

Annual Report

2020

PMEX



PAKISTAN
MERCANTILE
EXCHANGE



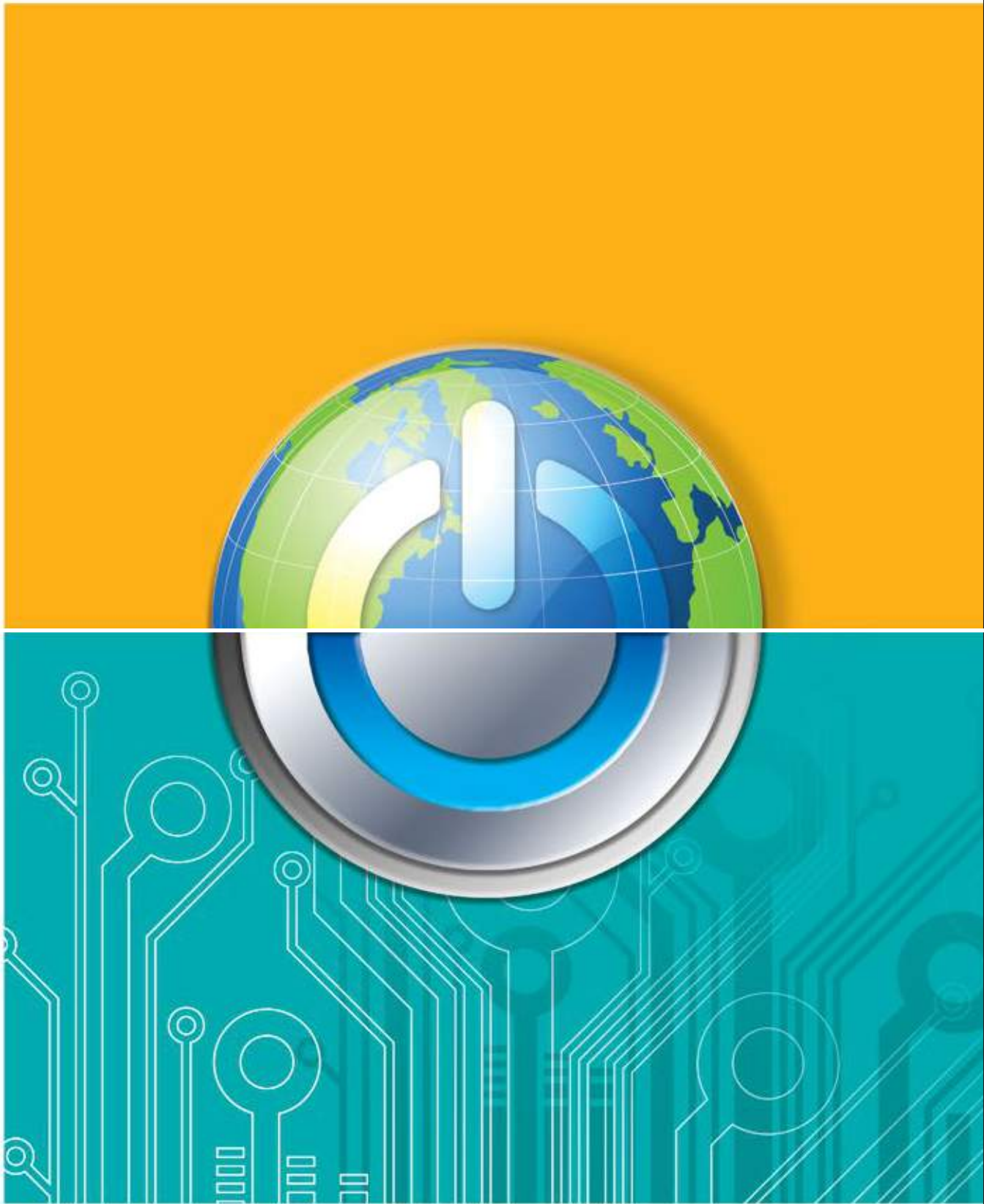
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PAKISTAN
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YOUR FUTURES EXCHANGE
THE EXCHANGE OF THE FUTURE



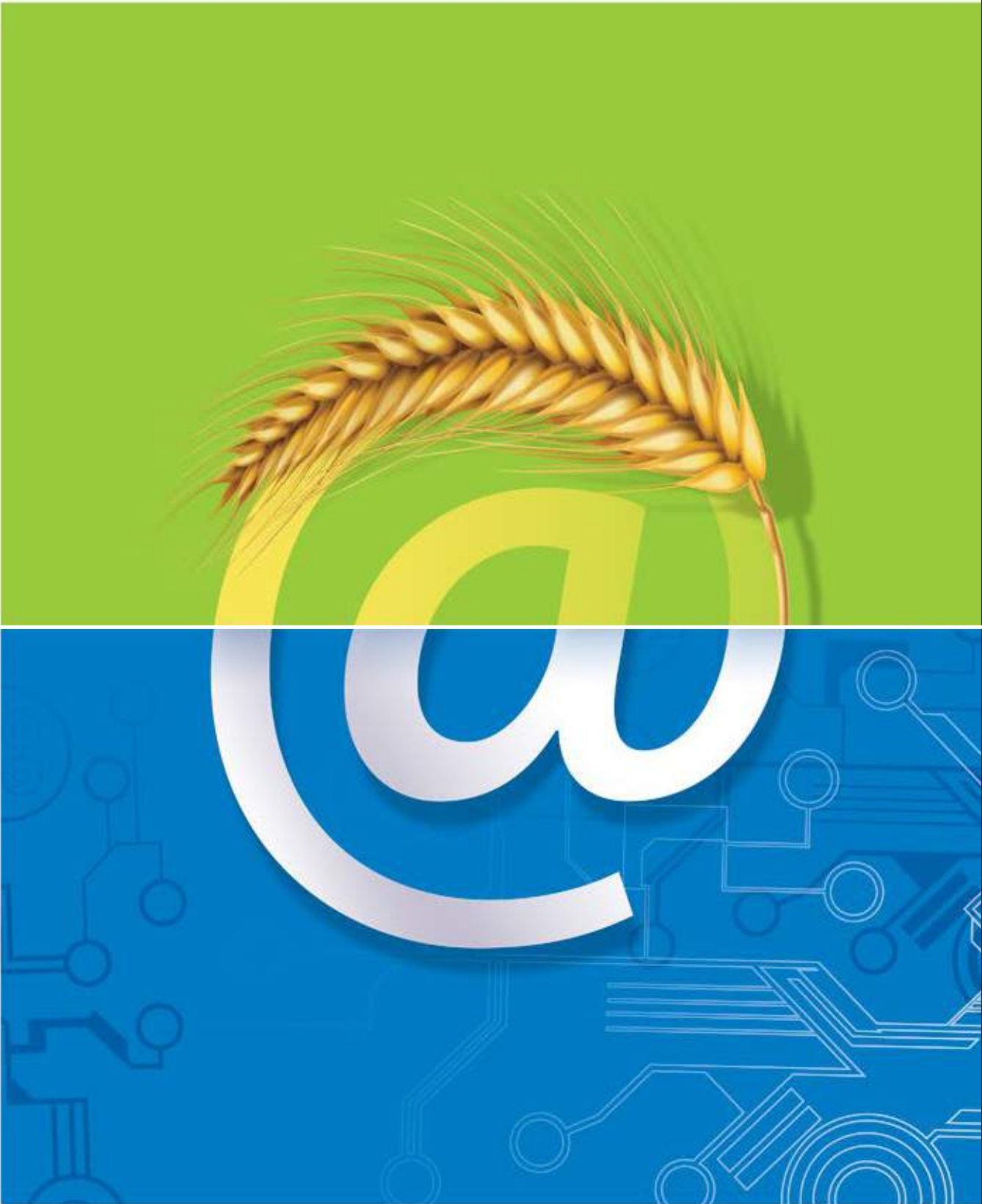
Unleashing the Potential: Transforming the Agriculture Landscape of Pakistan

Agriculture is the mainstay of Pakistan's economy accounting for about 20 percent of the gross domestic product (GDP), employing 42 percent of the labor force and providing raw material for several value-added sectors. It plays a central role in steering economic development, achieving food security, attaining poverty alleviation and driving the rural economy.



Pakistan not only produces but also exports a rich variety of commodities. However, the country has yet to tap the true potential of its agriculture sector.

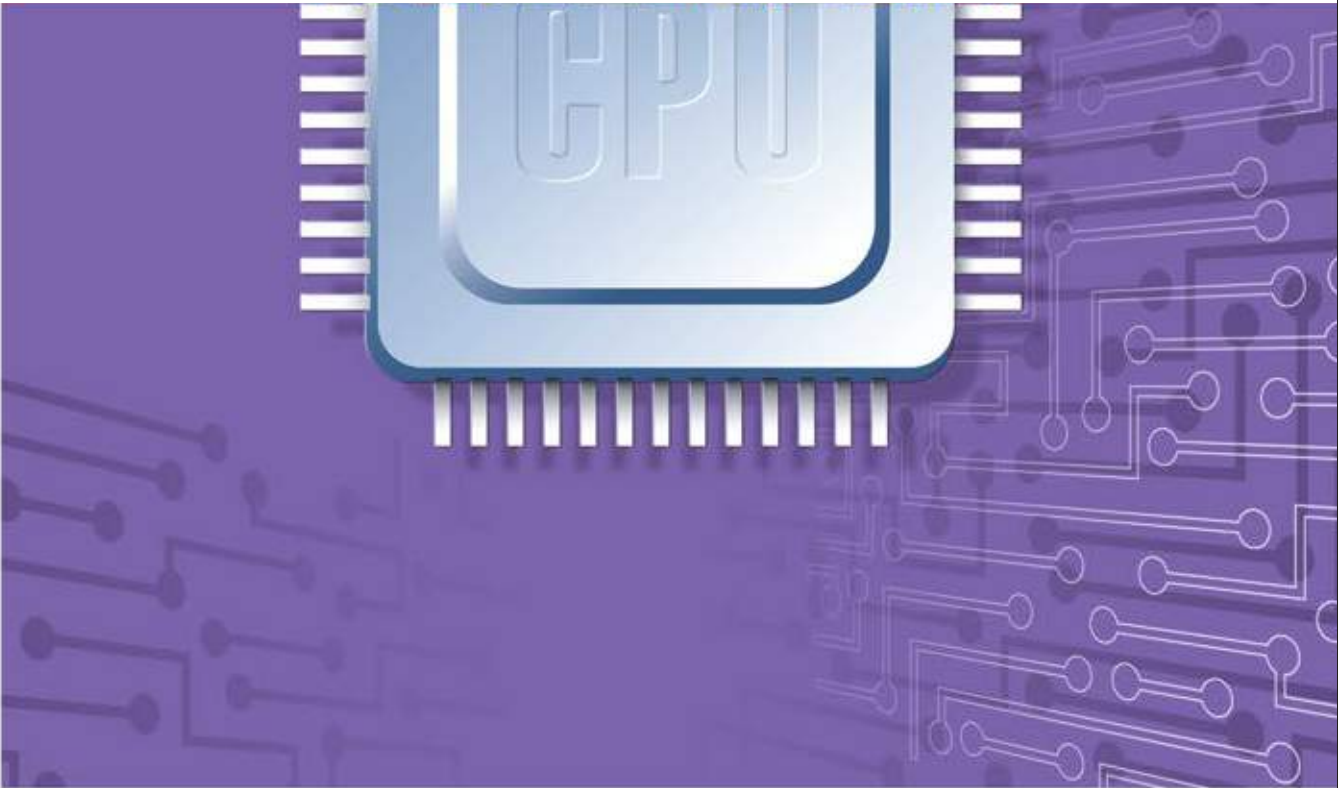
To unleash the potential of Pakistan's agriculture sector, Pakistan Mercantile Exchange Limited (PMEX), the country's only multi-commodity futures exchange, is relentlessly working to bring the trading of indigenous commodities to its platform. This will not only lay the foundation of a vibrant domestic market, but also open doors to global markets for trading of agricultural commodities.



WHEAT

Wheat is the main staple food in Pakistan and its products are used in several ways. It contributes slightly less than 2 percent to GDP and 9 percent to total value addition in agriculture. Pakistan is the world's 8th largest producer of wheat and its contribution is around 4 percent in global production. Being the staple diet of the majority of people in Pakistan, it dominates all crops in acreage and production. The country produces around 25 million tons of wheat annually and has lately joined the club of wheat exporting countries.





RICE

Rice is the second staple food grain and also a major earner of foreign exchange for the country. It contributes 3 percent to value addition in agriculture and 0.6 percent to GDP. The commodity is grown in fertile lands of Sindh and Punjab provinces, where millions of farmers rely on rice cultivation as their major source of employment. Pakistan is the world's 10th largest producer and 4th largest exporter of rice. Its exports make up around 10 percent of the world's total rice trade. At Present, Pakistan exports different varieties of rice to China, Middle East, Afghanistan, Indonesia and Kenya.





