during the tenure	Meetings attended
Audit Committee		
Mr. Aftab Ahmad Chaudhry – Chairman*	4	4
Mr. Ahmed Chinoy	4	3
Mr. Rehan Mobin*	4	4
Mr. Zahid Latif Khan	4	1
Human Resource Committee		
Mr. Ruhail Mohammed – Chairman*	2	2
Syed Talat Mahmood*	1	–
Mr. Ahmed Chinoy	2	1
Mr. Zahid Latif Khan	2	1
Regulatory Affairs Committee		
Dr. Khalid Mushtaq – Chairman*	4	4
Mr. Ruhail Mohammed*	4	3
Mr. Aftab Ahmad Chaudhry*	4	4
Risk Committee		
Dr. Khalid Mushtaq– Chairman*	4	4
Mr. Aftab Ahmad Chaudhry*	4	4
Mr. Shahnawaz Mahmood*	2	2
Mr. Ejaz Ali Shah – MD	4	4
Syed Mumtaz Ali - CRO	4	4

* These directors are no more committee members.

Annexure C

Shareholding pattern as of June 30, 2019

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

Categories of shareholders		No. of shareholders	Share held	Percentage
Directors, Chief Executive Officer, and their spouse and minor children.		3	8	–
1. Ruhail Mohammed	3			
2. Aftab Ahmad Chaudhry	3			
3. Dr. Khalid Mushtaq	2			
Associated Companies, undertakings and related parties (including banks)		3	25,131,093	80.15%
1. National Bank of Pakistan	10,653,860			
2. Pakistan Stock Exchange	8,909,052			
3. ISE Tower REIT	5,568,181			
NIT and ICP		–	–	–
Banks Development Financial Institutions, Non-Banking Financial Institutions (excluding related parties)		4	6,224,023	19.85%
Insurance Companies		–	–	–
Modarabas and Mutual Funds		–	–	–
Other Shareholders holding 10% or more		–	–	–
Others (individual promoters excluding included above)		8	38	–
Total		**18**	**31,355,162**	**100.0%**

Six Years' Financial Highlights

Financial year ended on June 30

	2019	2018	2017	2016	2015	2014
BALANCE SHEET						
Shareholders' equity	**9,159,588**	(37,714,923)	(78,827,951)	(64,254,052)	(105,792,321)	(86,817,267)
Long term deposits	**163,895,317**	197,650,000	198,400,000	196,150,000	196,150,000	195,400,000
Deferred Liability - gratuity	**–**	–	–	–	–	45,227,574
Staff gratuity payable to fund	**15,624,300**	44,674,627	43,432,994	44,569,896	46,254,609	–
Dividend on preference shares	**–**	–	–	–	7,638,398	7,638,398
Margin and deposit	**2,700,727,066**	2,085,665,389	1,801,296,114	1,667,544,562	1,116,812,206	1,158,960,085
Fixed assets	**30,618,928**	29,283,048	33,715,520	38,409,003	38,961,365	36,454,107
Investment in associates	**20**	20	20	20	20	20
Total Current assets	**2,935,195,218**	2,314,109,099	1,986,678,087	1,853,233,634	1,282,579,309	1,343,216,648
OPERATIONAL RESULTS						
Total Income	**337,057,063**	276,199,319	209,601,325	223,843,309	174,639,118	171,925,380
Total Expenses	**273,988,078**	226,706,170	221,686,071	188,698,145	187,630,466	185,110,993
Profit / (loss) after taxation	**63,068,984**	41,113,028	(14,573,899)	29,651,607	(14,630,935)	(13,185,613)
Earnings per share (EPS)	**1.67**	1.31	(0.46)	1.09	(0.69)	(0.83)

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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, 2019, 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, 2019.

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 Regulation 25 of the Regulations, it is required to have separate persons handling the functions of CFO and Company Secretary.
ii	18	Directors' orientation program have not been carried out during the year. However, as mentioned in regulation 19 of the Regulations, it is required that all companies shall make appropriate arrangements to carry our orientation courses for their directors to acquaint them with these Regulations, applicable laws, their duties and responsibilities to enable them to effectively govern the affairs of the listed company for and on behalf of shareholders.
iii	18	Directors' have not attended general meetings held during the year. However, as mentioned in regulation 10(6) of the Regulations, it is mandatory for all directors of a company to attend the general meeting(s), (ordinary and extraordinary) unless precluded from doing so due to any reasonable cause.

Deloitte Yousuf Adil

Chartered Accountants

Date: October 04, 2019
Place: Karachi

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

Year ended June 30, 2019

Pakistan Mercantile Exchange Limited (the Exchange) 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 size of the Board is 10 including the managing director. However, three independent directors were in the process of appointment on June 30, 2019. Therefore, the status on June 30, 2019 was as follows:

   a) **Male: 7**
   b) **Female: 0**

   Subsequent to the year end, three independent directors were appointed on August 26, 2019 and status has become as follows:

   a) **Male: 9**
   b) **Female: 1**

2. The composition of board as on June 30, 2019 was as follows:

Category	Name
a) Independent Directors	Three directors being in the process of appointment on June 30, 2019. However, following three independent directors were appointed subsequent to the year end: - Dr. Rashid Bajwa - Dr. Yusuf Zafar - Dr. Fatima Khushnud
b) Executive Director	- Mr. Ejaz Ali Shah – Managing Director
c) Non-Executive Directors	- Mr. Aftab Ahmed Chaudhry - Mr. Ahmed Chinoy - Mr. Shahnawaz Mahmood - Mr. Rehan Mobin - Mr. Rehmat Ali Hasnie - Mr. Zahid Latif Khan

3. The directors have confirmed that none of them is serving as a director on more than five (5) listed companies (excluding the listed subsidiaries of listed holding companies).

4. The Exchange has prepared a ‘Code of Conduct’ and has ensured that appropriate steps have been taken to disseminate it throughout the Exchange 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 [the Companies Act] and the Regulations.

7. The meetings of the Board were presided over by the Chairman. The Board has complied with the requirements of Companies 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 Companies Act and the Regulations.

9. 'No Directors' Training program was required to be arranged during the year as half of the directors on the Board have acquired the prescribed Directors Training Certification.

10. The Board approves appointment of Chief Financial Officer [CFO], company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment in compliance with relevant requirements of the Regulations. However, there was no new appointment of CFO, Company Secretary and the Head of Internal during the year.

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

12. Due to the reason that independent directors were in the process of appointment, there was no committee on June 30, 2019. However, after appointment of independent directors, the Board has formed committees comprising of members given below:

a) Audit Committee
- Dr. Yusuf Zafar - Chairman
- Mr. Ahmed Chinoy
- Mr. Rehmat Ali Hasnie
- Mr. Zahid Latif Khan

b) Human Resource (HR) and Remuneration Committee
- Dr. Yusuf Zafar - Chairman
- Mr. Ahmed Chinoy
- Mr. Shahnawaz Mahmood
- Mr. Zahid Latif Khan

c) Nomination Committee

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

d) Risk Committee
- Dr. Rashid Bajwa – Chairman
- Dr. Fatima Khushnud
- Dr. Yusuf Zafar
- Mr. Ejaz Ali Shah
- Syed Mumtaz Ali

e) Regulatory Affairs Committee
- Dr. Rashid Bajwa – Chairman
- Dr. Fatima Khushnud
- Dr. Yusuf Zafar

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 the committee held during the year was as follows:

Name of the Committee	Number of Meetings
Audit Committee	4
HR and Remuneration / Nomination Committee	2
Risk Committee	4
Regulatory Affairs Committee	4

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

16. The statutory auditors of the Exhcnage have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan [ICAP], that they are 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 Exchange and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.

17. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Companies Act, the 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.

Managing Director

Chairman

Dated: October 01, 2019
Place: Karachi

Deloitte Yousuf Adil
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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, 2019, 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, 2019 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

We draw attention to note 1.3 of these financial statements which explains the financial and operating measures being taken by the Exchange to improve profitability and financial position of the Exchange. Our opinion is not qualified in respect of this matter.

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

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

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance or 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. If based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Board of Directors for these Financial Statements

Management is responsible for the preparation and fair presentation of these 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 these 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 these 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 these 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 these 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 these financial statements, including the disclosures, and whether these 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.

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 Ms. Hena Sadiq.

Deloitte Yousuf Adil

Chartered Accountants

Dated: October 04, 2019
Place: Karachi

Statement of Financial Position

As at June 30, 2019

	Note	2019	2018
		Rupees	
EQUITY AND LIABILITIES			
Share capital and reserves			
Authorised capital 100,000,000 (2018: 50,000,000) ordinary shares of Rs. 10 each		**1,000,000,000**	500,000,000
Issued, subscribed and paid-up capital	5	**313,551,620**	313,551,620
Reserves	6	**(304,392,032)**	(351,266,543)
		9,159,588	(37,714,923)
Non-current liabilities			
Long-term deposits	7	**163,895,317**	197,650,000
Current liabilities			
Staff gratuity fund	8	**15,624,300**	44,674,627
Staff provident fund	9	**157,668**	1,081,988
Margins and deposits	10	**1,439,068,501**	1,350,773,957
Payable to SGF trust	11	**5,597,615**	2,091,202
Gold held on behalf of brokers / clients		**1,256,060,950**	732,800,230
Advance fee	12	**17,182,126**	16,553,657
Advance members admission fee		**–**	750,000
Creditors, accrued and other liabilities	13	**59,068,101**	34,731,429
		2,792,759,261	2,183,457,090
Contingencies and commitments	14		
		2,965,814,166	2,343,392,167

The annexed notes from 1 to 35 form an integral part of these financial statements.

Chairman

	Note	2019	2018
		Rupees	
ASSETS			
Non-current assets			
Property and equipment	15	**22,546,603**	15,824,374
Intangible assets	16	**8,072,325**	13,458,674
Investment in associates	17	**20**	20
Current assets			
Supplies and consumables	18	**444,056**	568,988
Annual subscription receivable - considered good	19	**6,698,018**	44,606,320
Advances, deposits and short-term prepayments	20	**9,367,558**	9,873,846
Other receivables	21	**34,862,592**	40,077,361
Short term investments	22	**1,515,711,430**	1,364,835,692
Gold held on behalf of brokers/clients		**1,256,060,950**	732,800,230
Taxation - net		**42,359,248**	42,191,695
Cash and bank balances	23	**69,691,366**	79,154,967
		2,935,195,218	2,314,109,099
		2,965,814,166	2,343,392,167

Managing Director

Statement of Profit or Loss and Other Comprehensive Income

For the year ended June 30, 2019

Rupees

	Note	2019	2018
Operating income	24	**318,976,540**	264,607,782
Operating and administrative expenses	25	**(271,733,450)**	(223,191,961)
		47,243,090	41,415,821
Other income	26	**18,080,523**	11,591,537
Other charges		**(224,089)**	(1,414,389)
Finance costs	27	**(2,030,540)**	(2,099,820)
Profit before taxation		**63,068,984**	49,493,149
Taxation	28	**(10,721,727)**	(8,380,121)
Net profit after taxation		**52,347,257**	41,113,028
Other comprehensive income for the year		**–**	–
Total comprehensive income for the year		**52,347,257**	41,113,028
Earnings per share - basic and diluted	29	**1.67**	1.31

The annexed notes from 1 to 35 form an integral part of these financial statements.

Chairman

Managing Director

Statement of Cash Flows

For the year ended June 30, 2019

Rupees

	Note	2019	2018
A. CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	30	**135,469,801**	42,409,829
Long-term deposits paid		**(33,754,683)**	(750,000)
Taxes paid		**(10,889,279)**	(7,847,258)
Gratuity paid		**(37,782,192)**	(6,757,016)
Net cash generated from operating activities		**53,043,647**	27,055,555
B. CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	15	**(15,951,249)**	(1,431,459)
Purchase of intangible assets		**–**	(9,114,005)
Proceeds from disposal of property and equipment		**1,205,588**	–
Purchase of investment in government securities		**(439,810,753)**	(273,959,814)
Proceeds from sale of investment in government securities		**386,859,571**	265,808,275
Mark-up received on bank deposits		**2,026,317**	622,237
Net cash used in investing activities		**(65,670,526)**	(18,074,766)
C. CASH FLOWS FROM FINANCING ACTIVITIES			
Net cash generated from financing activities		**–**	–
Net (decrease) / increase in cash and cash equivalents	(A+B+C)	**(12,626,879)**	8,980,789
Cash and cash equivalents at the beginning of the year		**12,420,281**	3,439,492
Cash and cash equivalents at the end of the year		**(206,598)**	12,420,281
Cash and cash equivalents relating to margins and deposits at the end of the year		**69,897,964**	66,734,686
Cash and cash equivalents at the end of the year including margins and deposits	23	**69,691,366**	79,154,967

The annexed notes from 1 to 35 form an integral part of these financial statements.

Chairman

Managing Director

Statement of Changes in Equity

For the year ended June 30, 2019

Rupees

	Note	Issued, subscribed and paid-up capital	Reserve: Capital - Premium on issue of ordinary shares	Reserve: Revenue - Accumulated loss	Reserve: Total	Total
Balance at June 30, 2017		313,551,620	22,250,000	(414,629,571)	(392,379,571)	(78,827,951)
Total comprehensive income for the year ended June 30, 2018						
- Profit for the year		–	–	41,113,028	41,113,028	41,113,028
- Other comprehensive income for the year		–	–	–	–	–
		–	–	41,113,028	41,113,028	41,113,028
Balance at June 30, 2018		**313,551,620**	**22,250,000**	**(373,516,543)**	**(351,266,543)**	**(37,714,923)**
Adjustment of retained earning under IFRS 15	2.6	–	–	(712,500)	(712,500)	(712,500)
Adjustment of retained earning under IFRS 9	3.9.1	–	–	(4,760,246)	(4,760,246)	(4,760,246)
Balance as on July 01, 2018		**313,551,620**	**22,250,000**	**(378,989,289)**	**(356,739,289)**	**(43,187,669)**
Total comprehensive income for the year ended June 30, 2019						
- Profit for the year		–	–	52,347,257	52,347,257	52,347,257
- Other comprehensive income for the year		–	–	–	–	–
		–	–	52,347,257	52,347,257	52,347,257
Balance at June 30, 2019		**313,551,620**	**22,250,000**	**(326,642,032)**	**(304,392,032)**	**9,159,588**

The annexed notes from 1 to 35 form an integral part of these financial statements.

