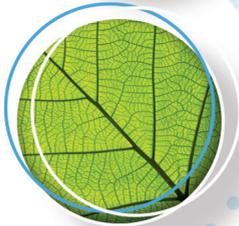


Annual Report 2021



Nurturing SUCCESS



Annual Report 2021



YOUR FUTURES EXCHANGE
THE EXCHANGE OF THE FUTURE



Nurturing SUCCESS

Since commencing operations in 2007,
Pakistan Mercantile Exchange

(PMEX) has passed through
various phases to gain
strength and positioned itself
as a service provider on a
Pan Pakistan basis. The journey

involved setting a firm foundation,
developing and strengthening the core
infrastructure, building synergy with
stakeholders, expanding the reach and
being ready to launch the Exchange
services on a Pan Pakistan basis.
By the grace of God, PMEX is now fully
geared up and is providing a vibrant
and efficient ecosystem for trading
commodity futures in the country.





Setting a Firm Foundation

Setting a firm foundation is the key to any organization's success. Fourteen years back, PMEX unfurled into the first phase of its journey with a vision to develop an innovative and sustainable ecosystem for the trading of commodity futures in Pakistan with a special focus on indigenous commodities. After listing almost all desirable cash-settled contracts of international commodities, the Exchange is aggressively working towards listing local commodities onto its platform as well.





Strengthening the Core

The Exchange never felt complacent, kept on raising the bar and setting new standards of excellence and innovation. This included reengineering of processes, continuous upgradation of technology to develop a state-of-the-art ecosystem, expanding product suite and introducing digitalization to meet the requirement of the market participants.



Building Synergy with Stakeholders

PMEX strongly believes that success lies in creating a win-win proposition for all stakeholders. Achieving the above entails joining hands with all stakeholders to reach a common objective. Be it the brokers, market makers or the technology providers, the Exchange is committed to providing opportunities for their growth as the Exchange grows in the future. We strongly feel that only by working together, the stakeholders can fully reap the benefits of the opportunities being offered by the Exchange.



Expanding the Reach

In the domestic market, the Exchange is all set to facilitate the trading of Electronic Warehouse Receipts (EWRs). In parallel, for offering agri and non-agri commodities of Pakistan to overseas buyers, PMEX has established its fully owned subsidiary, Global Commodity Trading Platform (GCTP). With regards to retail reach, the Exchange has enabled its brokers to forge meaningful partnerships with other entities having a potential client base across Pakistan to facilitate nationwide expansion.



Ready to Launch on Pan Pakistan Basis

Being a digital Exchange, PMEX feels that it is ideally poised to serve the retail clients and provide services on a Pan Pakistan basis through its broker network. Since the Exchange is geographically neutral and all client dealing is directly with the Exchange, brokers can now concentrate on their core competence that is introducing new clients from across the country to the Exchange. Considering the ecosystem that has been put in place, the stage is set for the Exchange to achieve its full potential in near future.

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 - textiles and sugar. In terms of potential, the agriculture sector of Pakistan not only produces for the domestic population but has surplus production for exports.

Despite having enormous potential, the agriculture sector has played a limited role in Pakistan's economy due to some inherent problems. One of the stumbling blocks to progress is the lack of documentation from production to retail sales. Moreover, small farmers find it difficult to acquire credit due to the non-availability of acceptable collaterals resulting in either borrowing funds from non-banking sources for the purchase of inputs or to sell the commodities at low prices to the middlemen to meet urgent financial needs, which deprives them of earning a fair profit.

To overcome the above-mentioned impediments, the Government of Pakistan (GoP) led by the Securities & Exchange Commission of Pakistan (SECP) in collaboration with the relevant institutions conceived and implemented the Electronic Warehouse Receipt (EWR) System. The system aims at developing a robust market for the indigenous agricultural commodities for ushering economic growth and alleviating poverty.

The EWR provides three options to the farmers:

1. Safekeeping of commodities to avoid post-harvest losses and initial price decline
2. Trading of EWR at PMEX platform to efficiently dispose of the produce at a fair price
3. Using EWR as collateral for borrowing from the banks at competitive interest rates, avoiding distress selling and earning a fair return on their produce.

The Exchange is confident that EWR system will revolutionize the agriculture landscape of the country and yield a myriad of benefits to the key stakeholders of the agriculture value chain.

It will help the GoP to document the agricultural sector and realize the ultimate objective of achieving food security. The added advantage will be the expansion of tax net. Other significant benefits include standardization of commodities through grading, and reduction in post-harvest losses. Moreover, the country will earn additional foreign exchange by exporting the saved quantities.

Similarly, it would encourage investment in high-quality warehouses and their management systems throughout the country, thereby creating investment and employment opportunities.

Finally, the trading of EWR at PMEX will create a vibrant, unified national market for agricultural commodities. The Exchange is confident that creation of a Pan-Pakistan market will help in revitalizing the agricultural sector of the country.

Pakistan's first Collateral Management Company (CMC) has commenced its operations and started accreditation of warehouses in the country. The accredited warehouses have also started issuing EWRs. PMEX has successfully integrated its system with CMC to offer end-to-end trading facility for EWRs. It is anticipated that once issuance of EWRs attains substantial level, trading of EWRs will start at PMEX.

Moving forward, PMEX plans to integrate the EWR trading platform with the Global Commodity Trading Platform (GCTP), which is expected to become operational in the first quarter of 2022. Connecting GCTP to CMC/EWR system seamlessly would enable CMC participants to offer their produce to local as well as international buyers. PMEX is confident that such integration will enhance the marketplace for local producers by allowing them to sell their products to local as well as global customers.

PMEX to Unveil Global Commodity Trading Platform

In today's global market place, buyers purchase a wide array of commodities from different parts of the world. The global buyers, however, face various challenges while buying commodities across geographical boundaries. Traditionally, they go through a long and cumbersome process of procuring such commodities that includes but not limited to; quality assurance of the commodities as per international standards, issuance of Letter of Credits for sellers, procurement challenges such as ground logistics, sea cargo, procurement of insurances and overcoming local custom hurdles prior to getting the commodities delivered at their desired ports.

In Pakistan, farmers and commodity stockists produce and export a rich variety of agricultural and non-agricultural commodities globally. It is often very challenging for them to find the international buyers or satisfy their demands due to various by-laws and operational challenges in their respective countries. As a result, they tend to lose their market share against competing countries.

Keeping in view the challenges faced by local sellers and global buyers, PMEX has set up a wholly-owned subsidiary under the name Global Commodity Trading Platform (Pvt.) Limited (GCTP).

GCTP will offer an ecommerce platform for trading commodities. This digital platform will facilitate the Pakistani commodity sellers to sell their commodities to global buyers electronically and offer an end-to-end trade process through a one-window solution. It will take care of buyers/sellers trading agreements, quality certifications, customs inspection and clearance, marine insurances, worldwide delivery along with providing a fully integrated payment solution for the convenience of its customers.

GCTP has partnered with HashMove to provide an advanced logistics platform. This platform brings shipping lines, freight forwarders, customs agents, insurance companies, quality inspection companies and bonded warehouses to complete the entire ecosystem of the logistics.

For the first time in Pakistan, GCTP will offer an opportunity to the sellers to sell their commodities globally and get prompt payment without being registered as exporters. Also, the sellers will not have to prepare export-related documents, which will be handled by GCTP on their behalf. Moreover, by listing commodities at GCTP, the sellers will be able to showcase their products in new markets and attract buyers from all over the world.

The global buyers will have the advantage to reach a wide variety of verified commodity sellers at GCTP. They will not only have the opportunity to purchase commodities with quality certification as per the international

standards, but also at competitive prices and get the delivery of purchased goods at the port of their choice with the click of a few buttons. The GCTP will provide the buyers with the security of their money until the trade is successfully executed and the goods are dispatched from Pakistani port to their respective destination.

At GCTP, a universe of commodities, including both agriculture and non-agriculture, will be available for trading. These commodities will be introduced phase-wise. In the first phase, rice, guar gum, pink salt, dates, mango, peach and guava pulp, marble, gypsum, iron ore, barite and magnesite are being targeted for trading.

GCTP will go live in the first quarter of 2022. PMEX is confident that GCTP will act as a catalyst in enhancing the exports of Pakistan. It will develop a new community of commodity sellers, within Pakistan, to embrace a digital model for selling commodities to overseas buyers. It will also enable this community to go online, interact with its e-commerce platform, harness the power of online sales and reach new buyers located anywhere in the world.

Trading of Physical Gold

In Pakistan, gold is considered a luxury commodity as opposed to the rest of the world. In reality, Gold is a strategic asset of the country that not only gives protection in times of financial turmoil, but also provides a hedge against inflation.

The perception of gold as a luxury commodity within the country has led to various issues which need immediate attention. First and foremost, it is imperative to change the current perception and to work towards proper management of this important strategic asset of the country. In essence, gold should be recognized as a universal currency, a strategic asset of the country and all efforts should be made with regards to documentation and trading of this important commodity. In other words, just as foreign currency reserves are handled meticulously with utmost caution, gold should get the exact same treatment being an international currency.

At present, proper documentation is not available with regards to current gold holdings in the country. Similarly, import and export figures are either not available or cannot be trusted, where available. PMEX feels that it can play an important role in the management and trading of this important commodity as being done by various other commodities exchanges around the globe.

Managing this important commodity on a regulated licensed platform of PMEX would lead to numerous benefits such as:

- a. Widening of tax Net:** Since buyers will purchase Gold at PMEX's platform, documentation as well as trailing of movement of cash and Gold will pose no difficulty.
- b. Protection of Investors:** Investors would get 100% genuine product, while PMEX will ensure effective cash management for all participants.
- c. Creation of a Full-fledged Gold-backed Investment Industry:** The intrinsic value of a commodity/asset enhances when financial institutions are able to use it as collateral. Since Gold traded at PMEX will have certified quality, it will become readily acceptable collateral.

To achieve the above, PMEX has developed a mechanism/proposal which currently under discussion with Prime Minister's Task Force, Securities & Exchange Commission of Pakistan (SECP), Pakistan Gems Jewellery Traders and Exporters Association (PGJTEA) and the financial sector i.e., mutual funds dealing in physical gold.

Following are some of the salient points of the mechanism/proposal:

- a. Gold import to be restricted to PMEX TRE Certificate Holders only
- b. Importer will be allowed to sell Gold at PMEX. This will encourage to sale/purchase of Gold at a regulated platform
- c. Central bank should allow for a formal procedure so that the importer can remit foreign exchange outside of Pakistan through formal banking channels
- d. Government taxes should be lowered in order to make import of gold through official channels viable

PMEX is confident that proper management of this asset would go a long way in improving the financial standing and credit worthiness of the country.

PMEX to Broaden Retail Investors' Base

It is the vision of the Exchange to become a household name in Pakistan. In line with this objective, the Exchange relentlessly strives to build a vibrant and resilient commodity futures market that can cater to the needs of a diversified investor base, comprising of both retail and institutional investors. The Exchange is fully cognizant that breadth and depth of retail participation contribute to both market liquidity and resilience. Therefore, it has embarked upon an endeavor to increase the presence and direct participation of retail investors in the commodity market.

To achieve the objective, PMEX is working on a multi-pronged strategy which comprises of:

- 1) Introducing Investor-Friendly Products
- 2) Introducing Online Account Opening
- 3) Automating Direct Funds Model
- 4) Creating Awareness about Trading of Commodity Futures
- 5) Ensuring PMEX Brokers' Presence on a Pan-Pakistan Basis

Introducing Investor-Friendly Products

As an ongoing pursuit, PMEX has increased market depth as well as created new opportunities for the market participants. Over the years, the Exchange has diversified its product suite by listing various commodities under metals, energy, indices, currencies and agriculture categories, which are being traded actively at leading exchanges around the world along with the local commodities. This has boosted the confidence of market participants and encouraged them to actively trade at the Exchange.