COTTON

Cotton is a major cash crop of Pakistan and the backbone of the economy. It contributes slightly less than one percent to GDP and 4 percent of total value addition in agriculture. Pakistan is among the top five largest cotton-producing countries in the world. Cotton is the basic raw material for the country's largest industry, Textiles and Clothing, which contributes more than 60 percent to Pakistan's total export proceeds. Major buyers of made-in-Pakistan Textiles and Clothing are United States, European Union, China and some oil-rich Middle Eastern countries. Cotton seed-oil contributes a significant quantity to total edible oil produced in the country.





SUGARCANE

Sugarcane is also a major food and cash crop. It contributes about 0.6 percent to GDP and 3 percent value addition in agriculture. It is cultivated in Punjab, Sindh and KPK. About 85 sugar mills are operating in the country, producing over 4.2 million tons of sugar annually, sufficient to meet the local demand.

Two by-products of sugarcane are bagasse and molasses. Bagasse is commonly used in cellulose industries like pulp, paper, particle boards, cattle-feed, etc. Molasses is a valuable raw material for the production of many value-added products such as ethyl alcohol, citric acid, lactic acid, cattle feed, oxalic acid, baker's yeast, etc.





MAIZE

Maize is the third important cereal crop after wheat and rice in Pakistan. It contributes about 0.6 percent to GDP and 3 percent of total value addition in agriculture. It is cultivated as a multipurpose food and forage crop in the country. It is used as food for humans, feed for poultry and as a raw material for the industry. The bulk of the total grain production comes from two major provinces, Punjab and KPK. Over the last few years, production of the commodity has surged due to an increase in area under cultivation, availability of an improved variety of seed and better return to farmers.





RED CHILLI



Red Chilli is one of the important spices produced in Pakistan. It is an important ingredient of prepared food items. It is used in foods for pungency and red colour. Chilli is also one of the largest traded spices in the global markets. In Pakistan, Kunri, a small town in Umer Kot district is the home of red chilli. The area contributes around 85 percent to Pakistan's total red chilli production. It is known as one of the largest production centers for red chilli in Asia.

PMEX to Revolutionize Trading of Agricultural Commodities



Agriculture plays a central role in the economy of Pakistan. Over the years, this sector has been instrumental in achieving food security, boosting exports and earning foreign exchange for the country. It provides raw material to two of the large-scale manufacturing industries i.e. textiles and sugar. In terms of potential, the agriculture sector of Pakistan has the capacity to not only produce for the domestic population but also to have surplus production for exports.

Despite enjoying enormous potential, the role of agriculture in Pakistan's economy has remained limited because of some inherent problems. One of the stumbling blocks to progress is the lack of documentation from production to retail sales. Also, small farmers find it difficult to access credit from banks due to the non-availability of acceptable collateral. As a result, they face two problems: 1) borrowing funds from non-banking sources for the purchase of inputs and 2) selling their produce at low prices to the middlemen to meet their urgent financial needs, which deprives them of earning a decent return on their produce. While the farmers produce a rich variety of agricultural commodities, it is often very challenging for exporters to find international buyers or satisfy their demands due to various by-laws and operational challenges in their respected countries. As a result, they tend to lose their market share against competing countries.

Pakistan Mercantile Exchange (PMEX), fully cognizant of the robustness of its electronic trading platform, is all set to play its due role in developing domestic as well as international markets for the indigenous agricultural commodities. This initiative is aimed at disrupting the existing system and creating a new ecosystem, which will stimulate growth and boost the competitiveness of Pakistan's agriculture sector. It will empower farmers to optimize their earnings in two ways: 1) sell their produce in the local markets through *Electronic Warehouse Receipts (EWR)*, as well as 2) offer the commodities to global buyers through *Global Trading Platform (GTP)*.

The Electronic Warehouse Receipts

PMEX is relentlessly working on EWR, an initiative taken by Government of Pakistan (GoP), led by Securities & Exchange Commission of Pakistan (SECP), for establishing a mechanism for the trading of EWR. Against this backdrop, Pakistan's first Collateral Management Company (CMC) has been formed and is expected to become operational within 2020. The Exchange is in the process of integrating its system with that of CMC for offering an end-to-end trading facility to the farmers.

The CMC has the most important task of accreditation of the warehouses, it will approve the warehouses for the storage of commodities and issue electronic warehouse receipts (EWR). This will provide the farmers three options: 1) sell their commodity, 2) trade EWR at PMEX platform or 3) use EWR as collateral for borrowing from financial institutions.

The introduction of the trading of EWR will revolutionize the agriculture landscape of the country. It is expected to yield a myriad of benefits to all key stakeholders of the agriculture value chain.

First, the introduction of EWR will help farmers to obtain credit from the banking system by offering their produce as collateral. Second, it would help the Government in documenting the agricultural sector and realize the ultimate objective of 'achieving food security'; the added advantage will be the expansion of the tax net. Other significant benefits include standardization of commodities through grading and reduction in the losses arising from wastage of agricultural commodities after harvest. Moreover, an additional foreign exchange would be earned by exporting the saved quantities. Third, it would encourage investment in better quality warehouses and their management systems throughout the country, thereby creating investment and employment opportunities.

Finally, this mechanism would also play an imperative role for PMEX as trading of EWR at the Exchange's platform is expected to create a vibrant unified national market for agricultural commodities. The Exchange is confident that such a market for agricultural commodities at the pan-Pakistan level will help in revitalizing the agricultural sector of the country.

PMEX plans to integrate the EWR trading platform with the Global Trading Platform (GTP) - the first international digital trading platform of its kind which will showcase local commodities to the global market by offering an end-to-end one-window solution. Such integration will greatly enhance the market place for local producers as they will be able to offer their produce to local as well as global customers.

The Global Trading Platform (GTP)

Keeping in view the challenges faced by local sellers and global buyers, PMEX is also getting ready to introduce GTP – the first international digital trading platform of its kind in South Asia. The GTP will act as commodity procurement and trading platform showcasing a variety of commodities of Pakistan to overseas buyers by offering an end-to-end one-window solution. The ecosystem of GTP has been designed to bring sellers and buyers closer by providing them a unique opportunity to trade commodities in real-time at a regulated platform with utmost convenience.

For this digital platform, PMEX has partnered with a logistic company to provide a smart, multimodal, end-to-end digital logistics platform. It will empower the buyers to search, compare, purchase, and track their purchases in real-time. The buyers will be able to obtain the in-transit insurance for the purchased commodities through this platform. Similarly, the world's leading company has been arranged to provide inspection, verification, testing, and certification services, thereby giving absolute comfort to the buyers that the commodities delivered will be as per agreed international standards.

The GTP is expected to revolutionize the trading of commodities not only in Pakistan but globally. For the first time in Pakistan, GTP will provide an opportunity to small, medium, and large commodity sellers to sell their commodities and get prompt payment without being registered as exporters. Also, sellers will not have to prepare export-related documents, which will be handled by GTP on behalf of them. Moreover, by listing commodities at GTP, they will be able to sell their products in new markets and attract new buyers from all over the world.

The global buyers will enjoy the advantage of reaching assorted and verified commodity sellers at GTP. They will not only have the opportunity to purchase commodities with quality certification as per the international standards in small to large volumes but also at competitive prices and delivered the goods at the port of their choice at the click of a button.

The Exchange is actively working on EWR trading platform as well as GTP under the guidance of its Board of Directors and Securities & Exchange Commission of Pakistan (SECP). The management is confident that once these two platforms are unveiled, farmers will be able to acquire credit at better terms, avoid distress selling of their produce, reduce the losses arising from wastage of agricultural commodities after harvest and earn a higher return on their produce. On top of all, these initiatives will help the Government to document the economy, achieve food security and earn additional foreign exchange by boosting the export of agricultural produce.

Year
2019-

at a
Glance

2019

PMEX Board Elects Dr. Rashid Bajwa as Chairman



PMEX Board of Directors elected Dr. Rashid Bajwa as the Chairman of the Board of Directors. The Board expressed its fullest appreciation to the outgoing chairman, Mr. Ruhail Mohammad, for his constructive leadership and contribution towards the turn around of the Exchange.

Dr. Bajwa has extensive experience in the fields of management, social mobilization, community development, microfinance and policy. At present, he is serving as Chief Executive Officer at National Rural Support Programme (NRSP). At NRSP, he has been overseeing the largest rural development operations of Pakistan. He has also helped in setting up Khushaali Bank, while also guiding other non-profits as Chairman of Pakistan Microfinance Network, Director of Khushaal Pakistan Fund, Punjab Rural Support Programme and Sindh Rural Support Organisation. He holds an MPH degree from the UK and an MBBS from Pakistan.

PMEX Offers a Full Suite of Trading Services under MT5

PMEX endeavors relentlessly to stay proactive in identifying and exploring how existing and emerging technologies can help in developing a robust futures market in Pakistan. Since commencement of its operations, the Exchange continued its efforts to modernize and strengthen its technology ecosystem not only to meet market participants' demand of frictionless trading experience, but also transferring benefits of leading-edge technological developments.



Against this backdrop, the Exchange unveiled a full suite of trading services under Meta Trader 5 (MT5), a globally acclaimed multi-functional trading platform. The trading services include Front-end Trading platform with enhanced features along with the Back Office and Market Making System.

PMEX is confident that, with the full suite of trading services being offered under MT5 platform, market participants will enjoy an enhanced trading experience that is at par with global standards.

PMEX Signs with Cloudasset to Digitalize Payments & Logistics

PMEX signed an agreement with Cloudasset on December 16, 2019. Under this agreement, Cloudasset will provide a unified digital transaction service platform to PMEX. This platform will be based on cloud-native

technologies that will seamlessly integrate all forms of financial systems, methods and tools to rapidly enable digital payments initiation and acceptance services.

Mr. Ejaz Ali Shah, Managing Director of PMEX, speaking on the occasion said, "We are delighted to collaborate with Cloudasset for digitalizing all aspects of payments at the Exchange. This will help our market participants to settle transactions in real-time and track credit and debit flows with end-to-end transparency and convenience domestically and internationally. We are confident that this initiative will boost the confidence of the market participants to invest, trade and hedge in futures commodities at a regulated platform."

PMEX launches New Portal

PMEX has redesigned and launched its trade portal. The URL of the trade portal has been changed to <https://portal.pmem.com.pk/> from <http://trade.pmem.com.pk/>. The new portal features a contemporary design, improved functionality & navigation, easy access to front-end trading terminal, new Back Office (BO) and other essential information and applications.

The new BO has been designed to offer a more user-friendly experience. It not only brings together functions of TAMS and CSR in one application for brokers but also acts as a back office for clients, empowering them to manage all operations in a fast and convenient manner.

The Exchange is confident that the new portal will enhance the trading experience of all brokers and their clients.

PMEX Signs with HashMove to Digitalize Trade & Logistics

PMEX signed an agreement with HashMove on December 12, 2019. Under this agreement, HashMove will provide a digital multimodal logistics platform for PMEX, connecting buyers and sellers of commodities virtually anywhere around the globe.

At present, the Exchange is actively working towards developing Pakistan's first international online trading platform under the name of Global Trading Platform (GTP) that will showcase local commodities to the global market by offering an end-to-end 1-window solution. The platform will enable the foreign buyers to purchase agricultural as well as non-agricultural commodities from Pakistan with convenience and confidence of quality assurance as per international standards. The GTP will cover trading, storage, packaging, transport and export of the commodities with accessibility as convenient as a click of a button.

Mr. Ejaz Ali Shah, Managing Director of PMEX, speaking on the occasion said, "We are delighted to collaborate with HashMove for developing the digital logistic platform for PMEX to achieve the ultimate goal of selling indigenous agricultural commodities to international buyers. We envisage that GTP will transform the local commodity markets by linking farmers directly to the international market, improve price discovery, induce transparency in the commodity value chain, reduce transaction costs and increase Pakistan's agricultural exports."



New Features Go Live in MT5

It is the ongoing pursuit of PMEX to facilitate market participants to make informed decisions. In line with this endeavour, the Exchange enabled features in MetaTrader 5 (MT5) such as Economic Calendar, News, Push Notification and MT5 Web platform.

PMEX Managing Director Meets Federal Minister for Maritime Affairs

Mr. Ejaz Ali Shah, Managing Director PMEX met the honorable Federal Minister for Maritime Affairs, Ali Zaidi on April 20, 2020. During the meeting, Mr. Shah briefed the honorable Minister about the progress of the Exchange in the last thirteen years as well as initiatives it is taking in developing a robust and sustainable ecosystem for indigenous commodity trading by linking itself to the local economy. He also briefed about the upcoming *PMEX Global Trading Platform* which will showcase local commodities, which are primarily exported, along with the other non-agricultural commodities to the global market.

The honorable Minister appreciated the vision of the Exchange in developing an active local market for agriculture commodities. He assured his full cooperation and support to PMEX in the development of a vibrant futures market in Pakistan.

Managing Director PMEX meets Federal Minister for National Food Security and Research

Mr. Ejaz Ali Shah, Managing Director PMEX held an online meeting with honorable Syed Fakhar Imam, Minister for National Food Security and Research on July 20, 2020.

While chairing the meeting, the honorable Minister said that Cotton hedging offers an alternative source of marketing for giving a level playing field and facilitating a smooth flow of national and international trading in cotton. Hedging is a special segment of trade and plays a role to enhance the trading potential of other agriculture commodities as well.

During the meeting, Mr. Shah explained the cotton hedging proposal to the Honorable Minister. He also informed that hedging offers a cover against the risk of fluctuations in price that facilitates a smooth flow of trading in cotton.

