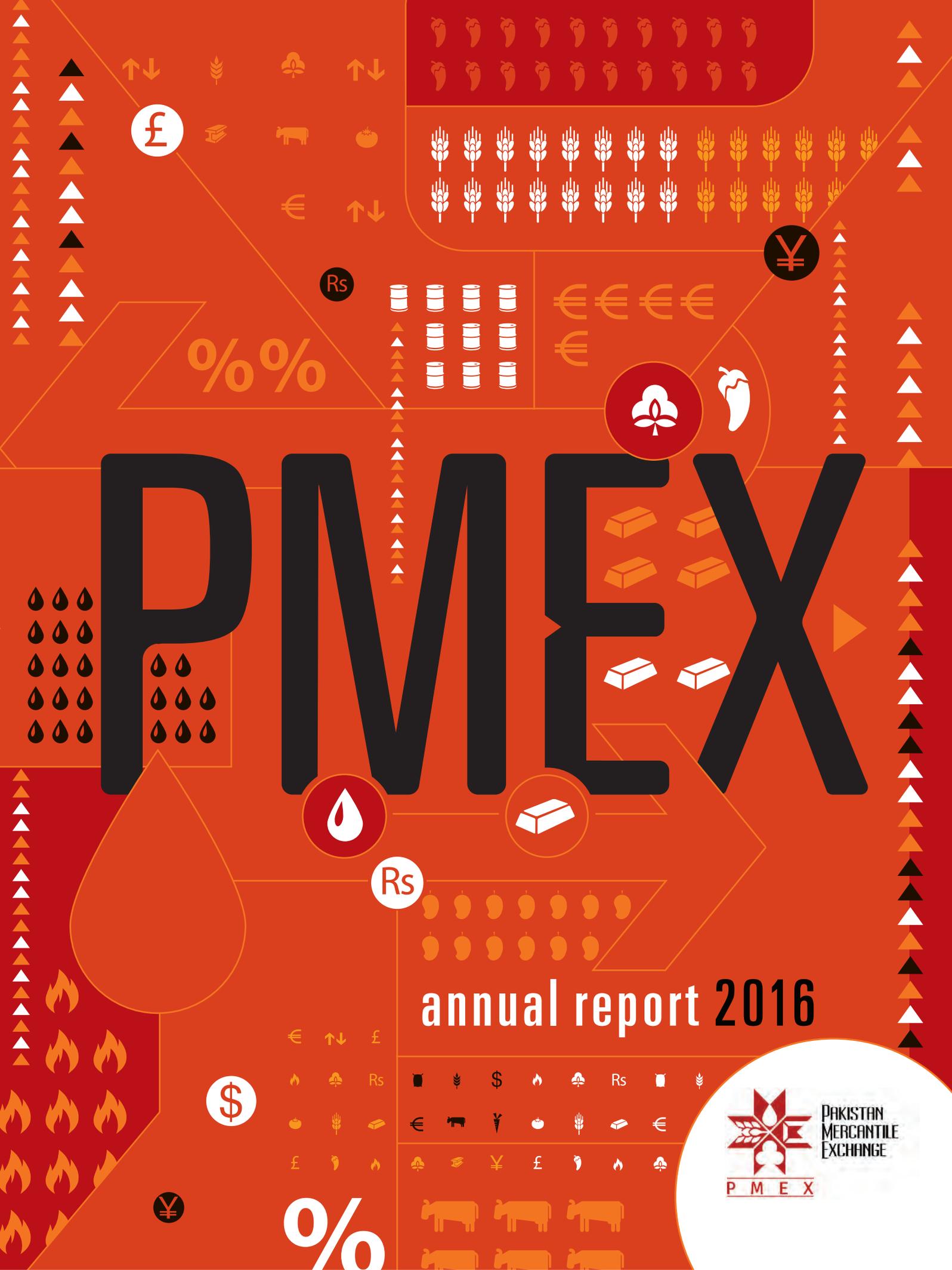


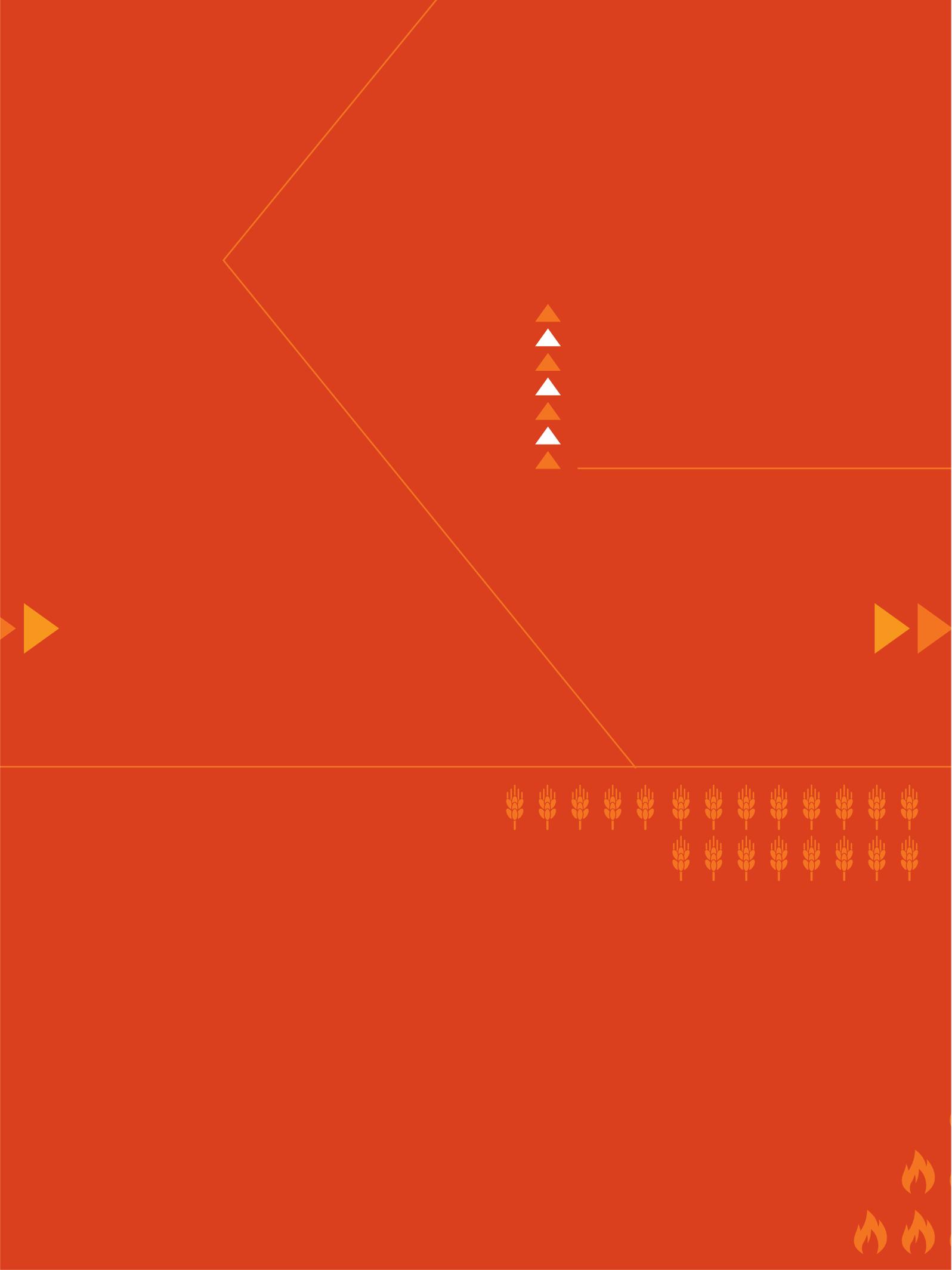
PMEX

annual report 2016



PAKISTAN
MERCANTILE
EXCHANGE





PAKISTAN MERCANTILE EXCHANGE | 2016
annual report



YOUR FUTURES EXCHANGE
THE EXCHANGE OF THE FUTURE





Pakistan Mercantile Exchange Limited

PMEX

Pakistan Mercantile Exchange Limited [PMEX] is the country's first and only commodity futures exchange, licensed and regulated by the Securities and Exchange Commission of Pakistan [SECP]. Based on a sophisticated multi-dimensional infrastructure and state-of-the-art technology, PMEX offers a complete suite of services i.e. trading, clearing & settlement, custody of assets as well as back office management, all under one roof.

PMEX started its operations in 2007 and offers a diverse range of local and international futures contracts across multiple asset classes. PMEX is a demutualized exchange and the shareholding is completely institution based.





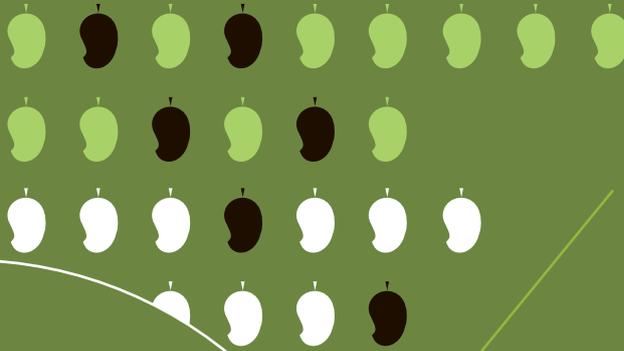
Agribusiness

The Final Frontier of PMEX

In 2007, PMEX was established with the objective to bring the agricultural commodities of the country along with global products on its platform for all types of market participants such as Hedgers, Investors, Traders and Speculators. Over the last 9 years, PMEX has successfully offered global commodities such as gold, silver, crude oil and currency pairs, which has provided the Exchange with the required financial sustainability for the future growth.

With regards to agricultural produce of the country, PMEX's ultimate goal is to provide a market where the farmers and the participants of agriculture value chain can exercise any of the three options mentioned below:

- 1 Sell their produce at the spot price, if the price is favorable and acceptable to the farmer;
- 2 Sell their produce at a futures price and store the produce at the warehouse until delivery; or



3 Store the produce at the warehouse against a warehouse receipt. The farmer can either trade the receipt at the Exchange or get financing from a financial institution against it.

The above system will work wonders in terms of reducing agriculture produce wastage and bringing unprecedented efficiency and convenience. Moreover, availability of both the spot and futures markets at a single trading platform to the participants would provide unique opportunity to them to sell their commodity either at a spot or future date, whichever suits their needs.

Currently, there are multiple agriculture products listed at PMEX such as wheat, rice and sugar. However, despite being listed for

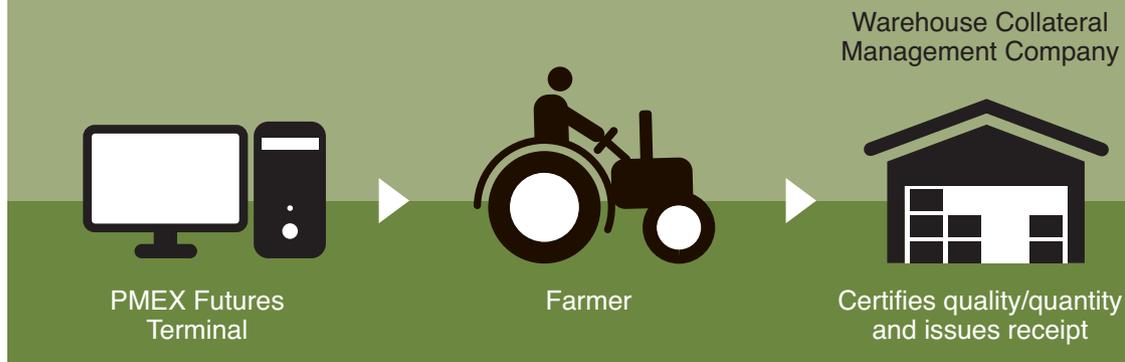
many years, there has hardly been any activity in these products even though these commodities are actively traded in the spot market. Absence of warehousing infrastructure and certification of agriculture produce are the two main hurdles contributing to low trading of agriculture products at the Exchange.

To overcome the hurdles and to achieve the ultimate goal of bringing the entire agricultural produce on the Exchange platform, PMEX has developed a business strategy for the next 5 years which is divided into three phases:

- 1** Products that can immediately be listed at the Exchange
- 2** Products that meet the criteria of listing but require minor work in certain areas



Trades at current PMEX Platform



3 Products that meet the listing criteria but require extensive work/infrastructure

In phase one, PMEX plans to induct products that can be listed with minimal effort. Although most of these products are international products, there are some agricultural products that can be brought on the Exchange platform. To commence the process, in 2015 PMEX along with Pakistan Agriculture Coalition (PAC), Agility Pakistan (Pvt.) Limited and SGS Pakistan (Pvt.) Limited brought the red chilli trade on the Exchange platform.

Red chilli trade at PMEX received a good response from the supply chain participants. There are currently over 40 farmers and multiple corporate buyers who are engaged in the physical trading of the spice. More than 600 tons of spice was traded in the FY 2015-16. The market participants are confident that in the upcoming crop season of 2016-17, the trading

platform of PMEX will attract significantly more volumes in red chilli trade. The Exchange believes that the listing of these contracts at a regulated trading platform will ensure better price to growers, offer superior quality product to the buyers at a competitive price and provide ease of buying and selling of the commodity.

Furthermore, the Exchange also plans to replicate the model used for red chilli for other similar products in phase one.

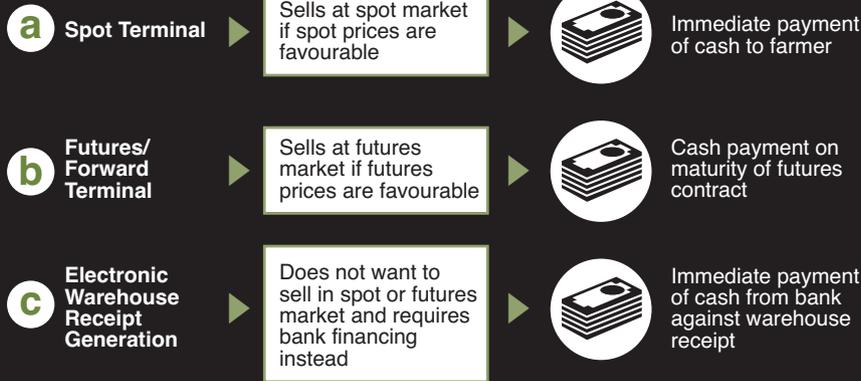
In phase two, the Exchange plans to induct all local products that have good revenue potential but require work in certain areas before we could list them at the Exchange. The idea is to start working on the shortcomings from day one in order to ensure that we are ready to induct them upon conclusion of phase one.

In phase three, the Exchange plans to add the remaining agricultural commodities to its product suite. These products require extensive efforts both in terms of required infrastructure as well as convincing/preparing the stakeholders to trade on the Exchange platform. To achieve the above, it is imperative that all the stakeholders are on the same page and supporting the efforts of the Exchange.

Having said the above, creating a conducive environment is an essential prerequisite for the proposed strategy to succeed and long term growth and sustainability of PMEX. This entails:

- Timely investment in the infrastructure like warehousing and certification, which is essential for trading of agricultural commodities.

PMEX One Window Operation



- Support of other related institutions like the Central Bank, the tax authorities and the Ministry of Agriculture etc. All such institutions must be on the same page so that a coherent strategy can be developed and implemented in the better interest of the country.
- Increased awareness about the products listed at PMEX among the masses, especially the industry that can effectively use the Exchange to hedge against the price risk.
- Elimination of the grey market which is creating an uneven playing field for the law abiding market participants.

Based on the above, PMEX has a long way to go as the Exchange has a vital role to play with regards to development of the country's economy, especially the agricultural sector. PMEX is confident that the visionary resolve of the government to better organize the agricultural sector by developing the required infrastructure will have a tremendous impact with regards to improved output and fair pricing of these products. Moreover, such an initiative will enable the government to avoid costly intervention in agriculture market and in the process improve the predictability of agricultural prices and enhance the country's food security.



Farmer



Quality Certification



Warehouse



PMEX Trading Terminal



Warehouse



Logistics



Red Chilli

Trade at PMEX Takes another Leap Forward

PMEX launched Red Chilli deliverable weekly futures contracts in October 2015 of three different grades of Dandicut (Longi) variety. Though it was the first ever listing of a spice at the Exchange, the concerted efforts of all the market participants i.e. growers, traders and corporate buyers enabled PMEX to achieve this milestone. During a brief trading span of three months, more than 600 tons of the spice was traded at the Exchange and delivered.

PMEX received an encouraging response from all the market participants for the efforts that resulted in better quality red chilli production, quick cash pay-out to the farmers and overall efficiency in the red chilli trade.