Chairman

Managing Director

Notes to and Forming Part of the Financial Statements

For the year ended June 30, 2019

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 (now the Companies Act, 2017) 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 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 Future Contracts and to perform all allied and incidental functions. This is a technology driven, de-mutualized, on-line commodity futures exchange in Pakistan, regulated by SECP. The operations of the Exchange are governed by the Pakistan Mercantile Exchange Limited (PMEX) General Regulations, which were approved by the SECP on May 10, 2007 as amended from time to time. Board of Directors (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, 2019, the Exchange has positive equity of Rs. 9.160 million (June 30, 2018: negative equity of Rs. 37.715 million) and accumulated loss amounts to Rs. 326.642 million (June 30, 2018: Rs. 373.517 million). During the year ended June 30, 2019, the Exchange has net profit of Rs. 52.347 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 30, 2020. The Exchange is in process of issuing right shares to existing shareholders which will be offered by the end of the financial year 2019-2020. 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 Standards) 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 Standards, the provision of and directives issued under the Companies Act, 2017 have been followed.

2.2 **Basis of measurement**

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

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 Rupee which is the Exchange's functional and presentation currency.

2.4 Initial application of standards, amendments or an interpretation to existing standards which became effective during the year

The following standards, amendments and interpretations became effective during the year ended June 30, 2019. 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 except for IFRS - 9 and IFRS - 15. Relevant changes of IFRS - 15 and IFRS - 9 are given in note 2.6 and 3.6 respectively.

Standards or Interpretations	Effective from accounting period beginning on or after:
IFRS 9 'Financial Instruments' - This standard has superseded IAS 39 Financial Instruments: Recognition and Measurement upon its effective date.	July 01, 2018
IFRS 15 'Revenue' - This standard has superseded IAS 18, IAS 11, IFRIC 13, 15 and 18 and SIC 31 upon its effective date.	July 01, 2018
IFRS 4 'Insurance Contracts': Amendments regarding the interaction of IFRS 4 and IFRS 9.	January 01, 2018
Amendments to IFRS 2 'Share-based Payment' - Clarification on the classification and measurement of share-based payment transactions.	January 01, 2018
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

Certain annual improvements have also been made to a number of IFRSs.

2.5 New accounting standards and interpretations not yet effective

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.

Standards or Interpretations	Effective from accounting period beginning on or after:
IFRS 16 'Leases': This standard will supersede IAS 17 'Leases', IFRIC 4, SIC 15 and SIC 27 upon its effective date. Impact assessment of IFRS 16 is provided in note 2.7	January 01, 2019
Amendments to IFRS 3 'Business Combinations' - Amendments regarding the definition of business	January 1, 2020
Amendments to IFRS 9 'Financial Instruments' - Amendments regarding prepayment features with negative compensation and modifications of financial liabilities	January 1, 2019
Amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures' - Sale or contribution of assets between an investor and its associate or joint venture.	Effective date to be determined. Earlier application is permitted.
Amendments to IAS 19 'Employee Benefits' - Amendments regarding plan amendments, curtailments or settlements.	January 1, 2019
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 1, 2019

Standards or Interpretations	Effective from accounting period beginning on or after:
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 1, 2019
Amendments to References to the Conceptual Framework in IFRS Standards	January 1, 2020
Amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' - Amendments regarding the definition of 'Material' and align the definition used in the Conceptual Framework and the Standards.	January 1, 2020

Certain annual improvements have also been made to a number of IFRSs.

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

2.6 Impact of application of IFRS 15 Revenue from Contracts with Customers

The Exchange has applied IFRS 15 retrospectively by recognising the cumulative effect of initial application as an adjustment to the opening balance of retained earnings of the annual reporting period that includes the date of initial application, and the Exchange has elected to apply this standard retrospectively only to contracts that are not completed contracts at the date of initial application. The Exchange has also used practical expedients for all contract modifications that occurred before the date of initial application i.e. July 1, 2018.

			Rupees	
Impact on asset and equity as at July 01, 2018	**Note**	**As at June 30, 2018**	**IFRS 15 adjustments**	**As at July 01, 2018**
Annual subscription receivable.	2.6.1	44,606,320	712,500	43,893,820
Total effect on net assets		**44,606,320**	**712,500**	**43,893,820**
Retained earnings		(373,516,543)	(712,500)	(374,229,043)
Total effect on equity		**(373,516,543)**	**(712,500)**	**(374,229,043)**

2.6.1 An adjustment of Rs.712,500 is required in IFRS 15 while recognising revenue for contracts which were not completed on the first application date i.e. July 1, 2018 and have not fulfilled the criteria prescribed in para 9 of IFRS 15.

2.7 Impact of application of IFRS 16 Leases

General impact of application of IFRS 16 Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in these financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 'Leases' and the related interpretations when it becomes effective for accounting periods beginning on or after January 01, 2019 date of initial application of IFRS 16 for the Exchange will be July 01, 2019.

Impact of the new definition of a lease

The Exchange will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before January 01, 2019.The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

The Exchange will apply the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after January 01, 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Exchange has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the Exchange.

Impact on Lessee Accounting

Operating leases
IFRS 16 will change how the Exchange accounts for leases previously classified as operating leases under IAS 17, which were off-statement of financial position.

On initial application of IFRS 16, for all leases (except as noted below), the Exchange will:

a) Recognise right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments;

b) Recognise depreciation on right-of-use assets and interest on lease liabilities in the statement of profit or loss;

c) Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the statement of cash flows.

Lease incentives (e.g. rent-free period) will be recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 'Impairment of Assets'. This will replace the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Exchange will opt to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

As at June 30, 2019, the Exchange has non-cancellable operating lease commitments of Rs. 5.946 million

A preliminary assessment indicates that Rs. 2.719 million of these arrangements relate to leases other than short-term leases and leases of low-value assets, and hence the Exchange will recognise a right-of-use asset of Rs. 7.377 million and a corresponding lease liability of Rs. 5.946 million in respect of all these leases. The impact on statement of profit or loss is to decrease other expenses by Rs 12.509 million to increase depreciation by Rs. 9.090 million and to increase interest expense by Rs. 0.699 million.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Margins and Deposits
Margins and deposits represents initial margins and clearing house deposits received from brokers / clients. Assets acquired from the margins and deposits 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 of Gold.

3.2 Provisions

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

3.3 Taxation

Income tax expense comprise of current and deferred tax. Income tax expense is recognised in the statement of profit or loss account except to the extent that it relates to the items recognised 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 recognised using the statement of financial position 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 recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that the temporary differences will reverse in the future and taxable income will be available against which the temporary differences can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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

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

3.4 Property and equipment

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

Subsequent costs are included in the assets carrying amounts or recognised 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 using the straight-line method in accordance with the rates specified in note 15 to these financial statements after taking into account residual value, if significant. The residual values, useful lives and depreciation methods are reviewed, and adjusted, if appropriate, at each reporting date.