FPCCI Delegation Visits PMEX

A delegation of the Federation of Pakistan Chambers of Commerce & Industry (FPCCI) led by its Secretary General, Mr. Iqbal Thaheem, visited PMEX office. The other distinguished members of the delegation were Mr. Mahmood Ahmed, Director - International Affairs & Marketing Division, Mr. Mazhar and Mr. Hammad Sheikh.

Mr. Ejaz Ali Shah, Managing Director welcomed the delegation and briefed the members about the integrated business model, technology infrastructure and existing/upcoming



products of the Exchange. He also shed light on the Exchange's upcoming e-commerce platform - Global Trading Platform (GTP).

Mr. Thaheem thanked Mr. Shah and invited him to visit FPCCI Headquarter in Karachi to brief the members about the commodity futures market in Pakistan. He expressed keen interest in the possibility of trading of local agriculture commodities at the PMEX platform as well as showcasing them to international buyers. He assured that FPCCI would work closely with PMEX in exploring areas of bilateral collaboration between its members and PMEX for achieving mutually beneficial objectives of both the entities.



Bursa Malaysia visits PMEX

A team from Bursa Malaysia comprising of Mr. Mohd Saleem Bakas, Head of South Asia International Development and Mr. Vincent Chiew, Manager, Commodity Derivatives, Product and Market Development visited PMEX head office in Karachi. The purpose of the visit was to explore new business opportunities in the areas of mutual interest including market development, business cooperation and experience sharing.

Mr. Ejaz, Managing Director PMEX welcomed the team and briefed them about Exchange's business model, existing product suite and upcoming initiatives namely Global Trading Platform and listing of cash-settled and physical futures contracts of palm oil.

PMEX Holds Meeting with APTMA

Mr. Ejaz Ali Shah, Managing Director PMEX along with his team comprising, Mr. Hasan Mahmood, Head of Business and Syed Najam Ali, Deputy General Manager visited All Pakistan Textile Mills Association (APTMA) Punjab. The agenda of the meeting was to build consensus for hedging in cotton futures contracts at PMEX.

During the meeting, Mr. Shah briefed the members of APTMA about the role of the Exchange in bringing the trading of agricultural commodities on its platform. He also emphasized that PMEX is well-positioned as a viable platform for hedging in cotton futures contracts.

UK Aid, Department for International Development Visits PMEX

A team from UK Aid - Department for International Development comprising of Ms. Gillan Rogers, Team leader Finance Markets and Jobs Team Economic Growth Group and Mr. Waqas ul Hasan, Senior Private and Financial Sector Development Adviser visited PMEX.



Mr. Ejaz Ali Shah, Managing Director PMEX, welcomed the team and briefed them about the role of the Exchange in promoting the indigenous agriculture commodities locally and internationally. He also elaborated on the pilot project of red chilli and the upcoming e-commerce platform - Global Trading Platform (GTP).

The team thanked Mr. Shah and ensured their full support in PMEX's upcoming initiatives.



ADB Delegation Visits PMEX

A delegation of Asian Development Bank (ADB) comprising of Mr. David White, Ms. Michele Parnell along with Mr. Akif Saeed and Mr. Ali Farid Khawaja visited PMEX head office. Mr. Ejaz Ali Shah, Managing Director, PMEX welcomed the delegation and thanked them for sharing insight about capital market reforms.



Visit to Leading Markets of Punjab

PMEX team consisting of Syed Najam Ali, Deputy General Manager and Mr. Muhammad Irfan Kasana, Senior Manager, visited grain markets of Sahiwal, Okara and Muridke. The purpose of the visit was to understand the working of existing markets i.e. their quality certification & delivery process, identify key players and assess the infrastructure for the upcoming PMEX e-commerce platform – Global Trading Platform (GTP).

PMEX team met with the secretaries of the market committee of the respective cities and briefed them about GTP. The team also toured the old and new markets of the three cities and met the traders of grains particularly maize, paddy and wheat.

PMEX team was pleased to note that substantial volumes of grains were being traded at these three markets. Okara market appeared to be the hub of the maize trade while Muridke has a sizeable market for paddy and wheat.

In the future, PMEX plans to organize awareness programs in Sahiwal, Okara and Muridke on upcoming e-commerce platform for trading local commodities.

PMEX Remains Operational in Times of Covid-19 Pandemic Outbreak

PMEX closely monitored the evolution of the COVID-19 pandemic outbreak in the country, assessed the emergency and the impact on business, employees, market participants and business partners. The Exchange ensured smooth continuity of all business functions amid the pandemic and is confident to do so in the future as well.



Moreover, the Exchange took several precautionary measures to protect its employees and their families along with market participants and other stakeholders during this time. PMEX remained fully operational without interruptions and all services remained available to clients across the country. Arrangements were made to ensure that almost all activities are performed without the need for physical presence at the office.

Obituary



On June 26, 2020, Hassan Mahmood, Head of Business Development PMEX passed away. He was 51. He is survived by his wife and three children.

Hasan was born on June 06, 1969. He did his MBA from Quaid-i-Azam University Islamabad and also held a Master's degree in Mathematics.

During his tenure of 16 years at PMEX, he led product and business development with great dedication and skill. Before joining PMEX, he worked at National Investment Trust (NIT).

His leadership, talent and expertise had been a great asset to the Exchange. He set an example of sheer honesty, unfailing work ethics, dedication and hard work that will continue to be a living memory and inspiration for PMEX team. He will be greatly missed by PMEX team, members, business partners and all who knew him.

May Allah rest his soul in eternal peace and grant him the highest place in Jannah. Ameen.



PMEX Appoints Chief Business Officer

PMEX has appointed Mr. Zahid Mansoor Ali as Chief Business Officer (CBO). The new role of Mr. Zahid became effective from August 03, 2020.

Mr. Zahid has over three decades of diversified experience in domestic and international financial markets. He has spent 27 years in the banking industry specifically in the field of Treasury. He has worked for Commercial, Islamic and Investment banks and brokerage firms. He holds an MBA (Finance) degree from Institute of Business Administration (IBA).

Awareness Programs

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 FY20 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.



It is an ongoing endeavor of the Exchange to take its message to smaller cities and towns so that the residents of these areas can benefit from the trading of commodities at a regulated platform. In line with this, PMEX organized an awareness session about commodity trading in collaboration with its broker BSM Global at Tando Adam, Sindh. PMEX also organized a training session for the employees of Next Capital and Arif Habib Commodities.

The objective of the sessions was to brief the audience about the commodity futures market in Pakistan, the benefits of trading futures at a regulated exchange and the role being played by PMEX. A large number of participants belonging to different walks of life attended the event and actively participated in the Q&A session.

PMEX organized awareness sessions for the students and faculty members of Institute of Business Administration (IBA), Greenwich University, Institute of Business Management (IoBM), Shaheed Zulfikar Ali Bhutto Institute of Science and Technology (SZABIST), Dow University of Health Sciences and Tabini’s Institute of Accountancy, National University of Modern Languages (NUML), National University of Sciences & Technology (NUST), Bahria University, Iqra University, International Islamic University, CECOS University of IT and Emerging Sciences and Kinnaird College for Women.

The participants were briefed about commodity trading, Exchange’s integrated business model, technology infrastructure and existing and upcoming products. To acquaint newcomers with commodity trading, the students were briefed about MetaTrader 5 Demo Trading facility, which is similar to real trading with the exception that virtual money is used.



PMEX at Career Fairs

PMEX participated in Career Fairs held at Iqra University, Shaheed Zulfikar Ali Bhutto Institute of Science and Technology (SZABIST), Sir Syed University for Engineering and Technology, NED University of Engineering & Technology University and ATPECH. The purpose of participation in these fairs was to offer an opportunity to new and graduating students along with the alumni to meet the team of Pakistan's first and only multi-commodity futures exchange and discuss with them the opportunities of internships and employment.

The students and the faculty members were briefed about the core business of the Exchange and its workings with especial emphasis on the recruitment process.



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 that resonate with the organization's own values and culture.

In line with this, PMEX employees regularly participate 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 improve academically and become good citizens but also improved their own well-being.

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Vision

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

Mission

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

Core Values

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

Board of Directors



Dr. Rashid Bajwa
Chairman



Ejaz Ali Shah
Managing Director



Farrukh H. Khan
Director



Rehan Mobin
Director



Aftab Ahmad Chaudhry
Director



Ahmed Chinoy
Director



Dr. Fatima Khushnud
Director



Rehmat Ali Hasnie
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



Zahid Mansoor Ali
Chief Business Officer



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
Mr. Farrukh H. Khan	Director
Dr. Fatima Khushnud	Director
Syed Rehan Mobin	Director
Mr. Rehmat Ali Hasnie	Director
Dr. Yusuf Zafar	Director
Mr. Zahid Latif Khan	Director

CFO & Company Secretary

Mr. Farhan Tahir

Auditors

Grant Thornton Anjum Rahman 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. Ahmed Chinoy	Member
Mr. Aftab Ahmed Chaudary	Member
Mr. Zahid Latif Khan	Member
Mr. Rehan Mobin	Member

Human Resource Committee

Dr. Yusuf Zafar	Chairman
Mr. Ahmed Chinoy	Member
Mr. Rehan Mobin	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

Steering Committee

Mr. Ejaz Ali Shah	Managing Director
Mr. Farhan Tahir	Chief Financial Officer & Company Secretary
Mr. Shehzad Hussain	Chief Operating Officer
Mr. Zahid Mansoor Ali	Chief Business Officer

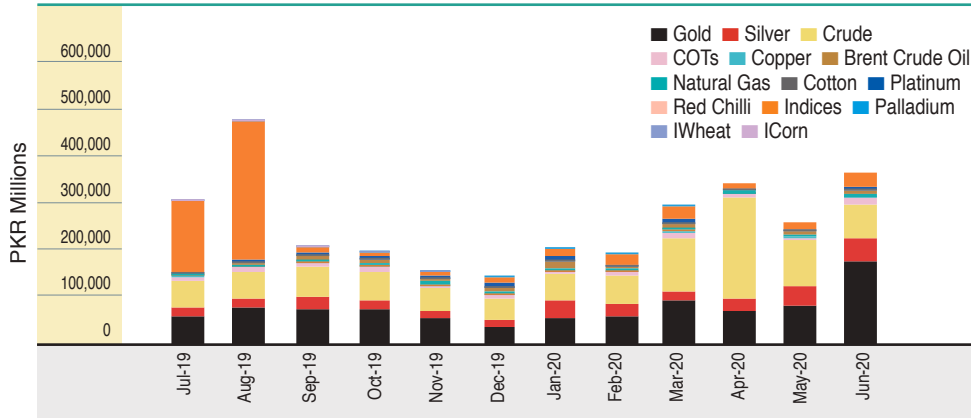
Operational Highlights

Traded Volume	Rupees		
	2018-2019	2019-2020	Change
Total traded volume	2,912,535,008,150	2,254,019,261,413	-22.62%
Crude Oil	458,651,213,951	204,837,075,326	-55.34%
Brent Crude Oil	7,452,363,743	11,512,652,458	54.48%
Natural Gas	21,185,082,166	21,287,277,815	0.48%
Gold	432,547,399,059	863,613,959,271	99.66%
Silver	47,128,615,863	97,524,928,436	106.93%
Platinum	67,847,205,180	74,702,062,161	10.10%
Palladium	3,063,873,340	11,179,069,180	264.87%
Copper	15,179,072,925	14,563,291,255	-4.06%
Currencies through COTS	281,971,109,459	184,665,418,142	-34.51%
Indices	1,573,267,349,143	766,478,596,289	-51.28%
Red Chilli	359,651,046	—	—
Cotton	2,777,629,629	1,394,658,943	-49.79%
ICorn	99,465,903	213,853,001	147.90%
IWheat	859,340,428	1,543,190,308	31.41%
ISoya	—	503,228,832	—

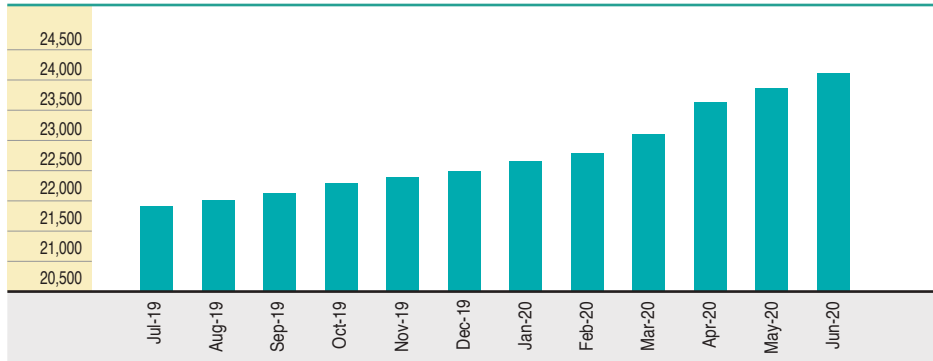
Top Ten Brokers

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

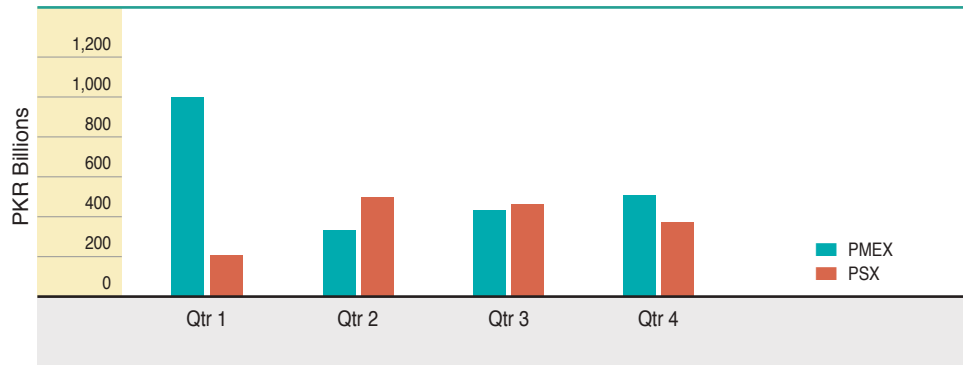
Traded Value



Total Number of Investors (UINs)



PMEX Volume Comparison with Pakistan Stock Exchange





Managing Director's Review

The financial Year 2020 was a challenging year as the world experienced unprecedented global health and economic crises. These crises exerted extraordinary pressure on all parts of society — from families around the world to large and small companies. Amid these crises, Pakistan could not remain an exception.