Capitalizing on this success, PMEX in the upcoming trade season of 2016-17 is offering another variety of red chilli commonly known as Hybrid. The production volume of this variety has substantially increased in last couple of years as compared to Dandicut/Longi. For this type of chilli, the trade centres are located across the country with major trade activity in Kunri, Sindh and Faisalabad, Punjab. Addition of Hybrid variety of red chilli at PMEX will increase trading volume and



facilitate a larger segment of the red chilli value chain.

In the upcoming trade season of red chilli, to facilitate the farmers, PMEX is working with different banks for the warehouse receipt financing program. Under the program, the growers of red chilli will be able to borrow money from banks against the warehouse receipts issued to them.

To get the warehouse receipt, the growers will have to deposit their produce at PMEX designated warehouse after getting quality certification of their produce from SGS Pakistan. Once the warehouse receipt is issued, the grower will have two options: 1) sell the produce whenever the prevailing market price is favourable or 2) approach a bank for borrowing money against the

warehouse receipt to fulfil his current liquidity needs. It will increase farmers' holding power and help them to avoid distress sale at the time of harvest.

The process of quality certification, storage at designated warehouse and trading at PMEX is aimed at facilitating not only the growers in getting the best possible price for their produce but also the buyers in getting certified quality of red chilli.

To create awareness among farmers and traders, PMEX, with the support of SECP, has organized awareness sessions in Kunri, Faisalabad and Karachi.

Going forward, PMEX plans to replicate the model of red chilli for other agricultural commodities as well.





Milli Ounce Gold

Futures Contracts

PMEX is in a continuous pursuit to add new products to broaden its product suite in order to cater to the needs of a diversified group of investors. Previously, the Exchange has listed various gold contracts in different denomination and tenor. However, keeping in view the demand of the market participants, the Exchange came up with “Milli Ounce Gold” futures contracts.

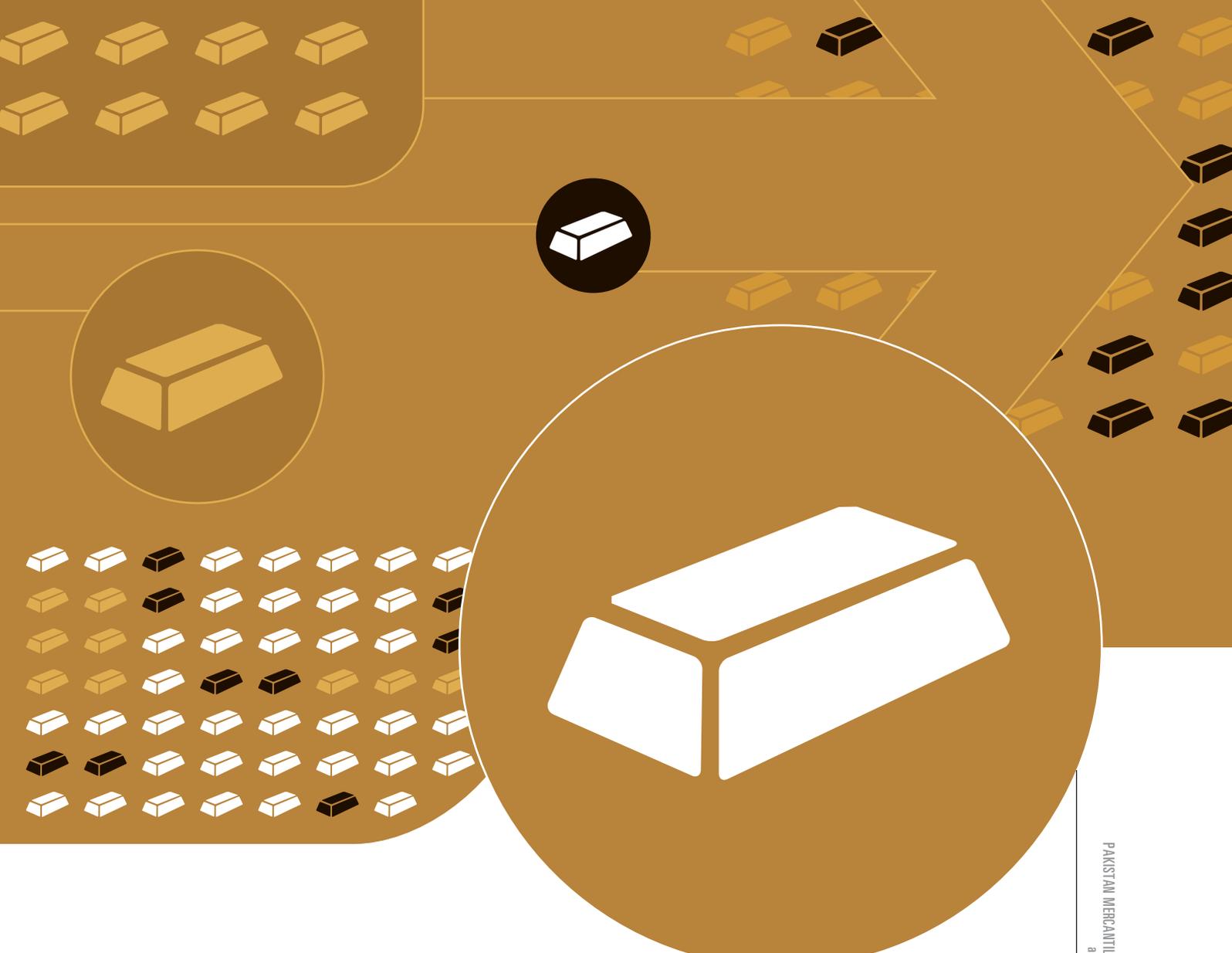
In the first phase, the Exchange listed four Milli Ounce Gold Futures Contracts in various currencies namely USD, EUR, GBP and JPY.

In the second phase, PMEX listed the following Milli Ounce Gold Futures Contracts, which were made available for trading on April 07, 2016:

1 PMEX CAD Gold
(Milli Ounce)
Futures Contract

2 PMEX CHF Gold
(Milli Ounce)
Futures Contract

3 PMEX AUD Gold
(Milli Ounce)
Futures Contract



The above contracts also use “Composite Order Trading System” (COTS) where a trader may take two positions simultaneously in milli ounce contracts with a single click. In other words, if a trader wants to simultaneously take a long position in the

PMEX USD Gold and short position in the PMEX AUD Gold, he can place a single order through COTS. The long gold in the first trade and the short gold in the second trade ‘cancel’ each other out, leaving the trader with an open AUD-USD position only.

Milli Ounce Futures Contracts Specifications

Trading Days	Monday to Friday		
Trading Hours	5:00 am to 2:00 am PST (21 Hours)		
Unit of Trading	Milli (0.001) Troy Ounces		
Trading System	PMEX ETS		
	PMEX CAD Gold	PMEX CHF Gold	PMEX AUD Gold
Price Quotation	Canadian Dollar per troy ounce, up to four decimal places	Swiss Franc per troy ounce, up to four decimal places	Australian Dollar per troy ounce, up to four decimal places





Year 2015-2016 at a **Glance**

Changes in PMEX Board of Directors

▶ Mr. Ruhail Mohammed, Mr. Ahmed Chinoy, Mr. Ammar-ul-Haq, Dr. Khalid Mushtaq and Mr. Risha Mohyeddin joined the Board of Directors of PMEX. Subsequently, the Board of Directors elected Mr. Ruhail Mohammed as the new Chairman of the Board.

Mr. Ruhail Mohammed is the Nominee Director of Securities and Exchange Commission of Pakistan (SECP) at PMEX. He is currently the Chief Executive Officer of Engro Fertilizers Limited. Prior to his current position, he was the Chief Financial Officer of Engro Corporation Limited and also the Chief Executive Officer of Engro Powergen Limited.

Mr. Ejaz Ali Shah, Managing Director, PMEX, welcomed the Chairman Mr. Ruhail Mohammed and the newly appointed Directors and thanked the outgoing Chairman Dr. Salman Shah and the Directors for their contributions. He further said that the new Chairman and Directors are a valuable addition to the Board and their rich experience will further strengthen PMEX in delivering strategy and establishing the Exchange as a global market entity.



PMEX at BOCA 2016

▶ PMEX is an active member of Futures Industry Association (FIA) and ever since joining it has been actively participating in events arranged by the Association. PMEX participated at FIA's 41st Annual international Futures Industry Conference held from March 15-18, 2016 in Boca Raton, Florida, USA.

The four day event brought together more than 1,100 delegates along with 50 international exchanges from around the world. The event covered topics such as, The Future of the Industry, Future of Market Infrastructure, The Regulatory Shift, Current Trends in Commodity Markets, Industry Changing Technology and The Future of Rates Trading.

Condoleezza Rice, the 66th Secretary of State, was the keynote speaker at the Optiver Power Lunch where she discussed her outlook on the global economy, cybersecurity, and the ever-changing geopolitical landscape.

Mr. Ejaz Ali Shah, Managing Director, PMEX represented the Exchange at the event. The annual gathering provided PMEX with an unrivalled platform for debating and deliberating on the most pressing trends and topics shaping the industry.



▶ PMEX participated in the 19th Annual Conference of The Association of Futures Markets (AFM) held in Istanbul, Turkey from April 18-19, 2016. The event was hosted by Borsa Istanbul.

The conference brought together clearing houses, exchanges, regulators and other stakeholders from around the world to discuss the key market trends and business issues. The two-day conference featured panel discussions on risk management, energy trading, developing agricultural commodity derivative markets in emerging

PMEX at 19th Annual Conference of AFM

economies, Islamic financial markets and challenges around establishing markets.

Mr. Farhan Tahir, Chief Financial Officer & Company Secretary along with Ms. Sobia Ashraf, Manager Marketing represented the Exchange at the event. The conference provided PMEX with a platform for active and engaging discussions along with an opportunity for establishing new partnerships and consolidating existing relationships with AFM members, partner organizations and market participants from AFM region.

PMEX joined the AFM as an Associate Member in March 2012. In February 2014, the Exchange was granted a 'Full Member' status. Attaining this eminence allows the Exchange to play a proactive role in the formation of policies of the Association and represent Pakistan on its various bodies.





Delegations and Visits

1 A delegation from the Financial Regulatory Commission of Mongolia (FRC) visited PMEX on Aug 18, 2015.

The PMEX management welcomed the members of the FRC delegation and briefed them about the Exchange's integrated business model, technology infrastructure, legal & regulatory framework and existing & upcoming products. The briefing was followed by a tour of the PMEX office.



2 In October 2015, PMEX hosted a dinner for a visiting World Bank delegation which was looking into the possibility of collaborating with Pakistan's private sector with regards to its various agriculture projects. The dinner was hosted on the back of PMEX's listed contracts of Red Chilli that has attracted the attention of growers, corporate buyers and traders in Pakistan.

The delegation of the World Bank was led by Mr. Martien Van Nieuwkoop, Agriculture Manager for South Asia. Other representatives at the event included the executives of Agility Logistics, SGS Pakistan, National Foods, K&N, HBL, Pakistan Agriculture Coalition (PAC) and Habib Oil Mills.

The dinner provided an occasion for all the participants to discuss opportunities of bringing agricultural commodities trade on a regulated platform of PMEX. It is anticipated that with the active participation of growers, certifications companies, warehousing and logistic service providers, the vision of trading agricultural produce at the Exchange can be achieved in a relatively short period of time.

3

In March 2016, Mr. Zafar Hijazi, Chairman, Securities & Exchange Commission of Pakistan (SECP)



visited PMEX. He was accompanied by Mr. Akif Saeed, Commissioner - SMD, Mr. Muhammad Asif Jalal Bhatti, Executive Director - SMD, and Mr. Kamal Ali, Joint Director - SMD. Mr. Ejaz Ali Shah, Managing Director, PMEX, along with the management welcomed the delegation and briefed the members about the progress of Red Chilli Weekly Futures contracts, future business strategy and issues currently being faced by the Exchange for future growth. The briefing was followed by a tour of PMEX premises.

Mr. Hijazi applauded efforts of the Exchange for listing of Red Chilli contracts at country's first and only multi-commodity exchange. However, the Chairman stressed upon the need to overcome factors impeding growth in trading volumes of these contracts and also emphasized on extending PMEX outreach and diversifying its agricultural product portfolio.

Mr. Ejaz Ali Shah thanked the SECP for its guidance and patronage that led to the listing of Red Chilli at the Exchange. He also appreciated the efforts of trade partners in the Red Chilli trade such as Pakistan Agriculture Coalition, Agility Pakistan and SGS Pakistan and above all growers and buyers of the commodity who opted to trade at PMEX platform. He said that this initiative will ensure better price for growers, offer superior quality product to the buyers at a competitive price and provide ease of buying and selling of the commodity. He further said that the final frontier of the Exchange is to bring the agricultural commodities of the country on its regulated trading platform which will help Pakistan in realizing its potential to become one of the world's largest agricultural producer.

4

Ms. Farah Masood, Special Secretary Agriculture of Government of Punjab, visited the Exchange on March 11, 2016 to explore the dynamics of trading of deliverable contracts at a regulated and technology driven platform. After detailed discussions with PMEX team led by Mr. Ejaz Ali Shah, Managing Director, Ms. Masood appreciated the facilities offered by the Exchange and the efforts of PMEX with regards to listing of the agricultural commodities at state-of-the-art technology driven trading platform of PMEX.

Welcoming Ms. Masood at the Exchange, Mr. Ejaz Ali Shah thanked her for visiting and reposing confidence in PMEX. He said that PMEX looks forward to work with the Punjab Government for initiatives on agriculture trade.





5 The first Punjab Agriculture Conference was organized in Lahore on March 19, 2016, with the objective of formulating the future strategic direction for agriculture production & trade, devising of an action plan for the next two years and developing a policy framework. The conference was inaugurated by Mr. Shahbaz Sharif, Chief Minister, Punjab. Mr. Sharif, while addressing the opening session, announced up to PKR 100 billion exclusively for the development of agriculture and allied sectors for the next two years and also the formation of a "Kissan (farmer) Commission" to look into complaints and issues face by the farmers.

PMEX was invited by the Punjab Government to attend this conference and Mr. Hasan Mahmood, Head of Research, Risk & Product Development at PMEX represented the Exchange at the event.

On the side lines of this conference, Mr. Hasan exchanged views with the provincial authorities regarding their plan for the promotion of agriculture in Punjab and the role PMEX could play in achieving the desired objectives.

6 A delegation comprising of Mr. Ejaz Ali Shah - Managing Director, Mr. Amjad Khan - Chief Operating Officer, Mr. Nauman Lakhani - Head of Marketing, Business Development and Customer Support Services, Mr. Hasan Mahmood - Head of Research, Risk & Product Development along with SECP officials Mr. Asif Jalal Bhatti, Executive Director - SMD, Mr. Kamal Ali, Joint Director - SMD and Mr. Shahjahan Hashmani, Markets Advisor Pakistan Agriculture Coalition (PAC) visited Kunri, the 'Red Chilli Capital of Asia' in March 2016.

The visit to Kunri was planned on the back of a successful red chilli trading season and to identify the challenges faced by traders and farmers in the past trading season, review of the existing warehousing facilities and exchange information with farmers, traders and buyers to bring further improvement in the existing trading infrastructure.

The SECP officials appreciated the efforts of all the stakeholders and assured cooperation towards building a mega network for listing of other commodities at the PMEX. Growers, traders and buyers thanked SECP and PMEX team for their guidance and also assured that with the passage of time not only volume of red chilli traded at PMEX would increase substantially but also pave way for listing of other commodities produced in the region as well as throughout Pakistan.



7

On June 8, 2016 a delegation from USAID-financed

Financial Market Development (FMD) visited PMEX. The delegation was led by Mr. Paul Davis - Project Director & Acting Chief of Party.

Mr. Jim Defay - Vice President, Mr. John Crowley - Resident Adviser: Debt Capital Market, Mr. Werner Riecke - Resident Adviser: Govt. Debt Management and Mr. Amir Khan - Debt Capital Market Expert were the other dignitaries who were part of the delegation.

FMD Project is a five-year technical training collaboration program, designed to promote the development of competitive, deepened and diversified debt capital markets in Pakistan. A distinct component of the project is review and development of legal and regulatory framework for the establishment of a Commodity Warehouses/Receipt Financing Mechanism.

PMEX welcomed the members of the delegation and briefed them about the Exchange's integrated business model, technology infrastructure, regulatory framework and existing and upcoming products. The briefing was followed by a tour of the PMEX premises.

