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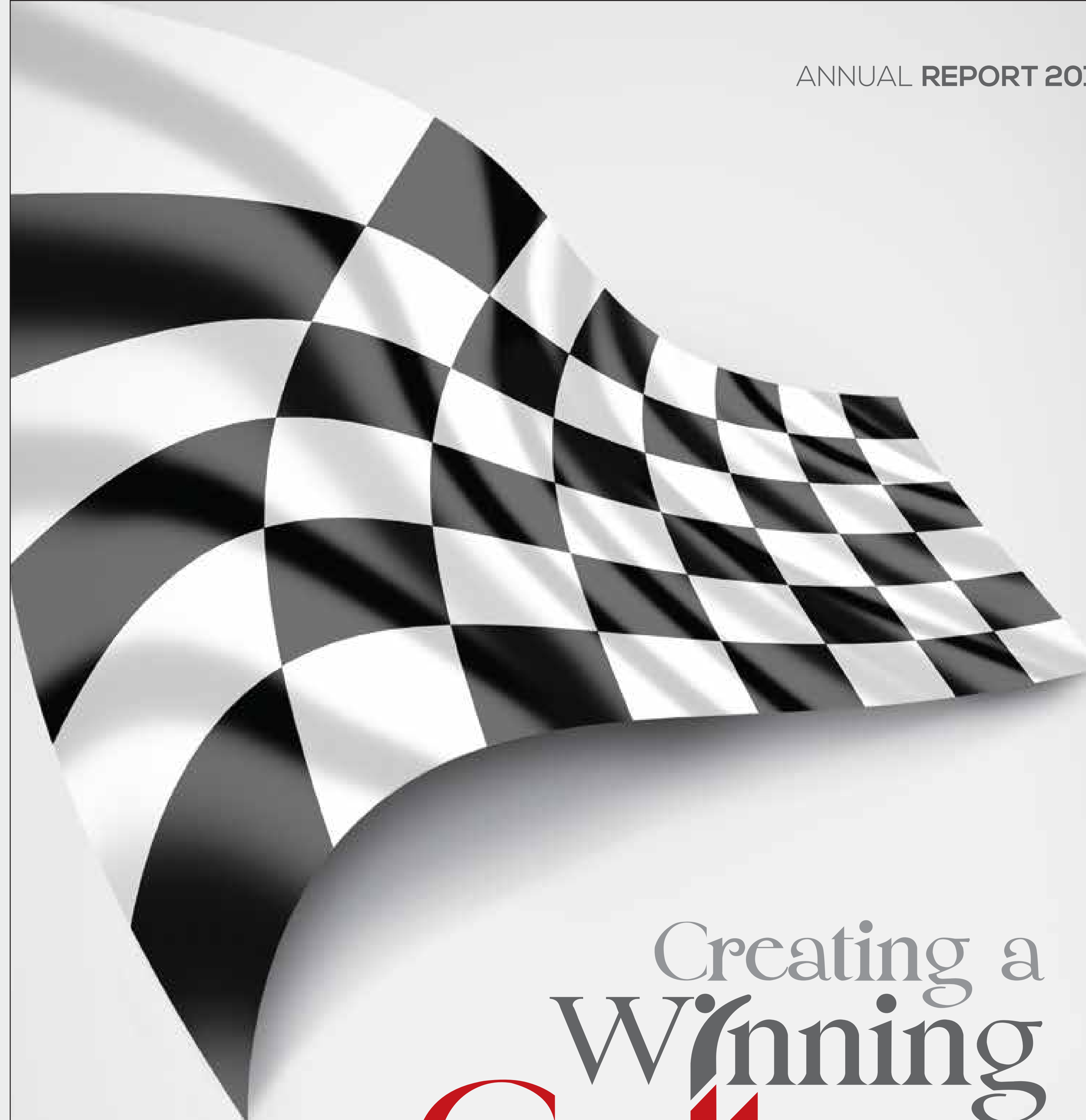
Design Agency: Aureus Advertising
Photography: Shoaib Ahmed Khan & Jimmy's Studio
Printer: Apple Tree Graphics

Pakistan Mercantile Exchange
PMEX

ANNUAL REPORT 2014



Creating a Winning Culture

Pakistan Mercantile Exchange
PMEX

Pakistan Mercantile Exchange

PMEX

Creating a Winning Culture

Humans, being a social animal, are a product of the society they live in. Culture can be defined as customs, norms, rules or attitudes prevalent in a society. Considering the fact that humans are the most valuable resource of any organization, it is imperative to inspire for such norms or values which can act as a building block of a noble character or attitude that collectively and in conformity leads to a winning culture.