To further broaden the investor's base, with a special focus on developing retail clientele, PMEX is actively working on diversifying its product suite by listing the products most sought after by the retail investors. Furthermore, the Exchange will develop the systems and procedures in a manner so that retail investors can invest with utmost ease and convenience.

At present, the Exchange is working to bring the trading of physical gold at its platform with easy-to-understand terms and conditions and help the

investors to convert gold into a financial asset. In parallel, PMEX is also working on introducing Treasury Bills (T-Bills). Investments in government securities such as T-Bills are one of the safest investment options available to retail investors as these are risk-free, highly liquid instruments and accepted as collaterals as well.

The Exchange is confident that by offering trading opportunities in physical gold and T-Bills, PMEX brokers will be able to cater to the needs of a wider market segment. Moreover, investors will get the opportunity to diversify their investment portfolios.

Introducing Online Account Opening

The Exchange is fully cognizant that digitalization can greatly reduce the barrier of entry for retail investors. Therefore, PMEX is focusing on streamlining the account opening experience for investors through the digital customer onboarding. The Exchange is working in collaboration with National Clearing Company of Pakistan Limited (NCCPL) to introduce Online Account Opening. This facility will allow the investors to open their accounts conveniently from anywhere in the country and without submitting any documents physically or visiting office of the brokers in person.

The new online account opening will provide a secure, fast and seamless customer experience that will boost the confidence of the retail investors, encourage the use of technology and foster financial inclusion. It is expected that this initiative would revolutionize trading of the commodity futures in Pakistan and contribute significantly towards the economic growth of the country.

Automating Direct Funds Model

At present, the Exchange, under the Direct Funds Model (DFM), directly collects funds from clients as well as transfers funds to the bank accounts of clients without involvement of broker(s). The DFM empowers the clients to get complete control of their assets at all times and restricts the role of brokers primarily to servicing the existing clients and soliciting new businesses. However, the DFM is not fully automated at the moment due to which funds collection and withdrawal become time-consuming and cumbersome at times.

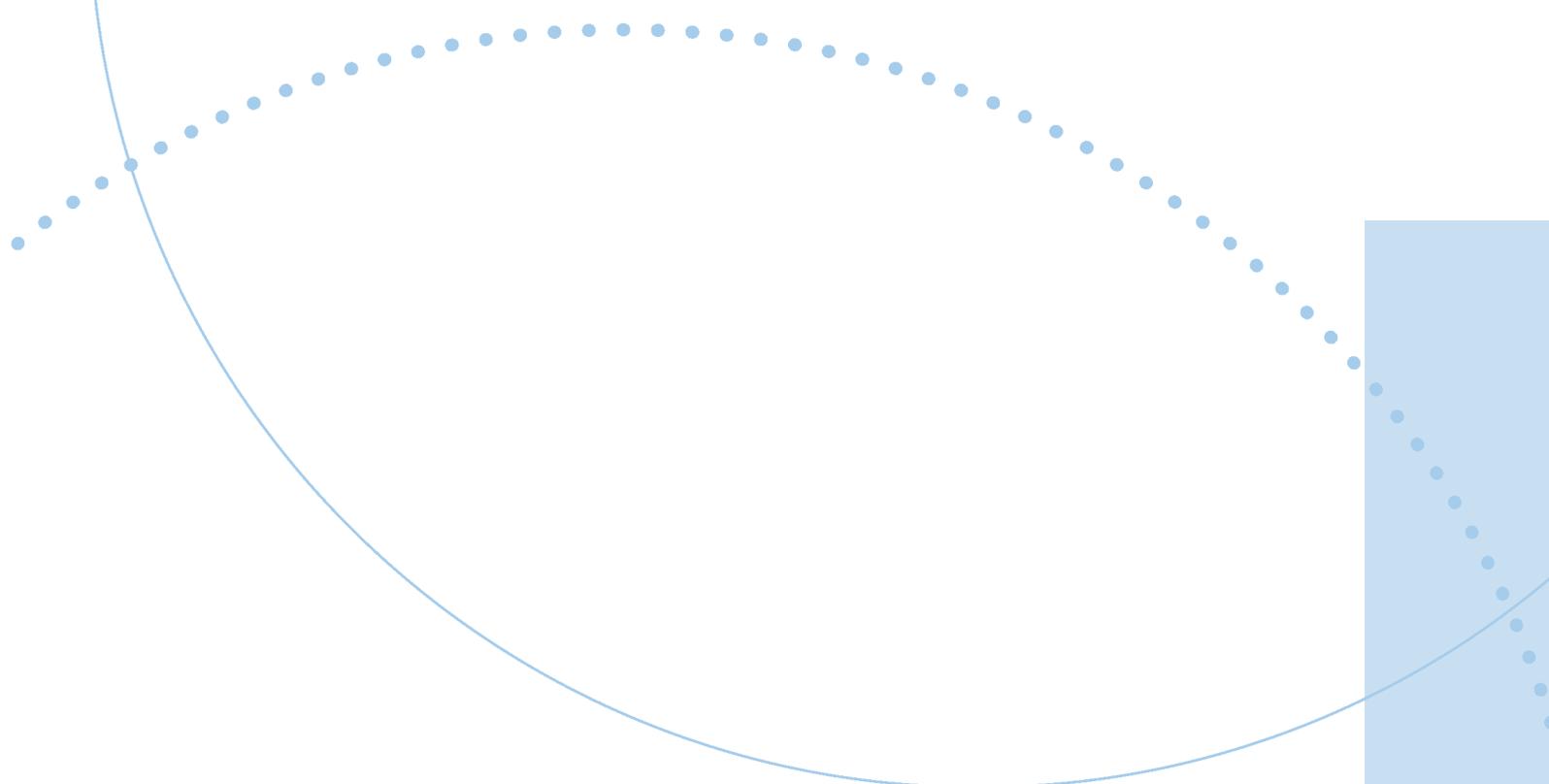
To provide a fast and frictionless customer experience, PMEX is working to fully automate DFM and introduce a more robust online funds transfer facility in collaboration with MCB Bank. The Exchange is confident that the fully automated DFM will enhance the customers' experience and boost their confidence to trade commodity futures at its regulated platform. The fully automated DFM is expected go live in the first half of FY22.

Creating Awareness about Trading of Commodity Futures

The Exchange is creating awareness about commodity futures trading at a regulated platform both independently and in collaboration with market regulator and brokers. The Exchange regularly conducts seminars, workshops, and webinars for organizations, educational institutes and trade bodies across the country.

Ensuring PMEX Brokers' Presence on a Pan-Pakistan Basis

To achieve the objective of increasing retail investor base, PMEX intends to increase its brokers' presence on pan-Pakistan basis. In this regard, PMEX is encouraging the brokers to build partnerships to introduce new clients using the online account opening facility. It will help the Exchange in expanding its broker presence across the country and extending its outreach to cater to the needs of a diversified investors' base.



Year 2020-
2021
at a
Glance



PMEX to List Government Treasury Bills

It is an ongoing pursuit of PMEX to increase market depth and create new opportunities for market participants. Over the years, the Exchange has diversified its product suite and has listed various local and international commodities under metals, energy, indices, currencies and agriculture categories. To further enhance investor-base, with a special focus on developing retail clientele, the Exchange plans to list Government Treasury Bills (T-Bills) futures contracts in the near future.

Treasury Bills are short-term financial instruments that are issued by the Government of Pakistan (GoP). These are sovereign and risk-free instruments. T-Bills are issued as paperless/scripless instruments and are priced at a discount with a yield equal to the difference between the purchase price and the maturity value (or face value).

Listing of T-Bill futures will enable retail investors to trade in risk-free government instruments with utmost convenience through PMEX's state-of-the-art technology-driven platform. Considering that T-Bills offer better returns and the fact that PMEX clients deal directly with the exchange (once the account is opened through a PMEX broker) in terms of money handling and investment decision making, the listing of T-Bill futures will enable the investors to buy and sell T-Bills for better returns instead of keeping cash in savings/current account(s).

PMEX understands that the key to the success of this product will depend on the convenience for the investors to buy and sell these instruments. To achieve this objective, PMEX is in the process of developing mechanisms that will enable the customers to invest with utmost convenience across all channels available at the Exchange.

PMEX Hosts Webinar Series on GCTP

PMEX announced to host webinar series to educate the commodity producers and sellers about the upcoming Global Commodity Trading Platform (GCTP).

This webinar series aims at creating awareness about using an e-commerce platform for selling indigenous commodities to overseas buyers.



These webinars offer an opportunity to commodity sellers and exporters to discover the digital way of growing their business worldwide. These sessions comprise of a one-hour presentation followed by Q&A session.

PMEX Reinstates Two-Factor Authentication

At PMEX, keeping brokers and their clients safe online is the top priority. The Exchange continuously invests in new security tools and features to keep the personal information of brokers and their clients safe, including passwords.

To strengthen the user account security, PMEX reinstated Two-Factor Authentication (2FA) on the Back Office application with effect from Monday, June 28, 2021. The 2FA is one of the simplest and most effective security features. It adds an additional layer of security to the login process. Enabling 2FA on PMEX Back Office application protects user account against unauthorized access by double-checking user identity, requiring both a traditional username/password combination and a second authentication factor using a one-time password (OTP), sent via email and SMS.

PMEX Makes Vaccination Mandatory for its Employees

The outbreak of Coronavirus disease (Covid-19) has exerted extraordinary pressure on all parts of society — from families to large and small companies. Amid this crisis, Pakistan could not be an exception.

In times of pandemic, vaccination is the only viable way to combat this global health crisis. Those who are not vaccinated are seven times more likely to catch the virus than those inoculated.



PMEX fully understands the importance of vaccination and strongly believes that a vaccinated workforce will not only put less stress on the public health systems but also facilitate in resuming economic activity much faster. In line with this ethos, the Exchange fully supported the government's rapid effort to vaccinate all eligible population by making vaccination mandatory for all its employees. At present, all PMEX employees have been administered vaccination under the Government's free vaccination drive.

The Exchange remains committed to ensuring strict compliance to COVID-19 protocols at head office and branches offices to minimize the spread of the epidemic.

PMEX Appoints Chief Operating Officer

PMEX has appointed Mr. Adnan Hafeez as Chief Operating Officer (COO). The new role of Mr. Hafeez became effective from December 01, 2020.



Mr. Hafeez has vast experience in Accountancy, Audit, Finance, and IT in various sectors in Pakistan and Gulf countries. He has led business transformations, process improvements and system deployments. Also, he has optimized resource utilization other than his strong finance expertise. He has been part of senior management in various roles and has provided consultancy and derived strategic decisions. He holds an MBA in Finance degree from the International University of Missouri (Pakistan campus).



PMEX Conducts Regulatory Awareness Session for brokers

PMEX conducted a regulatory awareness session on Thursday, May 27, 2021 for its brokers. An hour-long, online session aimed at providing understanding about the key regulatory compliance requirements of Futures Brokers (Licensing and Operations) Regulations, 2018 for effective implementation of the regulations. Mr. Tariq Sabih, Senior Manager - Regulatory Affairs, briefed the attendees about PMEX regulatory framework, licensing requirements and conduct of Commodity Futures brokers. The program was followed by a Q&A session.

Career Fairs

PMEX participated in career fairs organized by Habib University and Bahria University in Karachi. 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.



Ms. Faiza Hussain, Head of Human Resources, conducted engaging and interactive sessions. She briefed the students and the faculty members about the core business of the Exchange with special emphasis on the recruitment process. The participants watched the presentation with keen interest and also actively participated in Q&A sessions.

Awareness Programs

Futures Training 101

The Exchange conducted several online training sessions under the banner "Futures Trading 101". A wide array of people from different walks of life participated in these sessions. The training provided in-depth knowledge about futures trading at a regulated platform of PMEX.