PMEX expressed keen interest in working with USAID – FMD and assured the delegation of full support in establishing the Commodity Warehouse/Receipt Financing Mechanism in Pakistan.



PMEX and Iran Mercantile Exchange sign Memorandum of Understanding

- ▶ PMEX and Iran Mercantile Exchange (IME) signed a Memorandum of Understanding (MoU) on June 30, 2016.

The signing ceremony was hosted by IME in Tehran, and Mr. Ejaz Ali Shah, Managing Director, PMEX, and Mr. Hamed Soltaninejad, Managing Director, IME, were the signatories.

The prime reason for PMEX to sign the MoU is to learn from the experience of IME with regards to the physically deliverable products, in specific the agriculture commodities, on the Exchange platform. Going forward, as Pakistan and Iran are trade partners in several commodities, PMEX and IME will be evaluating the possibilities for cross listing of commodities. This will bring efficiency in terms of both cost and convenience to traders of both markets.

In addition, the MoU would also pave the way for both the institutions to work in close coordination for the development and enhancement of derivatives and financial markets in Pakistan and Iran. The objective will be achieved by sharing best practices, market information, industry knowledge and cross training of staff.



Awareness Programs

- ▶ In order to develop a vibrant commodity futures market in Pakistan, PMEX actively conducted awareness programs during FY 2015-16. These awareness sessions included training workshops, seminars, presentations, road shows and participation in events.





Futures Trading 101

- ▶ PMEX conducts free of cost training workshops at its premises under the banner of 'Futures Trading 101'. Ten workshops were conducted during the year. These sessions were attended by employees of brokerage houses, high net worth individuals, employees of corporate sector, clients and professionals from various industries.

Educational Institutions at PMEX

- ▶ In line with the objective to create awareness about the benefits of investing in commodities at a regulated platform amongst the students, PMEX conducted interactive awareness sessions for the students and faculty members of Muhammad Ali Jinnah University (MAJU), College of Accounting Management Sciences (CAMS) and DHA Suffa University Karachi.

These sessions opened with a detailed presentation about Exchange's integrated business model, technology infrastructure and existing and upcoming products followed by a Q&A session. The students expressed keen interest in trading at the Exchange. To gain hands on experience of futures trading, students were offered demo trading account service, which is an exact replica of PMEX's trading system.





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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

IMAGINATION

Directors' Profiles



Mr. Ruhail Mohammed

Chairman

▶ Mr. Ruhail Mohammed is the Nominee Director of Securities & Exchange Commission of Pakistan (SECP) at PMEX. He is currently the Chief Executive Officer of Engro Fertilizers Limited. Prior to his current position, he was the Chief Financial Officer of Engro Corporation Limited and also the Chief Executive Officer of Engro Powergen Limited.

Mr. Ruhail has over 30 years of experience in General Management, Change Management, Business Development, Strategy & Financial Planning and People Development. He has worked in these areas in Pakistan, UAE and Europe. He serves on the board of various Engro companies and additionally, he is also on the Boards of Hub Power Company Limited and Pakhtunkhwa Energy Development Organization.

He holds an MBA Degree in Finance from the Institute of Business Administration Karachi, and is also a Chartered Financial Analyst, USA.





Ejaz Ali Shah

Managing Director

▶ Mr. Ejaz Ali Shah is the Managing Director of Pakistan Mercantile Exchange Limited. He has over two decades of diversified experience in domestic and international financial markets.

Previously, he served for 16 years as General Manager at Central Depository Company of Pakistan Limited (CDC). As a part of CDC's founding team, Mr. Shah played a vital role in developing, positioning and nurturing CDC as a diversified service provider in Pakistan.

Before CDC, Mr. Shah has served in Cordoba Corporation, USA and Fidelity Investment Bank Limited, Pakistan. He also served as the National Chair for International Public Relations Association (IPRA) for the years 2010-11.

Mr. Shah graduated from the University of Oklahoma with Bachelor of Business Administration (MIS).



Abdul Majeed Adam

Director

▶ Mr. Abdul Majeed Adam is the Nominee Director of Pakistan Stock Exchange at Pakistan Mercantile Exchange Limited. He has an extensive experience of over 20 years in capital and forex markets. Presently, he is the Chief Executive of Adam Securities (Private) Limited. The brokerage house is a TREC holder at Pakistan Stock Exchange and also a corporate member of Pakistan Mercantile Exchange Limited (PMEX).

Mr. Adam is a founding member of PMEX and actively participates in commodities trading at PMEX through Adam Securities (Private) Limited.

Mr. Adam is a graduate from University of Karachi.





Aftab Ahmad Chaudhry

Director

▶ Mr. Aftab Ahmad Chaudhry is the Nominee Director of SECP at PMEX. He is currently working as Senior Policy Advisor and officiating Deputy Chief of Party at USAID Pakistan's Financial Market Development Project.

Before joining FMD, Mr. Aftab served as the CEO of Lahore and Islamabad stock exchanges, and COO/CEO Designate of National Asset Management Company in Pakistan. Besides, he also acts as the Honorary Secretary General of the South Asian Federation of Exchanges, ISE Tower REIT Management Company, Institute of Financial Literacy and AIESEC Pakistan National Board.

He has also been a Board/Committee member of other capital market entities and bodies, such as Federation of Euro Asian Stock Exchanges (FEAS), National Commodity Exchange, Pakistan Credit Rating Agency, JCR-VIS Credit Rating Company, Institute Of Financial Markets Of Pakistan (IFMP) and Pakistan Institute of Corporate Governance.

In addition, Mr. Aftab has worked on few advisory/consulting assignments related to the capital markets, infrastructure and corporate finance etc. in the South Asian region such as Infrastructure Project Development Facility in Pakistan, restructuring & privatization of Maldives Stock Exchange and Depository Company; system requirement identification for Chittagong Stock Exchange, Nepal Stock Exchange and the demutualization plan for the Chittagong Stock Exchange.

Mr. Aftab has about 30 year experience in a variety of progressive assignments at different entities both within and outside Pakistan. He started his career as a commissioned officer, which he resigned subsequent to his MBA degree, while on extra ordinary leave. He has also worked on a logistics assignment during United Nations Operations in Somalia (UNOSOM).

Mr. Aftab holds an MBA degree from Nicholls State University, Thibodaux and is also a graduate of the Executive Management Program from the Stanford University, USA.





Ahmed Chinoy

Director

▶ Mr. Ahmed Chinoy is the Nominee Director of Pakistan Stock Exchange (PSX) at PMEX. He is the Managing Partner of Arch Group of Companies and is engaged with overseeing various businesses in different sectors such as security investments, textiles, real estates and poultry.

Mr. Chinoy is a well-known personality and has been privileged to serve the society in different capacities in various fields such as crime issues, business, education, health and social services. He also served as the Chief of Citizen Police Liaison Committee (CPLC) from the years 2010 to 2015.

Mr. Chinoy is the Director of AKD REIT Management Company Limited since 2011 and of Creek Developers (Private) Limited since 2007. For his meritorious services towards the service sector for the betterment of the nation, he was awarded prestigious national awards; Hilal-e-Imtiaz (H.I.) and Sitara-e-Imtiaz (S.I.). Mr. Chinoy is also a PSX nominee Director on the Boards of National Clearing Company of Pakistan Limited and JCR-VIS Credit Rating Company Limited.

He is qualified from Institute of Cost & Management Accountants of Pakistan (I.C.M.A.P) and holds a Bachelor's Degree in commerce from University of Karachi.



Ammar-ul-Haq

Director

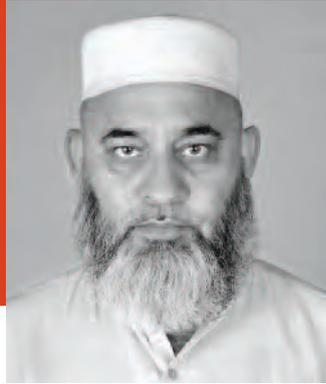
▶ Mr. Ammar-ul-Haq is the Nominee Director of LSE Financial Services Limited (Formerly: Lahore Stock Exchange Limited) at PMEX. He is currently the Director of LSE Financial Services Limited and Chief Executive Officer of Al-Haq Securities (Pvt.) Limited, TREC Holder of Pakistan Stock Exchange Limited. He is a seasoned stock broker who has been associated with the stock brokerage business over a period of 18 years in which he has served as a Director of the former Lahore Stock Exchange for four times. He specializes in institutional and retail brokerage, equity buyout syndication, portfolio management services and commodity trading business.

Being director of numerous Boards including LSE Financial Services Limited, Lahore Stock Exchange Limited, National Clearing Company of Pakistan (NCCPL), and Pakistan Credit Rating Agency (PACRA), he has been involved in strategic planning, decision making, governing organizations, deriving policies/regulations, enforcing compliance and risk management.

Mr. Ammar is also associated with philanthropic, charitable and welfare organizations and causes such as Mughal Eye Hospital Trust, Ibrahim Eye Hospital Trust and the financial literacy initiative. Besides this, Mr. Ammar is also engaged with his family steel industry business, which specializes in the trading and import of stainless steel for the domestic manufacturing industry of Pakistan.

Mr. Ammar holds Master's Degree in Business Administration from the University of Westminster, London, UK. Besides this, he has participated in many professional development programs, seminars, conferences and events related to the capital markets as well as the Directors' Training Program of the Institute of Chartered Accountants of Pakistan.





Dr. Khalid Mushtaq

Director

▶ Dr. Khalid Mushtaq is the nominee director of SECP at PMEX. He is currently working as an Associate Professor in Agricultural Economics at Institute of Agricultural & Resource Economics, University of Agriculture, Faisalabad.

Dr. Khalid has about two decades of professional experience. His vast experience includes his services as Consultant at the IFC, World Bank; CHEMONICS; Chief Economist, P&D Department, Govt. of the Punjab; Agricultural Economist at the National Institute of Banking & Finance, State Bank of Pakistan, Islamabad; Joint Director-Agriculture Credit Department, State Bank of Pakistan; Lecturer & Assistant Professor in Agricultural Economics-University of Agriculture Faisalabad, Pakistan and Scientific Officer and Head, Transfer of Technology Section Central Cotton Research Institute Multan, Ministry of Food, Agriculture and Livestock Islamabad.

Dr. Khalid completed his PhD in Agricultural Economics from the University of Newcastle Upon Tyne, UK and M.Sc. (Hons) & B.Sc. (Hons) Agricultural Economics from the University of Agriculture Faisalabad, Pakistan.

In addition to that several research papers, articles published in peer-reviewed journals and other scientific activities enrich his professional achievements.



Risha Mohyeddin

Director

▶ Mr. Risha Mohyeddin is the Nominee Director of National Bank of Pakistan (NBP) at PMEX. He is currently Senior Executive Vice President / Group Chief, Treasury & Capital Markets Group, at NBP.

Mr. Mohyeddin is a seasoned banker. He served at Barclays Bank as Regional Treasurer and Head of Trading in the Middle East / Pakistan region, and at Citibank as Country Treasurer and Regional Head of Structuring. He has also worked in senior roles at UBL and at Commercial Bank of Qatar.

He holds an MBA Degree from the University of Melbourne, Australia and a Masters in Finance from Boston College, U.S.



Syed Talat Mahmood

Director

▶ Syed Talat Mahmood is a professional career banker and has more than 40 years of local and international banking experience. He started his career with United Bank Limited in the year 1972 and after 20 years of service at various positions in Pakistan, he was posted as General Manager Operations UBL United Arab Emirates in 1992.

After his pre-mature retirement from UBL in 2002, he joined ABN Amro/Royal Bank of Scotland. On his return to Pakistan, Government of Punjab appointed Syed Talat Mahmood as President/CEO Punjab Provincial Cooperative Bank Ltd in 2012. The automation of the operations of PPCBL, establishment of model branches and the implementation of sound internal controls stands to his credit as President/CEO PPCBL.

Syed Talat Mahmood was appointed as President/CEO, Zarai Taraqati Bank Limited in April 2014. He has taken various initiatives in the areas of IT, Operations, HR, Credit, etc. In recognition of the development impact of "Financial Inclusion Initiatives", at Zarai Taraqati Bank Limited has been awarded a special "Plaque of Merit" by the Association of Development Financial Institutions in Asia & Pacific (ADFIAP).



Zahid Latif Khan

Director

▶ Mr. Zahid Latif Khan is the nominee director of ISE Tower REIT at Pakistan Mercantile Exchange Limited. Presently, he is the Chairman and Chief Executive Officer of M/s Zahid Latif Khan Securities (Pvt.) Limited, a corporate broker of PMEX as well as PSX. Besides running an independent corporate brokerage entity, Mr. Khan also has the distinction of serving as Board member of other capital market institutions such as NCEL Building Management Limited and Metropolitan Solutions (Pvt.) Limited. In addition, he is the Chairman of the Banking and Capital Markets Committee of the Rawalpindi Chamber of Commerce & Industries (RCCI).

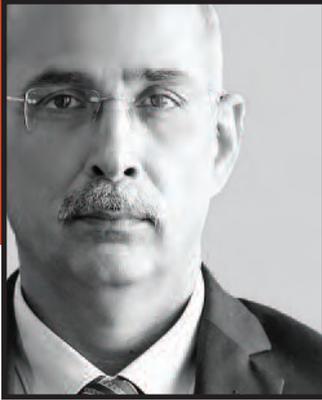
During his involvement at the leadership level on the Boards of these capital market institutions, Mr. Khan has been instrumental in advancing the idea of corporate social responsibility and in the implementation of modern governance standards. In addition to his regular contributions at the Board level, Mr. Khan has the distinction of playing key role in the establishment of Unified Trading Platform between Lahore and Islamabad Stock Exchanges, and the operationalization of the PMEX, both of which are considered to be the landmark initiatives at the capital market landscape of the country.

As the Chairman and CEO of his securities firm, Mr. Khan is for expanding the network of retail brokerage outlets which has been remarkable growth in the business of his firm besides promoting the culture of stock investments amongst the smaller investors.

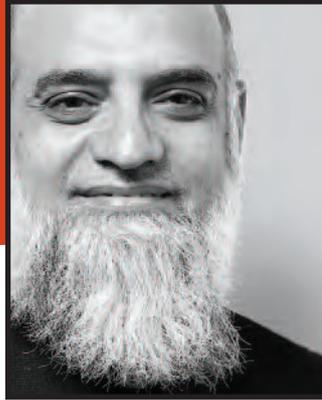
Mr. Khan holds a Bachelor degree and has also participated in various other domestic and international training programs, seminars and conferences.