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

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

Capital work in progress

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

3.5 Intangible assets

An intangible asset is recognised 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 recognised 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 recognised 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 amortisation and accumulated impairment losses, if any. Such intangible assets are amortized using the straight-line method with the rates specified in note 16 to these financial statements. Amortisation on additions and deletions of intangible assets during the year is charged in proportion to the period of use. The useful lives and amortisation method are reviewed, and adjusted, if appropriate, at each reporting date.

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

Gains and losses on disposal of intangible assets are taken to the statement of profit or loss 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 recognised as a capital improvement and added to the original cost of the software.

3.6 Investments

During the current financial year, the Exchange has applied IFRS 9 'Financial Instruments' issued on July 24, 2017 and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after June 30, 2019, based on adoption date communicated by Securities Exchange Commission of Pakistan. The transition provisions of IFRS 9 allow an entity not to restate comparatives. The Exchange has elected not to restate comparatives in respect of the classification and measurement of financial instruments.

Additionally, the Exchange adopted consequential amendments to IFRS 7 'Financial Instruments: Disclosures' that were applied to the disclosures for the year ended June 30, 2018.

IFRS 9 introduced new requirements for:

1) The classification and measurement of financial assets and financial liabilities,
2) Impairment of financial assets, and
3) General hedge accounting.

Details of these new requirements as well as their impact on the Exchange's financial statements are described below except the General Hedge Accounting which the Exchange does not apply. The Exchange has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

(a) Classification and measurement of financial assets

The date of initial application (i.e. the date on which the Exchange has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is July 01, 2018. Accordingly, the Exchange has applied the requirements of IFRS 9 to instruments that continue to be recognised as at July 01, 2018 and has not applied the requirements to instruments that have already been derecognised as at July 01, 2018. Comparative amounts in relation to instruments that continue to be recognised as at July 01, 2018 have not been restated as allowed by IFRS 9.

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortised cost;

- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI);

- all other debt investments and equity investments are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Exchange may make the following irrevocable election/designation at initial recognition of a financial asset;

- the Exchange may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

When a debt investment measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to statement of profit or loss as a reclassification adjustment. When an equity investment designated as measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is subsequently transferred to retained earnings.

Debt instruments that are measured subsequently at amortised cost or at FVTOCI are subject to impairment. Please see para 3.9 for applicability of impairment requirements of IFRS 9.

The Management has reviewed and assessed the Exchange's existing financial assets as at July 01, 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on the Exchange's financial assets as regards their classification and measurement.

- there is no change in the measurement of the Exchange's investments in debt instruments that are held for trading; those instruments were and continue to be measured at FVTPL

- financial assets including loans and receivables under IAS 39 that were measured at amortised cost continue to be measured at amortised cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

None of the other reclassifications of financial assets have had any impact on the Exchange's statement of financial position, Statement of Profit or loss for the year.

3.7 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 fund.

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

3.8 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 recognised amounts and the Exchange intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

3.9 Impairment

3.9.1 Financial assets

Policy applicable from July 1, 2018
The Company recognises a loss allowance for expected credit losses on trade debts, long term loans, staff receivables and other receivables. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Company uses simplified approach for measuring ECL and recognises lifetime ECL for trade debts, long term loans, staff receivables, other receivables and bank balances. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument.

(i) Significant increase in credit risk
In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

The Company assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- The financial instrument has a low risk of default,
- The borrower has a strong capacity to meet its contractual cash flow obligations in the near term, and
- Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default
The Company uses recovery analysis of receivables collected in previous years and generate estimates of probability of default ("PD") of exposures with the passage of time. This analysis includes the identification for any changes in default rates and changes in key macro-economic factors across various geographies of the Company.

(iii) Credit-impaired financial assets
A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event (see (ii) above);
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties."

(iv) Write-off policy

The Company writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery.

(v) Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date, the Company's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate, if applicable.

Due to the initial aplication of IFRS-9 'Financial Instrument' the adjustment of Rs. 4.76 million related to prior years have been accounted for in statement of changes in equity.

3.9.2 Non-financial assets

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

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

3.10 Annual subscription receivable

Annual subscription is recognised 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 recognised 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 debtors, probability of debtor's bankruptcy, default or delinquency are considered as indicators that the receivable may be impaired. Balances considered bad and irrecoverable are written off when identified.

3.11 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 recognised when there is a permanent diminution in their values.

3.12 Supplies and consumables

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

3.13 Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and short-term deposits with an original maturity of three months or less. Cash and cash equivalents are carried in the statement of assets and liabilities at cost.

For Settlement Guarantee Fund, cash and cash equivalents comprise of balances with banks in current, deposit and savings accounts.

3.14 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 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.

3.15 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 Rupee 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.

3.16 Revenue recognition

Policy applicable from July 1, 2018

Revenue is measured at an amount that reflects the considerations, to which an entity expects to be entitled in exchange for transferring goods or services to customer, excluding amounts collected on behalf of third parties.

The Company derives its revenue from trading and recognises revenue at a point in time i.e. as and when the performance obligation(s) under the contract is satisfied. For Annual Subscription, the income is recognised on time proportion basis that is performance obligation is satisfied over time.

Policy under IAS 18, applicable before July 1, 2018

Revenue is recognized when it is probable that the economic benefits associated with the transactions will flow to the Company and the amount of revenue can be measured reliably. The revenue arising from different activities of the Company is recognized on the following basis:

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

3.17 Earnings per share

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of these financial statements in conformity with approved accounting standards as applicable in Pakistan, requires management to make estimates, assumptions and use judgements that affect the application of policies and reported amounts of assets and liabilities and income and expenses. Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Revisions to accounting estimates are recognised 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, 2018.

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

- Useful lives and residual values of property and equipment (note 3.4);
- Useful lives and residual values of intangible assets (note 3.5);
- Classification of short term investments (note 3.6);
- Impairment of investments and recoverable amount' (note 3.9); and
- Taxation (note 3.3)

5 ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

Number of Shares				Rupees	
2019	2018		Note	**2019**	2018
31,355,162	31,355,162	Ordinary shares of Rs 10 each fully paid in cash	5.1	**313,551,620**	313,551,620

5.1 Ordinary shares were held as at June 30 by:

	2019	2018	**2019**	2018
	Shareholding %		**Number of shares**	
Associates				
National Bank of Pakistan	**33.98%**	33.98%	**10,653,860**	10,653,860
Pakistan Stock Exchange (Guarantee) Ltd.	**28.41%**	28.41%	**8,909,052**	8,909,052
ISE Tower REIT Management Ltd.	**17.76%**	17.76%	**5,568,181**	5,568,181
LSE Financial Services Ltd.	**7.25%**	7.25%	**2,272,727**	2,272,727
Zarai Taraqiati Bank Ltd.	**2.90%**	2.90%	**909,091**	909,091
Others				
Pak Brunei Investment Company Ltd.	**6.80%**	6.80%	**2,133,115**	2,133,115
Pakistan Kuwait Investment Company (Pvt.) Ltd.	**2.90%**	2.90%	**909,090**	909,090
Others - individuals	**0.00%**	0.00%	**46**	46
	100.00%	100.00%	**31,355,162**	31,355,162

5.2 The company has only one class of ordinary shares which carries no right to fixed income. The holders of shares are entitled to receive dividends from time to time and are entitled to one vote per share at meeting of the Company. All shares rank equally with regards to Company's residual assets.