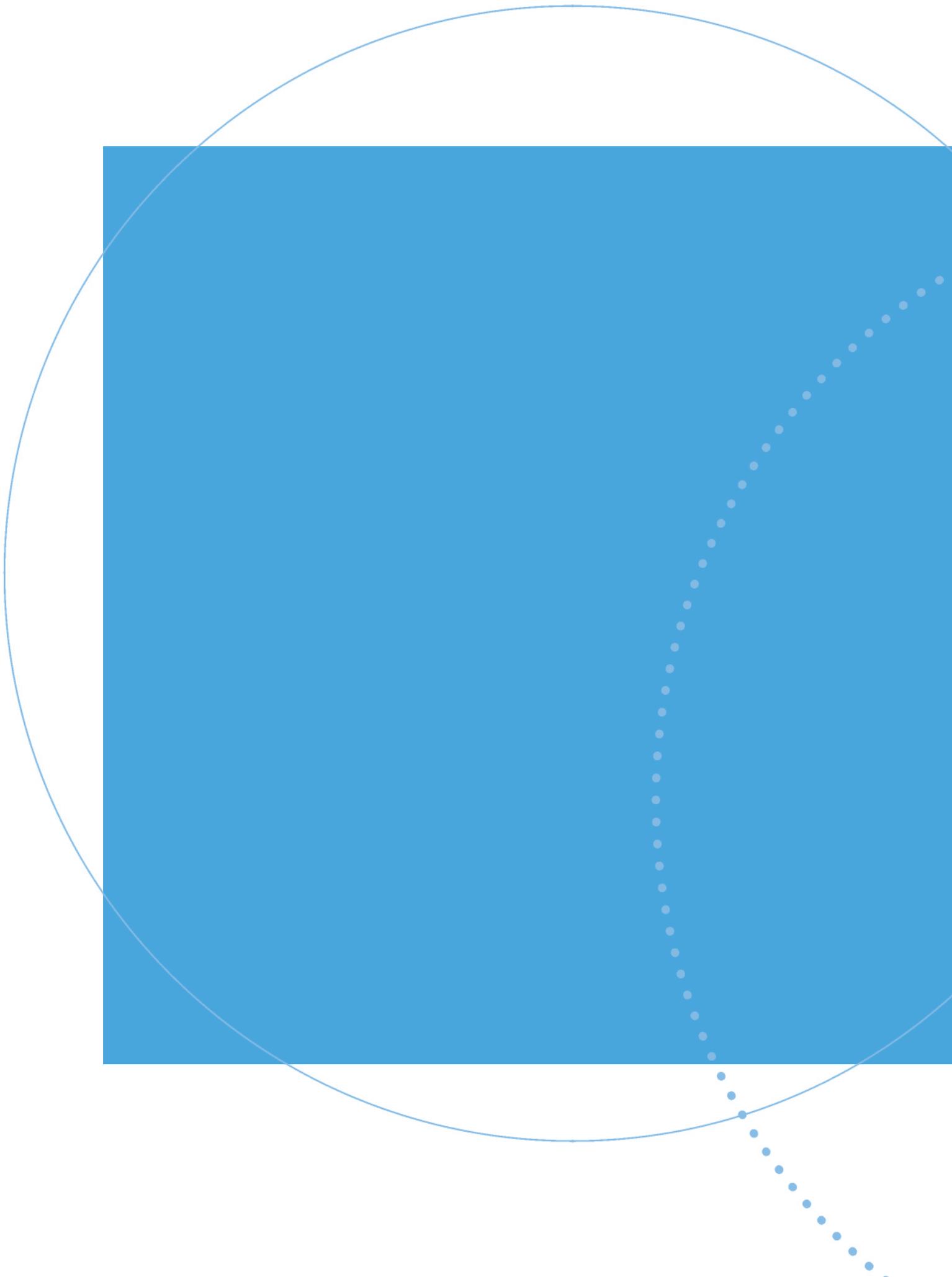
The weekly free-of-cost online training sessions are held on every Wednesday from 4:00 pm to 5:00 pm.



Webinars for Educational Institutes

PMEX organized webinars for the students and faculty members of City University (Peshawar), Iqra University, Quaid-e-Azam University, NUML University, Shaheed Zulfikar Ali Bhutto Institute of Science and Technology (SZABIST) Islamabad Campus. The participants were briefed about commodity futures trading at PMEX, Exchange's integrated business model, technology infrastructure and existing and upcoming products. The students were also briefed about MetaTrader 5 Demo Trading facility.







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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.

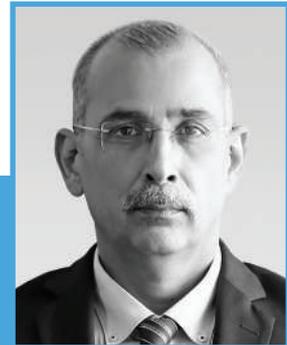
Core Values

- 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



Dr. Yusuf Zafar
Director



Zahid Latif Khan
Director

Management



Ejaz Ali Shah
Managing Director



Farhan Tahir
Chief Financial Officer &
Company Secretary



Zahid Mansoor Ali
Chief Business Officer



Shehzad Hussain
Chief Risk Officer



Tariq Sabih
Chief Regulatory Officer



Adnan Hafeez
Chief Operating Officer



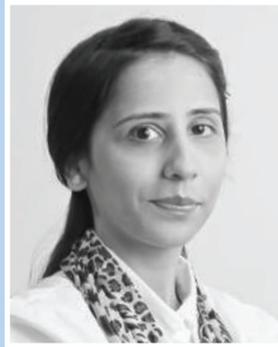
Tariq Nafees Siddiqui
Head of Operations



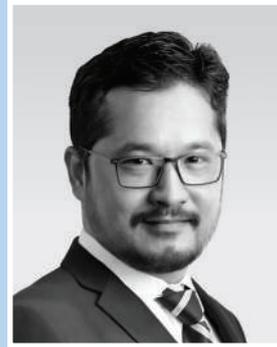
Muhammad Atif
Head of Information
Technology



Syed Mumtaz Ali
Head of Legal & Compliance



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
Mr. Rehan Mobin	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
Askari Bank

Legal Advisors

MCAS&W Law Associates

Tax Advisor

KPMG Taseer Hadi & Co. Chartered Accountant

Regulator

Securities & Exchange Commission of Pakistan

Registered Office

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

Branch Offices

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

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

Committees

Audit Committee

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

Human Resource Committee

Dr. Rashid Bajwa	Chairman
Mr. Farrukh Khan	Member
Mr. Ahmed Chinoy	Member
Mr. Rehan Mobin	Member
Mr. Zahid Latif Khan	Member
Mr. Ejaz Ali Shah (CEO)	Member

Regulatory Affairs Committee

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

Risk Committee

Dr. Rashid Bajwa	Chairman
Dr. Fatima Khushnud	Member
Dr. Yusuf Zafar	Member
Sahibzada Mansoor Ali	Industry Expert
Mr. Ejaz Ali Shah (CEO)	Member
Mr. Tariq Sabih (CRO)	Member

Steering Committee

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

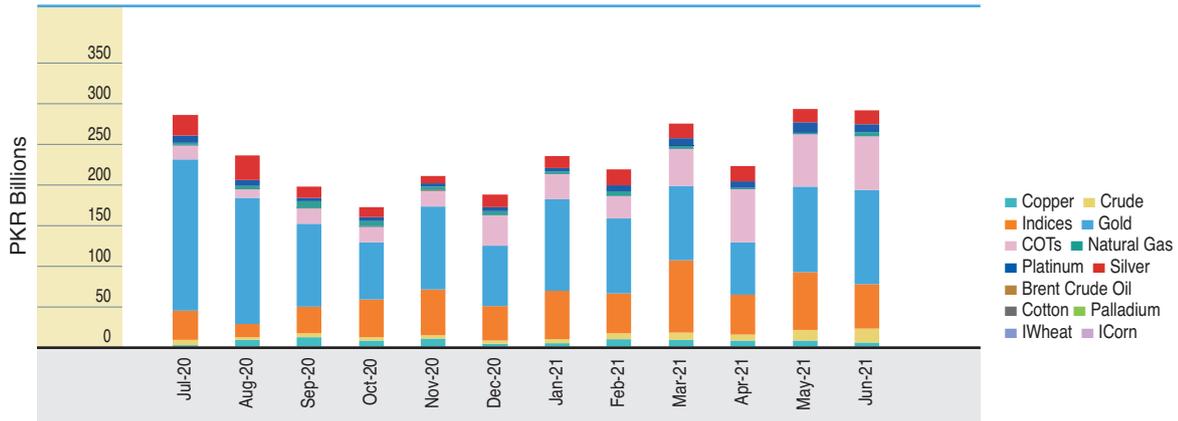
Operational Highlights

Traded Volume	Rupees		Change
	2019-2020	2020-2021	
Total traded volume	2,254,019,261,413	2,841,567,215,046	26%
Crude Oil	204,837,075,326	85,214,643,244	-58%
Brent Crude Oil	11,512,652,458	—	—
Natural Gas	21,287,277,815	50,363,376,288	137%
Gold	863,613,959,271	1,283,514,942,104	49%
Silver	97,524,928,436	211,553,023,605	117%
Platinum	74,702,062,161	88,299,585,631	18%
Palladium	11,179,069,180	244,407,096	-98%
Copper	14,563,291,255	80,477,180,771	453%
Currencies through COTS	184,665,418,142	427,704,628,298	132%
Indices	766,478,596,289	611,162,540,848	-20%
Cotton	1,394,658,943	1,119,124,115	-20%
ICorn	213,853,001	133,327,103	-38%
IWheat	1,543,190,308	1,071,583,560	-31%
ISoya	503,228,832	708,852,383	41%

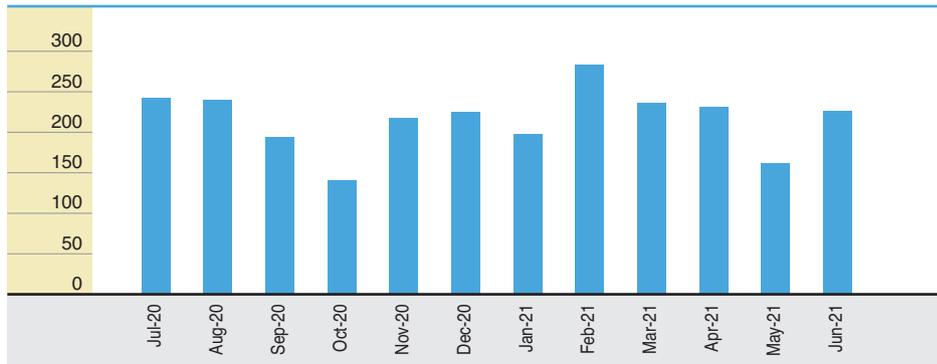
Top Ten Brokers

Ranking	Based on Traded Contracts	Based on Traded Value
1	H.G. Markets (Pvt.) Limited	H.G Markets (Pvt.) Limited
2	Enrichers (Pvt.) Limited	Blink Capital Management (Pvt.) Limited
3	Arif Habib Commodities (Pvt.) Limited	Enrichers (Pvt.) Limited
4	Askari Securities Limited	Arif Habib Commodities (Pvt.) Limited
5	Blink Capital Management (Pvt.) Limited	Askari Securities Limited
6	BIPL Securities Limited	Zahid Latif Khan Securities (Pvt.) Limited
7	JS Global Capital Limited	Trust Securities & Brokerage Limited
8	Trust Securities & Brokerage Limited	Khawaja Securities (Pvt.) Limited
9	Abbasi & Co. (Pvt.) Limited	Jahanzaib Commodities (Pvt.) Limited
10	Mohammad Munir Mohammad Ahmed Khanani Securities Limited	BIPL Securities Limited

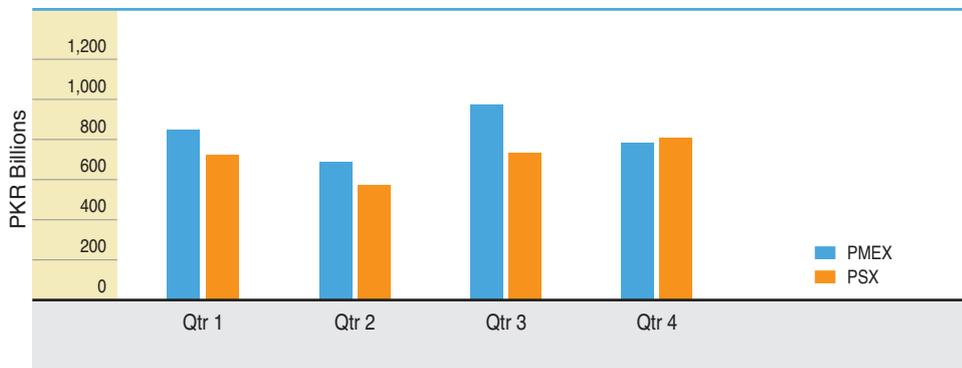
Traded Value



Total Number of Investors (UINs)



PMEX Volume Comparison with Pakistan Stock Exchange





Managing Director's Review

During FY21, the world continued to experience unprecedented global health and economic crisis due to the emerging variants of the coronavirus. Though the process of vaccination was accelerated, intermittent lockdowns were inevitable. Amid the turmoil, Pakistan could not remain an exception. As I am writing this review, the crisis continues and my thoughts remain with those who have suffered and are still facing the agony of the pandemic.