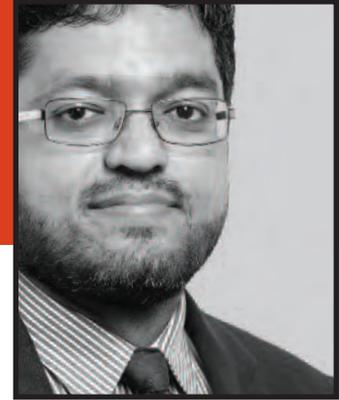
Management



Ejaz Ali Shah
Managing Director



Amjad Khan
Chief Operating Officer



Farhan Tahir
Chief Financial Officer &
Company Secretary



Shehzad Hussain
Head of Risk & Market
Surveillance



Syed Jawaid Raza
Chief Technology Officer



Syed Mumtaz Ali
Chief Compliance Officer



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



Hasan Mahmood
Head of Product Development &
Agri Business



**Muhammad Rizwan
Siddiqui**
Chief Internal Auditor



Brig (R) Sabur Ahmed Khan
Head of Human Resources &
Administration



Tariq Nafees Siddiqui
Head of Operations



Company Information

Board of Directors

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

CFO & Company Secretary

Mr. Farhan Tahir

Auditors

Deloitte Yousuf Adil
Chartered Accountants

Bankers

MCB Bank Limited
Standard Chartered Bank Pakistan Limited
Bank Alfalah Limited
Meezan Bank Limited

Legal Advisors

MCAS&W Law Associates

Regulator

Securities and Exchange Commission
of Pakistan

Registered Office

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





Committees

Audit Committee

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

Human Resource Committee

Mr. Ruhail Mohammed	Chairman
Syed Talat Mahmood	
Mr. Abdul Majeed Adam	
Mr. Ahmed Chinoy	

Regulatory Affairs Committee

Dr. Khalid Mushtaq	Chairman
Mr. Ammar-ul-Haq	
Mr. Zahid Latif Khan	
Mr. Aftab Chaudhry	

Steering Committee

Mr. Ejaz Ali Shah	Managing Director
Mr. Muhammad Amjad Khan	Chief Operating Officer
Mr. Farhan Tahir	Chief Financial Officer and Company Secretary
Mr. Hasan Mahmood	Head of Product Development and Agri Business
Mr. Nauman Lakhani	Head of Marketing, Business Development and Customer Support Services. (Secretary to the Steering Committee)



Operational Highlights

2015-2016

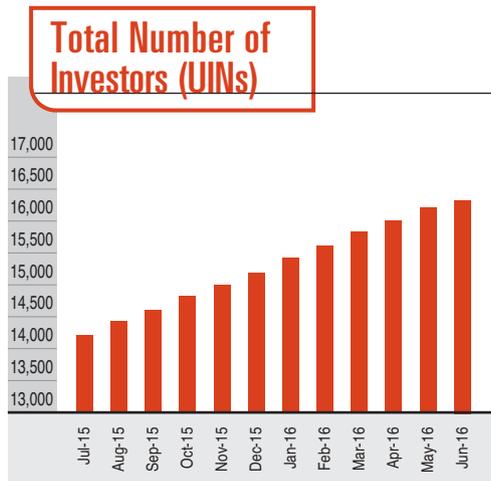
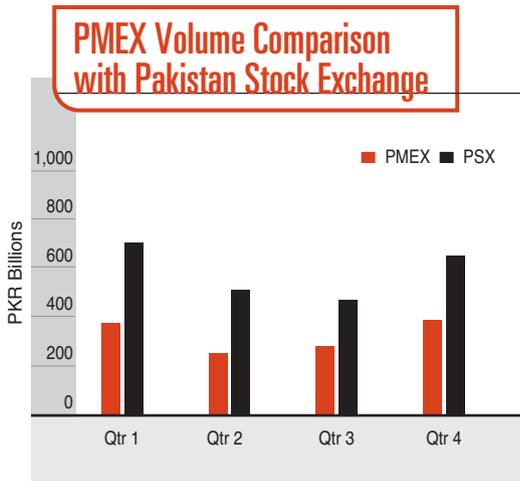
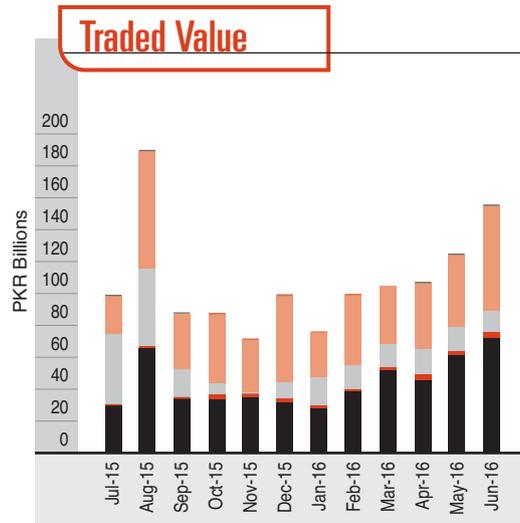
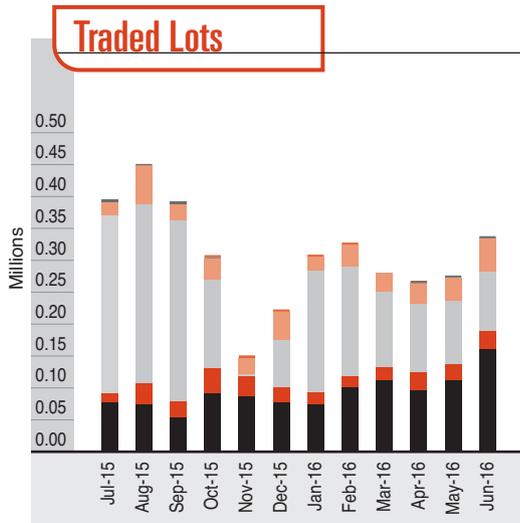
Traded Volume

	2014-2015	2015-2016	Change
Total traded volume	700,681,731,094	1,295,996,741,470	84.96%
 Crude Oil	441,105,615,162	221,016,201,034	(49.89)%
 Currencies	9,855,330,051*	529,499,784,925	5272.73%
 Gold	225,914,181,976	518,950,036,059	129.71%
 Silver	23,590,324,569	25,557,511,001	8.34%
 Cotton	216,279,336	849,019,451	292.56%
 Red Chilli	—	124,189,000	—

Traded Lots

	2014-2015	2015-2016	Change
Total traded lots	3,814,011	3,692,895	(3.18)%
 Crude Oil	2,752,209	1,835,774	(33.30)%
 Currencies	7,967*	425,324	5238.57%
 Gold	778,031	1,121,608	44.16%
 Silver	275,142	306,960	11.56%
 Cotton	662	2,624	296.37%
 Red Chilli	—	605	—

* Data represents only two weeks trading in the FY 2014-15.



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	Enrichers (Pvt.) Limited
3	Arif Habib Commodities (Pvt.) Limited	Arif Habib Commodities (Pvt.) Limited
4	Arsh Commodities (Pvt.) Limited	Jahanzeb
5	JS Global Capital Limited	JS Global Capital Limited
6	Abbasi & Co. (Pvt.) Limited	Khadija Commodities (Pvt.) Limited
7	Jahanzeb	Invest Capital Markets Limited
8	KASB Securities Limited	KASB Securities Limited
9	IGI Finex Securities Limited	Abbasi & Co. (Pvt.) Limited
10	Blink Capital Management (Pvt.) Limited	Sheikh Muhammad Shabbir

■ Gold
 ■ Silver
 ■ Crude
 ■ COTs
 ■ Cotton
 ■ Red Chili

Managing Director's Review



The preceding year has been a vigorous year for Pakistan Mercantile Exchange. I am pleased to inform you that PMEX has grown in almost all dimensions and has emerged as a robust institution bringing comprehensive oversight to the once opaque Commodity Futures Market.



The FY2015-16 was a critical year in the history of the Exchange and has proved to be a year of transition and real progress. The Exchange not only achieved a financial turnaround this year, it has also managed to significantly increase its reach and has strengthened its brand image significantly. I believe the financial stability that the Exchange has achieved this year has and will open new doors for the Exchange in coming times. However, it is imperative to build on the momentum created through an array of activities spanning from enhancement of product portfolio to creating awareness about the Exchange and its services, in coming years.

Gaining heart from the increased business activity on its platform, the Exchange has decided to expand its services across the country. In the first phase, it is working towards opening branches in Lahore and Islamabad with the view to further expand in other major cities of the country in coming years. In addition to providing opportunities to a wider investor base across the country, an efficient branch network will further facilitate trade of agricultural commodities on the Exchange platform. Such linkage to the real economy can bring extraordinary efficiency in the agricultural commodity trading in the country thereby bringing prosperity to the grass root level, which in essence is the ultimate goal of PMEX.

As we enter a new fiscal year, it is important that we not only look back with pride at the Exchange's achievements but also keep looking forward and adapt to the changing landscape of the future to position PMEX as a dynamic trading platform.

Lastly, I wish to take this opportunity to thank the Board of Directors for their vision and support in making PMEX a premier financial institution of the country. I would also like to applaud the Securities and Exchange Commission of Pakistan for their continued support and guidance. Last but not the least, I feel that the entire team of PMEX deserves praise for their commitment and hard work in transforming the Exchange into a vibrant and efficient institution of the financial market.

I convey my best wishes to the Exchange for an affluent and fruitful future.

Ejaz Ali Shah
Managing Director

Karachi: August 30, 2016



Directors' Report

On behalf of the Board of Directors of Pakistan Mercantile Exchange Limited, we are pleased to present the Annual Report for the financial year ended June 30, 2016 (FY2015-16) together with the Audited Financial Statements and Auditor's Report thereon.





Global Environment

Global economy continued to recover at a slow pace. While economic recovery in China was marred by overcapacity, India posted a handsome growth. The decline in commodity prices, especially oil, not only affected capital expenditures of oil-based economies but also the flow of foreign direct investment to emerging markets and developing economies.

Commodity markets remained volatile during the year due to contradictory policies of various central banks and prevailing oil glut. During first half of FY2015-16, gold price witnessed a downward trend while in the second half price was on an upward trajectory. Factors driving the price included expectation about interest rate movement of major economies, oil prices and physical gold demand by India and China.

Crude oil prices also remained volatile due to geopolitical condition in Middle East and North Africa. United States and Saudi Arabia kept on pumping oil at record high levels and Iran kept boosting its oil exports. During FY 2015-16, crude oil prices per barrel touched a high of USD 58.98 and a low of USD 26.05.

The referendum in Britain considering an exit from European Union (Brexit) emerged as event of the year. Markets suffered from extreme volatility sending precious metal prices to record highs. While the exit is a long drawn procedure, it is yet to start. Markets soon after announcement of the referendum results started adjusting but the global economic downturn, prevailing oil glut and geo political factors still cast dark shadows on the overall growth of the global economy.

Pakistan Overview

Pakistan's economy continued its growth momentum for the 3rd year in a row with real GDP growing at 4.71 per cent in FY2015-16, highest in the last eight years.

Major achievements of the outgoing fiscal year included: significant economic growth, price stability, improving tax

collection, reducing fiscal deficit, worker remittances touching new high and foreign exchange reserves touching historic high.

The total investment recorded a growth of 5.78 per cent in FY2015-16. The major inflow of Foreign Direct Investment was from US, Hong Kong, UK, Switzerland and UAE. Oil and gas exploration, financial business, power, communications and chemicals sectors remained focus of the foreign investors.

Pakistan entered a new era of equity trading after merger of operations of all the three stock exchanges i.e. Karachi Stock Exchange, Lahore Stock Exchange and Islamabad Stock Exchange into a single entity Pakistan Stock Exchange (PSX) during the outgoing fiscal year. Stock market witnessed an overall significant and steady rise with indices touching historic and unprecedented levels. The PSX-100 Index closed the year at 36,266.23 points, the highest level in the history of Pakistan's equity market.

Business Review

Turning the Corner

The efforts to turnaround PMEX that began nearly 30 months ago have finally yielded results. The FY2015-16 proved to be a historic year as the Exchange succeeded in posting an operational profit of



Rs. 29.65 million for the first time since its inception. Under the patronage of SECP and able guidance of the Board of Directors, new products were listed and new members were inducted stimulating record trading activity at the Exchange platform. This year the value of trade surged to PKR 1.3 Trillion from PKR 700 Billion as compared to previous year. These numbers were achieved even after the crude oil contract, a highly traded product at the Exchange, being illiquid for a quarter of the year due to unavailability of a market maker.

Introducing New Products

During the outgoing year, PMEX broadened its product range by launching a rich mix of products to further enhance its product portfolio. Multiple products including deliverable Red Chilli Weekly Futures Contracts were introduced during the year. These deliverable contracts received enormous response from the value chain partners. The market participants including farmers and exporters expressed confidence in the product which is likely to engage larger number of producers, traders and buyers in the forthcoming season.

The Exchange also launched three more Milli Ounce Gold Futures Contracts of different currencies, namely, Canadian Dollar (CAD), Swiss Franc (CHF) and Australian Dollar (AUD). These contracts are being traded through a special functionality named "Composite Order Trading System" (COTS).

Going forward, PMEX intends to list more cash settled products

that include Brent Crude Oil, Copper, Hybrid Red Chili as well as other agricultural commodities.

Expanding Outreach

During the year under review, PMEX remained committed to expanding its broker network across the country to offer trading opportunity to a broader investor base. Under this initiative, PMEX initiated a membership drive that resulted in induction of 7 new brokers from Karachi, Lahore, Islamabad, Multan and Gujranwala. In order to efficiently serve the clientele in the above mentioned cities and to further expand the business, PMEX is currently in the process of opening offices in Lahore and Islamabad. Both the offices will be fully operational by the end of the first quarter of FY2016-17.

Favourable Tax Regime

In the last FY 2014-15 there was a new withholding tax introduced on trading at PMEX which impacted all trades carried out on the Exchange irrespective of the outcome i.e. Profit or Loss. The Exchange worked with the tax authorities throughout the year to change the tax regime to capital gains similar to that undertaken on the stock exchange.

The Exchange was successful in getting the change approved w.e.f. FY 2016-17 which was well appreciated by the market participants.

Forging Partnerships with International Exchanges

The Exchange embarked upon the journey of forging strategic ties with international exchanges in exploring new business opportunities and adapting best practices. During the period under review, we signed Memorandum of Understandings (MoUs) with Borsa Istanbul, Izmir Commodity Exchange, Dubai Gold & Commodities Exchange (DGCX) and Iran Mercantile Exchange (IME). The signing of these MoUs will benefit PMEX to learn from the experience of these exchanges, open doors for cross product listing and facilitate in collective development of human resources. Going forward, we plan to sign similar accords with other international exchanges.

Sourcing of Price Feed

PMEX, which previously worked on the model of price feeds being provided by liquidity providers, during the year, worked on securing high quality price feeds on its own. This step was taken to ensure that there are minimal disruptions in market data and there is continued trading activity even during times of high volatility.

The Exchange successfully sourced the price feed and has received positive feedback from the market participants due to its progressive effect on price dissemination and trade execution throughout the trading day.

Education & Engagement

The Exchange is fully cognizant that the real potential of trading in commodities can't be achieved without engaging a larger number of investors, traders and hedgers. A multipronged strategy has been developed and followed rigorously during the year. The cornerstone of this strategy is disseminating information among the market participants. Those already engaged in trading get a change to improve upon their knowledge by going through our periodical research reports and attending training sessions. Our special focus remained on educational institutes, grooming next generation managers as well as investors.

Financial Results

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

	30-Jun-16	30-Jun-15
	(Rs. in million)	
Operating income	211.35	160.32
Profit / (loss) before taxation	35.15	(12.99)
Net profit / (loss) after taxation (total comprehensive income)	29.65	(14.63)
Earnings per share - basic	(Rupees)	
	1.09	(0.69)

The main reason for drastic improvement is increase in operating income, mainly trading fee from Rs. 78.57 million to Rs. 119.18 million which is a result of listing of new products and activation of new brokers. The results would have been better had a market maker not discontinued its operations during the year due to losses incurred because of low quality price feed. The Exchange is making continuous efforts to induct more competent market makers having desired financial capacity.

The positive reflections of deferred tax of Rs. 79.11 million (Note 28.2) and unascertained value of 20 Offices in Old Hyatt Regency Hotel Building (Note 17.1) have not been recorded due to uncertainties attached with respect to timings, etc.

On the taxation contingencies side, as detailed in note 14.1.1 to the financial statements, there are two major cases where PMEX is in dispute with the tax authorities. Although, the monetary impact of the tax disputes will be significant in case of unfavourable decision, we expect a favourable resolution of these cases and therefore, based on legal opinion, have not made any provision for these contingencies in the financial statements. Due to the significance of amount, the auditors have also emphasised the issue in their report.

Equity Injection

The Exchange has 15.84 million unsubscribed right shares for which various parties have shown interest. The Board has appointed a financial advisor to keep the process transparent and fetch the best investor with the required expertise and capacity. Once identified, the new investor would require SECP's consent after Board's approval. This matter is expected to be closed during the financial year 2016-17.

Preference Shares

As explained in note 5.2 to the financial statements, during the year, one of the preference shareholder, Pak Brunei Investment Company (PBIC) converted its 1.5 million preference shares into ordinary shares and further subscribed to 633,115 ordinary shares having face value of Rs. 10 each through cash after which the Exchange paid accumulated dividend of Rs. 4.08 million and compensation of Rs. 2.25 million.

The other preference shareholder, National Bank of Pakistan (NBP) also converted its 1.3 million preference shares along with the accumulated unpaid dividend of Rs. 3,538,600 into 1,653,860 ordinary shares of Rs. 10 each.

Retirement/ Separation Benefits Scheme

Separate trusts of gratuity and provident funds were constituted last year and their limited recognition was also granted by income tax authorities up to June 30, 2015. The management is under the process to arrange full recognition of these trust funds without any expiry under the income tax law, along with



approval of special contribution into the gratuity fund for transfer of the gratuity liability.

Settlement Guarantee Fund (SGF)

As per directions of SECP, the Exchange is in the process to constitute the separate trust of SGF. However, as disclosed in Note 9.1, monthly contribution has been allocated since September 2015, and the total size of such allocation has reached to Rs. 46.34 million on June 30, 2016 which will be transferred to trust along with future monthly contribution.

Going Forward

The achievements made during the year under review is a beginning of a new era in the history of PMEX. Our focus, in the coming times, will remain on extending our outreach by inducting brokers from different cities and establishing PMEX branch offices in key cities.