6 RESERVES

	Note	2019	2018
		Rupees	
Capital			
Premium on issue of ordinary share		**22,250,000**	22,250,000
Revenue			
Accumulated loss		**(326,642,032)**	(373,516,543)
		(304,392,032)	(351,266,543)

7 LONG-TERM DEPOSITS

	Note	2019	2018
Security deposits from members	7.1	**160,995,317**	194,750,000
Clearing house deposits	7.2	**2,900,000**	2,900,000
		163,895,317	197,650,000

7.1 This 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. However, security deposits of members have been setoff with their annual subscription receivables of Rs. 34.506 million as on June 30, 2019 for the purpose of fair presentation.

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

8 STAFF GRATUITY FUND

	Note	2019	2018
		Rupees	
Staff gratuity payable	8.1	**15,624,300**	44,674,627

8.1 Movement of staff gratuity payable is as follows:

	Note	2019	2018
Opening balance as at July 01		**44,674,627**	43,432,994
Charge for the year		**6,701,325**	5,898,830
Payments made to the fund		**(19,756,065)**	(5,831,243)
Payments made to outgoing employees on behalf of the fund		**(18,026,127)**	(925,774)
Accrued finance cost	8.2	**2,030,540**	2,099,820
Closing balance as at June 30		**15,624,300**	44,674,627

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

	Note	2019	2018
		Rupees	
Staff provident fund payable	9.1	**157,668**	1,081,988

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

Opening balance as at July 01	**1,081,988**	1,124,180
Employer contribution for the year	**6,742,521**	5,903,359
Employee contribution for the year	**6,742,521**	5,903,359
Payments made to the fund	**(14,409,362)**	(11,848,910)
Closing balance as at June 30	**157,668**	1,081,988

9.2 Contributions towards the fund have been deposited in a separate bank account of trust the balance of which as at June 30, 2019 is Rs.336,490 (2018: Rs.414,422). Permanent withdrawal of contribution from fund's account to respective employees' VPS account made on monthly basis.

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

10 MARGINS AND DEPOSITS

	Note	2019	2018
		Rupees	
Clearing house deposits relating to brokers	10.1	**98,986,285**	135,502,496
Initial margins relating to brokers and clients	10.1	**1,340,082,216**	1,215,271,461
	10.2	**1,439,068,501**	1,350,773,957

10.1 The above margins and deposits has been applied as follows:

Clearing house deposits		
Balance with banks (saving and current)	**1,842,121**	175,403
Investment in Treasury Bills	**97,566,257**	135,549,669
Less: Amount allocated for transfer to SGF Trust	**(422,093)**	(222,576)
	98,986,285	135,502,496
Initial margins		
Balance with banks (savings and current)	**68,055,843**	66,559,283
Investment in Treasury Bills	**1,277,165,894**	1,150,544,804
Security deposit / prepayments - Locker (Gold)	**36,000**	36,000
Less: Amount allocated for transfer to SGF Trust	**(5,175,522)**	(1,868,626)
	1,340,082,216	1,215,271,461
	1,439,068,501	1,350,773,957

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, in accordance with PMEX Circular titled PMEX/MKT, BD&CSS/2018/05, 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 rate of gold.

11 PAYABLE TO SETTLEMENT GUARANTEE FUND (SGF) TRUST

	Note	2019 Rupees	2018 Rupees
Payable to SGF trust as allocated from income earned on			
- clearing house deposits	11.1	**422,093**	222,576
- initial margins	11.1	**5,175,522**	1,868,626
		5,597,615	2,091,202

11.1 Movement for the year is as follows:

Opening balance as at July 01	**2,091,202**	1,667,326
Amount allocated from income earned on :		
- clearing house deposits	**4,002,668**	2,213,963
- initial margins	**43,013,969**	18,916,673
	47,016,637	21,130,636
Amount transferred during the year	**(43,510,224)**	(20,706,760)
	5,597,615	2,091,202

12 ADVANCE FEE

Advance annual subscription fee	**14,239,169**	14,803,657
Advance transfer fee	**1,750,000**	1,750,000
Advance advertisement	**222,960**	–
Others	**969,997**	–
	17,182,126	16,553,657

13 CREDITORS, ACCRUED AND OTHER LIABILITIES

	Note	2019 Rupees	2018 Rupees
Creditors		**4,184,531**	2,786,688
Accrued expenses		**28,740,529**	15,490,563
Withholding tax payable		**75,265**	2,212,096
Payable to market makers		**473,724**	473,724
Payable to SECP	13.1	**13,518,457**	3,176,920
Payable to NCCPL	13.2	**5,458,450**	4,559,000
Other liabilities	13.3	**6,617,145**	6,032,438
		59,068,101	34,731,429

13.1 This includes SECP transaction fee and supervision fee of Rs.11,391,050 (2018: Rs.1,175,403) and Rs. 2,127,407 (2018: Rs. 2,001,517) respectively.

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

13.3 This includes directors' expense amounting to Rs.102,000 (2018: 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.

Based on the opinion of tax / legal advisors, management is confident that the ultimate outcome of above matter 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 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 'assesse in default' for non-deduction of tax on payments made and created a demand of Rs. 2.70 million including default surcharge of Rs. 0.41 million. 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 will 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 million along with penalty of Rs.1.584 million 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 rectified the demand by Rs. 0.740 million and reducing penalty by amounted to Rs. 0.074 million. Subsequently, Appellate Tribunal through its order AT-25/2017 dated November 15, 2017 has also allowed partial relief on penalty of amounted to Rs. 0.910 million. Currently, Exchange has filed an application to Sindh High Court on demand of sales tax of Rs.12.566 million along with penalty of Rs. 0.6 million 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 Commitment

	2019	2018
	Rupees	
Commitment 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	2019	2018
		Rupees	
Operating assets	15.1	**18,756,603**	13,729,374
Capital work-in-progress	15.2	**3,790,000**	2,095,000
		22,546,603	15,824,374