Just as a society consciously adopts the norms or customs to create a suitable environment, PMEX is determined to create a culture where values such as Candor, Merit, Respect, Integrity, Transparency and Imagination are adhered to. Each of these values are not only linked, they strengthen each other; a principle which is at the heart of PMEX. And that's how we define winning!

Candor

Open and honest communication is the first step towards creating a winning culture as it requires courage, a must ingredient for leadership. Speaking up for the betterment of the organization is encouraged at all levels as it leads to transparency and fosters participation and ownership from all team members. At PMEX, we firmly believe that a collective decision is a better decision.

Merit

We value a culture of merit and inclusion in which everyone is treated fairly and given a level playing field to flourish, regardless of their background, ethnicity, gender, religion or any other such bias. Performance is the only criteria to excel at PMEX. From hiring to promotions, this principle is adhered to in its full manifestation.

Respect

We believe that respect is the most important ingredient of attitude and a winning culture is about having a winning attitude. Respect for all signifies PMEX - an all encompassing attitude covering colleagues, regulators, shareholders, clients and all other elements of the environment we operate in. We believe that rank or status may vary, but respect is constant for everyone.

Integrity

Trust is the founding stone of all relationships. Integrity to us is upholding the trust of our stakeholders by ensuring that all are treated equally and fairly. We therefore bind ourselves on the highest standards of ethics and integrity. We strictly believe in adhering to rules and procedures, religiously fulfilling our commitments and keeping complete confidentiality of our client's information.

Transparency

We believe that we are answerable to our stakeholders and therefore must remain transparent at all times. Commitment to transparency and openness is vital to our success. Therefore, when it comes to the way we do business, we go one step ahead to be upfront and visible. We welcome feedback not only from our team members but also from our business partners.

Imagination

Imagination is the essence of human spirit and perhaps the most precious gift of nature to the humankind. We understand that imagination is the foundation of creativity so let there be no bounds to expanding the horizon. In line with this perspective, we appreciate out of the box solutions to make the impossible possible. After all, as aptly put by Pablo Picasso, everything you can imagine is real!

Working for Success: A New Breeze of Change at PMEX

There is a new breeze of change at PMEX since the change of management in September 2013. The team, being led by our new Managing Director, Ejaz Ali Shah, is looking towards all aspects of process and business improvements. The changes include developing a dedicated Customer Support to address the day to day needs of the clients, bringing in seasoned Business Development professionals to interact with all new and existing clients for better business growth, development of new/innovative products best suited for the market, working towards state of the art technology platforms and evolution of efficient and transparent policies and procedures.

The Management u nderstands that all this can only be achieved on sustainable basis by developing a culture based on respect, hard work, collaboration, truthfulness, honesty and most importantly merit. Workplace culture creates the canvas on which the achievements of the team are recorded. Having said that, we also fully understand that the culture evolves with time provided the founding principles are adhered to.

At PMEX, respect and workplace civility are crucial elements of the environment. Employees are encouraged to show respect & courtesy in communication with each other as well as clients. Similarly, we also believe that collaboration is the key to achieving goals and results timely and efficiently. Keeping this perspective in mind, teamwork is appreciated and being inculcated across the company to achieve one common goal, Success!

Open communication is another new norm at PMEX. The management has initiated an open forum where employees are briefed about the plans & achievements of the exchange every quarter and are then encouraged to share ideas, suggestions and feedback.

Last but not the least, the most important element of the new culture is merit. To grow and prosper, a level playing field is ensured for all employees. From hiring new talent to conducting annual appraisal, merit prevails throughout the organization which ensures that the efforts are rewarded and there is a clear demarcation between good resources and the ones who need to roll up the sleeves and work on their skills.

We are confident that with this new breeze of change, PMEX will further blossom to its full potential and will show its true colours in times to come!

Milli Tola Gold - Little Investment Big Savings

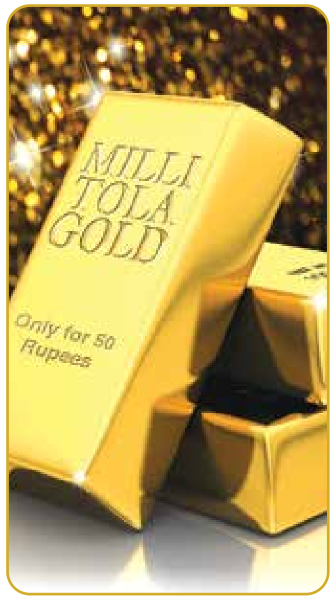
There is an old saying 'gold never loses its glitter' but the general perception is that only large net worth investors, trade and accumulate gold. The precious metal is generally considered 'Safe Haven' and a hedge against various types of risks.