As I am writing this review, we are still enduring these crises and my thoughts remain with those who have suffered and are still suffering from this disease. I am proud of our team which, amid the testing times, showed resilience, commitment and fortitude. I thank each one of them.

Despite the most challenging circumstances during the year under review, I am delighted to inform you that we continued our growth momentum and posted a profit after tax of PKR 31.83 million as against the budgeted profit of PKR 16.36 million.

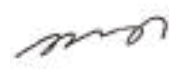
During this past year, we remained committed to playing our due role in developing a robust and sustainable ecosystem for the trading of indigenous commodities. We are working in close collaboration with Pakistan's first Collateral Management Company (CMC) for the trading of commodities at our platform under the Electronic Warehouse Receipt (EWR) system. Side by side, we are also aggressively working to unveil the Global Trading Platform (GTP), which will showcase local commodities to global buyers. We are hopeful that these initiatives will revolutionize the existing system and create a new ecosystem that will empower the farmers in optimizing their earnings. Also, these initiatives will stimulate growth and boost the competitiveness of the agriculture sector in the country, as well as globally.

On the technology front, we continued our efforts to further improve the technology infrastructure. We successfully migrated our entire Electronic Trading System including the front-end trading terminal along with Back-Office and Market Making system onto a single technological platform - Meta Trader 5 (MT5), a globally acclaimed multi-function platform. We are confident that this technological up-gradation will provide market participants with an enhanced trading

experience, which will be at par with the global standards.

As we march ahead in the new fiscal year, we remain committed to playing our role in developing a robust, transparent and sustainable futures market in Pakistan along with bringing trading of indigenous agricultural commodities to our state-of-the-art electronic trading platforms. The Exchange aims to facilitate the Government in documenting the trading of agricultural commodities in the country.

Finally, I take this opportunity to express my gratitude to the 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: 21 September, 2020

to the Shareholders of Pakistan Mercantile Exchange Limited

For the Year Ended June 30, 2020

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, 2020 (FY20) together with the Audited Financial Statements and Auditor's Report thereon.

Global Environment

The global economy experienced dramatic changes during the fiscal year FY20. The factors contributing to this transformation included: 1) UK exit from European Union, 2) Sino-US trade war and 3) oil prices crashing to historic lows. Adding to the miseries was the outbreak of COVID-19 pandemic around the world, which not only inflicted unprecedented damage to human lives but also had a negative impact on global economic activity. The pandemic put the whole world in a lockdown and ushered the worst economic crisis.

The commodity prices witnessed a sharp decline. The energy and metal commodities were the most affected by a serious global slowdown. In oil markets, steep decline in demand due to pandemic coupled with the breakdown of the Organization of the Petroleum Exporting Countries (OPEC) talks in March and a new production agreement announced in April, culminated in an unprecedented collapse in oil prices. The prices reached historic low in April with some benchmarks trading at negative levels. In metals, the biggest declines were in copper and zinc, which are particularly associated with global economic activity. On the contrary, among precious metals, gold prices modestly inched up as investors took refuge in safe haven assets amid heightened global uncertainty. The platinum prices dropped, reflecting their heavy use in the production of catalytic converters in the transportation industry.

Pakistan Overview

Pakistan's economy was on the path of gradual recovery and witnessed notable improvement before the COVID-19 outbreak. The reduced current account deficit, stable exchange rate, healthy growth in Foreign Direct Investment and improved rating outlook by Moody's put the economy on the path of growth. However, the rapid spread of COVID-19 brought an exceptional set of challenges for the country. The economic activity came to a near-halt. To contain the virus, the Government implemented lockdown, which severely affected activity in the contact-intensive businesses. As a

result, both Industry and Services sectors witnessed negative performance, which overshadowed the growth in the agriculture sector.

To invigorate growth, the Government announced Rs 1.24 trillion relief package. The State Bank of Pakistan (SBP) also took various steps including reduction in interest rate to 8 percent, refinancing schemes for medical centres and various incentives for export-oriented industries etc. Further impetus was provided by considerable financial support from The International Monetary Fund (IMF), Asian Development Bank (ADB) and the World Bank, which supported the economy to make up for the projected loss.

During FY20, Pakistan's capital markets faced challenges on multiple fronts that included high inflation and COVID-19 pandemic. However, in the last quarter, the Government offered incentives packages which revived the market to a certain extent.

Business Review

Connecting to the Local Economy

During the period under review, the Exchange remained committed to playing its due role in developing a robust and sustainable ecosystem for the trading of indigenous commodities by linking itself to the local economy. To achieve this objective, the Exchange is working in collaboration with Pakistan's first Collateral Management Company (CMC) for the trading of commodities under Electronic Warehouse Receipt (EWR) system. Presently, the CMC is in the process of developing standard operating procedures for accreditation, registration and operations of warehouses. Once the software setup of CMC is in place, PMEX will integrate its system with CMC to offer an end-to-end trading facility for EWRs. To meet this end, PMEX in collaboration with CMC, has shortlisted commodities to be initially traded in the form of EWR and their respective grades have been developed.

In parallel, the Exchange is aggressively working to put the Global Trading Platform (GTP) in place which is expected to significantly contribute in earning valuable foreign exchange, boost exports and provide access to newer markets for our exporters/producers. The development of the platform along with integration with portal of logistics and other service provider(s) is in final stages.

Ensuring Brokers' Presence on Pan-Pakistan Basis

PMEX aims to increase its brokers' presence on a pan Pakistan basis. To achieve this objective, the Exchange is in discussions with the Commission for a relaxed broker licensing regime considering the limited role of brokers after introduction of the Direct Funds Model (DFM). The objective of the relaxed regime

is to encourage the young educated entrepreneurs of Pakistan to get PMEXs brokerage license and have presence across the country thereby catering to the needs of a diversified investors' base.

Boosting Trading of Physical Gold

The Exchange plans to bring the trading of physical gold at its platform to regularize the trade of Gold and make it available at retail level. Against this backdrop, the Exchange has come up with a business model which has been shared with the relevant stakeholders and regulatory authorities.

Improving Technology Infrastructure

In order to provide a seamless trading experience to the market participants, the Exchange is in the process of unveiling a full suite of trading services under Meta Trader 5 (MT5), a globally acclaimed multi-functional trading platform. The trading services include Front-end Trading platform with enhanced features along with Back Office and Market Making System. The development on this full suite of trading services is in final stages and planned to be rolled out in the first quarter of FY21.

PMEX is confident that with the full suite of trading services being offered under MT5 platform, market participants will enjoy an enhanced trading experience that will be at par with global standards.

Ensuring Business Continuity in wake of COVID-19 Pandemic Outbreak

PMEX closely monitored the evolution of the COVID-19 pandemic outbreak in the country, assessed the emergency situation

and the impact on business, employees, market participants and business partners. The Exchange ensured smooth continuity of all business functions amid the pandemic and is confident to do so in future as well.

Moreover, the Exchange took a number of precautionary measures to protect its employees and their families along with market participants and other stakeholders during this time. PMEX remained fully operational without interruptions and all services remained available to clients across the country. Arrangements were made to ensure that almost all activities are performed without the need of physical presence at the office.

Introducing Hedging in Futures Contracts of Palm Oil

During the period under review, PMEX held discussions with industry stakeholders as well as Bursa Malaysia over working modalities to introduce cash settled futures contracts of Palm oil, benchmarked with the listed contracts at Bursa Malaysia. These contracts will enable the edible oil industry to conveniently and efficiently hedge the price risk of Palm Oil.

Renewing Brokers' Licences

During the period under review, the first time licensing of PMEX futures brokers under the rigorous requirements of Futures Brokers (Licensing and Operations) Regulations, 2018 after prolonged follow up was completed on February 28, 2020. The licenses of those brokers were suspended who were unable to submit evidence of meeting the requirement the said Regulations. Some of those suspended brokers were later granted licenses upon submission of information while some others are still in the process.

Implementing CKO Regime

The Exchange implemented the Centralized Know-Your-Customer (KYC) Organization (CKO) regime for its brokers and their clients. All client accounts are now being opened under the said regime by the brokers.

Complying with AML & CFT, FATF and NACTA Guidelines

The Exchange took various actions with reference to SECP Anti Money Laundering and Countering Financing of Terrorism (AML & CFT) Guidelines, Financial Action Task Force (FATF) Guidelines, and National Counter Terrorism Authority (NACTA) Guidelines. These actions included dissemination of circulars, broker awareness sessions and regular screening of database. Moreover, the Exchange initiated the inspection of its brokers and submitted the compliance report to SECP for further action during the period under review.

Creating Awareness

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

Financial Results

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

	30-Jun-20	30-Jun-19
	(Rs. in million)	
Operating income	317.15	318.97
Profit before taxation	37.74	63.06
Net profit after taxation (total comprehensive income)	31.83	52.34
	(Rupees)	
Earnings per share - basic and diluted	1.02	1.31

The main reason for nominal decrease of Rs. 1.82 million in operating income was increased enforcement of Anti-Money Laundering and know-your-customer regime besides implementation of stringent licensing regulations during the year.

The positive reflections of deferred tax of Rs. 43.37 million (Note 31.2) and unascertained value of 20 Offices in Old Hyatt Regency Hotel Building (Note 21.1) have not been recorded due to uncertainties attached with respect to timings, etc.

On the taxation contingencies side, as detailed in note 17 to the financial statements, there is one major case in income tax and two cases of Sindh Revenue Board, 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 favourable decisions in these cases and therefore, based on legal opinion, have not made any provision in the financial statements.

Auditors' Report

Auditors in their report have included an emphasis of matter paragraph relating to minimum capital requirement. As explained in Note 1.2 of the financial statements, the Exchange has applied before the Commission for extension of deadline from June 2020 to June 2021 to meet the minimum net worth of Rs. 500 million. Further, the Exchange also plans to issue right shares as soon as possible.

Future Outlook

Going forward, under the able guidance of SECP and the Board of Directors, the focus of the Exchange will be on assisting the Government of Pakistan in documenting the local commodity market. This will also help in connecting the Exchange with the local economy.

Board of Directors

The current Board of Directors is comprised of 10 directors including Managing Director, of which six (6) directors represent shareholders, and the remaining three (3) are independent directors appointed during the year under Futures Exchanges (Licensing and Operations) Regulations, 2017. Directors representing shareholders comprised of two from National Bank of Pakistan, two from Pakistan Stock Exchange Limited, and two from ISE Towers REIT.

Current Board of Directors is comprised of the following:

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

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 FY20 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 and Operations) Regulations, 2017, the Exchange is to comply with Code of Corporate Governance for listed companies to the extent consistent with the Futures Market Act, 2016 and the rules or regulations made thereunder.

Principal Risks and Uncertainties

Accompanied with the continual increase in client base, the Exchange may witness significant increase in trading volumes. Such situation may lead to exhaustion of Market Maker's financial capacity, and may 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 continuously 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.

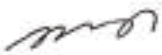
Details of Shareholding

Details of Shareholding are annexed at "C".

Auditors

The present auditors Grant Thornton Anjum Rahman, Chartered Accountants retire and being eligible have offered themselves for reappointment.

The Board Audit Committee has suggested and the Board of Directors has recommended their



Managing Director

Karachi
Karachi: 21 September, 2020

re-appointment as statutory auditors for the approval of the shareholders.