15.1 Operating assets

Rupees

	Owned						
	Leasehold improvements	Furniture and fittings	Office equipment	Electrical equipment	Computer equipment	Motor vehicles	Total
As at July 01, 2017							
Cost	14,276,550	5,077,927	1,721,187	7,643,991	36,205,441	5,977,940	70,903,036
Accumulated depreciation	(7,047,191)	(2,056,178)	(1,019,685)	(5,024,501)	(30,712,242)	(3,666,469)	(49,526,266)
Net book value	**7,229,359**	**3,021,749**	**701,502**	**2,619,490**	**5,493,199**	**2,311,471**	**21,376,770**
For the year ended June 30, 2018							
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	77,661	170,000	161,517	158,312	863,969	–	1,431,459
Depreciation for the year	(2,857,899)	(969,893)	(275,145)	(925,377)	(3,094,071)	(956,470)	(9,078,855)
Closing net book value	**4,449,121**	**2,221,856**	**587,874**	**1,852,425**	**3,263,097**	**1,355,001**	**13,729,374**
As at June 30, 2018							
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)	(3,026,067)	(1,294,830)	(5,949,878)	(33,806,313)	(4,622,939)	(58,605,121)
Net book value	**4,449,121**	**2,221,856**	**587,874**	**1,852,425**	**3,263,097**	**1,355,001**	**13,729,374**
For the year ended June 30, 2019							
Opening net book value	4,449,121	2,221,856	587,874	1,852,425	3,263,097	1,355,001	13,729,374
Additions during the year	160,000	–	1,066,271	2,935,327	2,099,998	7,994,653	14,256,249
Disposals during the year							
Cost	–	–	86,291	–	–	5,977,940	6,064,231
Accumulated depreciation	–	–	(56,088)	–	–	(4,782,352)	(4,838,440)
	–	–	(30,203)	–	–	(1,195,588)	(1,225,791)
Depreciation for the year	(3,049,087)	(1,045,928)	(380,872)	(965,844)	(1,819,337)	(742,161)	(8,003,229)
Closing net book value	**1,560,034**	**1,175,928**	**1,243,070**	**3,821,908**	**3,543,758**	**7,411,905**	**18,756,603**
As at June 30, 2019							
Cost	14,514,211	5,247,927	2,862,684	10,737,630	39,169,408	7,994,653	80,526,513
Accumulated depreciation	(12,954,177)	(4,071,999)	(1,619,614)	(6,915,722)	(35,625,650)	(582,748)	(61,769,910)
Net book value	**1,560,034**	**1,175,928**	**1,243,070**	**3,821,908**	**3,543,758**	**7,411,905**	**18,756,603**
Rate of depreciation (%)	20	20	20	20	25	20	

15.2 Capital work-in-progress

Rupees

	2019	2018
Advance for capital expenditure	**3,790,000**	2,095,000

15.3 Included in cost of operating assets are fully depreciated assets still in use aggregating to Rs.56.365 million (2018: Rs.36.658 million).

16 INTANGIBLE ASSETS - COMPUTER SOFTWARES

	Note	2019 Rupees	2018 Rupees
Gross carrying value			
Cost		**53,882,125**	53,882,125
Accumulated amortization		**(45,809,800)**	(40,423,451)
Net book value		**8,072,325**	13,458,674
Net carrying value			
Opening net book value		**13,458,675**	10,243,750
Additions during the year		**–**	9,114,006
Amortization for the year		**(5,386,350)**	(5,899,081)
Closing net book value		**8,072,325**	13,458,675
Rate of amortization (%)		**25**	25

17 INVESTMENT IN ASSOCIATES - AT COST

	Note	2019	2018
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 Railway land in Karachi. The Building, along with certain equipment, was offered for sale by the Privatization Commission (PC), Government of Pakistan .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 Railway 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% (2018: 2.63%) ordinary shares of the Institute of Financial Market of Pakistan.

18 SUPPLIES AND CONSUMABLES USB

	Note	2019 (Rupees)	2018 (Rupees)
Opening as of July 01,		**568,988**	709,696
Issued during the year		**(124,932)**	(140,708)
Closing as of June 30,	18.1	**444,056**	568,988

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

19 ANNUAL SUBSCRIPTION RECEIVABLES

	Note	2019 (Rupees)	2018 (Rupees)
Annual subscription receivable		**7,708,018**	44,606,320
Provision for doubtful receivables		**(1,010,000)**	–
		6,698,018	44,606,320

20 ADVANCES, DEPOSITS AND SHORT-TERM PREPAYMENTS

Advances and deposits		**2,627,270**	2,360,788
Prepaid expenses		**6,740,288**	7,513,058
		9,367,558	9,873,846

21 OTHER RECEIVABLES

Receivable from NCEL Building Management Limited		**1,168,925**	1,168,925
Receivable from members	21.1	**14,516,740**	19,983,785
Accrued markup on bank savings accounts		**105,686**	169,033
Others		**19,071,241**	18,755,618
		34,862,592	40,077,360

21.1 Receivable from members

Rupees

	Note	2019	2018
Technology fee from members		**1,253,766**	4,445,245
Receivable from market makers	21.1.1	**–**	3,676,140
Receivable infrastructure fee		**13,768,364**	11,862,400
		15,022,130	19,983,785
Provision for doubtful receivables		**(505,390)**	–
		14,516,740	19,983,785

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

22 SHORT TERM INVESTMENT

Rupees

	Note	2019	2018
At fair value through profit or loss			
Investments in Treasury Bills - margins and deposits		**1,374,732,151**	1,286,094,473
Investments in Treasury Bills - Exchange		**140,979,279**	78,741,219
	22.1	**1,515,711,430**	1,364,835,692

22.1 These Treasury Bills carry markup ranging from 6.22% to 12.75% (2018: 6.22% to 6.76%) per annum and will mature on various dates up to September 12, 2019.

23 CASH AND BANK BALANCES

Rupees

	Note	2019	2018
Cash at banks			
- in current accounts		**383,661**	73,850
- in saving accounts	23.1	**69,263,517**	79,057,520
		69,647,178	79,131,370
Cash in hand		**44,188**	23,597
		69,691,366	79,154,967

23.1 These accounts carry mark up at the rate of 6.5% per annum (2018: 4.5%)

24 OPERATING INCOME

	Note	2019	2018
		Rupees	
Trading fee - net		**195,932,133**	151,446,542
Share of PMEX in the income of margins and deposits	10.2	**81,044,429**	43,880,120
Annual membership fee		**20,724,989**	24,299,164
Entrance fee		**1,000,000**	20,750,000
Income from IT related services		**5,489,200**	8,520,000
Infrastructure fee		**6,485,000**	7,173,362
Advertisement income		**852,581**	1,500,000
Fee for membership transfer and issuance of certificates		**600,000**	1,800,000
Auto liquidation charges		**485,580**	308,400
Front end charges		**78,725**	330,899
Application fee		**25,000**	225,000
Gain on sale of USB keys		**214,268**	239,289
Recovery of gold custody charges		**6,044,635**	4,135,006
		318,976,540	264,607,782

25 OPERATING AND ADMINISTRATIVE EXPENSES

	Note	2019	2018
Salaries and benefits	25.1	**136,887,435**	127,001,188
Gratuity fund	8	**6,701,325**	5,898,830
Provident fund	9	**6,742,521**	5,903,359
Directors' fee		**2,070,000**	1,500,000
Depreciation	15	**8,003,229**	9,078,855
Amortization	16	**5,386,350**	5,899,081
Communication		**4,925,100**	5,982,908
Cloud hosting		**16,009,772**	8,912,848
Utilities		**2,083,759**	2,282,814
Legal and professional		**17,354,618**	8,005,434
Rent		**12,489,602**	12,592,472
Repairs and maintenance		**6,845,299**	7,861,038
Market making / liquidity expenses		**–**	2,289,897
Travelling and conveyance			
- Employees and others		**826,518**	1,101,527
- Directors		**2,728,964**	2,843,850
		3,555,482	3,945,377
Fee and subscription		**30,183,930**	5,512,992
Security services		**710,882**	645,920
Insurance		**435,628**	427,061
SECP supervision fee	25.2	**2,182,821**	2,056,941
Auditors' remuneration	25.3	**759,000**	645,000
Provision for doubtful recovery	19 & 21.1	**1,515,390**	–
Marketing expense		**5,646,809**	5,517,077
Printing and stationery		**262,224**	262,235
Entertainment		**982,274**	970,638
		271,733,450	223,191,965

25.1 Total number of employees as at June 30, 2019 is 87 (2018: 81). Average number of employees during the year ended June 30, 2019 is 83 (2018: 78).