Moreover, under the able guidance of SECP and the Board of Directors, the Exchange is working towards listing new products, particularly agricultural commodities. Furthermore, with the expanding horizon at PMEX, substantial investment is being made for induction of new technologies and improvement of Exchange's infrastructure.

Board of Directors

During the year, election of directors was held in May, 2016 as the three-year term of the previous Board, elected in May 2013, was completed. The current Board is comprised of 10 directors including Managing Director, in which 6 directors represent

shareholders and remaining three are independent directors appointed by SECP. Directors representing shareholders comprised of two from National Bank of Pakistan, two from Pakistan Stock Exchange (formerly Karachi Stock Exchange), and one each from ISE Towers REIT (formerly Islamabad Stock Exchange) and LSE Financial Services (Lahore Stock Exchange).

Current Board of Directors is comprised of the following:

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

Attendance of Board meetings during 2015-16 is annexed at "A".

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

Corporate Governance

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

Directors' declaration on corporate and financial reporting framework:

- The financial statements present fairly Exchange's state of affairs, the result of its operations, cash flow and changes in equity.
- Proper books of accounts of the Exchange have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment. There was no change in accounting policy during the year.
- International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.

- e) There has been no material departure from the best practices of corporate governance.
- f) The system of internal control is sound in design and has been effectively implemented and monitored.
- g) No overdue statutory payments on account of taxes, duties, levies and charges are outstanding.
- h) Details of Shareholding are annexed at "C".
- i) Four directors of the Exchange are Certified under the Directors Training Program offered by SECP approved professional institutions.
- j) Key operating and financial data for last six years is annexed at "D".
- k) There are no significant doubts upon the Exchange's ability to continue as a going concern.
- l) The value of investments / assets of provident and gratuity funds are Rs. 7,947,789 and Rs. 3,977,884, respectively, as per their audited financial statements of June 30, 2015.

Auditors

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



Managing Director

Karachi: August 30, 2016



Chairman

Acknowledgement

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

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

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



Annexure A

Board Meeting Attendance

Total nine meetings of Board of Directors were held during 2015-16. Attendance history during the tenure of directorship was as follows:

Director	Meeting held during the tenure	Meetings Attended
Mr. Ruhail Mohammed	1	1
Dr. Khalid Mushtaq	1	0
Mr. Risha Mohyeddin	1	1
Mr. Ahmed Chinoy	1	1
Mr. Ammar-ul-Haq	1	1
Mr. Aftab Ahmad Chaudhry	3	3
Mr. Abdul Majeed Adam	9	7
Mr. Zahid Latif Khan	9	8
Syed Talat Mahmood	7	3
Dr. Salman Shah*	8	6
Mr. Muhammad Hanif Jakhura*	8	7
Syed Hasan Irtiza Kazmi*	8	7
Mr. Rehmat Ali Hasnie*	8	4
Mr. Ehtesham Rashid*	8	3
Mr. Asif Baig Mirza*	8	8

* No longer director on June 30, 2016.

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, 2016 and attendance during the year was as under.

Director	Meeting held during the tenure	Meetings Attended
Audit Committee		
Mr. Risha Mohyeddin – Chairman	0	0
Mr. Aftab Ahmad Chaudhry	0	0
Mr. Ahmed Chinoy	0	0
Mr. Zahid Latif Khan	4	4
Mr. Muhammad Hanif Jakhura*	4	3
Mr. Asif Baig Mirza*	4	4
Syed Hasan Irtiza Kazmi*	4	2
Human Resource Committee		
Mr. Ruhail Mohammed – Chairman	0	0
Syed Talat Mahmood	0	0
Mr. Ahmed Chinoy	0	0
Mr. Zahid Latif Khan	3	3
Syed Hasan Irtiza Kazmi *	3	3
Mr. Abdul Majeed Adam*	3	0
Mr. Muhammad Hanif Jakhura*	3	2



Director	Meeting held during the tenure	Meetings Attended
Regulatory Affairs Committee		
Mr. Aftab Ahmad Chaudhry – Chairman	1	0
Dr. Khalid Mushtaq	0	0
Mr. Ammar-ul-Haq	0	0
Mr. Abdul Majeed Adam	4	2
Syed Talat Mahmood*	3	1
Mr. Asif Baig Mirza*	4	4
Mr. Rehmat Ali Hasnie*	4	2
Mr. Zahid Latif Khan*	4	3

* No longer committee member on June 30, 2016.

Annexure C

Shareholding pattern as of June 30, 2016

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

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

Annexure D

SIX YEARS' FINANCIAL HIGHLIGHTS

Financial years
ended on June 30

	2016	2015	2014	2013	2012	2011
BALANCE SHEET						
Shareholders' equity (negative)	(64,254,052)	(105,792,321)	(86,817,267)	(160,304,348)	(172,047,002)	(191,909,430)
Advance - preference shares	-	-	-	-	-	28,000,000
Finance lease liabilities	-	-	-	-	825,925	1,747,445
Long term deposits	196,150,000	196,150,000	195,400,000	196,250,000	196,100,000	195,000,000
Deferred Liability - gratuity	-	-	45,227,574	53,966,360	48,453,368	37,853,728
Staff gratuity payable to fund	38,835,735	46,254,609	-	-	-	-
Dividend on preference shares	-	7,638,398	7,638,398	4,740,398	772,400	-
Settlement Guarantee Fund	1,667,544,562	1,116,812,206	1,158,960,085	1,649,849,092	1,517,913,878	595,024,005
Fixed assets	38,409,003	38,961,365	36,454,107	20,101,811	12,697,171	7,662,954
Investment in associates	20	20	20	20	20	20
Total Current assets	1,853,233,634	1,282,579,309	1,343,216,648	1,772,367,403	1,615,065,737	677,559,082
OPERATIONAL RESULTS						
Total Income	223,843,309	174,639,118	171,925,380	184,309,849	158,343,410	76,002,096
Total Expenses	188,698,145	187,630,466	185,110,993	171,985,967	166,587,617	134,987,360
Profit / (loss) after taxation	29,651,607	(14,630,935)	(13,185,613)	12,759,264	(9,569,436)	(58,803,389)
Earnings per share (EPS)	1.09	(0.69)	(0.83)	0.46	(0.54)	(3.09)



▶ NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 15th Annual General Meeting of the shareholders of Pakistan Mercantile Exchange Limited will be held at 11:00 am on Friday, October 14, 2016, at the Registered Office of the Exchange, situated at 3B, 3rd Floor, Bahria Complex IV, Ch. Khaliq-uz-Zaman Road, Gizri, Karachi, to transact the following business:

Ordinary Business:

1. To confirm the minutes of the Extraordinary Annual General Meeting held on May 10, 2016.
2. To receive and consider the Directors' Report and Audited Annual Financial Statements together with Auditors' Report thereon for the year ended June 30, 2016
3. To appoint auditors for the year ending June 30, 2017 and fix their remuneration. The retiring auditors Deloitte Yousuf Adil Chartered Accountants have offered themselves for re-appointment. The Board of Directors has proposed their re-appointment on the same remuneration of Rs. 550,000 excluding out of pocket expenses.

Special Business:

4. To consider and to pass the following resolution as Special Resolution:

RESOLVED that existing clause V of Memorandum of Association shall be replaced with the following proposed clause:

"The authorized share capital of the company is Rs 500,000,000 (Rupees Five Hundred Million) divided into 50,000,000 (Fifty Million) ordinary shares of Rs 10 each. The Company shall have the power to increase, reduce or re-organize the capital of the Company and divide shares in the capital for the time being into several classes in accordance with the provisions of the Companies Ordinance, 1984."

Statement of Material Facts under section 160(1)(b)

"Presently, the authorized capital of 50 million shares is divided into 47.2 million ordinary shares and 2.8 million preference shares. As 2.8 million preference shares have been converted into 2.8 million ordinary shares during the year ended June 30, 2016, therefore, this existing segregation of authorized capital between ordinary and preference shares is no more required. Accordingly, the special resolution is proposed by the Board."

No director has any direct or indirect interest in this matter.

By order of the Board of Directors



Company Secretary

Karachi: September 16, 2016



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

We have reviewed the Statement of Compliance with the best practices (the Statement) contained in the Code of Corporate Governance (the Code) for the year ended June 30, 2016 prepared by the Board of Directors of **Pakistan Mercantile Exchange Limited** (the Exchange) to voluntarily comply with the Code issued by the Securities and Exchange Commission of Pakistan contained in the rule book issued by the Pakistan Stock Exchange.

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

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

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

Based on our review, nothing has come to our attention which causes us to believe that the Statement does not appropriately reflect the Exchange's compliance, in all material respects, with the best practices contained in the Code, as applicable to the Exchange for the year ended June 30, 2016.

We draw attention to the Paragraph 23 to the Statement wherein it is stated that the performance evaluation of the Board was not feasible for the year due to the reason disclosed in the said paragraph.

Nadeem Yousuf Adil

Deloitte Yousuf Adil
Chartered Accountants

Engagement Partner:
Nadeem Yousuf Adil

Dated: August 30, 2016
Karachi

▶ STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PMEX

For the year ended
June 30, 2016

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

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

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

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

2. The directors have confirmed that they are not serving as director in more than seven listed companies.
3. All the directors of the Exchange have confirmed that they are registered as taxpayers and none of them has defaulted in payment of any loan to a Banking Company, a Development Financial Institution (DFI) or a Non-Banking Finance Institution (NBFI) or, being a member of a Stock Exchange, has been declared as a defaulter by that Stock Exchange.
4. One casual vacancy occurred on the Board during the year which was filled immediately.
5. The Exchange has prepared a “Statement of Ethics and Business Practices” and has ensured that appropriate steps have been taken to disseminate it throughout the Exchange along with its supporting policies and procedures.
6. The Board has developed the Vision and Mission statements, overall corporate strategy and significant policies of the Exchange. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained by the Exchange.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive Officer, have been taken by the Board.
8. All the meetings of the Board were presided over by the Chairman except two meetings which were chaired by non-executive directors elected by the Board in the absence of the Chairman. The Board met nine times during the year including once in every quarter. Written notices of the board meetings, along with agenda, were circulated at least seven days before the meetings except for one emergent meeting held on September 12, 2015. The minutes of the meetings were appropriately recorded and circulated.
9. The directors of the Exchange are individuals with vast diversified experience of the financial and corporate affairs. They are also directors in other companies and are well conversant with their duties and responsibilities. Copies of Memorandum of Association, Article of Association and Pakistan Mercantile

Exchange Limited (PMEX) General Regulations have been made available to them. Four directors of the Exchange have certification under the directors training program offered by professional institutions that meet the criteria specified by SECP.

10. There was no new appointment of Chief Financial Officer, Company Secretary and Head of Internal Audit during the year.
11. The Directors' Report for the year ended June 30, 2016 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Exchange were duly endorsed by Chief Executive Officer and Chief Financial Officer before approval of the Board.
13. The directors, Chief Executive Officer and executives do not hold any interest in the shares of the Exchange other than that disclosed in the pattern of shareholding.
14. The Exchange has complied with all the material corporate and financial reporting requirements of the Code.
15. The Board has formed an Audit Committee which comprises of four members all of whom, including the Chairman are non-executive directors.
16. The meetings of the Audit Committee were held at least once in every quarter prior to the approval of interim and final results of the Exchange and as required by the Code. The terms of reference of the Committee have been formed and advised to the Committee for compliance.
17. The Board has formed a Human Resource and Remuneration Committee. It comprises of four members all of whom are non-executive directors and the Chairman of the Committee is an independent director.
18. The Board has established an effective internal audit function. Head of Internal Audit is considered suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Company and is involved in the internal audit function on a full time basis;
19. The statutory auditors of the Exchange have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Exchange and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on Code of Ethics as adopted by the Institute of Chartered Accountants of Pakistan.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. Being an un-listed Company, the requirements relating to the 'closed period' are not applicable on the Exchange.
22. Being an un-listed Company, the requirements relating to the dissemination of material or price sensitive information are not applicable on the Exchange.
23. We confirm that all other material principles enshrined in the Code have been complied with. The performance evaluation of the Board was not feasible for the year, as majority of the directors were changed due to completion of three year term of Board of Directors in May 2016.



Managing Director

Dated: August 30, 2016
Karachi



Chairman



AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **PAKISTAN MERCANTILE EXCHANGE LIMITED** (the Exchange) as at June 30, 2016 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- a) in our opinion, proper books of account have been kept by the Exchange as required by the Companies Ordinance, 1984;
- b) in our opinion:
 - i. the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
 - ii. the expenditure incurred during the year was for the purpose of the Exchange's business; and
 - iii. the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Exchange;
- c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan and give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Exchange's affairs as at June 30, 2016 and of the profit, cash flows and its changes in equity for the year then ended; and
- d) in our opinion, no zakat was deductible at source under the Zakat and Ushr Ordinance, 1980.

We draw attention to note 14.1.1 to the financial statements regarding tax implication relating to security deposits of members on the Exchange for the tax year 2003. The ultimate outcome of the matter cannot presently be determined. Our opinion is not qualified in respect of this matter.

Nadeem Yousuf Adil

Deloitte Yousuf Adil
Chartered Accountants

Engagement Partner:
Nadeem Yousuf Adil

Dated: August 30, 2016
Karachi







▶ **Financial
Statements**

▶ BALANCE SHEET | As at June 30, 2016

Rupees

	Note	2016	2015
EQUITY AND LIABILITIES			
Share capital and reserves			
Authorised capital 47,200,000 (2015: 47,200,000) ordinary shares of Rs. 10 each		472,000,000	472,000,000
2,800,000 (2015: 2,800,000) preference shares of Rs. 10 each		28,000,000	28,000,000
Issued, subscribed and paid-up capital 31,355,162 (2015: 27,568,187) ordinary shares of Rs. 10 each	5	313,551,620	275,681,870
Nil (2015: 2,800,000) preference shares of Rs. 10 each	6	–	28,000,000
Capital reserve - premium on issue of ordinary shares		22,250,000	22,250,000
Accumulated loss		(400,055,672)	(431,724,191)
		(64,254,052)	(105,792,321)
Non-current liabilities			
Long-term deposits	7	196,150,000	196,150,000
Current liabilities			
Staff gratuity payable	8	38,835,735	46,254,609
Dividend on preference shares	5.2	–	7,638,398
Settlement guarantee fund (SGF)	9	1,282,415,900	949,404,466
Gold held on behalf of brokers/clients - SGF		385,128,662	167,407,740
Advance annual subscription and other fee	10	10,216,779	9,866,407
Advance members admission fee	11	2,500,000	2,500,000
Accrued finance cost	12	5,734,161	7,555,701
Creditors, accrued and other liabilities	13	34,915,472	40,619,577
		1,759,746,709	1,231,246,898
Contingencies and commitments			
	14		
		1,891,642,657	1,321,604,577

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



Managing Director

		Rupees	
	Note	2016	2015
ASSETS			
Non-current assets			
Property and equipment	15	21,570,858	29,092,149
Intangible assets	16	16,838,145	9,869,216
Investment in associates	17	20	20
Long term prepayment		-	63,883
Current assets			
Supplies and consumables	18	243,620	362,552
Annual subscription receivable - considered good		24,425,000	15,750,000
Deposits and short-term prepayments	19	11,601,753	4,461,477
Other receivables	20	27,052,041	13,430,171
Short term investments	21	64,211,593	81,002,844
Assets relating to settlement guarantee fund (SGF)	22	1,282,415,900	949,404,466
Gold held on behalf of brokers/clients - SGF		385,128,662	167,407,740
Taxation - net		42,156,022	44,553,834
Cash and bank balances	23	15,999,043	6,206,225
		1,853,233,634	1,282,579,309
		1,891,642,657	1,321,604,577



 Chairman



► PROFIT AND LOSS ACCOUNT

For the year ended June 30, 2016

		Rupees	
	Note	2016	2015
Operating income	24	211,346,992	160,315,635
Administrative and operating expenses	25	(186,096,620)	(184,332,238)
		25,250,372	(24,016,603)
Other income	26	12,496,317	14,323,483
Other charges		(78,946)	(86,646)
Finance costs	27	(2,522,579)	(3,211,582)
Profit / (loss) before taxation		35,145,164	(12,991,348)
Taxation - net	28	(5,493,557)	(1,639,587)
Net profit / (loss) after taxation		29,651,607	(14,630,935)
Other comprehensive income for the year		-	-
Total comprehensive income for the year		29,651,607	(14,630,935)
Earnings per share - basic	29	1.09	(0.69)
- diluted	29	0.96	(0.69)