Acknowledgement

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

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

Annexure A

Board Meeting Attendance

Total seven (7) meetings of Board of Directors were held during FY20. Attendance history during the tenure of directorship was as follows:

Director	Meeting held during the tenure	Meetings attended
Dr. Rashid Bajwa	7	7
Mr. Ejaz Ali Shah	7	7
Dr. Fatima Khushnud	7	6
Dr. Yusuf Zafar	7	7
Mr. Aftab Ahmed Chaudhry	7	7
Mr. Ahmed Chinoy	7	7
Mr. Farrukh Khan	2	2
Mr. Rehan Mobin	7	6
Mr. Rehmat Ali Hasnie	7	5
Mr. Shahnawaz Mahmood*	4	4
Mr. Zahid Latif Khan	7	7

* Resigned during the year

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, 2020 and attendance during the year was as under:

Committees / Members	Meeting held during the tenure	Meetings attended
Audit Committee		
Dr. Yusuf Zafar – Chairman	4	4
Mr. Aftab Ahmed Chaudhry	3	3
Mr. Ahmed Chinoy	4	4
Mr. Rehan Mobin	2	2
Mr. Zahid Latif Khan	4	4
Human Resource Committee		
Dr. Yusuf Zafar – Chairman	4	4
Mr. Ahmed Chinoy	4	4
Mr. Rehan Mobin	3	3
Mr. Zahid Latif Khan	4	4
Regulatory Affairs Committee		
Dr. Rashid Bajwa – Chairman	4	4
Dr. Fatima Khushnud	4	4
Dr. Yusuf Zafar	4	4
Risk Committee		
Dr. Rashid Bajwa– Chairman	3	3
Dr. Fatima Khushnud	3	3
Dr. Yusuf Zafar	3	3
Mr. Ejaz Ali Shah – MD	3	3
Syed Mumtaz Ali - CRO	3	2

Annexure C

Shareholding pattern as of June 30, 2020

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. Rashid Bajwa – Chairman	3		
2. Dr. Fatima Khushnud – Director	2		
3. Dr. Yusuf Zafar – Director	3		
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 Towers 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) - Local	8	38	–
- Foreign	–	–	–
Total	18	31,355,162	100.0%

Six Years' Financial Highlights

Financial years ended on June 30

	2020	2019	2018	2017	2016	2015
Balance Sheet						
Shareholders' equity	40,991,799	9,159,588	(37,714,923)	(78,827,951)	(64,254,052)	(105,792,321)
Long term deposits	160,319,915	163,895,317	197,650,000	198,400,000	196,150,000	196,150,000
Staff gratuity payable to fund	16,312,654	15,624,300	44,674,627	43,432,994	44,569,896	46,254,609
Dividend on preference shares	-	-	-	-	-	7,638,398
Margin and deposit	2,514,037,889	2,700,727,066	2,085,665,389	1,801,296,114	1,667,544,562	1,116,812,206
Fixed assets	60,456,707	30,618,928	29,283,048	33,715,520	38,409,003	38,961,365
Investment in associates	20	20	20	20	20	20
Total Current assets	2,802,115,922	2,935,195,218	2,314,109,099	1,986,678,087	1,853,233,634	1,282,579,309
Operational Results						
Total Income	344,131,071	337,057,063	276,199,319	209,601,325	223,843,309	174,639,118
Total Expenses	306,386,295	273,988,078	226,706,170	221,686,071	188,698,145	187,630,466
Profit / (loss) after taxation	31,832,211	63,068,984	41,113,028	(14,573,899)	29,651,607	(14,630,935)
Earnings per share (EPS)	1.02	1.67	1.31	(0.46)	1.09	(0.69)

INDEPENDENT AUDITOR'S 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, 2019**

GRANT THORNTON ANJUM RAHMAN
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Modern Motors House
Beaumont Road,
Karachi 75530

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We have reviewed the enclosed Statement of Compliance with the Listed Companies (Code of Corporate Governance) Regulations, 2019 (the Regulations) prepared by the Board of Directors of Pakistan Mercantile Exchange Limited (the Exchange) for the year ended June 30, 2020 as required under Regulation 5(2)(k) of Futures Exchanges (Licensing and Operations) Regulations, 2019 and in accordance with the requirements of Regulation 36 of the Regulations.

The responsibility for compliance with the Regulations is that of the Board of Directors of the Exchange. Our responsibility is to review whether the Statement of Compliance reflects the status of the Exchange'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 Exchanges' personnel and review of various documents prepared by the Exchange 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 Exchange's corporate governance procedures and risks.

The Regulations require the Exchange to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval, its related party transactions. 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.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Exchange's compliance, in all material respects, with the requirements contained in the Regulations as applicable to the Exchange for the year ended June 30, 2020.



Chartered Accountants
Place: Karachi
Date: October 02, 2020

Pakistan Mercantile Exchange Limited

Statement of Compliance with Listed Companies (Code of Corporate Governance) Regulations, 2019

For the year ended June 30, 2020

Pakistan Mercantile Exchange Limited (the Exchange) is required under Regulation 5(2)(k) of Futures Exchanges (Licensing and Operations) Regulations, 2017 (the Regulations) to comply with the Listed Companies (Code of Corporate Governance), 2019 (the Code) to the extent consistent with the Futures Market Act, 2016 (the Act).

The Exchange has complied with the requirements of the Code in the following manner:

1. The total number of directors are ten (10) including the Managing Directors as per the following;
 - a. Male 09
 - b. Female 01
2. The composition of the Board on June 30, 2020 was as follows:
 - (i) **Independent directors**
 - (a) Dr. Rashid Bajwa
 - (b) Dr. Fatima Khushnud
 - (c) Dr. Yusuf Zafar
 - (ii) **Non-executive directors**
 - (a) Mr. Aftab Chaudhry
 - (b) Mr. Ahmed Chinoy
 - (c) Mr. Farrukh H. Khan
 - (d) Mr. Rehan Mobin
 - (e) Mr. Rehmat Ali Hasnie
 - (f) Mr. Zahid Latif Khan
 - (iii) **Executive director** – Mr. Ejaz Ali Shah - Managing Director
 - (iv) **Female director** – Dr. Fatima Khushnud
3. The directors have confirmed that none of them is serving as a director on more than seven (7) listed companies, including the Exchange.
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. The Board has ensured that complete record of particulars of the significant policies along with their date of approval or updating is maintained by the Exchange.
6. All the powers of the Board have been duly exercised and decisions on relevant matters have been taken by the Board/ shareholders as empowered by the relevant provisions of the Act and the Regulations.
7. All the meetings of the Board were presided over by the Chairman. The Board has complied with the requirements of Act and the Regulations with respect to frequency, recording and circulating minutes of meeting of the Board.

8. The Board has a formal policy and transparent procedures for remuneration of directors in accordance with the Act and the Regulations.
9. Six directors already have the prescribed certification under Director Training Program offered by institutions approved by the Securities and Exchange Commission of Pakistan (SECP). Remaining directors plan to acquire the certification shortly which has been stopped from offering presently due to COVID19.
10. There was no new appointment of chief financial officer, company secretary and head of internal audit during the year. However, their remuneration and terms and conditions of employment are in compliance with relevant requirements of the Regulations. The provision of the Code in respect of segregating the positions of company secretary and chief financial officer is considered specific for listed entities only.
11. Chief financial officer and chief executive officer duly endorsed the financial statements before approval of the Board.
12. The Board has formed following committees comprising of members given below:-

a) Audit Committee

Dr. Yusuf Zafar	Chairman
Mr. Aftab Ahmed Chaudhry	Member
Mr. Ahmed Chinoy	Member
Mr. Rehan Mobin	Member
Mr. Zahid Latif Khan	Member

b) Human Resource (HR) and Remuneration Committee

Dr. Yusuf Zafar	Chairman
Mr. Ahmed Chinoy	Member
Mr. Rehan Mobin	Member
Mr. Zahid Latif Khan	Member

c) Nomination Committee

The role of Nomination Committee has been assigned to the HR and Remuneration Committee.

d) Risk Committee

Dr. Rashid Bajwa	Chairman
Dr. Fatima Khushnud	Member
Dr. Yusuf Zafar	Member
Mr. Ejaz Ali Shah	Member
Syed Mumtaz Ali	Member

e) Regulatory Affairs Committee

Dr. Rashid Bajwa	Chairman
Dr. Fatima Khushnud	Member
Dr. Yusuf Zafar	Member

13. The terms of reference of the aforesaid committees have been formed, documented and advised to the committee for compliance.
14. The frequency of the committees held during the year was as follows:

Name of Committee	Number of Meetings
Audit Committee	4
HR and Remuneration Committee	2
Risk Committee	3
Regulatory Affairs Committee	4

15. The Board has set up an effective internal audit function.
16. The statutory auditors of the Exchange have confirmed that they have been given a satisfactory rating under the Quality Control Review program of the Institute of Chartered Accountants of Pakistan and registered with Audit Oversight Board of Pakistan, that they and all their partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the Institute of Chartered Accountants of Pakistan and that they and the partners of the firm involved in the audit are not a close relative (spouse, parent, dependent and non-dependent children) of the chief executive officer, chief financial officer, head of internal audit, company secretary or director of the Exchange.
17. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the 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 requirements of Clauses 3, 6, 7, 8, 27, 32, 33 and 36 of the Regulations have been complied with.



Managing Director

Dated: 21 September 2020
Place: Karachi



Chairman

INDEPENDENT AUDITOR'S REPORT

To the members of Pakistan Mercantile Exchange Limited Report on the Audit of the Financial Statements

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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, 2020, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and 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, 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 forming part thereof confirm 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, 2020 and of the profit or loss 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 the contents of note 1.2 to the financial statements which explains the measures being taken by the Exchange to meet its minimum capital requirement as required by the Future Market Act, 2016. Our conclusion is not modified 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 for the year ended June 30, 2020, 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 in 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 the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

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

Other Matter

The financial statements of the Exchange for the year ended June 30, 2019 were audited by another auditor who expressed an unmodified opinion on those statements dated October 04, 2019 respectively.

The engagement partner on the audit resulting in this independent auditor's report is Khurram Jameel.



Chartered Accountants
Karachi
Dated: October 02, 2020

Statement of Financial Position

As at June 30, 2020

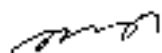
	Note	Rupees	
		2020	2019
EQUITY AND LIABILITIES			
Share capital and reserves			
Authorised capital 100,000,000 (2019: 1000,000,000) ordinary shares of Rs. 10 each		1,000,000,000	1,000,000,000
Issued, subscribed and paid-up capital	7	313,551,620	313,551,620
Reserves	8	(272,559,821)	(304,392,032)
		40,991,799	9,159,588
Non-current liabilities			
Long-term deposits	9	160,319,915	163,895,317
Lease Liabilities	10	34,805,084	–
		195,124,999	163,895,317
Current liabilities			
Staff gratuity fund	11	16,312,654	15,624,300
Staff provident fund	12	1,392,285	157,668
Margins and deposits	13	1,859,266,477	1,428,188,825
Payable to SGF trust	14	4,099,683	5,597,615
Gold held on behalf of brokers/clients		654,771,412	1,256,060,950
Advance fee	15	14,574,997	17,182,126
Current portion of lease liability	10	9,225,398	–
Creditors, accrued and other liabilities	16	66,812,945	70,614,777
		2,626,455,851	2,793,426,261
Contingencies and commitments			
	17	2,862,572,649	2,966,481,166

The annexed notes from 1 to 39 form an integral part of these financial statements.



Chairman

		Rupees	
	Note	2020	2019
ASSETS			
Non-current assets			
Property and equipment	18	18,485,782	22,546,603
Right of use of asset	19	38,553,172	–
Intangible assets	20	3,417,753	8,072,325
Long term investments	21	20	20
		60,456,727	30,618,948
Current assets			
Supplies and consumables		429,264	444,056
Annual subscription receivable	22	20,145,100	6,698,018
Deposits and prepayments	23	6,122,184	9,367,558
Other receivables	24	45,535,970	34,862,592
Short term investments	25	1,961,673,781	1,531,007,173
Gold held on behalf of brokers/clients		654,771,412	1,256,060,950
Taxation - net		62,385,663	42,359,248
Cash and bank balances	26	51,052,548	55,062,623
		2,802,115,922	2,935,862,218
		2,862,572,649	2,966,481,166



Managing Director

Statement of Profit or Loss and Other Comprehensive Income

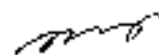
For the year ended June 30, 2020

	Note	Rupees	
		2020	2019
Operating income	27	317,150,190	318,976,540
Operating and administrative expenses	28	(298,267,591)	(271,733,450)
		18,882,599	47,243,090
Other income	29	26,980,881	18,080,523
Other charges		(301,366)	(224,089)
Finance costs	30	(7,817,338)	(2,030,540)
Profit before taxation		37,744,776	63,068,984
Taxation	31	(5,912,565)	(10,721,727)
Net profit after taxation		31,832,211	52,347,257
Other comprehensive income		-	-
Total comprehensive income for the year		31,832,211	52,347,257
Earnings per share - basic and diluted	32	1.02	1.67

The annexed notes from 1 to 39 form an integral part of these financial statements.