Considering the situation, PMEX decided to use the time to make itself ready to go full throttle in FY22. Team PMEX went above and beyond in not only helping each other during the year but also providing a seamless trading experience for its market participants and making itself ready for FY22. I thank the entire PMEX team for its commitment, hard work and resilience in the face of adversity.

The focus of the Exchange on the re-engineering of its processes, deploying of new technologies, introducing digitalization and offering ease in doing business were merely precursors in enabling the PMEX broker community to expand their business nationwide conveniently without incurring additional risk or investment. I am pleased to report that the current model of the Exchange has taken care of the issues that are related to expanding services nationwide as the broker role has been focused to introducing clients to the Exchange without being involved in investment decision making or money handling for the client. The model will enable PMEX brokers to focus on their core competency i.e. bringing clients on to the Exchange platform. Moreover, it also enables our brokers to develop strategic partnerships on a fee-sharing basis with entities having a potential client base to quickly expand nationwide and capture the market share.

With regards to local commodities, the hard work in developing a robust and sustainable ecosystem for the trading of indigenous commodities has started yielding fruits. Our collaboration with Pakistan's first Collateral Management Company (CMC) is expected to pave way for the trading of Electronic Warehouse Receipts (EWR) at PMEX platform in the coming days as more and more EWRs are issued.

In parallel, PMEX established a wholly-owned subsidiary namely Global Commodity Trading Platform (GCTP) for showcasing local commodities to global buyers, which is expected to commence operations in this financial year. We are hopeful that these initiatives will create a new ecosystem for trading commodities, both locally and globally, that will empower the commodity producers and sellers to optimize their earnings as well as boost the competitiveness of the agriculture sector and enhance its image in the global markets.

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



Ejaz Ali Shah
Managing Director

Dated: September 07, 2020

Directors' Report

to the Shareholders of
Pakistan Mercantile Exchange Limited

For the Year Ended June 30, 2021

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, 2021 (FY21) together with the Audited Financial Statements and Auditor's Report thereon.

Global Environment

During FY21, global economic activity gained momentum but remained highly uneven and below pre-pandemic projections. Growth was concentrated in a few major economies with most of the emerging markets and developing economies lagging behind. The progress on coronavirus vaccines brightened the economic outlook. However, unequal vaccine deployment, particularly in many emerging markets and developing economies, led to renewed waves and new variants of the virus. This hampered the return of activity to pre-pandemic levels.

The global trade witnessed a boost due to the shift in demand to trade-intensive goods from manufacturing. Trade in manufactured goods was constrained by supply bottlenecks amid localized shortages of shipping containers. The central banks around the world eased monetary policy by cutting policy rates and in many cases committed to keeping the rates low for an extended period.

Commodity prices continued their recovery with many reaching well above their pre-pandemic levels. Prices were lifted on the back of improved global growth outlook and commodity-specific supply factors for crude oil, copper, and several food commodities. Energy prices surged, with crude oil prices witnessing the fastest recovery due to higher-than-expected agreed production cuts by OPEC plus members. Base metals prices also surged, with strengthening demand across advanced and emerging markets and developing economies. Precious metal also trended higher, with Silver and Platinum prices outperforming Gold. Prices of agricultural commodities, particularly food staples, also registered substantial increase.

Pakistan Overview

The overall economic recovery gained momentum during the period under review. The recovery was attributed to the turnaround in the Large-Scale Manufacturing (LSM) and service sector. The LSM growth was driven by textile, food, cement and automobiles. While agriculture growth registered an overall slowdown as compared to last year, rice, wheat and maize reached historic production levels.

Moreover, other macroeconomic indicators remained stable which is evident from the surplus in the current account, primary balance and lower headline inflation. The monetary policy remained accommodative with policy rate maintained at 7 percent throughout the year. Furthermore, the exports showed a significant growth. The workers' remittances remained on upward trajectory as the incentives offered by the Government attracted expats to use the formal money transfer channels. While remittances and exports continued to grow steadily, the trade deficit widened due to rising imports resulting from an increase in the import of raw material and capital goods.

Business Review

Connecting to the Local Economy

PMEX collaborated with Pakistan's first Collateral Management Company (CMC) for the trading of commodities under the Electronic Warehouse Receipt (EWR) system. The Exchange completed the integration of its system with CMC to offer an end-to-end trading facility for EWRs.

In parallel, the Exchange is in the final phase of launching the Global Commodity Trading Platform (GCTP) which is expected to significantly boost exports and provide access to newer markets to the local producers and exporters. In this regard, the Exchange is in the process of setting up a wholly-owned subsidiary under the name of GCTP. The development of the platform along with integration with logistics portal and other service provider(s) is near completion.

Boosting Trading of Physical Gold

The Exchange plans to bring the trading of physical gold at its platform to regularize gold trade and ensuring its availability at the retail level. The Exchange has developed a business model for proper handling / documentation of this important commodity, which has been shared with the relevant stakeholders and regulatory authorities and is currently under discussion.

Introducing New Products

To increase market depth, create new opportunities for market participant with a special focus on developing retail clientele, the Exchange is in discussions with the Central Bank and the Commission to launch Market Treasury Bills (MTBs) on its trading platform. The Exchange has developed a working model in this regard and contracts have been designed in accordance of the working model. The Exchange is looking forward to start trading MTBs after necessary regulatory approvals.

Improving Technology Infrastructure

As part of its technology infrastructure up-gradation initiative, the Exchange switched its entire trading system to Meta Trader 5 (MT5), a globally acclaimed multi-functional trading platform. This up-gradation is aimed at providing market participants with an enhanced trading experience that is at par with the global

standards. This move has brought the Front-end trading terminal along with Back-Office and Market Making system onto a single technological platform of MT5.

Introducing Digital Payment Platform

At present, the Exchange, under the Direct Funds Model (DFM), directly collects funds from clients as well as transfers funds to the bank accounts of clients without the involvement of broker(s). The DFM empowers the clients to get complete control of their assets at all times and restricts the role of the brokers primarily to servicing the existing clients and soliciting new businesses. However, the DFM has certain manual processes due to which funds collection and withdrawal become time-consuming and cumbersome at times.

To streamline the DFM for providing a fast, frictionless customer experience for funds deposits and withdrawals, the Exchange, in collaboration with Cloudasset, has set up a unified digital transaction platform. This platform will enable digital payments, which will help the market participants in settling transactions in real-time and tracking credit and debit flows with end-to-end transparency and convenience. The integration of the digital transaction platform with DFM has been completed and the platform will be rolled out shortly.

Introducing Online Account Opening

To promote a paperless environment and further facilitate clients of commodity futures brokers, PMEX worked in collaboration with National Clearing Company of Pakistan Limited (NCCPL) to introduce Online Account Opening. This facility will allow clients to open their accounts seamlessly from

anywhere in the country without submitting any documents physically or visiting broker's office in person. The new online account opening will provide a secure, fast and seamless customer experience that will boost the confidence of the clients, encourage the use of technology and foster financial inclusion.

Creating Awareness

The Exchange continued its efforts for creating awareness about the trading of commodity futures in Pakistan. In this regard, during the period under review, PMEX organized webinars for various educational institutes.

Financial Results

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

	30-Jun-21	30-Jun-20
	(Rs. in million)	
Trading Fee - net	166.62	150.45
Operating income	301.21	317.15
Profit before taxation	13.27	37.74
Net profit after taxation (total comprehensive income)	8.67	31.83
	(Rupees)	
Earnings per share – basic and diluted	0.28	1.02

The trading fee has improved by Rs. 16.17 million. However, operating income has decreased by Rs. 15.94 million due to decrease in the share of PMEX in the income of margins and deposits by Rs. 28.81 because of decrease in interest rates in 2020-21 in the Covid-19 scenario.

The positive reflections of deferred tax of Rs. 43.76 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 three 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 unfavorable decisions, the management expects favorable 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 1.3 of the financial statements, the Exchange has applied before the Commission for extension of deadline from June 2020 to June 2024 to meet the minimum net worth of Rs. 500 million.

Board of Directors

The current Board of Directors is comprised of 09 directors including Managing Director, of which five (5) directors represent shareholders, and the remaining three (3) are independent directors appointed under Futures Exchanges (Licensing and Operations) Regulations, 2017. Directors

representing shareholders comprised of one from National Bank of Pakistan, two from Pakistan Stock Exchange Limited, and two from ISE Towers REIT. There is one casual vacancy on the Board, which will be filled by the Board in due course.

Current Board of Directors is comprised of the following:

SN	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
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 FY21 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 authorized in Articles of Association of the Exchange.

Corporate Governance

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

Principal Risks and Uncertainties

Accompanied with the continual increase in client base, 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

products with lower transaction costs and less compliance restrictions 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 re-appointment as statutory auditors for the approval of the shareholders.

Future Outlook

Going forward, under the able guidance of Securities & Exchange Commission of Pakistan (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. The commencement of operations by CMC is a major step in this direction. The issuance of EWR and its trading at the PMEX platform will facilitate documentation in the local commodity market.

In parallel, the Exchange will be unveiling GCTP, which will be a historic milestone in revolutionizing the way the sellers and buyers trade commodities not only in Pakistan, but globally. The

integration of a documented local commodity market with GCTP would not only result in opening new international markets for the indigenous commodities, but also increase exports thereby increasing the foreign exchange reserves of the country.

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 endeavor to realize the vision of a thriving commodity and futures market in Pakistan.