25.2 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.

25.3 Auditors' remuneration

	Note	Rupees 2019	2018
Annual audit fee		**483,000**	420,000
Fee for review of:			
Half yearly financial information		**172,500**	150,000
Code of Corporate Governance		**34,500**	30,000
Out of pocket expenses		**69,000**	45,000
		759,000	645,000

26 OTHER INCOME

	Note	2019	2018
Income from financial assets			
Mark-up on bank deposits		**1,962,970**	753,699
Mark-up on government securities		**9,332,784**	4,000,324
Unrealized loss on remeasurement of investment at fair value through profit or loss		**(43,116)**	–
Realized loss on sale of investment at fair value through profit or loss		**(2,790)**	(8,954)
Income from non - financial assets			
Fee for accounting and other services to NCEL Building Management Ltd.		**–**	–
Loss on disposal of equipment		**(20,203)**	–
CGT processing charges		**4,457,570**	5,499,240
Others		**2,393,308**	1,347,228
		18,080,523	11,591,537

27 FINANCE COST

	Note	2019	2018
In respect of accumulated balance of staff gratuity charged statement of profit or loss	27.1	**2,030,540**	2,099,820

27.1 This represents finance cost charged at the average rate of income earned by the Exchange during the year on the accumulated balance of gratuity related to earlier gratuity scheme to the staff gratuity fund as further explained in note 8.

28 TAXATION

	Note	2019 (Rupees)	2018 (Rupees)
Current - for the year	28.1	**10,721,727**	8,413,835
- prior year		**–**	(33,714)
		10,721,727	8,380,121

28.1 The provision for current income tax is based on Alternative Tax @ 17% of accounting profit under section 113C of the Income Tax Ordinance, 2001 ("the Ordinance"). Accordingly reconciliation of tax expense with the accounting profit is not presented.

28.2 The Exchange has not recognised deferred tax asset amounting to Rs. 43.379 million as at June 30, 2019 (2018: Rs 70.008 million) on deductible temporary differences aggregating to Rs. 149.581 million as at June 30, 2019 (2018: Rs. 228.478 million) as timing of availability of sufficient taxable profits cannot be determined due to applicability of minimum tax and alternative corporate tax under section 113 and 113(C) respectively. These deductible temporary differences arise on normal business losses, unused tax depreciation, provision for staff gratuity, property and equipment and provision for doubtful debts aggregating to Rs. 18.086 million, Rs. 113.551 million, Rs. 15.624 million, Rs.1.349 million and Rs. 6.276 million (2018: deductible difference of Rs. 47.205 million, Rs. 123.153 million, Rs. 44.675 million respectively and temporary difference on property and equipment of Rs. 11.354 million). Deferred tax on minimum tax amounting to Rs. 2.439 million.

29 EARNINGS PER SHARE - BASIC AND DILUTED

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

29.1 Basic earnings per share
The earnings per share as required under IAS 33 "Earnings per share" is given below:

	2019 (Rupees)	2018 (Rupees)
	52,347,257	41,113,023
Profit attributable to ordinary shareholders (Rupees)	**52,347,257**	41,113,023
Weighted average number of ordinary shares	**31,355,162**	31,355,162
Earnings per share	**1.67**	1.31

29.2 Diluted earnings per share
There are no shares that are dilutive in nature.

30 CASH FLOW FROM OPERATIONS

	Note	2019	2018
		Rupees	
Profit before taxation		**63,068,984**	49,493,149
Adjustments for non-cash and other items:			
Depreciation	15.1	**8,003,229**	9,078,855
Amortization	16	**5,386,350**	5,899,081
Gratuity	8	**6,701,325**	5,898,830
Finance cost		**2,030,540**	2,099,820
Unrealized gain on remeasurement of investment at fair value through profit or loss		**43,116**	–
Realized loss on investment at fair value through profit or loss		**2,790**	8,954
Mark-up on government securities		**(9,332,784)**	(4,000,324)
Mark-up on bank deposits		**(1,962,970)**	(753,699)
Loss on disposal of property and equipment		**20,203**	–
Bad debt expense		**1,515,390**	–
Working capital changes	30.1	**59,993,628**	(25,314,837)
		135,469,801	42,409,829

30.1 Working capital changes

Decrease / (increase) in current assets		
Supplies and consumables	**124,932**	140,708
Annual subscription receivable	**34,781,555**	(11,806,320)
Advances, deposits and short-term prepayments	**506,288**	(502,000)
Other receivables	**1,290,032**	(10,171,829)
	36,702,807	(22,339,441)
(Decrease) / increase in current liabilities		
Staff provident fund	**(924,320)**	(42,192)
Advance annual subscription and other fee	**628,469**	1,639,492
Advance members admission fee	**(750,000)**	750,000
Creditors, accrued and other liabilities	**24,336,672**	(5,322,696)
	59,993,628	(25,314,837)

31 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

31.1 Financial instruments by category

	Rupees	
	2019	2018 Restated
Financial assets		
At Fair value through profit or loss		
- Exchange's investment in government securities	**140,979,279**	78,741,219
- Margins and deposit's investments in government securities	**1,374,732,151**	1,286,094,473
At Fair value through amortised cost		
- Annual subscription receivable -considered good	**6,698,018**	44,606,320
- Deposits	**2,627,270**	2,360,788
- Other receivables	**34,862,592**	40,077,361
- Cash and bank balances	**69,691,366**	79,154,967
	1,629,590,676	1,531,035,128
Financial liabilities		
Financial liabilities at amortized cost		
- Long-term deposits	**163,895,317**	197,650,000
- Staff gratuity fund	**15,624,300**	44,674,627
- Staff provident fund	**157,668**	1,081,988
- Margins and deposits	**1,439,068,501**	1,350,773,957
- Payable to SGF Trust	**5,597,615**	2,091,202
- Creditors, accrued expenses and other liabilities	**58,992,836**	34,731,429
	1,683,336,237	1,631,003,203

31.2 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.140.979 million (2018: Rs.78.741 million) and investments made from margins and deposits in treasury bills of Rs.1.375 million (2018: Rs. 1.286 million) which are valued under Level 2 valuation method. The Exchange does not have any investment valued under Level 1 or Level 3 category.

31.3 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:

31.3.1 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 & deposits (refer note 10).

a) Interest rate risk

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

At June 30, 2019, 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. 887,865 (2018: Rs. 743,120) mainly as a result of higher / lower interest exposure on fixed rate financial instruments.