Chairman



Managing Director

Statement of Cash Flows

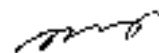
For the year ended June 30, 2020

	Note	Rupees	
		2020	2019
A. CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	33	35,276,871	143,136,642
Long-term deposits paid		(3,575,402)	(33,754,683)
Taxes paid		(25,938,980)	(10,889,279)
Provident fund paid		(6,343,060)	(7,666,841)
Gratuity paid		(7,760,343)	(37,782,192)
Net cash (used in) / generated from operating activities		(8,340,914)	53,043,647
B. CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment		(6,458,279)	(15,951,249)
Proceeds from disposal of property and equipment		330,300	1,205,588
Purchase of investment in government securities		(518,515,898)	(439,810,753)
Proceeds from sale of investment in government securities		558,797,877	386,859,571
Mark-up received on bank deposits		2,162,570	2,026,317
Net cash generated from / (used in) investing activities		36,316,570	(65,670,526)
C. CASH FLOWS FROM FINANCING ACTIVITIES			
Lease rentals paid		(6,136,219)	–
Net cash generated from financing activities		(6,136,219)	–
Net increase / (decrease) in cash and cash equivalents	(A+B+C)	21,839,437	(12,626,879)
Cash and cash equivalents at the beginning of the year		(206,598)	12,420,281
Cash and cash equivalents at the end of the year		21,632,839	(206,598)
Cash and cash equivalents relating to margins and deposits at the end of the year		29,419,709	55,269,221
Cash and cash equivalents at the end of the year including margins and deposits	26	51,052,548	55,062,623

The annexed notes from 1 to 39 form an integral part of these financial statements.



Chairman



Managing Director

Statement of Changes in Equity

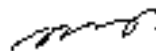
For the year ended June 30, 2020

	Issued, subscribed and paid-up capital	Capital - Premium on issue of ordinary shares	Rupees		Total
			Reserve Revenue - Accumulated loss	Total	
Balance as at June 30, 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
Total comprehensive income for the year ended June 30, 2020					
- Profit for the year	-	-	31,328,164	31,328,164	31,328,164
- Other comprehensive income for the year	-	-	-	-	-
	-	-	31,328,164	31,328,164	31,328,164
Balance at June 30, 2020	313,551,620	22,250,000	(294,809,821)	(272,559,821)	40,991,799

The annexed notes from 1 to 39 form an integral part of these financial statements.



Chairman



Managing Director

Notes to the Financial Statements

For the year ended June 30, 2020

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.

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 2007, 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 PMEX General Regulations to SECP which are presently pending before SECP for approval.

1.2 During the year, the Exchange has earned net profit of Rs. 31.832 million resulting in accumulated loss of Rs. 294.809 million and positive equity of Rs. 40.99 million as at June 30, 2020. Pursuant to the license as futures exchange, the Exchange was required to meet minimum capital of Rs. 500 million net of losses by June 2020. The Exchange was in process of issuing right shares to existing shareholders which was planned to be offered by the end of financial year 2019-2020. However, due to lockdown, the Board has concluded that it would not be possible to meet the condition of minimum capital requirement and has requested the SECP to extend the date for one year under Clause 6(2) of Futures Exchanges (Licensing and Operations) Regulations, 2017 read with section 4(1)(a) of Futures Market Act, 2016 which is pending with the SECP. The Exchange expects a favorable decision on the request.

2 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.

3 BASIS OF MEASUREMENT

- 3.1** These financial statements have been prepared under the historical cost convention except for certain investments that are carried at fair value.
- 3.2** These financial statements are presented in Pakistani Rupees which is the Exchange's functional and presentation currency.

4 NEW STANDARDS AND INTERPRETATIONS TO APPROVED ACCOUNTING STANDARDS

4.1 Standards, amendments and interpretations adopted during the current year

Standards or Interpretations	Effective date (annual periods beginning on or after)
IAS 12 'Income tax consequences of payments on financial instruments classified as equity'	January 1, 2019
IAS 19 'Plan Amendment, Curtail or Settlement' (Amendments)	January 1, 2019
IAS 23 Borrowing costs eligible for capitalization	January 1, 2019
IAS 28 'Long-term Interests in Associates and Joint Ventures' (Amendments to IAS 28)	January 1, 2019
IFRS 3 Previously held interest in a joint operation	January 1, 2019
IFRS 9 Prepayment features with negative compensation	January 1, 2019
IFRS 11 Previously held interest in a joint operation	January 1, 2019
IFRS 14 'Regulatory Deferral accounts'	July 1, 2019
IFRS 16 'Leases'	January 1, 2019
IFRIC 23 'Uncertainty over Income Tax Treatments'	January 1, 2019
Annual improvements to IFRSs 2015 - 2017 Cycle	January 1, 2019

Adoption of the above standards and interpretations does not have any material effect on the financial statements except for IFRS 16 "Leases" as explained below:

During the year, the Exchange adopted IFRS 16 which superseded IAS 17 "Leases". The Standard sets out the principles for the recognition, measurement, presentation and disclosures of leases and requires lessees to account for most leases under a single on-balance sheet model using the modified retrospective method of adoption with the date of initial application of July 1, 2019. Under this method, the standard is applied retrospectively with cumulative effect of applying standard recognised at the date of initial application and accordingly the Exchange is not required to restate the prior year result.

The Exchange assessed its existing contracts and concluded that right of use assets shall be recognised alongwith their corresponding lease liabilities, adjusted for related prepaid and accrued lease payments previously recognised. Lease liabilities were based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. 'Accordingly, initial application of IFRS 16 did not have any impact on the opening retained earnings as of July 1, 2019 and on these financial statements, except for the recognition of right of use asset and corresponding lease liabilities. The effect of adoption of IFRS 16 on the statement of profit and loss includes an increase in depreciation expense by Rs. 11.61 million, increase in interest expense by Rs. 6.98 million and decrease in lease rental by Rs. 6.14 million. Further, impact on statement of cash flows includes an increase in net cash flows from operating activities by Rs. 8.4 million.

Set out below are the carrying amount of the Exchange's right-of-use assets and lease liabilities:

	Rupees	
	Right of use assets	Lease liabilities
Additions	50,166,701	50,166,701
Depreciation	(11,613,529)	–
Finance cost	–	6,978,094
Payments	–	(13,114,313)
As at June 30, 2020	38,553,172	44,030,482

4.2 Standards not yet effective

Standards or Interpretations	Effective date (annual periods beginning on or after)
IFRS 3 'Definition of a business' Amendment to IFRS 3	January 1, 2020
IAS 1/IAS 8 'Definition of Material' (Amendments to IAS 1 and IAS 8)	January 1, 2020
IFRS 7, IFRS 9, and IAS 39 - Interest Rate Benchmark Reform	January 1, 2020
Various Amendments to References to the Conceptual Framework in IFRS Standards	January 1, 2020

The above standards are not expected to have any material impact on the Exchange's financial statements in the period of initial application.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 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 .

5.2 Gold held on behalf of brokers/clients

Exchange holds gold on behalf of their brokers and clients in fiduciary capacity which is valued using the closing rates of Gold.

5.3 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.

5.4 Taxation

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.

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.

5.5 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 18 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.

5.6 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.

5.7 Right of used assets and related liabilities

At the inception of a contract, the Exchange assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The extension and termination options are incorporated in determination of lease term only when the Exchange is reasonably certain to exercise these options.

Leases are recognised as right-of-use assets and corresponding liabilities at the date at which the leased assets are available for use by the Exchange.

Right-of-use assets are initially measured based on the initial amount of the lease liabilities adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentive received. The right-of-use assets are depreciated on a straight line method over the lease term as this method most closely reflects the expected pattern of consumption of future economic benefits. The carrying amount of the right-of-use asset is reduced by impairment losses, if any. At transition, the Exchange recognised right to use assets equal to the present value of lease payments.

The lease liabilities are initially measured at the present value of the remaining lease payments at the commencement date, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, the Exchange's incremental borrowing rate. Generally, the Exchange uses its

incremental borrowing rate as the discount rate. Lease payment includes fixed payments with annual increments. The lease liabilities are subsequently measured at amortised cost using the effective interest rate.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss.

5.8 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 20 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.

5.9 Financial Instruments

5.9.1 Initial recognition and measurement

All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

5.9.2 Classification and subsequent measurement

The Exchange classifies its financial assets and financial liabilities at initial recognition into the categories of financial assets and financial liabilities discussed below.

Financial assets

The Exchange classifies its financial assets as subsequently measured at amortised cost, fair value through other comprehensive income (FVOCI) or at fair value through profit or loss (FVTPL).

Financial assets at FVTPL

These financial assets are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in the statement of profit or loss. Interest income is also recognised in profit or loss.

Financial assets at amortised cost

These assets are subsequently measured at amortized cost and are subject to impairment under Expected Credit Loss (ECL) model.

Financial assets at FVOCI

These financial assets are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in the statement of other comprehensive income.

Financial liabilities

All financial liabilities of the Exchange are subsequently measured at amortised cost using effective interest method.

5.9.3 De-recognition

A financial asset (or, where applicable, a part of a financial asset or a part of a group of similar financial assets) is derecognised where the rights to receive cash flows from the asset have expired, or the Exchange has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement and the Exchange has:

- (a) Transferred substantially all of the risks and rewards of the asset;
- (b) Neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Exchange has transferred its right to receive cash flows from an asset (or has entered into a pass-through arrangement), and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Exchange's continuing involvement in the asset. In that case, the Exchange also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Exchange has retained. The Exchange derecognises a financial liability when the obligation under the liability is discharged, cancelled or expired.

5.9.4 Impairment of financial assets

The Exchange holds trade debts and other receivables with no financing component and which have maturities of less than 12 months at amortised cost and, as such, has chosen to apply an approach similar to the simplified approach for expected credit losses (ECL) under IFRS 9 to all its trade debts, loans and advances and other receivables. Therefore, the Exchange does not track changes in credit risk, but instead, recognises a loss allowance based on lifetime ECLs at each reporting date.

The Exchange's approach to ECLs reflects a probability-weighted outcome, the time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. The Exchange uses the provision matrix as a practical expedient to measuring ECLs on trade receivables, based on days past due for groupings of receivables with similar loss patterns. Receivables are grouped based on their nature.

5.9.5 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.

5.10 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. Balances considered bad and irrecoverable are written off when identified.

5.11 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.

5.12 Cash and cash equivalents

These are carried at cost. For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and bank balance.

5.13 Staff retirement benefits

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.

5.14 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.

5.15 Revenue recognition

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

- Trading fee is recognized on execution of transactions.
- Return on investment and bank balances is recognized on time proportionate basis using the effective interest method.
- Share of PMEX in the income of margins and deposits is recognised on accrual basis.
- Capital gain is recognised at the time of sale of investments.
- Other incomes are recognised on accrual basis.

6 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.

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:

- Determination of useful lives and residual values of property and equipment (note 5.5);
- Classification and valuations of investments (note 5.9.2);
- Provision for taxation (note 5.4); and
- Determination of Right of used asset and lease liability (note 5.7)

7 ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

Number of Shares			Rupees	
2020	2019		2020	2019
31,355,162	31,355,162	Ordinary shares of Rs 10 each fully paid in cash	313,551,620	313,551,620

7.1 Ordinary shares were held as at June 30 by:

	2020	2019	2020	2019
	Shareholding %		Number of shares	
Associates				
National Bank of Pakistan	33.98%	33.98%	10,653,860	10,653,860
Pakistan Stock Exchange Limited	28.41%	28.41%	8,909,052	8,909,052
ISE Towers REIT Management Limited	17.76%	17.76%	5,568,181	5,568,181
LSE Financial Services Limited	7.25%	7.25%	2,272,727	2,272,727
Zarai Taraqiati Bank Limited	2.90%	2.90%	909,091	909,091
Others				
Pak Brunei Investment Company Limited	6.80%	6.80%	2,133,115	2,133,115
Pakistan Kuwait Investment Company (Pvt.) Limited	2.90%	2.90%	909,090	909,090
Others - individuals	—	—	46	46
	100%	100%	31,355,162	31,355,162

7.2 The Exchange 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 Exchange. All shares rank equally with regards to Exchange's residual assets.

8 RESERVES

	Rupees	
	2020	2019
Capital		
Premium on issue of ordinary share	22,250,000	22,250,000
Revenue		
Accumulated loss	(295,313,868)	(326,642,032)
	(273,063,868)	(304,392,032)

9 LONG-TERM DEPOSITS

		Rupees	
	Note	2020	2019
Security deposits from members	9.1	157,419,915	160,995,317
Clearing house deposits	9.2	2,900,000	2,900,000
		160,319,915	163,895,317

9.1 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.

9.2 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.

10 LEASE LIABILITIES

	Rupees	
	2020	2019
Impact of initial application of IFRS 16	50,166,701	–
Finance cost	6,978,094	–
Payment during the year	(13,114,313)	–
	44,030,482	–
Current portion under current liabilities	(9,225,398)	–
Balance at end of the year	34,805,084	–

These represents lease contracts with estimated lease terms between 3 to 5 years. These are discounted using incremental borrowing rate of the Exchange.

11 STAFF GRATUITY FUND

		Rupees	
	Note	2020	2019
Staff gratuity payable	11.1	16,312,654	15,624,300

11.1 Movement of staff gratuity payable is as follows:

Opening balance as at July 01		15,624,300	44,674,627
Charge for the year		7,609,453	6,701,325
Payments made to the fund		(6,976,202)	(19,756,065)
Payments made to outgoing employees on behalf of the fund		(784,141)	(18,026,127)
Accrued finance cost	11.2	839,244	2,030,540
Closing balance as at June 30		16,312,654	15,624,300

11.2 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.