Managing Director



Chairman

Karachi: September 07, 2021

Annexure A

Board Meeting Attendance

Total seven (7) meetings of Board of Directors were held during FY21. Attendance history during the tenure of directorship was as follows:

Director	Meeting held during the directorship	Meetings attended
1. Dr. Rashid Bajwa	7	7
2. Mr. Ejaz Ali Shah	7	7
3. Dr. Fatima Khushnud	7	7
4. Dr. Yusuf Zafar	7	7
5. Mr. Aftab Ahmed Chaudhry	7	3
6. Mr. Ahmed Chinoy	7	7
7. Mr. Farrukh Khan	7	7
8. Mr. Rehan Mobin	7	7
9. Mr. Rehmat Ali Hasnie*	5	5
10. 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, 2021 and attendance during FY21 was as under:

Committees / Members	Meeting held during the tenure	Meetings attended
Audit Committee		
1. Dr. Yusuf Zafar – Chairman	4	4
2. Mr. Aftab Ahmed Chaudhry	4	1
3. Mr. Ahmed Chinoy	4	4
4. Mr. Rehan Mobin	4	4
5. Mr. Zahid Latif Khan	4	4
Human Resource Committee		
1. Dr. Fatima Khushnud – Chairperson	1	1
2. Mr. Farrukh Khan	1	1
3. Mr. Ahmed Chinoy	2	2
4. Mr. Rehan Mobin	2	2
5. Mr. Zahid Latif Khan	2	2
6. Dr. Yusuf Zafar	2	2
7. Mr. Ejaz Ali Shah	0	0
Regulatory Affairs Committee		
1. Dr. Rashid Bajwa – Chairman	4	4
2. Dr. Fatima Khushnud	4	4
3. Dr. Yusuf Zafar	4	4
Risk Committee		
1. Dr. Rashid Bajwa – Chairman	4	4
2. Dr. Fatima Khushnud	4	4
3. Dr. Yusuf Zafar	4	4
4. Sahibzada Mansoor Ali (Industry expert)	2	2
5. Mr. Ejaz Ali Shah – MD	4	4
6. Syed Mumtaz Ali / Mr. Muhammad Rizwan Siddiqui – CRO	4	4

* Mr. Muhammad Rizwan Siddiqui replaced Syed Mumtaz Ali during the year as Chief Regulatory Officer, but resigned subsequent to the year.

Annexure C

Shareholding pattern as of June 30, 2021

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	100.00%

Six Years' Financial Highlights

Financial years ended on June 30

	2021	2020	2019	2018	2017	2016
Balance Sheet						
Shareholders' equity	49,665,630	40,991,799	9,159,588	(37,714,923)	(78,827,951)	(64,254,052)
Long term deposits	161,264,381	160,319,915	163,895,317	197,650,000	198,400,000	196,150,000
Staff gratuity payable to fund	707,556	16,312,654	15,624,300	44,674,627	43,432,994	44,569,896
Margin and deposit with gold	2,337,246,204	2,514,037,889	2,700,727,066	2,085,665,389	1,801,296,114	1,667,544,562
Non-current assets	47,982,974	60,456,707	30,618,928	29,283,048	33,715,520	38,409,003
Investment in associates	20	20	20	20	20	20
Total Current assets	2,615,974,050	2,802,115,922	2,935,195,218	2,314,109,099	1,986,678,087	1,853,233,634
Operational Results						
Total Income	316,505,097	344,131,071	337,057,063	276,199,319	209,601,325	223,843,309
Total Expenses	303,239,875	306,386,295	273,988,078	226,706,170	221,686,071	188,698,145
Profit / (loss) after taxation	8,673,381	31,832,211	63,068,984	41,113,028	(14,573,899)	29,651,607
Earnings per share (EPS)	0.28	1.02	1.67	1.31	(0.46)	1.09

**Grant Thornton Anjum
Rahman**

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INDEPENDENT AUDITOR'S REVIEW REPORT

**To the Members of Pakistan Mercantile Exchange Limited
Review Report on the Statement of Compliance Contained in
Listed Companies (Code of Corporate Governance) Regulations, 2019**

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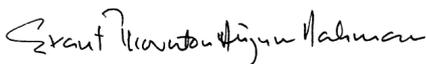
We have reviewed the enclosed Statement of Compliance with the Listed Companies (Code of Corporate Governance) Regulations, 2019 (the Regulations) prepared by the Board of Directors of Pakistan Mercantile Exchange Limited (the Exchange) for the year ended June 30, 2021 as required under Regulation 5(2)(k) of Future 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, 2021.



Chartered Accountants

Place: Karachi

Date: September 13, 2021

Pakistan Mercantile Exchange Limited

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

For the year ended June 30, 2021

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 on June 30, 2021 are nine (09) including the Managing Director as per the following:
 - a. Male: 08
 - b. Female: 01
2. The composition of the Board on June 30, 2021 is as follows:
 - (i) **Independent directors – Three (03)**
 - (a) Dr. Rashid Bajwa
 - (b) Dr. Fatima Khushnud
 - (c) Dr. Yusuf Zafar
 - (ii) **Non-executive directors – Five (05)**
 - (a) Mr. Aftab Chaudhry
 - (b) Mr. Ahmed Chinoy
 - (c) Mr. Farrukh H. Khan
 - (d) Mr. Rehan Mobin
 - (e) 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 (07) 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 Companies Act, 2017, 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 Companies Act, 2017 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 in due course.
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/managing director 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

(i)	Dr. Yusuf Zafar	Chairman
(ii)	Mr. Aftab Ahmed Chaudhry	Member
(iii)	Mr. Ahmed Chinoy	Member
(iv)	Mr. Rehan Mobin	Member
(v)	Mr. Zahid Latif Khan	Member

b) Human Resource (HR) and Remuneration Committee

(i)	Dr. Fatima Khushnud	Chairperson
(ii)	Mr. Ahmed Chinoy	Member
(iii)	Mr. Farrukh H. Khan	Member
(iv)	Mr. Rehan Mobin	Member
(v)	Dr. Yusuf Zafar	Member
(vi)	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

(i)	Dr. Rashid Bajwa	Chairman
(ii)	Dr. Fatima Khushnud	Member
(iii)	Dr. Yusuf Zafar	Member
(iv)	Sahibzada Mansoor Ali	Member (Industry expert)
(v)	Mr. Ejaz Ali Shah	Member (Managing Director)
(vi)	Mr. Rizwan Siddiqui	Member (Chief Regulatory Officer)

e) Regulatory Affairs Committee

i)	Dr. Rashid Bajwa	Chairman
ii)	Dr. Fatima Khushnud	Member
iii)	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 committee held during the year was as follows:

Name of Committee		Number of Meetings
i)	Audit Committee	4
ii)	HR and Remuneration Committee	3
iii)	Risk Committee	4
iv)	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 Companies Act, 2017, 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: September 07, 2021
Place: Karachi



Chairman

**Grant Thornton Anjum
Rahman**

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Beaumont Road,
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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the annexed financial statements of **Pakistan Mercantile Exchange Limited** (the Exchange), which comprise of the statement of financial position as at June 30, 2021, 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 statement of cash flows together with the notes forming part thereof conform with the accounting and reporting standards as applicable in Pakistan and give the information required by the Companies Act, 2017 (XIX of 2017), in the manner so required and respectively give a true and fair view of the state of the Exchange's affairs as at June 30, 2021 and of the profit or loss and other comprehensive income, 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 1.3 to the financial statements which explains the measures being taken by the Exchange to meet its minimum capital requirement as required by the Futures Market Act, 2016. Our opinion is not qualified in respect of this matter.

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

Management is responsible for the other information. The other information comprises the information included in the Annual report for the year ended June 30, 2021, 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 do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. 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 the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

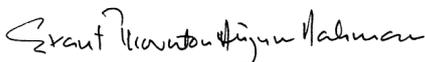
We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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 income and expenditure, the statement of other comprehensive income, the statement of changes in funds 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.

The engagement partner on the audit resulting in this independent auditor's report is **Muhammad Shaukat Naseeb**.



Chartered Accountants

Karachi

Date: September 13, 2021

Statement of Financial Position

As at June 30, 2021

	Note	Rupees	
		2021	2020
EQUITY AND LIABILITIES			
Share capital and reserves			
Authorised share capital 100,000,000 (June 30, 2020: 100,000,000) ordinary shares of Rs. 10 each		1,000,000,000	1,000,000,000
Issued, subscribed and paid-up share capital	7	313,551,620	313,551,620
Reserves	8	(263,885,990)	(272,559,821)
Total shareholders' equity		49,665,630	40,991,799
Non-current liabilities			
Long-term deposits	9	161,264,381	160,319,915
Lease liabilities	10	22,307,424	34,805,084
		183,571,805	195,124,999
Current liabilities			
Staff gratuity fund	11	707,556	16,312,654
Staff provident fund	12	1,658,601	1,392,285
Margins and deposits	13	1,741,316,178	1,859,266,477
Payable to SGF Trust	14	3,065,670	4,099,683
Gold held on behalf of brokers / clients		595,930,026	654,771,412
Advance annual subscription and other fee	15	13,987,497	14,574,997
Current portion of lease liability	10	12,429,467	9,225,398
Creditors, accrued and other liabilities	16	61,624,594	66,812,945
		2,430,719,589	2,626,455,851
		2,663,957,024	2,862,572,649
Contingencies and commitments	17		

The annexed notes from 1 to 38 form an integral part of these financial statements.



Chairman

		Rupees	
	Note	2021	2020
ASSETS			
Non-current assets			
Property and equipment	18	19,990,245	18,485,782
Right of use assets	19	26,853,458	38,553,172
Intangible assets	20	1,139,251	3,417,753
Investment in associates	21	20	20
		47,982,974	60,456,727
Current assets			
Supplies and consumables		429,264	429,264
Annual subscription receivable	22	32,203,397	20,145,100
Deposits and prepayments	23	7,953,465	6,122,184
Other receivables	24	46,600,076	45,535,970
Short term investments	25	1,460,217,695	1,961,673,781
Gold held on behalf of brokers/clients		595,930,026	654,771,412
Taxation - net		65,521,284	62,385,663
Cash and bank balances	26	407,118,843	51,052,548
		2,615,974,050	2,802,115,922
		2,663,957,024	2,862,572,649



Managing Director

Statement of Profit or Loss and Other Comprehensive Income

For the year ended June 30, 2021

	Note	2021	2020
Operating income	27	301,213,318	317,150,190
Operating and administrative expenses	28	(296,723,352)	(298,267,591)
		4,489,966	18,882,599
Other income	29	15,291,779	26,980,881
Other charges		(374,008)	(301,366)
Finance cost	30	(6,142,515)	(7,817,338)
Profit before taxation		13,265,221	37,744,776
Taxation	31	(4,591,390)	(5,912,565)
Net profit after taxation		8,673,831	31,832,211
Other comprehensive income for the year		–	–
Total comprehensive income for the year		8,673,831	31,832,211
Earnings per share - basic and diluted	32	0.28	1.02

The annexed notes from 1 to 38 form an integral part of these financial statements.



Chairman



Managing Director

Statement of Cash Flows

For the year ended June 30, 2021

	Note	Rupees	
		2021	2020
A. CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	33	22,589,495	35,276,871
Long-term deposits paid		944,466	(3,575,402)
Taxes paid		(7,727,012)	(25,938,980)
Provident fund paid		(7,999,644)	(6,343,060)
Gratuity paid		(22,987,645)	(7,760,343)
Net cash outflows from operating activities		(15,180,340)	(8,340,914)
B. CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	18	(8,605,324)	(6,458,279)
Proceeds from disposal of property and equipment		–	330,300
Purchase of investment in government securities		(479,112,223)	(518,515,898)
Proceeds from sale of investment in government securities		533,130,734	558,797,877
Mark-up received on bank deposits		2,036,885	2,162,570
Net cash inflows from investing activities		47,450,072	36,316,570
C. CASH FLOWS FROM FINANCING ACTIVITIES			
Payment against lease liability		(9,293,591)	(6,136,219)
Net cash used in financing activities		(9,293,591)	(6,136,219)
Net increase in cash and cash equivalents	(A+B+C)	22,976,141	21,839,437
Cash and cash equivalents at the beginning of the year		21,632,839	(206,598)
Cash and cash equivalents at the end of the year		44,608,980	21,632,839
Cash and cash equivalents relating to margins and deposits at the end of the year		362,509,863	29,419,709
Cash and cash equivalents at the end of the year including margins and deposits	26	407,118,843	51,052,548

The annexed notes from 1 to 38 form an integral part of these financial statements.