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



Managing Director



Chairman



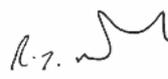
STATEMENT OF CASH FLOWS

For the year ended June 30, 2016

		Rupees	
	Note	2016	2015
A. CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from / (used in) operations	30	18,659,177	(11,387,102)
Long-term deposits		-	750,000
Taxes paid - net		(3,095,745)	(1,679,271)
Gratuity paid		(13,083,487)	(8,821,841)
Long term prepayment		63,883	383,333
Net cash generated from / (used in) operating activities		2,543,828	(20,754,881)
B. CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	15	(2,843,080)	(16,180,701)
Purchase of intangible assets	16	(12,431,406)	(2,381,950)
Proceeds from disposal of property and equipment		153,658	2,700,000
Proceeds from sale of investment in government securities		437,874,667	381,729,593
Purchase of investment in government securities		(415,865,682)	(348,513,493)
Mark-up received on bank deposits		456,688	1,152,935
Net cash generated from investing activities		7,344,845	18,506,384
C. CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of shares		6,331,150	-
Dividend on preference shares		(4,099,798)	-
Finance cost paid		(2,327,207)	-
Net cash used in financing activities		(95,855)	-
Net increase / (decrease) in cash and cash equivalents	(A+B+C)	9,792,818	(2,248,497)
Cash and cash equivalents at the beginning of the year		6,206,225	8,454,722
Cash and cash equivalents at the end of the year	23	15,999,043	6,206,225

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


 Managing Director


 Chairman

STATEMENT OF CHANGES IN EQUITY

For the year ended
June 30, 2016

Rupees

	Issued, subscribed and paid-up capital	Preference share capital	Capital reserve premium on issue of ordinary shares	Accumulated loss	Total
Balance at June 30, 2014	275,681,870	28,000,000	22,250,000	(412,749,137)	(86,817,267)
Total comprehensive income for the year ended June 30, 2015					
- Loss for the year	-	-	-	(14,630,935)	(14,630,935)
- Other comprehensive income for the year	-	-	-	-	-
	-	-	-	(14,630,935)	(14,630,935)
Finance cost on preference shares (note 27.2)	-	-	-	(4,344,119)	(4,344,119)
Balance at June 30, 2015	275,681,870	28,000,000	22,250,000	(431,724,191)	(105,792,321)
Total comprehensive income for the year ended June 30, 2016					
- Profit for the year	-	-	-	29,651,607	29,651,607
- Other comprehensive income for the year	-	-	-	-	-
	-	-	-	29,651,607	29,651,607
Reversal of finance cost on preference shares (note 27.2)	-	-	-	2,016,912	2,016,912
Conversion of preference shares into ordinary shares	28,000,000	(28,000,000)	-	-	-
Conversion of accumulated unpaid dividend into ordinary shares (note 5.2)	3,538,600	-	-	-	3,538,600
Issue of shares at Rs. 10 each	6,331,150	-	-	-	6,331,150
Balance at June 30, 2016	313,551,620	-	22,250,000	(400,055,672)	(64,254,052)

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



Managing Director



Chairman



▶ NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended June 30, 2016

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 Companies Ordinance, 1984. The Certificate of Commencement of Business under the Companies Ordinance, 1984 was granted to the Exchange by the Securities and Exchange Commission of Pakistan (SECP) on May 20, 2002. The Certificate of Registration under Securities and Exchange Ordinance, 1969 to start operations as commodity exchange was granted by SECP on May 10, 2007 when the Exchange commenced its operations. Its registered office is situated at 3B, 3rd Floor, Bahria Complex IV, Chaudhry Khaliq-uz-Zaman Road, Gizri, Karachi, Pakistan.
- 1.2 The Exchange has been set-up principally to establish, regulate, control and provide physical facilities and marketplace necessary for trading in Commodity Futures Contracts and to perform all allied and incidental functions. This is the first technology driven, de-mutualized, on-line commodity futures Exchange in Pakistan, regulated by SECP. The operations of the Exchange are governed by the Pakistan Mercantile Exchange Limited (PMEX) General Regulations, which were approved by the SECP on May 10, 2007 as amended from time to time.
- 1.3 The Exchange is an institution of national importance and is receiving cooperation and support from all the stakeholders. Due to listing of new products and increase in active brokers and clients, the Exchange has recorded profit after tax of Rs. 29.652 million during the year, which is expected to continue in future. Furthermore the net equity position also improved by issue of 986,975 shares of Rs. 10 each. Moreover, new products are in the process of being designed, approval or launched for trading on the Exchange, which include Murabaha, Milli-tola through Telecom Companies, Copper, Brent Crude Oil, Mill-specific Sugar etc. Further, the Exchange is in process of raising fresh equity for which various parties have submitted their expression of interest.

2 BASIS OF PREPARATION

- 2.1 **Statement of compliance**
These financial statements have been prepared in accordance with the requirements of the Companies Ordinance, 1984 (the Ordinance), directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the provisions of the Ordinance. Wherever, the requirements of the Ordinance or directives issued by the SECP differ with the requirements of these standards, the requirements of the Ordinance or the requirements of the said directives take precedence.
- 2.2 **Accounting convention**
These financial statements have been prepared under the historical cost convention except that certain investments are carried at fair value.
- 2.3 **Functional and presentation currency**
Items included in the financial statements are measured using the currency of the primary economic environment in which the Exchange operates. These financial statements are presented in Pak Rupees which is the Exchange’s functional and presentation currency.



2.4 Initial application of standards, amendments or an interpretation to existing standards

a) Standards, amendments and interpretations which became effective during the year

The following standards, amendments and interpretations became effective during the year ended June 30, 2016. These standards, interpretations and the amendments are either not relevant to the Exchange's operations or are not expected to have significant impact on the Exchange's financial statements other than certain additional disclosures.

Standards or Interpretations	Effective date (accounting periods beginning on or after)
IFRS 10 – Consolidated Financial Statements	January 01, 2015
IFRS 11 – Joint Arrangements	January 01, 2015
IFRS 12 – Disclosure of Interests in Other Entities	January 01, 2015
IFRS 13 – Fair Value Measurement	January 01, 2015
IAS 27 (Revised 2011) – Separate Financial Statements	January 01, 2015
IAS 28 (Revised 2011) – Investments in Associates and Joint Ventures	January 01, 2015

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

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

Standards or Interpretations	Effective date (accounting periods beginning on or after)
Amendments to IFRS 2 'Share-based Payment' - Clarification on the classification and measurement of share-based payment transactions	January 01, 2018
Amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures' - Sale or contribution of assets between an investor and its associate or joint venture	Effective date is deferred indefinitely. Earlier adoption is permitted.
Amendments to IFRS 10 'Consolidated Financial Statements', IFRS 12 'Disclosure of Interests in Other Entities' and IAS 28 'Investments in Associates and Joint Ventures' - Investment Entities: Applying the consolidation exception	January 01, 2016
Amendments to IFRS 11 'Joint Arrangements' - Accounting for acquisitions of interests in joint operations	January 01, 2016
Amendments to IAS 1 'Presentation of Financial Statements' - Disclosure initiative	January 01, 2016
Amendments to IAS 7 'Statement of Cash Flows' - Amendments as a result of the disclosure initiative	January 01, 2017
Amendments to IAS 12 'Income Taxes' - Recognition of deferred tax assets for unrealised losses	January 01, 2017
Amendments to IAS 16 'Property Plant and Equipment' and IAS 38 'Intangible Assets' - Clarification of acceptable methods of depreciation and amortization	January 01, 2016
Amendments to IAS 16 'Property Plant and Equipment' and IAS 41 'Agriculture' - Measurement of bearer plants	January 01, 2016
Amendments to IAS 27 'Separate Financial Statements' - Equity method in separate financial statements	January 01, 2016



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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Settlement Guarantee Fund (SGF)

The Settlement Guarantee Fund (SGF) has been formed under clause 12.1.1 of the PMEX General Regulations approved by Securities and Exchange Commission of Pakistan (SECP) by designating the initial margins and clearing house deposits received from brokers / clients as SGF.

Assets acquired from the funds available in SGF comprise of cash, investments in Government securities, gold holdings, etc.

Assets of SGF are recorded and remeasured at fair value.

3.2 Provisions

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

3.3 Taxation

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

Current

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

Deferred

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

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



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

3.4 Property and equipment

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

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

Depreciation is charged to the profit and loss account using the straight-line method in accordance with the rates specified in note 15 to these financial statements after taking into account residual value, if significant. The residual values, useful lives and depreciation methods are reviewed, and adjusted, if appropriate, at each balance sheet date.

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

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

Capital work in progress

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

3.5 Intangible assets

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

Intangible assets having a finite useful life are stated at cost less accumulated amortization and accumulated impairment losses, if any. Such intangible assets are amortized using the straight-line method with the rates specified in note 16 to these financial statements. Amortization on additions and deletions of intangible assets during the year is charged in proportion to the period of use. The useful lives and amortization method are reviewed, and adjusted, if appropriate, at each reporting date.

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

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

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





3.6 Impairment

3.6.1 Financial assets

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

3.6.2 Non-financial assets

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

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

3.7 Supplies and consumables

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

3.8 Annual subscription receivables

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

3.9 Investments

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

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

The investment portfolio of the Exchange is categorized below:

Investments at fair value through profit or loss

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



Available-for-sale

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

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

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

The surplus / deficit arising on remeasurement of available-for-sale investments relating to SGF is included in SGF balance.

Held-to-maturity - Investment at amortized cost

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

Investments in associates

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

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

3.10 Cash and cash equivalents

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

3.11 Staff retirement benefits

The Exchange is operating a funded defined contribution gratuity scheme having contribution @ 8% of monthly basic salary from the Exchange only and a provident fund having equal contribution (both by the Exchange and permanent employees) @ 8% of monthly basic salary.

3.12 Foreign currency transactions and translation

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

3.13 Financial instruments

Financial instruments carried on the balance sheet include receivables, assets relating to Settlement Guarantee Fund, advances and deposits, investments, cash and bank balances, long term deposits, liability of settlement guarantee fund, members admission fee, creditors, accrued and other liabilities.

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

3.14 Offsetting of financial assets and liabilities

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

3.15 Revenue recognition

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

- ▶ Entrance fee, fee for membership transfer and issuance of certificate are recognized on accrual basis.
- ▶ Trading fee from members is recognized on execution of trading 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 an accrual basis.
- ▶ Capital gain is recognised at the time of sale of investments.

3.16 Earnings per share

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

In preparing these financial statements, the significant judgements made by management in applying the Exchange's accounting policies and the key resources of estimation were the same as those that applied to the financial statements as at and for the year ended June 30, 2015.

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

- ▶ Useful lives and residual values of property and equipment (note 15);
- ▶ Useful lives and residual values of intangible assets (note 3.5 and 16);
- ▶ Classification of short term investments (note 3.9 and 21);
- ▶ Recoverable amount of assets relating to 'Settlement Guarantee Fund' (note 22); and
- ▶ Taxation (note 3.3 and 28).

5 ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

Number of Shares			Rupees	
2016	2015		2016	2015
31,355,162	27,568,187	Ordinary shares of Rs 10 each	313,551,620	275,681,870

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

	Note	Number of Shares	
		2016	2015
At beginning of the year		27,568,187	27,568,187
Add: Conversion of preference shares	5.2	2,800,000	–
Conversion of accumulated unpaid dividend on preference shares	5.2	353,860	–
Issue of shares at Rs. 10 each	5.2	633,115	–
At end of the year		31,355,162	27,568,187

5.2 During the year, one of the preference shareholders, Pak Brunei Investment Company Limited (PBIC) converted its 1.5 million preference shares into ordinary shares and further subscribed to 633,115 ordinary shares having face value of Rs. 10 each against cash and the Exchange paid accumulated dividend of Rs. 4.08 million and compensation of Rs. 2.25 million. The other preference shareholder, National Bank of Pakistan (NBP) also converted its 1.3 million preference shares along with the accumulated unpaid dividend of Rs. 3.54 million into 1,653,860 ordinary shares of Rs. 10 each.

5.3 Ordinary shares were held as at June 30 by:

	Number of Shares	
	2016	2015
Associates		
National Bank of Pakistan	10,653,860	9,000,000
Pakistan Stock Exchange Limited	8,909,052	8,909,052
ISE Tower REIT Management Limited	5,568,181	5,568,181
LSE Financial Services Limited	2,272,727	2,272,727
Others		
Pak Brunei Investment Company Limited	2,133,115	–
Zarai Taraqati Bank Limited	909,091	909,091
Pakistan Kuwait Investment Company (Private) Limited	909,090	909,090
Others - individuals	46	46
Total	31,355,162	27,568,187

6 REDEEMABLE PREFERENCE SHARES

Number of Shares			Rupees	
2016	2015		2016	2015
–	1,300,000	National Bank of Pakistan (NBP) - Associate	–	13,000,000
–	1,500,000	Pak Brunei Investment Company Limited (PBIC)	–	15,000,000
–	2,800,000		–	28,000,000



7 LONG-TERM DEPOSITS

		Rupees	
	Note	2016	2015
Security deposits from members	7.1	193,250,000	193,250,000
Clearing house deposits	7.2	2,900,000	2,900,000
		196,150,000	196,150,000

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

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

8 STAFF GRATUITY PAYABLE

The Board in its meeting dated May 29, 2014 approved to replace the gross salary based defined benefit gratuity scheme with a funded defined contribution gratuity scheme having contribution @ 8% of basic salary, which is operative from October 01, 2014. The closing available balance as at June 30, 2016 of employees in the gratuity of Rs. 38.835 million shall be paid to the gratuity fund from time to time based on the availability of the funds.

8.1 Movement of staff gratuity payable is as follows:

	Rupees	
	2016	2015
Opening balance	46,254,609	45,227,574
Charge for the year	5,664,613	9,848,876
Payments made to the funds (new scheme)	(5,219,134)	(4,619,598)
Payments made to outgoing employees on behalf of the fund	(7,864,353)	(4,202,243)
Closing balance	38,835,735	46,254,609

9 STAFF GRATUITY PAYABLE

	Rupees		
Note	2016	2015	
Clearing house deposits relating to brokers	9.1	136,032,267	129,450,548
Initial margins relating to brokers and clients	9.1	1,100,042,714	819,953,918
Amount allocated for transfer to SGF Trust	9.1	46,340,919	–
		1,282,415,900	949,404,466

9.1 The Settlement Guarantee Fund has been applied as follows:

		Rupees	
	Note	2016	2015
Clearing house deposits			
Saving / current accounts		17,278,049	7,943,868
Investment in Treasury Bills	9.1.1	123,663,922	121,506,683
Less: amount allocated for transfer of SGF Trust		(4,909,704)	–
		136,032,267	129,450,551
Initial margins			
Saving / current accounts		91,890,653	43,156,203
Investment in Treasury Bills	9.1.1	876,621,030	605,167,506
Investment in Pakistan Investment Bonds (PIBs)	9.1.2	165,376,674	163,881,021
Accrued markup paid on purchase of PIBs		–	280,480
Accrued markup		7,549,572	7,432,705
Security deposit / prepayments - Locker (Gold)		36,000	36,000
Less: amount allocated for transfer of SGF Trust		(41,431,215)	–
		1,100,042,714	819,953,915
Amount allocated for transfer to SGF Trust out of:			
- clearing house deposits		4,909,704	–
- initial margins		41,431,215	–
	9.3	46,340,919	–
		1,282,415,900	949,404,466

9.1.1 The aggregate cost of these treasury bills is Rs. 988.605 million (2015: Rs. 718.231 million). These Treasury Bills carry markup rate ranging from 5.9% to 6.21% (2015: 6.84% to 7.38%) per annum and will mature on various dates till September 15, 2016.

9.1.2 The aggregate cost of investment in PIBs is Rs. 156.544 million (2015: Rs. 156.544 million). These PIBs carry markup rate ranging from 11.25% to 11.5% (2015: 11.25% to 11.5%) per annum and will mature on various dates till July 17, 2019.

9.2 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.

As a part of risk management measure to guarantee timely performance of financial obligation by the Exchange and to maintain the integrity of the clearing and settlement system, the Exchange has formed a 'Settlement Guarantee Fund' (SGF) by designating all clearing house deposits and margins of trading members as part of the SGF. The Exchange will utilize the SGF and other monies of the broker to the extent necessary to fulfill his obligations, as specified under the Regulations whenever a broker fails to meet his settlement obligations to the Exchange arising out of the transactions, or whenever a broker is declared as a defaulter.

9.3 As per the SECP's direction the Exchange submitted its detailed proposal on the mechanism to utilise SGF under Regulations 12.6.1 (v) for the approval of the SECP. During the year, SECP, through its letter dated August 17, 2015, approved the structure of SGF with certain amendments to the Exchange proposed structure and advised the Exchange to establish a SGF trust through a trust deed registered with Registrar of Trusts. The process of formation of separate Trust for SGF has been initiated and it is expected that the Trust will be formed in due course of time.