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

12 STAFF PROVIDENT FUND

	Note	2020	2019
Staff provident fund payable	12.1	1,392,285	157,668

12.1 Movement of provident fund payable is as follows:

Opening balance as at July 01	157,668	1,081,988
Employer contribution for the year	7,577,676	6,742,521
Employee contribution for the year	7,577,676	6,742,521
Payments made to the fund	(13,920,735)	(14,409,362)
Closing balance as at June 30	1,392,285	157,668

12.2 Contributions towards the fund have been deposited in a separate bank account of trust the balance of which as at June 30, 2020 is Rs.1,684,807 (2019: Rs.336,490). Permanent withdrawal of contribution from fund's account to respective employees' VPS account made on monthly basis.

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

13 MARGINS AND DEPOSITS

	Note	2020	2019
Clearing house deposits relating to brokers	13.1	117,844,647	98,993,161
Initial margins relating to brokers and clients	13.1	1,741,421,830	1,329,195,664
	13.2	1,859,266,477	1,428,188,825

13.1 The above margins and deposits have been applied as follows:

Clearing house deposits		
Balance with banks	15,542,939	1,842,121
Investment in Treasury Bills	104,056,220	97,573,133
Adjustment of receivable from clearing deposit	(1,514,871)	–
Less: Amount allocated for transfer to SGF Trust	(239,641)	(422,093)
	117,844,647	98,993,161
Initial margins		
Balance with banks (savings and current)	13,876,770	53,427,100
Investment in Treasury Bills	1,738,397,203	1,292,454,761
Security deposit / prepayments - Locker (Gold)	36,000	36,000
Less: Amount allocated for transfer to SGF Trust	(3,860,042)	(5,175,522)
Adjustments of receivables from initial margins	(805,501)	–
Less: NCCPL payable	(6,222,600)	(11,546,676)
	1,741,421,830	1,329,195,664
	1,859,266,477	1,428,188,825

13.2 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, the 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 27. However, from March 01, 2018, distribution to brokers and client has been withheld and the same has become part of residual amount.

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

14 PAYABLE TO SETTLEMENT GUARANTEE FUND (SGF) TRUST

	Rupees	
	2020	2019
Payable to SGF trust as allocated from income earned on		
- clearing house deposits	239,641	422,093
- initial margins	3,860,042	5,175,522
	4,099,683	5,597,615

14.1 Movement for the year is as follows:

Opening balance as at July 01	5,597,615	2,091,202
Amount allocated from income earned on :		
- clearing house deposits	4,966,149	4,002,668
- initial margins	62,349,637	43,013,969
	67,315,786	47,016,637
Amount transferred during the year	(68,813,718)	(43,510,224)
	4,099,683	5,597,615

15 ADVANCE FEE

Advance annual subscription fee	12,675,000	14,239,169
Advance transfer fee	1,750,000	1,750,000
Advance advertisement	-	222,960
Others	149,997	969,997
	14,574,997	17,182,126

16 CREDITORS, ACCRUED AND OTHER LIABILITIES

		Rupees	
	Note	2020	2019
Creditors		4,349,744	4,184,531
Accrued expenses		32,079,125	28,740,529
Withholding tax payable		1,405,952	75,265
Payable to market makers		473,724	473,724
Payable to SECP	16.1	15,632,808	13,518,457
Payable to NCCPL	16.2	6,328,950	17,005,126
Other liabilities		6,542,640	6,617,145
		66,812,945	70,614,777

16.1 This includes SECP transaction fee and supervision fee of Rs.13,768,224 (2019: Rs.11,391,050) and Rs. 1,863,072 (2019: Rs. 2,127,407) respectively.

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

17 CONTINGENCIES AND COMMITMENTS

17.1 Contingencies

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

17.1.1 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 advisor, 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.

17.1.2 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.

17.1.3 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, based on tax advice, 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.

17.1.4 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. Based on the opinion of tax advisor, 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.

17.1.5 During the year, two separate show-cause notices dated November 08, 2019 and November 28, 2019 were issued by Assistant Commissioner, Sindh Revenue Board for recovery of alleged short payment of Sindh Sales tax amounting to Rs. 24.17 million and Rs. 29.57 million for the tax years 2014-15 and 2015-16 respectively. The Exchange filed Constitutional Petition Nos. 1344/2020 and 1345/2020 before Sindh High Court against these show cause notices and the Court has passed an interim order on March 09, 2020 restraining the Assistant Commissioner, Sindh Revenue Board from passing any final assessment order. Based on the opinion of tax advisor, 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.

17.2 Commitments

17.2.1 The future lease payments to which the Exchange is committed under the agreements will be due as follows:

Particulars	June 30, 2020			June 30, 2019
	Upto one year	More than one year	Total	Total
Minimum lease payments	15,066,773	42,301,804	57,368,577	–
Finance cost allocated to future periods	(5,841,375)	(7,496,720)	(13,338,095)	–
Present value of minimum lease payments	17,096,919	34,805,084	44,030,482	–

Particulars	Note	Rupees	
		2020	2019
17.2.2 Commitment for capital expenditure		–	8,305,000

18 PROPERTY AND EQUIPMENT

Operating assets	18.1	18,485,782	18,756,603
Capital work-in-progress	18.2	–	3,790,000
		18,485,782	22,546,603

18.1 Operating assets

Rupees							
	Leasehold improvements	Furniture and fittings	Office equipment	Electrical equipment	Computer equipment	Motor vehicles	Total
As at July 01, 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)	(1,294,831)	(5,949,880)	(33,806,314)	(4,622,939)	(58,605,121)
Net book value	4,449,121	2,221,860	587,873	1,852,423	3,263,096	1,355,001	13,729,374
For the year ended June 30, 2019							
Opening net book value	4,449,121	2,221,860	587,873	1,852,423	3,263,096	1,355,001	13,729,374
Additions	160,000	–	1,066,271	2,935,327	2,099,998	7,994,653	14,256,249
Disposals	–	–	(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	1,175,932	1,243,069	3,821,906	3,543,757	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)	(4,071,995)	(1,619,615)	(6,915,724)	(35,625,651)	(582,748)	(61,769,910)
Net book value	1,560,034	1,175,932	1,243,069	3,821,906	3,543,757	7,411,905	18,756,603
For the year ended June 30, 2020							
Opening net book value	1,560,034	1,175,932	1,243,069	3,821,906	3,543,757	7,411,905	18,756,603
Additions during the year	–	–	–	125,000	6,333,279	–	6,458,279
Disposals during the year	–	–	–	–	–	–	–
Cost	–	115,230	22,865	1,600,975	2,226,962	–	3,966,032
Accumulated depreciation	–	(115,222)	(22,865)	(1,599,217)	(2,226,962)	–	(3,964,266)
	–	(8)	–	(1,758)	–	–	(1,766)
Depreciation for the year	(637,048)	(472,051)	(364,318)	(1,162,115)	(2,492,870)	(1,598,931)	(6,727,333)
Closing net book value	922,986	703,873	878,751	2,783,033	7,384,166	5,812,974	18,485,782
As at June 30, 2020							
Cost	14,514,211	5,132,697	2,839,819	9,261,655	43,275,725	7,994,653	83,018,760
Accumulated depreciation	(13,591,225)	(4,428,824)	(1,961,068)	(6,478,622)	(35,891,559)	(2,181,679)	(64,532,978)
Net book value	922,986	703,873	878,751	2,783,033	7,384,166	5,812,974	18,485,782
Rate of depreciation (%)	20	20	20	20	25	20	

18.1.1 Included in cost of operating assets are fully depreciated assets still in use aggregating to Rs. 51.03 million (2019: Rs. 56.365 million)

18.2 Capital work-in-progress

Rupees			
	Note	2020	2019
Capital work in progress	18.3	–	3,790,000

18.3 Represent amount written off during the year.

19 RIGHTS OF USE OF ASSETS

Rupees			
	Note	2020	2019
Cost	19.1	50,166,701	–
Depreciation charged during the year		(11,613,529)	–
Closing Net Book Value		38,553,172	–

19.1 These represent registered office located in Karachi and branch offices located in Lahore and Islamabad.

20 INTANGIBLE ASSETS

	Note	Rupees	
		2020	2019
Gross carrying value			
Cost		53,882,125	53,882,125
Accumulated amortization		(50,464,372)	(45,809,800)
Net book value		3,417,753	8,072,325
Net carrying value			
Opening net book value		8,072,325	13,458,675
Additions during the year		-	-
Amortization for the year		(4,654,571)	(5,386,350)
Closing net book value		3,417,753	8,072,325
Rate of amortization (%)		25	25

21 LONG TERM INVESTMENTS - at FVOCI

Institute of Financial Market of Pakistan			
200 shares of Rs. 5,000 each		1,000,000	1,000,000
Provision for impairment		(999,990)	(999,990)
		10	10
NCEL Building Management Limited			
1 share of Rs. 10/-	21.1	10	10
		20	20

21.1 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.

22 ANNUAL SUBSCRIPTION RECEIVABLES

	Note	Rupees	
		2020	2019
Considered good			
Annual subscription receivable		20,145,100	6,698,018
Considered doubtful			
Annual subscription receivable		2,061,406	1,010,000
Provision for doubtful receivables	22.1	(2,061,406)	(1,010,000)
		–	–
		20,145,100	6,698,018

22.1 Provision of doubtful receivables

Opening balance		1,010,000	–
Charge for the year	28	1,051,406	1,010,000
Closing balance		2,061,406	1,010,000

23 DEPOSITS AND PREPAYMENTS

Advances and deposits		2,096,244	2,627,270
Prepaid expenses		4,025,940	6,740,288
		6,122,184	9,367,558

24 OTHER RECEIVABLES

Considered good			
Receivable from members		27,351,949	14,516,740
Accrued mark-up on bank accounts		122,371	105,686
Receivable from NCEL Building Management Limited		–	1,168,925
Receivable from SGF Trust		4,461,147	2,823,165
Others		13,600,503	16,248,076
		45,535,970	34,862,592
Considered doubtful			
Receivable from members		841,840	505,390
Receivable from NCEL Building Management Limited		1,168,925	–
Provision for doubtful receivables	24.1	(2,010,765)	(505,390)
		–	–
		45,535,970	34,862,592

24.1 Provision of doubtful receivables

Opening balance		505,390	–
Charge for the year	28	1,505,375	505,390
Closing balance		2,010,765	505,390

25 SHORT TERM INVESTMENTS - at FVTPL

Rupees			
	Note	2020	2019
Investments in Treasury Bills - margins and deposits		1,846,587,328	1,390,027,894
Investments in Treasury Bills - Exchange		115,086,453	140,979,279
	25.1	1,961,673,781	1,531,007,173

25.1 These Treasury Bills carry mark-up ranging from 8.04% to 11.22% (2019: 6.22% to 12.75%) per annum and will mature on various dates up to August 27, 2020.

26 CASH AND BANK BALANCES

Rupees			
	Note	2020	2019
Cash at banks			
- in current accounts		724,178	383,661
- in saving accounts	26.1	50,299,013	54,634,774
		51,023,191	55,018,435
Cash in hand		29,356	44,188
		51,052,548	55,062,623

26.1 These accounts carry mark up at the rate of 9.5% per annum (2019: 6.5%)

27 OPERATING INCOME

Rupees			
	Note	2020	2019
Trading fee - net		150,445,430	195,932,133
Share of PMEX in the income of margins and deposits	13.2	122,091,033	81,044,429
Annual membership fee		25,250,000	20,724,989
Entrance fee		-	1,000,000
Income from IT related services		3,050,000	5,489,200
Infrastructure fee		8,214,000	6,485,000
Advertisement income		1,230,000	852,581
Fee for membership transfer and issuance of certificates		200,000	600,000
Auto liquidation charges		587,800	485,580
Front end charges		-	78,725
Application fee		-	25,000
Gain on sale of USB keys		25,208	214,268
Recovery of gold custody charges		6,056,719	6,044,635
		317,150,190	318,976,540

28 OPERATING AND ADMINISTRATIVE EXPENSES

	Note	Rupees	
		2020	2019
Salaries and benefits	28.1	164,853,200	136,887,435
Gratuity fund	11	7,609,453	6,701,325
Provident fund	12	7,577,676	6,742,521
Directors' fee		2,445,000	2,070,000
Depreciation	18	18,340,862	8,003,229
Amortization	20	4,654,571	5,386,350
Communication		6,214,786	4,925,100
Cloud hosting		15,489,292	16,009,772
Utilities		2,475,885	2,083,759
Legal and professional		5,791,506	17,354,618
Rent		–	12,489,602
Repairs and maintenance		5,369,386	6,845,299
Travelling and conveyance		2,932,142	3,555,482
Fee and subscription		38,568,450	30,183,930
Security services		654,720	710,882
Insurance		434,914	435,628
SECP supervision fee	28.2	1,995,696	2,182,821
Auditors' remuneration	28.3	759,000	759,000
Provision for ECL			
- annual subscription receivable	22.1	1,051,406	1,010,000
- other receivables	24.1	1,505,375	505,390
		2,556,781	1,515,390
Marketing expense		4,276,399	5,646,809
Printing and stationery		299,541	262,224
CWIP written off		3,790,000	–
Entertainment		1,178,330	982,274
		298,267,591	271,733,450

28.1 Total number of employees as at June 30, 2020 is 85 (2019: 87). Average number of employees during the year ended June 30, 2020 is 85 (2019: 83).

28.2 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.