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

	Carrying Amount	
	2019	2018
	Rupees	
Fixed rate instruments		
Financial assets		
- Exchange's investment in government securities	**140,979,279**	78,741,219
- Margins and deposit's investments	**1,374,732,151**	1,286,094,473
- Cash and bank	**69,691,367**	79,154,967
	1,585,402,797	1,443,990,659

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, 2019.

31.3.2 **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	A-1+	AA+
Bank Islami Pakistan Limited	PACRA	A-1	A+
Askari Bank Limited	PACRA	A-1+	AA+
Bank Al-Habib Limited	PACRA	A-1+	AA+
Faysal Bank Limited	PACRA	A-1+	AA
Standard Chartered Bank (Pakistan) Limited	PACRA	A-1+	AAA
Habib Bank Limited	VIS	A-1+	AAA
JS Bank Limited*	PACRA	A-1+	AA-
MCB Bank Limited	PACRA	A-1+	AAA
Summit Bank Limited*	VIS	A-3	BBB-
Meezan Bank Limited	VIS	A-1+	AA+
United Bank Limited	VIS	A-1+	AAA
Dubai Islamic Bank Limited	VIS	A-1+	AA

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

31.3.3 **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. 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

	2019		
	Carrying amount / contractual cash flow	Maturity up to one year	Maturity after one year
Financial liabilities			
Long-term deposits	**163,895,317**	**–**	**163,895,317**
Staff gratuity fund	**15,624,300**	**15,624,300**	**–**
Staff provident fund	**157,668**	**157,668**	**–**
Margins and deposits	**1,439,068,501**	**1,439,068,501**	**–**
Payable to SGF Trust	**5,597,615**	**5,597,615**	**–**
Creditors, accrued expenses and other liabilities	**45,474,379**	**45,474,379**	**–**
	1,669,817,780	**1,505,922,463**	**163,895,317**

Rupees

	2018		
	Carrying amount / contractual cash flow	Maturity up to one year	Maturity after one year
Financial liabilities			
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	–
	1,625,614,187	1,427,964,187	197,650,000

31.4 Capital risk management

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

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

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

32 REMUNERATION OF DIRECTORS, CHIEF EXECUTIVE OFFICER AND EXECUTIVES

32.1 The aggregate amounts charged during the year in respect of directors' meeting fee and reimbursement for their travelling and accommodation, is disclosed in note 25. No other remuneration or benefit is given during the year.

32.2 During the year the amount charged in respect of remuneration, including certain benefits, to the Chief Executive Officer, Executives of the Exchange are given below:

Rupees

	2019	2018	2019	2018	2019	2018
	Managing Director/CEO		Non-Executive Directors		Executives	
Managerial remuneration	**16,076,412**	13,979,484	**–**	–	**46,377,022**	50,221,737
Allowances	**–**	–	**–**	–	**16,263,798**	14,278,396
Bonus	**3,494,871**	2,026,013	**–**	–	**5,373,184**	4,016,105
Retirement benefits - Gratuity	**1,169,196**	1,016,688	**–**	–	**3,412,571**	3,178,181
Provident fund	**1,169,196**	1,016,688	**–**	–	**3,412,571**	3,178,181
Directors' fee	**–**	–	**2,070,000**	1,500,000	**–**	–
Travelling and conveyance	**–**	–	**2,728,964**	2,843,850	**–**	–
Others	**240,000**	240,000	**–**	–	**–**	–
	22,149,675	18,278,873	**4,798,964**	4,343,850	**74,839,146**	74,872,600
Number of persons	**1**	1	**8**	9	**24**	27

In addition to above, the Managing Director has been provided with two fully maintained vehicle. Further, previous vehicle costing Rs. 5.977 million transferred to him during the year at Net Book Value of Rs.1,195,000 in accordance with the policy of the Company.

33 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 of related party	Relationship with exchange	Nature of transaction	2019	2018
			Rupees	
Zahid Latif Securities (Private) Limited	Associated undertakings by virtue of common directorship	Receipt of deposit against initial margin	**10,810,500**	7,225,886
		Repayment of deposit against initial margin	**5,283,226**	6,074,266
		Receipt of clearing house deposit	**–**	10,000
		Receipt of annual subscription	**75,000**	75,000
		Receipt of technology fee	**120,000**	120,000
			16,288,726	13,505,153
Rawalpindi Chamber of Commerce	Associated undertaking by virtue of common directorship	Sponsorship in FINTECH conference	**200,000**	–
ISE REIT Management Limited	Associated undertaking by virtue of 17.75% shareholding	Rent and utilities payment to ISE REIT Management Ltd	**2,067,923**	1,712,956
Zarai Taraqiati Bank Limited	Associated undertaking by virtue of 2.9% shareholding	Reimbursement to ZTBL for directors travelling etc.	**93,459**	292,885
PMEX Gratuity Fund Trust		Payment to fund	**37,782,192**	5,831,244
PMEX Provident Fund Trust		Payment to fund	**14,409,362**	11,848,910
PMEX Settlement Guarantee Fund Trust		Payment to fund	**43,510,224**	20,706,760
PMEX Investor Protection Fund Trust		Payment to fund	**1,665,876**	1,819,146
Key management personnel (excluding Managing Director)		Salaries and benefits	**34,297,179**	44,091,770
		Post-employment benefits	**3,506,886**	3,928,238

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

33.2 The outstanding balances with related parties as at June 30, 2019 are included in the respective notes to these financial statements.

33.3 The remuneration to the Managing Director is disclosed in note 32.2 to the financial statements.

34 DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on **01 October 2019** by the Board of Directors of the Exchange.

35 GENERAL

Figures have been rounded off to the nearest Rupee.

Chairman

Managing Director

Notice of Annual General Meeting

Notice is hereby given that the 18th Annual General Meeting of the shareholders of Pakistan Mercantile Exchange Limited will be held at 10:00am on **Friday, October 25, 2019,** at the Registered Office of the Exchange, situated at 3B, 3rd Floor, Bahria Complex IV, Ch. Khalique-uz-Zaman Road, Gizri, Karachi, to transact the following business:

Ordinary Business:

1. To confirm the minutes of the Extraordinary General Meeting held on May 10, 2019.

2. To receive and consider the Directors' Report and Audited Annual Financial Statements together with Auditors' Report thereon for the year ended June 30, 2019.

3. To appoint auditors for the year ending June 30, 2020 and fix their remuneration.

By order of the Board of Directors

Farhan Tahir
Company Secretary

Karachi: October 04, 2019

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 **Friday, October 25, 2019,** or at any

adjournment thereof.

Signed on ______________________, 2019.

____

Signature of Appointer

____

Signature of Proxy

Revenue stamp
of Rs. 5/-

WITNESS 1

Signature: ______________________

Name: ______________________

CNIC No.: ______________________

WITNESS 2

Signature: ______________________

Name: ______________________

CNIC No.: ______________________

Pakistan Mercantile Exchange Limited

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Gizri, Karachi – 75600, Pakistan.

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2nd floor, Ali Tower
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Designed by d.STUDIO