Chairman



Managing Director

Statement of Changes in Equity

For the year ended June 30, 2021

	Issued, subscribed and paid-up capital	Shares premium	Rupees		Total shareholders' equity
			Reserve Revenue - accumulated loss	Total reserves	
Balance as 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	-	-	31,832,211	31,832,211	31,832,211
- Other comprehensive income for the year	-	-	-	-	-
	-	-	31,832,211	31,832,211	31,832,211
Balance at June 30, 2020	313,551,620	22,250,000	(294,809,821)	(272,559,821)	40,991,799
Total comprehensive income for the year ended June 30, 2021					
- Profit for the year	-	-	8,673,831	8,673,831	8,673,831
- Other comprehensive income for the year	-	-	-	-	-
	-	-	8,673,831	8,673,831	8,673,831
Balance as at June 30, 2021	313,551,620	22,250,000	(286,135,990)	(263,885,990)	49,665,630

The annexed notes from 1 to 38 form an integral part of these financial statements.



Chairman



Managing Director

Notes to and forming part of the Financial Statements

For the year ended June 30, 2021

1 LEGAL STATUS AND NATURE OF BUSINESS

- 1.1** Pakistan Mercantile Exchange Limited ('the Exchange') was incorporated in Pakistan as a public limited company on April 20, 2002 under the repealed Companies Ordinance, 1984 (now the Companies Act, 2017). The Certificate of Commencement of Business under the repealed Companies Ordinance, 1984 (now the Companies Act, 2017) was granted to the Exchange by the Securities and Exchange Commission of Pakistan (SECP) on May 20, 2002. The Certificate of Registration under Securities and Exchange Ordinance, 1969 to start operations as commodity exchange was granted by SECP on May 10, 2007 when the Exchange commenced its operations. After promulgation of The Futures Market Act, 2016, the Exchange has been granted license of Futures Commodity Exchange effective from June 15, 2017. Its registered office is situated at 3B, 3rd Floor, Bahria Complex IV, Chaudhry Khaliq-uz-Zaman Road, Gizri, Karachi, Pakistan. The Exchange has also two branch offices situated at Islamabad and Lahore.
- 1.2** The Exchange has been set-up principally to establish, regulate, control and provide physical facilities and marketplace necessary for trading in future contracts and to perform all allied and incidental functions. This is a technology driven, de-mutualized, on-line futures exchange in Pakistan, regulated by SECP. The operations of the Exchange are governed by the Pakistan Mercantile Exchange Limited (PMEX) General Regulations till September 18, 2020 when Rule Book of Pakistan Mercantile Exchange Limited became effective upon approval of SECP.
- 1.3** Pursuant to the license as futures exchange, the Exchange was required to meet minimum capital of Rs. 500 million net of losses by June 30, 2020. However, as of June 30, 2021 the net equity of Exchange amounted to Rs 49.67 million. Accordingly, the Exchange has requested Securities and Exchange Commission of Pakistan (SECP) through a letter dated June 03, 2021 to extend the date for three years which is pending with the SECP.

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

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

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 through profit and loss.
- 3.2** These financial statements are presented in Pak Rupee which is the Exchange's functional and presentation currency.

NEW STANDARDS AND INTERPRETATIONS TO APPROVED ACCOUNTING STANDARDS

Standards, amendments and interpretations to the published standards that may be relevant to the Exchange and adopted in the current year

The Exchange has adopted the following new standards, amendments to published standards and interpretations of IFRSs which became effective during the current year.

New or Revised Standard or interpretation	Effective date (Annual periods beginning on or after)
Amendments to References to the Conceptual Framework in IFRS Standards	January 01, 2020
Definition of a Business (Amendments to IFRS 3)	January 01, 2020
Definition of Material (Amendments to IAS 1 and IAS 8)	January 01, 2020
Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	January 01, 2020
Covid-19 Related Rent Concessions (Amendments to IFRS 16)	January 01, 2020

Standards, amendments and interpretations to the published standards that may be relevant but not yet effective and not early adopted by the Exchange

The following new standards, amendments to published standards and interpretations would be effective from the dates mentioned below against the respective standard or interpretation.

Standards or Interpretations	Effective date (Annual periods beginning on or after)
Annual improvements to IFRS standards 2018 - 2020 Cycle	January 1, 2022
Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	January 1, 2021
IFRS 16 – Covid-19-Related Rent Concessions beyond June 30, 2021	April 1, 2021
Fees in the '10 percent' Test for Derecognition of Financial Liabilities (Amendments to IFRS 9)	January 1, 2022
Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)	January 1, 2022
Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	January 1, 2022
Subsidiary as a First-time Adopter (Amendment to IFRS 1)	January 1, 2022
Taxation in Fair Value Measurements (Amendment to IAS 41)	January 1, 2022
References to the Conceptual Framework (Amendments to IFRS 3)	January 1, 2022
Classification of Liabilities as Current or Non-current (Amendments to IAS 1)	January 1, 2023
Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)	January 1, 2023
Disclosures of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)	January 1, 2023
Definition of Accounting Estimates (Amendments to IAS 8)	January 1, 2023

The Exchange is in the process of assessing the impact of these Standards, amendments and interpretations to the published standards on the financial statements of the Exchange.

Standards, amendments and interpretations to the published standards that are not yet notified by the Securities and Exchange Commission of Pakistan (SECP)

Following new standards have been issued by the International Accounting Standards Board (IASB) which are yet to be notified by the SECP for the purpose of applicability in Pakistan.

Standards or Interpretations	IASB effective date (Annual periods beginning on or after)
IFRS 17 'Insurance Contracts'	January 1, 2022
IFRS 1 'First-time Adoption of International Financial Reporting Standards'	July 1, 2009
IFRS 9 - ECL model on Financial Assets due from Government	July 1, 2020

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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. These are recorded and remeasured at fair value.

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 closing rate of gold.

5.3 Taxation

Income tax comprises current and deferred tax. Income tax is recognized in the statement of profit or loss except to the extent that relates to items recognized directly in equity and other comprehensive income in which case it is recognised directly in equity.

Current

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

Deferred

Deferred tax is recognized using the 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 recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that the temporary differences will reverse in the future and taxable income will be available against which the temporary differences can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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.

5.4 Property and equipment

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

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

Depreciation is charged to the statement of profit or loss using the straight-line method in accordance with the rates specified in note 18.1 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.

5.5 Capital Work in progress

All expenditure connected with specific assets incurred during installation and construction period are carried at cost less any identified impairment loss. These are transferred to specific assets as and when these are available for use.

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

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 amortized cost using the effective interest rate.

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 recognized right to use assets equal to the present value of lease payments.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

5.7 Intangible assets

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

Intangible assets having a finite useful life are stated at cost less accumulated amortization and accumulated impairment losses, if any. Such intangible assets are amortized using the straight-line method with the rates specified in note 20 to these financial statements. Amortization on additions and deletions of intangible assets during the year is charged in proportion to the period of use. The useful lives and amortization method are reviewed, and adjusted, if appropriate, at each reporting date.

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

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

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

5.8 Financial instruments

5.8.1 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.

5.8.2 Classification and subsequent measurement

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

Financial assets

The Exchange classifies its financial assets 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.

5.8.3 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.

5.8.4 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.

5.8.5 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.

5.9 Annual subscription receivables

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.

5.10 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.

5.11 Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and bank balance.

5.12 Provisions and contingent liabilities

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

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Exchange, or a present obligation that arises from past events but is not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are only disclosed and not recognized as liability in the statement of financial position.

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.

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:

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

5.16 Earnings per share

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

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, and intangible assets (note 5.4 and 5.7);
- Gratuity fund liability (note 5.13);
- Classification and valuations of financial instruments (note 5.8);
- Provision for taxation (note 5.3); and
- Determination of Right of use asset and lease liability (note 5.6).

7 ISSUED, SUBSCRIBED AND PAID-UP SHARE CAPITAL

Number of Shares			Rupees	
2021	2020	Note	2021	2020
31,355,162	31,355,162	Ordinary shares of Rs 10 each fully paid in cash 7.1	313,551,620	313,551,620

7.1 Ordinary shares of the Exchange held by related parties as at June 30 by:

	2021	2020	2021	2020
	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 Tower REIT Management Limited	17.76%	17.76%	5,568,181	5,568,181
Others				
LSE Financial Services Limited	7.25%	7.25%	2,272,727	2,272,727
Pak Brunei Investment Company Limited	6.80%	6.80%	2,133,115	2,133,115
Zarai Taraqiati Bank Limited	2.90%	2.90%	909,091	909,091
Pakistan Kuwait Investment Company (Pvt.) Limited	2.90%	2.90%	909,090	909,090
Others - individuals	0.00%	0.00%	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

	Note	Rupees	
		2021	2020
Capital			
Share premium	8.1	22,250,000	22,250,000
Revenue			
Accumulated loss		(286,135,990)	(294,809,821)
		(263,885,990)	(272,559,821)

- 8.1 The reserve can be utilised by the Exchange only for the purposes specified in section 81 of the Companies Act, 2017.

9 LONG-TERM DEPOSITS

		Rupees	
	Note	2021	2020
Security deposits from members	9.1	158,364,381	157,419,915
Clearing house deposits	9.2	2,900,000	2,900,000
		161,264,381	160,319,915

- 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	
		2021	2020
Balance at beginning of the year		44,030,482	–
Impact of initial application of IFRS 16		–	50,166,701
Finance cost		5,858,501	6,978,094
Prepaid / adjusted during the year		(15,152,092)	(13,114,313)
		34,736,891	44,030,482
Current portion under current liabilities		(12,429,467)	(9,225,398)
Balance at the end of the year		22,307,424	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.

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

	Upto one year	From on to five year	Over five year	Total
Particulars				
Minimum lease payments	16,866,445	25,619,921	–	42,486,366
Finance cost allocated to future periods	(4,436,978)	(3,312,497)	–	(7,749,475)
Present value of minimum lease payments	12,429,467	22,307,424	–	34,736,891

11 STAFF GRATUITY FUND

	Note	2021	2020
Staff gratuity payable	11.1	707,556	16,312,654

11.1 Movement of staff gratuity payable is as follows:

	Note	2021	2020
Balance at the beginning of the year		16,312,654	15,624,300
Charge for the year	28	7,098,533	7,609,453
Payments made to the fund		(22,987,645)	(6,976,202)
Payments made to outgoing employees on behalf of the fund		–	(784,141)
Accrued finance cost	11.2	284,014	839,244
Balance at the end of the year		707,556	16,312,654

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	2021	2020
Staff provident fund payable	12.1	1,658,601	1,392,285

12.1 Movement of provident fund payable is as follows:

	Note	2021	2020
Balance at the beginning of the year		1,392,285	157,668
Employer contribution for the year	28	8,265,960	7,577,676
Employee contribution for the year		8,265,960	7,577,676
Payments made to the fund		(16,265,604)	(13,920,735)
Balance at the end of the year		1,658,601	1,392,285

12.2 Contributions towards the fund have been deposited in a separate bank account of trust the balance of which as at June 30, 2021 is Rs. 765,611 (2020: Rs.1,684,807). Permanent withdrawal of contribution from fund's account to respective employees' VPS account is 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	2021	2020
Clearing house deposits relating to brokers	13.1	141,332,109	117,844,647
Initial margins relating to brokers and clients	13.1	1,599,984,069	1,741,421,830
	13.2	1,741,316,178	1,859,266,477

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

	Rupees	
	2021	2020
Clearing house deposits		
Balance with banks (saving and current)	41,878,211	15,542,939
Investment in Treasury Bills	99,693,932	104,056,220
Less: Amount allocated for transfer to SGF Trust	(240,034)	(239,641)
Adjustment of receivables from clearing deposit	-	(1,514,871)
	141,332,109	117,844,647
Initial margins		
Balance with banks (savings and current)	320,631,652	13,876,770
Investment in Treasury Bills	1,288,028,003	1,738,397,203
Security deposit / prepayments - Locker (Gold)	36,000	36,000
Less: Amount allocated for transfer to SGF Trust	(2,825,636)	(3,860,042)
Adjustment of receivables from initial margin	-	(805,501)
NCCPL payable	(5,885,950)	(6,222,600)
	1,599,984,069	1,741,421,830
	1,741,316,178	1,859,266,477

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.