28.3 Auditors' remuneration

	Rupees	
	2020	2019
Annual audit fee	483,000	483,000
Fee for review of:		
Half yearly financial information	172,500	172,500
Code of Corporate Governance	34,500	34,500
Out of pocket expenses	69,000	69,000
	759,000	759,000

29 OTHER INCOME

	Note	Rupees	
		2020	2019
Income from financial assets			
Mark-up on bank deposits		2,179,255	1,962,970
Interest on Market Treasury Bills		14,255,496	9,332,784
Unrealized loss on remeasurement of investments		4,267,562	(43,116)
Loss on sale of investments		–	(2,790)
		20,702,313	11,249,848
Income from non - financial assets			
Loss on disposal of equipment		328,534	(20,203)
CGT processing charges		5,013,390	4,457,570
Others		936,644	2,393,308
		26,980,881	18,080,523

30 FINANCE COST

Finance lease charges		6,978,094	–
Others		839,244	2,030,540
		7,817,338	2,030,540

31 TAXATION

Current	31.1	6,416,612	10,721,727
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31.1 The provision for current income tax is based on Alternate 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.

31.2 The Exchange has not recognised deferred tax asset amounting to Rs. 41.078 million as at June 30, 2020 on deductible temporary differences aggregating to Rs. 89.256 million as at June 30, 2020 as timing of availability of sufficient taxable profits cannot be determined due to applicability of minimum tax and alternative corporate tax under section 113 and 113C of the Ordinance respectively.

32 EARNINGS PER SHARE - BASIC AND DILUTED

32.1 Basic earnings per share

	2020	2019
Profit attributable to ordinary shareholders (Rupees)	31,832,211	52,347,257
Weighted average number of ordinary shares	31,355,162	31,355,162
Earnings per share	1.02	1.67

32.2 Diluted earnings per share

There are no shares that are dilutive in nature.

33 CASH GENERATED FROM OPERATIONS

	Note	Rupees	
		2020	2019
Profit before taxation		37,744,776	63,068,984
Adjustments for non-cash and other items:			
Depreciation		18,340,862	8,003,229
Amortization		4,654,571	5,386,350
CWIP written off		3,790,000	–
Provision for gratuity		7,609,453	6,701,325
Provision for provident fund		7,577,676	6,742,521
Finance cost		839,244	2,030,540
Unrealized (gain) / loss on remeasurement of investments		(4,267,562)	43,116
Loss on sale of investments		–	2,790
Return on government securities		(14,255,496)	(9,332,784)
Mark-up on bank deposits		(2,179,255)	(1,962,970)
(Gain) / loss on disposal of property and equipment		(328,534)	20,203
Provision for ECL		2,556,781	1,515,390
Working capital changes	33.1	(26,805,647)	60,917,948
		35,276,871	143,136,642

33.1 Working capital changes

Decrease / (increase) in current assets			
Supplies and consumables		14,792	124,932
Annual subscription receivable		(13,406,696)	34,781,555
Advances, deposits and short-term prepayments		3,245,374	506,288
Other receivables		(15,574,232)	1,290,032
		(25,720,762)	36,702,807
(Decrease) / increase in current liabilities			
Advance annual subscription and other fee		(2,607,129)	(121,531)
Creditors, accrued and other liabilities		1,522,244	24,336,672
		(26,805,647)	60,917,948

34 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

		Rupees	
		2020	2019
34.1 Financial instruments by category			
Financial assets			
At FVTPL			
Investment in Market Treasury Bills		1,961,673,781	1,531,007,173
At Amortised cost			
- Annual subscription receivable		20,145,100	6,698,018
- Deposits		2,096,244	2,627,270
- Other receivables		45,535,970	34,862,592
- Cash and bank balances		51,052,548	55,062,623
		2,080,503,643	1,630,257,676

Rupees

	2020	2019
Financial liabilities		
At amortized cost		
- Long-term deposits	160,319,915	163,895,317
- Staff gratuity fund	16,312,654	15,624,300
- Staff provident fund	1,392,285	157,668
- Margins and deposits	1,859,266,477	1,428,188,825
- Payable to SGF Trust	4,099,683	5,597,615
- Creditors, accrued and other liabilities	66,812,945	70,614,777
	2,108,203,959	1,684,078,502

34.2 Fair values of financial assets and liabilities

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.

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).

Investments in Market Treasury Bills are valued under Level 2 valuation method.

34.3 Financial risk factors

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:

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.

a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Exchange's exposure to the risk of changes in market interest rates relates primarily to the Exchange's short term investments and bank deposits in saving accounts. 'At June 30, 2020 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. 19.62 million.

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, 2020.

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 deposits, bank balances, annual subscription and other receivables

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

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 and believes that it will have enough funds through profitable operations to have minimal liquidity risk.

Following are the contractual maturities of financial liabilities.

	Rupees		
	2020		
	Carrying amount / contractual cash flow	Maturity up to one year	Maturity after one year
Long-term deposits	160,319,915	–	160,319,915
Lease liabilities	44,030,482	9,225,398	34,805,084
Staff gratuity fund	16,312,654	16,312,654	–
Staff provident fund	1,392,285	1,392,285	–
Margins and deposits	1,859,266,477	1,859,266,477	–
Payable to SGF Trust	4,099,683	4,099,683	–
Creditors, accrued and other liabilities	65,406,992	65,406,992	–
	2,150,828,488	1,955,703,489	195,124,999

Rupees

	2019		
	Carrying amount / contractual cash flow	Maturity up to one year	Maturity after one year
Long-term deposits	163,895,317	–	163,895,317
Staff gratuity	15,624,300	15,624,300	–
Staff provident fund	157,668	157,668	–
Margins and deposits	1,428,188,825	1,428,188,825	–
Payable to SGF Trust	5,597,615	5,597,615	–
Creditors, accrued and other liabilities	70,539,512	70,539,512	–
	1,684,003,237	1,520,107,920	163,895,317

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 1.2 to these financial statements.

35 REMUNERATION OF DIRECTORS, CHIEF EXECUTIVE OFFICER AND EXECUTIVES

Rupees

	2020		2019		2020		2019	
	Managing Director/CEO		Non-Executive Directors		Executives			
Managerial remuneration	18,488,400	16,076,412	–	–	52,673,446	46,377,022		
Allowances	–	–	–	–	22,537,404	16,263,798		
Bonus	5,358,804	3,494,871	–	–	7,314,880	5,373,184		
Gratuity fund	1,344,612	1,169,196	–	–	3,830,794	3,412,571		
Provident fund	1,344,612	1,169,196	–	–	3,830,794	3,412,571		
Directors' fee	–	–	2,445,000	2,070,000	–	–		
Others	240,000	240,000	1,390,023	2,728,964	–	–		
	28,317,128	22,149,675	3,835,023	4,798,964	90,187,318	74,839,146		
Number of persons	1	1	9	8	23	24		

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

36 TRANSACTIONS WITH RELATED PARTIES

36.1 Related parties comprise of associates, staff retirement funds, investor funds, directors and key management personnel.

Details of transactions with related parties, other than those disclosed elsewhere in financial statements, are as follows:

			Rupees	
Name of related party	Relationship with exchange	Nature of transaction	2020	2019
Zahid Latif Securities (Private) Limited	Common directorship	Receipt of deposit against initial margin	–	10,810,500
		Repayment of deposit against initial margin	(16,111,286)	(5,283,226)
		Receipt of clearing house deposit	2,437,038	–
		Repayment of clearing house deposit	(1,154,461)	–
		Receipt of annual subscription	75,000	75,000
		Receipt of technology fee	–	120,000
			(14,753,709)	5,722,274
Rawalpindi Chamber of Commerce	Common directorship	Sponsorship	–	200,000
ISE REIT Management Limited	Associated undertaking by virtue of shareholding	Rent and utilities	2,043,608	2,067,923
Zarai Taraqiat Bank Limited	Associated undertaking by virtue of shareholding	Reimbursement of expenses	–	93,459
PMEX Gratuity Fund Trust		Payment to fund	7,760,343	37,782,192
PMEX Provident Fund Trust		Payment to fund	13,920,735	14,409,362
PMEX SGF Trust		Payment to fund	67,315,831	68,813,718
PMEX Investor Protection Fund Trust		Payment to fund	1,334,741	1,665,876
Key management personnel (excluding Managing Director)			46,979,206	37,804,065

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

36.3 The outstanding balance with related parties as at year end are included with respective notes to the financial statements.

37 COVID 19 PANDEMIC

During the year, COVID-19 was declared pandemic by the World Health Organization and Government of Pakistan which significantly impacted the financial markets around the globe. As a result, stocks / commodity markets have declined sharply and volatility has increased. However, the management believes that there is no significant impact of COVID-19 due to the fact that during the year the performance of the commodity market in Pakistan did not show a downward trend.

38 DATE OF AUTHORIZATION FOR ISSUE

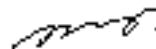
These financial statements have been authorised for issue on 21 September 2020 by the Board of Directors of the Exchange.

39 GENERAL

Figures have been rounded off to the nearest Rupee.



Chairman



Managing Director

Notice of Annual General Meeting

Notice is hereby given that the 19th Annual General Meeting (AGM) of the shareholders of **Pakistan Mercantile Exchange Limited** will be held at **10:00 am on Tuesday, October 27, 2020**, at the Registered Office of the Exchange, situated at 3B, 3rd Floor, Bahria Complex IV, Ch. Khaliq-uz-Zaman Road, Gizri, Karachi. The AGM can also be attended through video conferencing arrangements as per the process described in Notes. Following business will be transacted in the AGM:

Ordinary Business:

1. To confirm the minutes of the Annual General Meeting held on October 25, 2020.
2. To receive and consider the Directors' Report and Audited Annual Financial Statements together with Auditors' Report thereon for the year ended June 30, 2020.
3. To appoint auditors for the year ending June 30, 2021 and fix their remuneration.

Special Business:

4. To consider and, if considered fit, to pass the following special resolution (Statement required under section 134 (3) of the Companies Act, 2017 is given in the Notes):

RESOLVED that Memorandum of Association shall be amended as follows:

Existing Clause	Promised Clause
<p>78. A meeting of the Board for the time being at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretion by or under the Articles vested in or exercisable by the Board generally. The quorum for the meeting of Directors shall be three. If the Company obtains listing of its shares on any stock exchange, the quorum for a meeting of the Directors shall be one-third of their number or four (4), whichever is greater.</p>	<p>78. A meeting of the Board for the time being at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretion by or under the Articles vested in or exercisable by the Board generally. The quorum for the meeting of Directors shall be one-half of total number of directors, or four, whichever is greater. Provided that at least one-third of independent directors must be present in a meetin to constitute a quorum.</p>
<p>87. The office of a Director shall ipso facto be vacated if:</p> <p>(b) he absents himself from three consecutive meetings of the Directors or from all the meetings of the Directors for a continuous period of three months, whichever is the longer, without leave of absence from the irectors. The appointment of an Alternate Director will constitute leave of absence from the Board to the Director for whom such Alternate is appointed during such Director's absence.</p>	<p>87. The office of a Director shall ipso facto be vacated if:</p> <p>(b) he absents himself from three consecutive meetings of the board without seeking leave of absence.</p>

Existing Clause	Promised Clause
91. No dividends shall be paid otherwise than out of profits of the year, or any other undistributed profits from prior years.	91. No dividend shall be declared or paid by the company for any financial year out of the profits of the company made from the sale or disposal of any immovable property or assets of a capital nature, or out of unrealized gain on investment property credited to profit and loss account.
Clause 96: (b) Unclaimed dividends may be invested or otherwise used by Board for the benefit of the Company until claimed.	Clause 96: (b) Shall be deleted

By order of the Board of Directors



Farhan Tahir
Company Secretary

Karachi: October 06, 2020

Notes:

1. Attending the AGM through Video Conferencing

The shareholders interested to attend the AGM through video-conferencing are to email the proxy form with relevant completed information by Friday, October 23, 2020 at: farhan.tahir@pmex.com.pk with subject: "19th Annual General Meeting of PMEX" along with the scanned copies of CNICs of themselves and their proxies / Board Resolution. The video-link and the login credentials will be sent at the email addresses provided on proxy form.

2. Statement of Material Facts under Section 134 (3) of the Companies Act, 2017

The above clauses of Articles of Association of PMEX are inconsistent with the provisions of the Companies Act, 2017 and Futures Exchanges (Licensing and Operations) Regulations, 2017. Although, the provisions of applicable laws and Regulations would always prevail over the provisions of Articles of Association, however, removal of inconsistencies is necessary.

None of the directors has any direct or indirect interest in the matter.

Proxy Form



To attend 19th Annual General Meeting of
PAKISTAN MERCANTILE EXCHANGE LIMITED

I / we, _____ (name of shareholder)

holding CNIC/Passport No. _____ being a shareholder of

Pakistan Mercantile Exchange Limited hereby appoint _____ holding

CNIC/Passport No. _____ or failing him/her hereby appoint

_____ holding CNIC/Passport No. _____

as my / our Proxy in my/ our absence to attend and vote for me / us, and on my / our behalf at the 19th Annual General Meeting (AGM) of the Company to be held on **Tuesday, October 27, 2020**, or at any adjournment thereof.

The AGM will be attended through video conferencing. The required information is given below:

Name of Individual/Nominee	Cell Number	Email address

Signed on _____, 2020.

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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