The income/ profit/ gain resulting from investment of initial margin/clearing house deposits is distributed monthly among the brokers and clients upto the rate of 50 basis points below the minimum bank profit rate on their average monthly balance in the 'Settlement Guarantee Fund'. From September 2015, as per above SECP letter, 50% of the income/profit/gain on the above basis is distributed to brokers/clients and the remaining 50% is allocated to SGF Trust.

10 ADVANCE ANNUAL SUBSCRIPTION AND OTHER FEE

	Rupees	
	2016	2015
Advance annual subscription fee	8,450,000	8,525,000
Advance transfer fee	750,000	750,000
Technology fee	4,280	42,058
Others	1,012,499	549,349
	10,216,779	9,866,407

11 ADVANCE MEMBERS ADMISSION FEE

This represents admission fee received from the applicants for membership of the Exchange but have not yet been granted membership.

12 ACCURED FINANCE COST

		Rupees	
	Note	2016	2015
In respect of			
- Accumulated balance of staff gratuity	27.1	5,734,161	3,211,582
- Preference shares	12.1	-	4,344,119
		5,734,161	7,555,701

12.1 Movement in accrued finance cost on preference shares is as follows:

		Rupees	
	Note	2016	2015
Opening balance		4,344,119	-
Accrued during the year	27.2	-	4,344,119
Paid during the year		(2,327,207)	-
Reversed during the year	27.2	(2,016,912)	-
Closing balance		-	4,344,119

13 CREDITORS, ACCRUED AND OTHER LIABILITIES

		Rupees	
	Note	2016	2015
Creditors		4,964,340	1,109,598
Accrued expenses	13.1	10,084,695	9,938,318
Withholding tax payable		4,591,415	882,748
Payable to market makers		1,253,507	14,578,325
SECP fee payable	13.2	7,021,885	6,726,599
Other liabilities	13.3	6,999,630	7,383,989
		34,915,472	40,619,577

- 13.1** This includes directors' fee amounting to Rs. 280,000 (2015: Rs.40,000).
- 13.2** This includes SECP transaction fee and supervision fee of Rs. 6,388,283 (2015: Rs. 3,470,049) and Rs. 633,602 (2015: 3,256,550) respectively.
- 13.3** This includes reimbursement of travelling and conveyance expenses to directors amounting to Rs. 78,076 (2015: Rs.198,370).

14 CONTINGENCIES AND COMMITMENTS

14.1 Income tax

The assessment for the tax years 2003 to 2010 have been amended by the tax authorities, details of which are as follows:

14.1.1 Tax year 2003

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

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

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

14.1.2 Tax years 2005 and 2006

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

14.1.3 Tax year 2010

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

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

During the year a demand of sales tax of Rs. 14,042,311 along with penalty of Rs. 1,584,230 was raised by Assistant Commissioner SRB, Karachi against the Exchange under various sections of Sales tax on Services Act, 2011 in respect of non collection and submission of Sindh sales tax on various IT and alleged management services rendered by the Exchange to its brokers and clients. The Exchange has filed appeal before Commissioner (Appeals) Sindh Revenue Board, Karachi against the said order. The management is confident that based on merit of the case the ultimate outcome of the matter would be in favor of the Exchange. Accordingly no provision is made in this regard in these financial statements.

14.3 Commitments

	Rupees	
	2016	2015
Commitments in respect of capital expenditure and services	463,260	—

15 PROPERTY AND EQUIPMENT

Operating assets (note 15.1)	20,862,018	28,692,149
Capital work-in-progress (note 15.2)	708,840	400,000
	21,570,858	29,092,149

15.1 Operating assets

	Rupees						
	Leasehold improvements	Furniture and fittings	Office equipment	Owned Electrical equipment	Computer equipment	Motor vehicles	Total
As at July 1, 2014							
Cost	3,767,502	3,376,505	2,584,185	9,344,387	49,868,533	5,977,940	74,919,052
Accumulated depreciation	(3,159,465)	(3,273,727)	(1,741,555)	(6,667,121)	(39,085,148)	(797,059)	(54,724,075)
Net book value	608,037	102,778	842,630	2,677,266	10,783,385	5,180,881	20,194,977
For the year ended June 30, 2015							
Opening net book value	608,037	102,778	842,630	2,677,266	10,783,385	5,180,881	20,194,977
Additions during the year	11,627,000	3,273,814	215,090	28,800	4,234,497	-	19,379,201
Disposals during the year							
Cost	3,767,502	2,965,870	1,332,124	4,153,697	23,097,267	-	35,316,460
Accumulated depreciation	(3,172,873)	(2,894,912)	(1,276,091)	(3,948,646)	(23,080,171)	-	(34,372,693)
	(594,629)	(70,958)	(56,033)	(205,051)	(17,096)	-	(943,767)
Depreciation for the year	(2,117,031)	(594,633)	(237,432)	(762,941)	(5,269,755)	(956,470)	(9,938,262)
Closing net book value	9,523,377	2,711,001	764,255	1,738,074	9,731,031	4,224,411	28,692,149
As at June 30, 2015							
Cost	11,627,000	3,684,449	1,467,151	5,219,490	31,005,763	5,977,940	58,981,793
Accumulated depreciation	(2,103,623)	(973,448)	(702,896)	(3,481,416)	(21,274,732)	(1,753,529)	(30,289,644)
Net book value	9,523,377	2,711,001	764,255	1,738,074	9,731,031	4,224,411	28,692,149
For the year ended June 30, 2016							
Opening net book value	9,523,377	2,711,001	764,255	1,738,074	9,731,031	4,224,411	28,692,149
Additions during the year	39,590	213,969	174,351	403,007	1,703,323	-	2,534,240
Disposals during the year							
Cost	-	10,000	362,266	201,116	-	-	573,382
Accumulated depreciation	-	(10,000)	(154,572)	(82,966)	-	-	(247,538)
	-	-	(207,694)	(118,150)	-	-	(325,844)
Depreciation for the year	(2,328,699)	(672,392)	(200,109)	(643,026)	(5,237,831)	(956,470)	(10,038,527)
Closing net book value	7,234,268	2,252,578	530,803	1,379,905	6,196,523	3,267,941	20,862,018
As at June 30, 2016							
Cost	11,666,590	3,888,418	1,279,236	5,421,381	32,709,086	5,977,940	60,942,651
Accumulated depreciation	(4,432,322)	(1,635,840)	(748,433)	(4,041,476)	(26,512,563)	(2,709,999)	(40,080,633)
Net book value	7,234,268	2,252,578	530,803	1,379,905	6,196,523	3,267,941	20,862,018
Rate of depreciation (%)	20	20	20	20	25	20	

15.2 Capital work-in-progress

	Rupees	
	2016	2015
Advance for capital expenditure	708,840	400,000

15.3 Included in cost of property and equipment are fully depreciated assets still in use aggregating to Rs.15,887,224 (2015: Rs.12,184,876).

16 INTANGIBLE ASSETS - COMPUTER SOFTWARES

	Note	Rupees	
		2016	2015
Gross carrying value			
Cost		44,768,115	32,336,709
Accumulated amortization		(27,929,970)	(22,467,493)
Net book value		16,838,145	9,869,216
Net carrying value			
Opening net book value		9,869,216	12,660,630
Additions during the year		12,431,406	2,381,950
Amortization for the year		(5,462,477)	(5,173,364)
Closing net book value		16,838,145	9,869,216
Rate of amortization (%)		25	25

17 INVESTMENT IN ASSOCIATES - AT COST

NCEL Building Management Limited (1 share of Rs. 10)	17.1	10	10
Institute of Financial Markets of Pakistan (200 shares of Rs. 5,000 each)	17.2		
Cost		1,000,000	1,000,000
Less: Impairment		(999,990)	(999,990)
		10	10
		20	20

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

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

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

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





- ▶ issuance of 20 fully paid ordinary shares of NCEL Building Management Limited representing its ownership of allotment rights in 20 office units without being required to pay any consideration in cash or otherwise;
 - ▶ allotment of 20,000 square feet on a gross basis of adjoining fully completed and finished floor space representing 20 office units; and
 - ▶ a permanent seat on the Board of NCEL Building Management Limited.
- 17.2** The Exchange holds 2.63% (2015: 2.63%) ordinary shares of the Institute of Financial Markets of Pakistan.

18 SUPPLIES AND CONSUMABLES

	Note	Rupees	
		2016	2015
Universal Serial Bus (USB) keys	18.1	243,620	362,552

- 18.1** To provide secured direct online access to the system, the Exchange issues USB keys with identity recognition software to the staff of the Exchange as well as to all the market participants. During the year, USB keys costing Rs. 118,932 (2015: Rs. 274,312) were issued.

19 DEPOSITS AND SHORT-TERM PREPAYMENTS

	Rupees	
	2016	2015
Security deposits	1,981,971	1,462,039
Prepaid expenses	9,619,782	2,999,438
	11,601,753	4,461,477

20 OTHER RECEIVABLES - Considered good

Receivable from NCEL Building Management Limited		1,168,925	1,168,925
Technology fee from members		2,684,435	1,642,193
Receivable from Settlement Guarantee Fund (SGF)	20.1	11,546,237	7,339,686
Receivable FINSYS	20.2	4,453,750	-
PMEX Infrastructure Fee		3,580,000	-
Accrued markup on PIBs and saving accounts		34,348	47,012
Others		3,584,346	3,232,355
		27,052,041	13,430,171

- 20.1** This represents the impact of mark to market gain on investments of SGF which will be transferred to Exchange upon realization.
- 20.2** This represents receivable as a reimbursement of service charges paid for the facilitation to the market makers in pricing the commodities.

21 SHORT TERM INVESTMENT

This represents investments designated as fair value through profit or loss and held in three month Treasury Bills carrying markup rate of 5.9% (2015: 7.38%) that will mature on September 15, 2016.

22 ASSETS RELATING TO SETTLEMENT GUARANTEE FUND

		Rupees	
	Note	2016	2015
Cash and bank balances	23	109,168,702	51,100,071
Investments	22.1	1,165,661,626	890,555,210
Accrued markup on PIBs and saving accounts	9.1	7,549,572	7,432,705
Accrued markup paid on purchase of PIBs	9.1	-	280,480
Security deposit - lockers	9.1	36,000	36,000
		1,282,415,900	949,404,466

22.1 Investments

At fair value through profit or loss			
Investment in government securities			
- For clearing house deposits	9.1	123,663,922	121,506,683
- For initial margins	9.1	1,041,997,704	769,048,527
		1,165,661,626	890,555,210

23 CASH AND BANK BALANCES

With banks			
- in current accounts		162,057	2,979,964
- in saving accounts	23.1	125,005,677	54,302,739
		125,167,734	57,282,703
Cash in hand		11	23,593
		125,167,745	57,306,296
Less: cash and bank balances relating to Settlement Guarantee Fund			
With banks			
- in current accounts		98,934	2,564,631
- in saving accounts		109,069,768	48,535,440
	22	(109,168,702)	(51,100,071)
Relating to the Exchange		15,999,043	6,206,225

23.1 These accounts carry mark up at the rate of 3.75% per annum (2015: 6.5% to 7%).

24 OPERATING INCOME

	Note	Rupees	
		2016	2015
Trading fee		119,176,929	78,571,456
Share of PMEX in the income of SGF	9.2	45,443,580	47,125,798
Annual membership fee		17,175,000	17,125,000
Entrance fee		14,000,000	7,500,000
Income from IT related services		5,566,248	4,727,090
PMEX infrastructure fee		3,580,000	–
Advertisement income		2,680,000	1,850,000
Fee for membership transfer and issuance of certificates		1,000,000	2,000,000
Auto liquidation charges		789,701	–
Front end charges		111,548	–
Application fee		115,000	30,000
Gain on sale of USB keys		211,068	329,447
Gold vault charges		1,497,918	1,056,844
		211,346,992	160,315,635

25 ADMINISTRATIVE AND OPERATING EXPENSES

Salaries and benefits	25.1 & 25.2	108,965,144	108,817,508
Gratuity expense	8 & 25.2	5,664,613	9,848,876
Directors' fee		1,845,000	740,000
Depreciation	15	10,038,527	9,938,262
Amortization	16	5,462,477	5,173,364
Communication		6,011,797	8,633,238
Utilities		1,960,148	2,242,486
Legal and professional		4,051,343	2,674,329
Rent		8,886,820	7,652,390
Repairs and maintenance		5,253,626	5,285,815
Market making / liquidity expenses		9,074,554	7,527,991
Travelling and conveyance			
- Employees and others		1,535,557	1,184,186
- Directors		2,735,553	1,865,035
		4,271,110	3,049,221
Fee and subscription		2,150,428	1,715,619
Security services		553,520	727,320
Insurance		715,194	1,407,691
SECP supervision fee	25.3	1,550,788	1,051,599
Auditors' remuneration	25.4	600,000	550,000
Marketing expense		7,946,584	6,335,387
Printing and stationery		366,572	402,390
Entertainment		728,375	558,752
		186,096,620	184,332,238



25.1 Total number of employees as at June 30, 2016 is 69 (June 30, 2015: 62). Average number of employees during the year ended June 30, 2016 is 66 (June 30, 2015: 66).

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

	Rupees	
	2016	2015
	Managing Director	
Managerial remuneration	10,583,700	9,438,000
Bonus	1,573,000	1,210,000
Retirement benefits - Gratuity	789,360	713,041
Provident fund	789,360	514,800
Others	240,000	240,000
	13,975,420	12,115,841
Number of persons	1	1

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

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

25.4 Auditors' remuneration

	Rupees	
Note	2016	2015
Annual audit fee	370,000	335,000
Fee for review of:		
Half yearly financial information	150,000	135,000
Code of Corporate Governance	30,000	30,000
Out of pocket expenses	50,000	50,000
	600,000	550,000

26 OTHER INCOME - NET

<i>Income from financial assets</i>		
Mark-up on bank deposits	444,024	851,043
Mark-up on government securities	5,203,614	7,727,512
Unrealized gain on remeasurement of investment at fair value through profit or loss	11,138	27,270
Realized gain on sale of investment at fair value through profit or loss	2,978	2,690,411
<i>Income from non - financial assets</i>		
Fee for accounting and other services to NCEL Building Management Ltd.	-	600,000
(Loss) / gain on disposal of property and equipment	(172,182)	1,756,233
Others	7,006,745	671,014
	12,496,317	14,323,483



27 FINANCE COSTS

		Rupees	
	Note	2016	2015
In respect of			
- Accumulated balance of staff gratuity charged to profit and loss account	27.1	2,522,579	3,211,582
- Preference shares - (reversed) / charged to statement of changes in equity	12.1 & 27.2	(2,016,912)	4,344,119
		505,667	7,555,701

27.1 This represents finance costs charged at the average rate of income earned by the Exchange on the accumulated balance of gratuity payable to the staff gratuity fund as further explained in note 8.

27.2 This was the compensation accrued on preference shares for the period from April 04, 2014 to June 30, 2015. During the year, the Exchange reversed the amount of compensation accrued for NBP's preference shares as NBP did not accept the offer of the Board to subscribe additional 543,346 shares to get this compensation.

28 TAXATION

		Rupees	
	Note	2016	2015
Current - for the year	28.1	5,579,343	1,701,652
- prior year		(85,786)	(62,065)
		5,493,557	1,639,587

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

28.2 The Exchange has not recognised net deferred tax asset amounting to Rs. 79.107 million as at June 30, 2016 (June 30, 2015: Rs 109.117 million) on net deductible temporary differences aggregating to Rs. 248.341 million as at June 30, 2016 (2015: Rs. 340.989 million) as timing of availability of sufficient taxable profits cannot be determined due to applicability of minimum alternative corporate tax at 17% under section 113C. These net deductible temporary differences arise on normal business losses, unused tax depreciation and provision for staff gratuity aggregating to Rs. 133.261 million, Rs. 78.826 million and Rs. 38.836 million respectively net of taxable temporary difference of Rs. 2.581 million representing difference between tax base and carrying value of property and equipment.