Margin and deposits are placed in bank accounts and in government securities. As per SECP letter dated August 17, 2015, the Exchange is allocating 50% of the amount calculated by applying a rate 50 basis below the minimum bank profit rate on the average monthly margin and deposit to the SGF Trust. The residual amount from income / profit / gain from investment of margins and deposits is disclosed as a share of the PMEX in the income from margins and deposits as disclosed in note 27.

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

14 PAYABLE TO SETTLEMENT GUARANTEE FUND (SGF) TRUST

		Rupees	
	Note	2021	2020
Payable to SGF trust as allocated from income earned on			
- clearing house deposits	14.1	240,034	239,641
- initial margins	14.1	2,825,636	3,860,042
		3,065,670	4,099,683

14.1 Movement for the year is as follows:

	Note	Rupees	
		2021	2020
Balance at the beginning of the year		4,099,683	5,597,615
Amount allocated from income earned on :			
- clearing house deposits		2,736,980	4,966,149
- initial margins		37,831,151	62,349,637
		40,568,131	67,315,786
Amount transferred during the year		(41,602,144)	(68,813,718)
Balance at the end of the year		3,065,670	4,099,683

15 ADVANCE ANNUAL SUBSCRIPTION AND OTHER FEE

Advance annual subscription fee		12,087,500	12,675,000
Advance transfer fee		1,750,000	1,750,000
Others		149,997	149,997
		13,987,497	14,574,997

16 CREDITORS, ACCRUED AND OTHER LIABILITIES

Creditors		3,294,284	4,349,745
Accrued expenses		30,324,394	32,079,126
Withholding tax payable		2,009,469	1,405,953
Payable to market makers		473,724	473,724
Payable to SECP	16.1	12,601,905	15,632,808
Payable to NCCPL	16.2	5,886,802	6,328,950
Other liabilities		7,034,015	6,542,640
		61,624,594	66,812,945

16.1 This includes SECP transaction fee and supervision fee of Rs. 11,244,141 (2020: Rs.13,768,224) and Rs. 1,259,862 (2020: Rs. 1,863,072) respectively.

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

17 CONTINGENCIES AND COMMITMENTS**17.1 Income tax assessments**

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

The tax authorities have treated advance membership fee of Rs. 65 million (tax impact of Rs. 27.95 million) as income in the year of receipt, which was offered for tax by the Exchange upon receipt of Certificate of Registration as Commodity Exchange from SECP i.e. in 2007. In 2009, the Exchange filed an appeal before Sindh High Court, which is still pending. Based on the opinion of tax / legal advisors, management is confident that the ultimate outcome of above matter will be in favor of the Exchange. Accordingly, no provision is made in these financial statements.

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.

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 'assessed in default' for non-deduction of tax on payments made and created a demand of Rs. 2.70 million including default surcharge of Rs. 0.41 million. In 2013, a rectification application has been filed against the aforesaid order which is pending. As the Exchange has not defaulted in deduction of any applicable withholding tax, the management is confident that the ultimate outcome of the matter would be in favor of the Exchange. Accordingly, no provision is made in this regard in these financial statements.

In 2015-2016, a demand of Sindh 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 Sindh 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. 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 been granted. The management is confident that based on merit of the case the ultimate outcome of the matter would be in favor of the Exchange. Accordingly no provision is made in this regard in these financial statements.

During the year ended June 30, 2020, 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 Commitment

There are no commitments as at June 30, 2021 (2020: Nil).

18 PROPERTY AND EQUIPMENT - OPERATING FIXED ASSETS

	Note	Rupees	
		2021	2020
Operating assets	18.1	19,990,245	18,485,782

18.1 Operating assets

	Rupees						
	2020						
	Owned						
	Leasehold improvements	Furniture and fittings	Office equipment	Electrical equipment	Computer equipment	Motor vehicles	Total
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	-	-	-	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
2021							
For the year ended June 30, 2021							
Opening net book value	922,986	703,873	878,751	2,783,033	7,384,166	5,812,974	18,485,783
Additions during the year	-	8,000	-	784,564	5,067,760	2,745,000	8,605,324
Depreciation for the year	(574,143)	(449,338)	(346,414)	(1,215,757)	(2,870,528)	(1,644,681)	(7,100,861)
Closing net book value	348,843	262,535	532,337	2,351,840	9,581,398	6,913,293	19,990,246
As at June 30, 2021							
Cost	14,514,211	5,140,697	2,839,819	10,046,219	48,343,485	10,739,653	91,624,084
Accumulated depreciation	(14,165,368)	(4,878,162)	(2,307,482)	(7,694,379)	(38,762,087)	(3,826,360)	(71,633,839)
Net book value	348,843	262,535	532,337	2,351,840	9,581,398	6,913,293	19,990,245
Rate of depreciation (%)	20	20	20	20	25	20	

18.2 Included in cost of operating assets are fully depreciated assets still in use aggregating to Rs. 53.45 million (2020: Rs. 51.65 million).

19 RIGHTS OF USE ASSETS

	Note	Rupees	
		2021	2020
Cost	19.1	50,166,701	50,166,701
Accumulated depreciation		(23,313,243)	(11,613,529)
Net book value		26,853,458	38,553,172
Net carrying value			
Opening WDV/Cost		38,553,172	50,166,701
Depreciation for the year	28	(11,699,714)	(11,613,529)
Closing WDV		26,853,458	38,553,172

19.1 These represent registered office located in Karachi and branch offices located in Lahore and Islamabad and are depreciated at the rate of 20%, 33.33% and 33.33% respectively.

20 INTANGIBLE ASSETS

		Rupees	
	Note	2021	2020
Gross carrying value			
Cost		53,882,125	53,882,125
Accumulated amortization		(52,742,874)	(50,464,372)
Net book value		1,139,251	3,417,753
Net carrying value			
Opening net book value		3,417,753	8,072,325
Amortization for the year	28	(2,278,502)	(4,654,572)
Closing net book value		1,139,251	3,417,753
Rate of amortization (%)		25	25

21 LONG TERM INVESTMENTS

NCEL Building Management Limited (1 share of Rs. 10)	21.1	10	10
Institute of Financial Markets of Pakistan (200 shares of Rs. 5,000 each)	21.2		
Cost		1,000,000	1,000,000
Less: Impairment		(999,990)	(999,990)
		10	10
		20	20

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

- 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.

21.2 The Exchange holds 2.63% (2020: 2.63%) ordinary shares of the Institute of Financial Market of Pakistan.

22 ANNUAL SUBSCRIPTION RECEIVABLES

	Note	Rupees	
		2021	2020
Considered Good			
Annual subscription receivable		32,203,397	20,145,100
Considered Doubtful			
Annual subscription receivable		2,453,554	2,061,406
Provision of doubtful receivables	22.1	(2,453,554)	(2,061,406)
		–	–
		32,203,397	20,145,100

22.1 Movement in Provision of doubtful receivables

Balance at the beginning of the year		2,061,406	1,010,000
Charge for the year	28	392,148	1,051,406
Balance at the end of the year		2,453,554	2,061,406

23 DEPOSITS AND PREPAYMENTS

Advances and deposits		2,257,707	2,096,244
Prepaid expenses		5,695,758	4,025,940
		7,953,465	6,122,184

24 OTHER RECEIVABLES

Considered good			
Receivable from members		27,233,659	27,351,949
Accrued markup on bank deposits		122,371	122,371
Receivable from SGF Trust		2,555,228	4,461,147
Others		16,688,818	13,600,503
		46,600,076	45,535,970
Considered doubtful			
Receivable from members		966,676	841,840
Receivable from NCEL Building Management Limited		1,168,925	1,168,925
		2,135,601	2,010,765
Provision for doubtful receivables	24.1	(2,135,601)	(2,010,765)
		–	–
		46,600,076	45,535,970

24.1 Movement in Provision of doubtful receivables

	Note	2021	2020
Balance at the beginning of the year		2,010,765	505,390
Charge for the year		124,836	1,505,375
Balance at the end of the year		2,135,601	2,010,765

25 SHORT TERM INVESTMENTS

Investments in Treasury Bills - margins and deposits		1,387,721,935	1,846,587,328
Investments in Treasury Bills - Exchange		72,495,760	115,086,453
	25.1	1,460,217,695	1,961,673,781

25.1 These Treasury Bills are carried at fair value through profit or loss and carry markup ranging from 7.31% to 7.37% (2020: 8.04% to 11.22%) per annum and will mature on various dates up to December 16, 2021.

26 CASH AND BANK BALANCES

Cash at banks			
- in current accounts		635,216	724,178
- in saving accounts	26.1	406,450,522	50,299,013
		407,085,738	51,023,191
Cash in hand		33,104	29,356
		407,118,843	51,052,548

26.1 These accounts carry mark up at the rate of 5.5% per annum (2020: 9.5%).

27 OPERATING INCOME

Trading fee - net	27.1	166,617,681	150,445,430
Share of PMEX in the income of margins and deposits	13.2	93,278,855	122,091,033
Annual membership fee		24,787,500	25,250,000
Entrance fee		2,500,000	-
Income from IT related services		20,000	3,050,000
Infrastructure fee		7,469,000	8,214,000
Advertisement income		780,000	1,230,000
Fee for membership transfer and issuance of certificates		1,020,000	200,000
Auto liquidation charges		566,800	587,800
Gain on sale of USB keys		-	25,208
Recovery of gold custody charges		4,173,482	6,056,719
		301,213,318	317,150,190

27.1 Trading fee - net

	Note	Rupees	
		2021	2020
Trading fee		169,246,917	152,645,978
Rebates		(2,629,236)	(2,200,548)
Trading fee - net		166,617,681	150,445,430

28 OPERATING AND ADMINISTRATIVE EXPENSES

Salaries and benefits	28.1	179,547,319	164,853,200
Gratuity fund	11	7,098,533	7,609,453
Provident fund	12	8,265,960	7,577,676
Directors' fee	35.2	2,565,000	2,445,000
Fee and subscription		37,682,714	38,568,450
Depreciation on right of use assets	19	11,699,714	11,613,529
Cloud hosting		9,258,128	15,489,292
Repairs and maintenance		7,301,353	5,369,386
Depreciation on operating assets	18	7,100,861	6,727,333
Legal and professional		6,099,334	5,791,506
Communication		5,289,708	6,214,786
Marketing expense		4,250,854	4,276,399
Amortization on intangible assets	20	2,278,502	4,654,571
Utilities		2,264,888	2,475,885
SECP supervision fee	28.2	2,023,817	1,995,696
Security services		802,306	654,720
Auditors' remuneration	28.3	759,000	759,000
Provision for ECL			
- annual subscription receivable	22.1	392,148	1,051,406
- other receivables	24.1	124,836	1,505,375
		516,984	2,556,781
Entertainment		713,568	1,178,330
Travelling and conveyance			
- Employees and others		193,405	635,437
- Directors	35.2	390,487	2,296,705
		583,892	2,932,142
Insurance		373,678	434,914
Printing and stationery		247,239	299,541
Written off CWIP		-	3,790,000
		296,723,352	298,267,591

28.1 Total number of employees as at June 30, 2021 is 78 (2020: 85). Average number of employees during the year ended June 30, 2021 is 78 (2020: 85).

28.2 This represents 1% supervision fee on operating income (Entrance fees, Annual membership fees, Exchange Trading Fees, Fee for membership transfer and issuance of certificates, Application fee and Infrastructure Fees) of the Exchange as levied by SECP vide its S.R.O.1351(I)/2012 dated October 25, 2012.

28.3 Auditors' remuneration

	Note	2021	2020
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

Income from financial assets			
Mark-up on government securities		7,278,913	14,255,496
Mark-up on bank deposits		2,036,885	2,179,255
Unrealized gain on remeasurement of investment at fair value through profit or loss		24,734	4,267,562
Realized on sale of investment at fair value through profit or loss		(9,734)	–
Income from non - financial assets			
Gain on disposal of equipment		–	328,534
CGT processing charges		4,879,330	5,013,390
Others		1,081,651	936,644
		15,291,779	26,980,881

30 FINANCE COST

Interest cost on right of use assets		5,858,501	6,978,094
Others		284,014	839,244
		6,142,515	7,817,338

31 TAXATION

Current - for the year	31.1	4,591,390	5,912,565
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31.1 The provision for current income tax is based on minimum tax of taxable profit under section 113 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. 43.76 million as at June 30, 2021 (2020: Rs 41.08 million) on deductible temporary differences aggregating to Rs. 96.11 million as at June 30, 2021 (2020: Rs. 89.26 million) as timing of availability of sufficient taxable profits cannot be determined due to applicability of minimum tax and alternative corporate tax under section 113 and 113(C) respectively.

32 EARNINGS PER SHARE - BASIC AND DILUTED

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

32.1 Basic earnings per share

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

	Rupees	
	2021	2020
Profit attributable to ordinary shareholders (Rupees)	8,673,831	31,832,211
Weighted average number of ordinary shares	31,355,162	31,355,162
Earnings per share	0.28	1.02

32.2 Diluted earnings per share

There are no shares that are dilutive in nature.

33 CASH FLOW FROM OPERATIONS

		Rupees	
	Note	2021	2020
Profit before taxation		13,265,221	37,744,776
Adjustments for non-cash and other items:			
Depreciation on operating assets	18	7,100,861	6,727,333
Depreciation on right of use assets	19	11,699,714	11,613,529
Amortization on intangible assets	20	2,278,502	4,654,571
CWIP write off		-	3,790,000
Provision for gratuity	11	7,098,533	7,609,453
Provision for provident fund	12	8,265,960	7,577,676
Finance cost		284,014	839,244
Unrealized loss on remeasurement of investment at FVTPL		(24,734)	(4,267,562)
Realized loss on investment at fair value through profit or loss		9,734	-
Return on government securities		(7,278,913)	(14,255,496)
Mark-up on bank deposits		(2,036,885)	(2,179,255)
Loss on disposal of property and equipment		-	(328,534)
Provision for ECL	22.1 & 24.1	516,984	2,556,781
Working capital changes	33.1	(18,589,497)	(26,805,647)
		22,589,495	35,276,871

33.1 Working capital changes

	Rupees	
	2021	2020
Decrease / (increase) in current assets		
Supplies and consumables	–	14,792
Annual subscription receivable	(12,440,708)	(13,406,696)
Deposits and prepayments	(1,831,281)	3,245,374
Other receivables	1,121,693	(15,574,232)
	(13,150,296)	(25,720,762)
(Decrease) / increase in current liabilities		
Advance annual subscription and other fee	(587,500)	(2,607,129)
Creditors, accrued and other liabilities	(4,851,701)	1,522,244
	(18,589,497)	(26,805,647)

34 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

34.1 Financial instruments by category

Financial assets		
At Fair value through profit or loss		
Investment in Market Treasury Bills	1,460,217,695	1,961,673,781
At amortised cost		
- Annual subscription receivable - considered good	32,203,397	20,145,100
- Deposits	2,257,707	2,096,244
- Other receivables	46,600,076	45,535,970
- Cash and bank balances	407,118,843	51,052,548
	1,948,397,718	2,080,503,643
Financial liabilities		
At amortized cost		
- Long-term deposits	161,264,381	160,319,915
- Staff gratuity fund	707,556	16,312,654
- Staff provident fund	1,658,601	1,392,285
- Margins and deposits	1,741,316,178	1,859,266,477
- Payable to SGF Trust	3,065,670	4,099,683
- Creditors, accrued expenses and other liabilities	61,624,594	66,812,945
	1,969,636,980	2,108,203,959

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

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

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

34.3.1 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing returns. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk, such as equity risk.

a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in the market interest rates. As the Exchange has no significant interest-bearing assets and liabilities, the Exchange's income and operating cash flows are substantially independent of changes in market interest rates. At June 30, 2021, 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. 0.65 million (2020: Rs. 1 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, 2021.

34.3.2 Credit risk

Credit risk and concentration of credit risk

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

Credit quality of financial instruments and cash deposits

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

Name of Bank	Rating agency	Rs.	Rating	
			short term	long term
Bank Alfalah Limited	PACRA	145,039	A-1+	AA+
Bank Islami Pakistan Limited	PACRA	–	A-1	A+
Askari Bank Limited	PACRA	23,989	A-1+	AA+
Bank Al-Habib Limited	PACRA	10,053	A-1+	AA+
Faysal Bank Limited	PACRA	76,963	A-1+	AA
Standard Chartered Bank (Pakistan) Limited	PACRA	1,347,182	A-1+	AAA
Habib Bank Limited	VIS	67,491	A-1+	AAA
JS Bank Limited *	PACRA	44,620	A-1+	AA-
MCB Bank Limited	PACRA	100,514,984	A-1+	AAA
Summit Bank Limited *	VIS	29,790	A-3	BBB-
Meezan Bank Limited	VIS	302,452,303	A-1+	AA+
United Bank Limited	VIS	76,541	A-1+	AAA
Dubai Islamic Bank Limited	VIS	2,151,168	A-1+	AA
Telenor Microfinance Bank Limited	PACRA	44,895	A1	A+
Mobilink Microfinance Bank Limited	PACRA	49	A1	A
Soneri Bank Limited	PACRA	1,000	AA-	A

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

34.3.3 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funds. Currently the Exchange is in consolidating phase of its operations and foresee continuing profitable operations in future. The Exchange has an effective cash management and planning policy in order to maintain flexibility in its funding. Exchange believes that it will have enough funds through profitable operations to have minimal liquidity risk.

Currently, the Exchange has no material external borrowings.

Following are the contractual maturities of financial liabilities.

	Rupees		
	2021		
	Carrying amount / contractual cash flow	Maturity up to one year	Maturity after one year
Long-term deposits	161,264,381	–	161,264,381
Lease liabilities	34,736,891	12,429,467	22,307,424
Staff gratuity fund	707,556	707,556	–
Staff provident fund	1,658,601	1,658,601	–
Margins and deposits	1,741,316,178	1,741,316,178	–
Payable to SGF Trust	3,065,670	3,065,670	–
Creditors, accrued expenses and other liabilities	59,615,125	59,615,125	–
	2,002,364,402	1,818,792,596	183,571,805

	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	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 expenses and other liabilities	65,406,992	65,406,992	–
	2,150,828,488	1,955,703,489	195,124,999

34.4 Capital risk management

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

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

Capital is defined as the financial resources that are raised by the Exchange from its shareholders (equity capital) and from its lenders / members (debt capital). Security deposits and clearing house deposits received from the members are treated as debt for the purposes of risk management. Details of the Exchange's capital are stated in note 7 to these financial statements.

35 REMUNERATION OF DIRECTORS, CHIEF EXECUTIVE OFFICER AND EXECUTIVES

35.1 The aggregate amounts charged during the year in respect of directors' meeting fee and reimbursement for their travelling and accommodation, is disclosed in note 28. No other remuneration or benefit is given during the year.

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

	Rupees					
	2021		2020		2021	
	Managing Director/CEO	Non-Executive Directors	Executives	2020	2021	2020
Managerial remuneration	22,186,080	18,488,400	–	–	65,122,193	52,673,446
Allowances	–	–	–	–	24,495,410	22,537,404
Bonus	6,162,800	5,358,804	–	–	9,031,379	7,314,880
Retirement benefits - Gratuity	1,613,532	1,344,612	–	–	4,403,071	3,830,794
Provident fund	1,613,532	1,344,612	–	–	4,403,071	3,830,794
Directors' fee	–	–	2,565,000	2,445,000	–	–
Others	2,088,840	1,780,700	390,487	2,296,705	–	–
	33,664,784	28,317,128	2,955,487	4,741,705	107,455,123	90,187,318
Number of persons	1	1	9	9	23	23

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

36 TRANSACTIONS WITH RELATED PARTIES

The related parties comprise of associated companies, staff retirement benefit funds, investors' 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	2021	2020
Zahid Latif Securities (Private) Limited	Associated undertakings by virtue of common directorship	Repayment of deposit against initial margin	–	(16,111,286)
		Receipt of clearing deposit	7,200,000	2,437,038
		Repayment of clearing house deposit	–	(1,154,461)
		Receipt of annual subscription	–	75,000
			7,200,000	(14,753,709)
ISE REIT Management Limited	Associated undertaking by virtue of 17.75% shareholding	Rent and utilities payment to ISE REIT Management Ltd	3,477,270	2,043,608
PMEX Gratuity Fund Trust	Payment to fund		22,987,645	7,760,343
PMEX Provident Fund Trust	Payment to fund		16,265,604	13,920,735
PMEX Settlement Guarantee Fund Trust	Payment to fund		40,568,131	67,315,831
PMEX Investor Protection Fund Trust	Payment to fund		1,435,850	1,334,741
Key management personnel (excluding Managing Director)			54,108,912	46,979,206

- 36.1** Certain key management personnel are also provided with fixed education and car allowances in accordance with the policy of the Exchange.
- 36.2** The outstanding balances with related parties as at June 30, 2021 are included in the respective notes to these financial statements.
- 36.3** The remuneration to the Managing Director is disclosed in note 35.2 to the financial statements.

37 DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on September 7, 2021 by the Board of Directors of the Exchange.

38 GENERAL

Figures have been rounded off to the nearest Rupee.



Chairman



Managing Director

Notice of 20th Annual General Meeting

Notice is hereby given that the 20th Annual General Meeting (AGM) of the shareholders of Pakistan Mercantile Exchange Limited will be held at **10:30am** on **Wednesday, October 27, 2021**, 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 Note. Following business will be transacted in the AGM:

Ordinary Business:

1. To confirm the minutes of the Annual General Meeting held on October 27, 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, 2021
3. To appoint auditors for the year ending June 30, 2022 and fix their remuneration.

By order of the Board of Directors



Farhan Tahir
Company Secretary

Karachi: October 05, 2021

Note: Attending the AGM through Video Conferencing

The shareholders intending to attend the AGM through video-conferencing are requested to email the completely filled proxy form with required information by **Monday, October 25, 2021** at: **farhan.tahir@pmex.com.pk** with subject: **"20th 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.

Proxy Form



To attend 20th Annual General Meeting of **PAKISTAN MERCANTILE EXCHANGE LIMITED**

I / we, _____ (name of shareholder)

being a shareholder of **Pakistan Mercantile Exchange Limited** (PMEX) hereby appoint the following individuals as my/ our Proxy in my/ our absence to attend and vote on my / our behalf at the 20th Annual General Meeting (AGM) of the PMEX to be held on **Wednesday, October 27, 2021**, or at any adjournment thereof.

Name of Individual/Nominee	CNIC/Passport No.*	Cell Number**	Email address**

* Copies attached.

** Required if AGM is being attended through video-conferencing.

Signed on _____, 2021.

Signature of Appointer

Signature of Proxy

(Revenue stamp
of Rs. 5/-)

▶ WITNESS 1

Signature: _____

Name: _____

CNIC No.: _____

▶ WITNESS 2

Signature: _____

Name: _____

CNIC No.: _____

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