29 EARNINGS PER SHARE

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

29.1 Basic earnings per share

		Rupees	
		2016	2015
Profit / (loss) for the year		29,651,607	(14,630,935)
Finance cost on preference shares		2,016,912	(4,344,119)
Profit / (loss) attributable to ordinary shareholders		31,668,519	(18,975,054)
Weighted average number of ordinary shares	Number	28,981,235	27,568,187
Earnings per share		1.09	(0.69)

29.2 Diluted earnings per share

Profit / (loss) for the year		29,651,607	(14,630,935)
Weighted average number of ordinary shares	Number	28,981,235	27,568,187
Weighted average number of notionally convertible preference shares	Number	1,790,959	2,800,000
		30,772,194	30,368,187
Diluted earnings per share		0.96	(0.48)
Diluted earnings per share restricted to (note 29.2.1)		0.96	(0.69)

29.2.1 Last year, the effect of the conversion of the preference shares into ordinary shares was anti-dilutive, accordingly the diluted EPS was restricted to basic EPS.

30 CASH FLOW FROM OPERATIONS

		Rupees	
Note		2016	2015
	Profit / (loss) before taxation	35,145,164	(12,991,348)
	Adjustments for non-cash charges and other items:		
	Depreciation	10,038,527	9,938,262
	Amortization	5,462,477	5,173,364
	Gratuity expense	5,664,613	9,848,876
	Finance cost	2,522,579	3,211,582
	Unrealized gain on remeasurement of investment at fair value through profit or loss	(11,138)	(27,270)
	Realized gain on investment at fair value through profit or loss	(2,978)	(2,690,411)
	Mark-up on government securities	(5,203,614)	(7,727,512)
	Mark-up on bank deposits	(444,024)	(851,043)
	Loss / (gain) on disposal of property and equipment	172,182	(1,756,233)
	Working capital changes	30.1 (34,684,611)	(13,515,369)
		18,659,177	(11,387,102)



30.1 Working capital changes

	Rupees	
	2016	2015
Decrease / (increase) in current assets		
Supplies and consumables	118,932	(269,428)
Annual subscription receivable	(8,675,000)	(8,025,000)
Deposits and short-term prepayments	(7,140,276)	2,816,687
Other receivables	(13,634,534)	(1,314,411)
	(29,330,878)	(6,792,152)
(Decrease) / increase in current liabilities		
Advance annual subscription and other fee	350,372	3,972,368
Creditors, accrued and other liabilities	(5,704,105)	(10,695,585)
	(34,684,611)	(13,515,369)

31 PROVIDENT FUND

As stated in note 8, effective from October 01, 2014, the Exchange started an approved funded contributory provident fund (the Fund) for its permanent employees. Contributions towards the fund have been deposited in a separate bank account the balance of which as at June 30, 2016 is Rs. 926,860/- (2015: Rs. 5,834,718/-).

32 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

32.1 Financial Instruments by Category

	Rupees	
	2016	2015
Financial assets as per balance sheet		
Fair value through profit or loss		
- Exchange's investment in government securities	64,211,593	81,002,844
- Settlement Guarantee Fund's investments	1,165,661,626	890,555,210
Loans and receivables		
- Annual subscription receivable - considered good	24,425,000	15,750,000
- Accrued markup in Settlement Guarantee Fund	7,549,572	7,713,185
- Deposits	1,981,971	1,462,039
- Other receivables	27,052,041	13,430,171
- Assets relating to Settlement Guarantee Fund other than investments at fair value through profit or loss	109,204,702	51,136,071
- Cash and bank balances	15,999,043	6,206,225
	1,416,085,548	1,067,255,745
Financial liabilities as per balance sheet		
Financial liabilities measured at amortized cost		
- Long-term deposits	196,150,000	196,150,000
- Dividend on preference shares	-	7,638,398
- Settlement Guarantee Fund	1,282,415,900	949,404,466
- Creditors, accrued expenses and other liabilities	23,302,172	33,010,230
	1,501,868,072	1,186,203,094





32.1.1 Fair values of financial assets and liabilities

- (a) Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arms length transaction.

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

(b) **Fair Value estimation**

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

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

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

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

The Exchange has investments in Treasury Bills (T-Bills) amounting to Rs. 64.211 million (June 2015: 81.003 million), investments held on account of 'Settlement Guarantee Fund' in PIBs amounting to Rs. 153.729 million (2015: Rs. 163.881 million) and treasury bills of Rs. 989.602 million (2015: Rs. 726.674 million) which are valued under Level 2 valuation method. The Exchange does not have any investment valued under Level 1 or Level 3 category.

32.2 Financial risk factors

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

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

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

32.2.1 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing returns. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk, such as equity risk. Financial instruments affected by market risk include short term investments designated at fair value through profit or loss and investments made out of Settlement Guarantee Fund (refer note 21 and 22).

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, 2016, 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. 1,001,624 (2015: Rs. 901,009) mainly as a result of higher / lower interest exposure on fixed rate financial instruments.

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



Rupees		
	2016	2015
	Carrying Amount	
Fixed rate instruments		
Financial assets		
- Exchange's investment in government securities	64,211,593	81,002,844
- Settlement Guarantee Fund's investment in government securities	1,165,661,626	890,555,210
	1,229,873,219	971,558,054

b) Currency risk

Foreign currency risk arises mainly where receivables and payables exist due to transaction 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, 2016.

32.2.2 Credit risk

Credit risk and concentration of credit risk

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

Credit risk related to financial instruments and cash deposits

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

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

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

32.2.3 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funds. Currently the Exchange is in consolidating phase of its operations and foresee continuing profitable operations in future and also in process of raising fresh equity. The Exchange has an effective cash management and planning policy in order to maintain flexibility in its funding. In future years the management of the Exchange believes that it will have enough funds through profitable operations to have minimal liquidity risk. Currently, the Exchange has no material external borrowings. Liquidity of the Settlement Guarantee Fund is ensured through placing funds in liquid investments (refer note 22).

Following are the contractual maturities of financial liabilities.

	Rupees		
	Carrying amount / contractual cash flow	2016	
		Maturity up to one year	Maturity after one year
Financial liabilities			
Long-term deposits	196,150,000	–	196,150,000
Settlement Guarantee Fund	1,282,415,900	1,282,415,900	–
Creditors, accrued expenses and other liabilities	23,302,172	23,302,172	–
	1,501,868,072	1,305,718,072	196,150,000

	2015		
	Carrying amount / contractual cash flow	Maturity up to one year	Maturity after one year
Financial liabilities			
Long-term deposits	196,150,000	–	196,150,000
Dividend on preference shares	7,638,398	7,638,398	–
Settlement Guarantee Fund	949,404,466	949,404,466	–
Creditors, accrued expenses and other liabilities	33,010,230	33,010,230	–
	1,186,203,094	990,053,094	196,150,000

32.3 Capital risk management

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

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

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



33 TRANSACTIONS WITH RELATED PARTIES

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

		Rupees	
Relationship with Exchange	Nature of transaction	2016	2015
Associated undertakings	Conversion of preference shares	13,000,000	–
	Conversion of accumulated unpaid dividend	3,538,600	–
	(Reversal) / charge of finance cost on preference shares	(2,016,913)	2,016,913
	Receipt of fee for accounting and other services	–	600,000
	Payment to Investor Protection Fund Trust	2,011,256	2,972,209
	Deposit of annual subscription	–	100,000
	Receipt of deposit against initial margin	2,641,000	10,455,570
	Repayment of deposit against initial margin	4,308,366	20,737,470
	Receipt of clearing house deposit	–	1,069,416
	Technology fee	–	84,000
Directors	Payment to Gratuity fund	4,526,127	3,420,297
	Payment to Provident Fund	11,171,688	6,516,406
Key management personnel (excluding Managing Director)	Directors' meeting fee	1,845,000	740,000
	Salaries and benefits	34,516,418	38,294,920
	Post-employment benefits	5,609,112	2,126,497

- 33.1 Certain key management personnel are also provided with fixed education and car allowances in accordance with the policy of the Exchange.
- 33.2 The outstanding balances with related parties as at June 30, 2016 are included in the respective notes to the financial statements.
- 33.3 The remuneration to the Managing Director is disclosed in note 25.2 to the financial statements.

34 DATE OF AUTHORIZATION FOR ISSUE

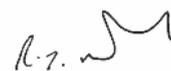
These financial statements were authorized for issue on August 30, 2016 by the Board of Directors of the Exchange.

35 GENERAL

Figures have been rounded off to the nearest Rupee.



Managing Director



Chairman



▶ PROXY FORM



PAKISTAN MERCANTILE EXCHANGE LIMITED

I / we, _____, son / daughter / wife of _____, being
a shareholder of PAKISTAN MERCANTILE EXCHANGE LIMITED hereby appoint
_____, son / daughter / wife of _____, as
my / our Proxy in my/ our absence to attend and vote for me / us, and on my / our behalf at
the Annual General Meeting of the Company to be held on October 14, 2016, or at any
adjournment thereof.

Signed on _____, 2016.

Signature of Appointer

Signature of Proxy

Revenue stamp
of Rs. 5/-

▶ WITNESS 1

Signature: _____

Name: _____

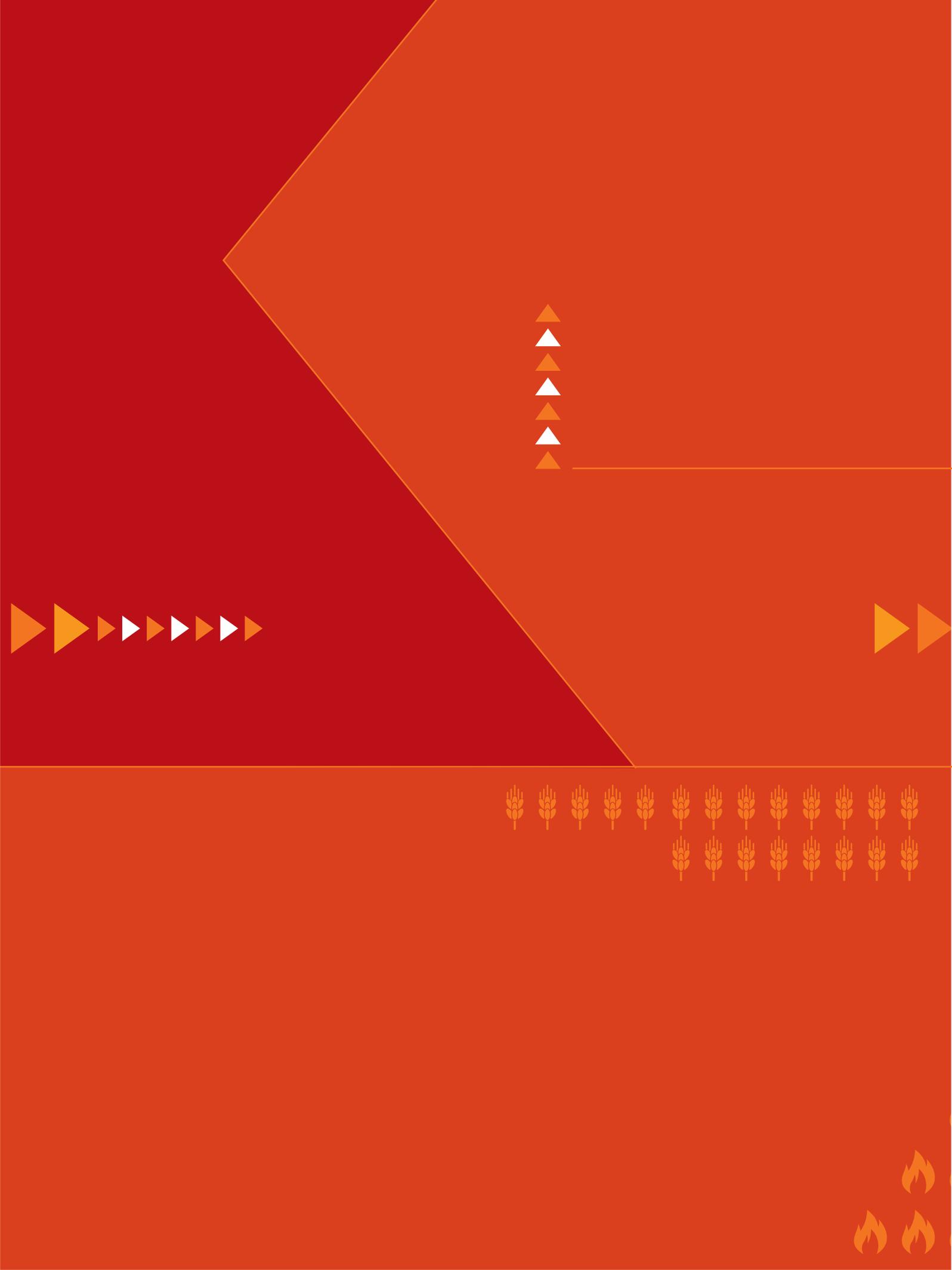
CNIC No.: _____

▶ WITNESS 2

Signature: _____

Name: _____

CNIC No.: _____





Pakistan Mercantile Exchange Limited

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Gizri, Karachi – 75600, Pakistan.

Branch Office Islamabad:

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ISE Towers, Jinnah Avenue
Blue Area, Islamabad.

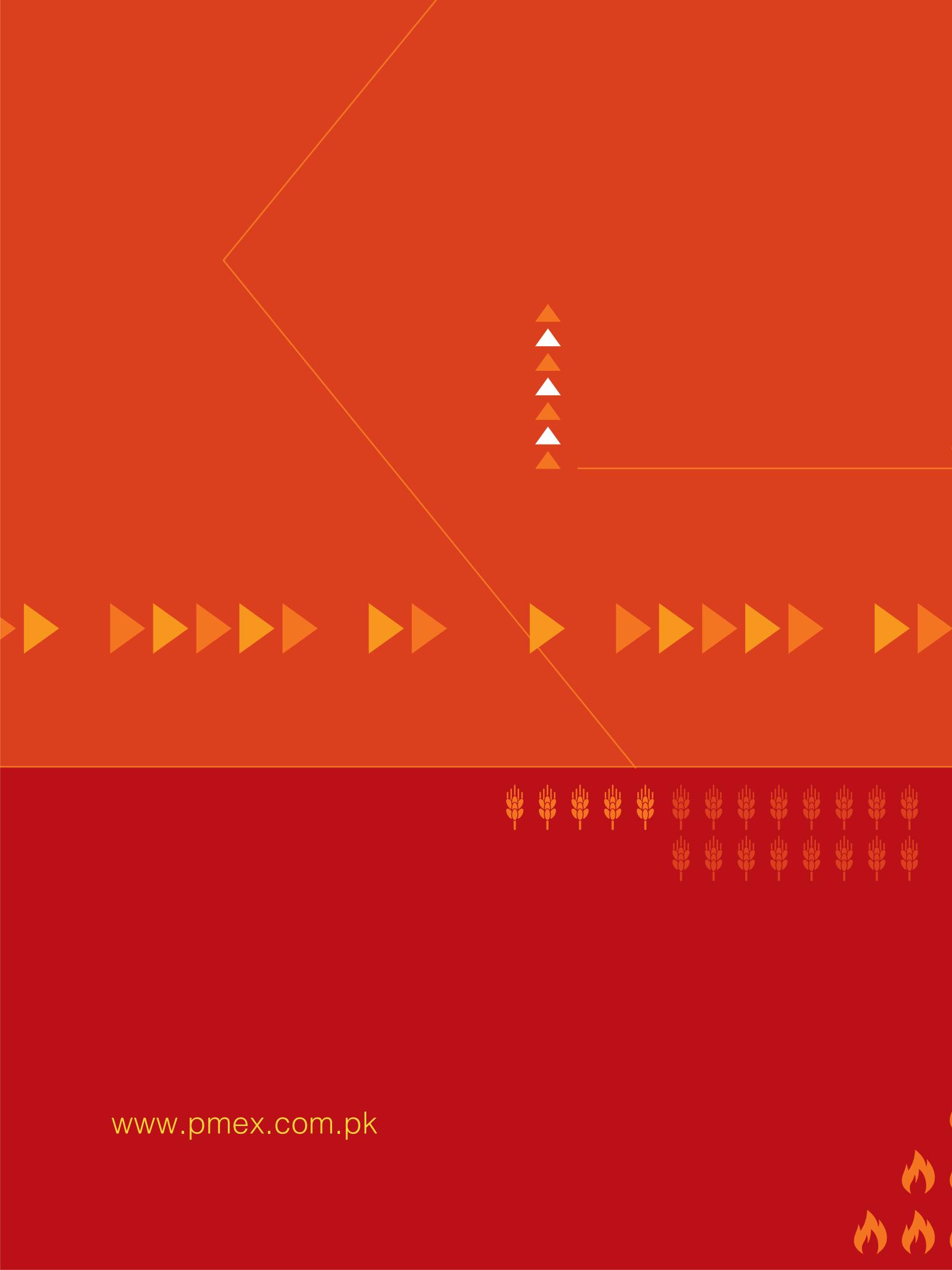
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