In Pakistan, small savers collectively contribute billions of rupees towards national savings. However, very few lucrative investment options are available to this group, who wants security of investment as well a modest return on its investments. Fully cognizant of the current situation, Pakistan Mercantile Exchange (PMEX) has come up with Milli Tola Gold - a unique product especially aimed at this group.

The product offers small investors a convenient, secure and trusted way to buy, sell and accumulate gold. The unique feature of this product is that investment can start from approx. PKR 50 only. The investors can buy as much gold as they desire in the multiples of approx. PKR 50. Milli Tola Gold offers 99.9 percent pure gold which is fully insured as it is kept in vaults operated by PMEX. Selling the holding is also easy as it can be en-cashed within 24 hours of the execution of the sell order.

Salient features of PMEX's Milli Tola Gold:

- **Start from little:** One can buy gold with an amount as low as approximately Rs 50 [subject to prevailing price at the Exchange]
- **Incentive:** PMEX offers the incentive of free of cost custody and free insurance
- **Security:** Gold purchased by investors is kept in secure vaults
- **Convenience:** PMEX offers the convenience of hassle free buying and selling of gold from anywhere with a single click
- **Liquid:** Selling gold kept with PMEX is easily en-cashable within 24 hours after the execution of sale at the Exchange
- **Physical Delivery:** Investor can get physical delivery of gold once the investment becomes equal to 10 Tolas of gold
- **Monitoring:** Monitoring of portfolio is easy because PMEX sendsSMS Alerts of all transactions
- **Purity:** Gold being sold at PMEX is authentic 24 Karat (99.90%)



PMEX feels that this new and unique product offers a huge opportunity to PMEX brokers to expand their business by offering services to a much wider market segment. The key to the success of this product depends on providing a reliable and convenient distribution channel to the retail investors. This can be accomplished by cultivating partners having access to the retail customers like credit cards and telecom companies in order to take this product to every house in Pakistan.

The Exchange is confident that this initiative will go a long way in cultivating a savings culture among the masses and would enable them to conveniently save for their future needs.

PMEX Commodity Murabaha: An Efficient Liquidity Management Tool for the Islamic Finance Industry

The Islamic Financial System is increasingly making its mark globally by putting forward a system that is based on morals and ethics. Since its inception, almost five decades back, global Islamic finance has grown at the rate of 20 percent from being a niche market to a global vibrant industry of over US$ 1.6 trillion.

When it comes to Islamic banking in Pakistan, the sector is growing at the rate of over 30 percent annually and its asset base has crossed PKR 1 trillion. However, such a significant growth has created surplus liquidity in the Islamic Finance industry. While deposits are on the increase, Islamic Financial Institutions (IFIs) have limited lending/investment options because private sector credit demand has remained low due to subdued economic activities in the country. In addition, there is an acute shortage of Islamic Money Market related instruments which are necessary to efficiently deploy the liquidity being generated due to increase in deposits. Although these IFIs have developed certain means by which the liquidity is currently being managed, there is no standardized product available to completely and efficiently meet the need of the industry. Considering the above, IFIs are looking for more trustworthy and efficient ways for conducting such transactions.

In the light of the above, Pakistan Mercantile Exchange has taken the initiative to develop an online Murabaha contract to facilitate the IFIs in line with International commodity exchanges such as London Metal Exchange, Bursa Malaysia & Jakarta Futures Exchange, which are also enabling Murabaha transactions and are acting as hubs for Islamic Banking liquidity management.

This proposed Murabaha product would greatly strengthen the Islamic financial sector of Pakistan by bringing them at par with commercial banks with regards to efficient deployment of liquidity. We envision that the proposed Murabaha product will eventually serve as an industry benchmark and be the first choice for the IFIs.

While developing the contract, PMEX hired the services of one of the leading Shariah scholars of the industry to advice on the development of a product that fulfills the needs of both Sharia and IFIs. With the assistance of the Sharia Advisor, PMEX lead multiple discussions with financial institutions and industry stakeholders and concluded that High Speed Diesel (HSD) would be the ideal underlying asset for the Murabaha Market. The product meets key requirements of Sharia i.e. abundant supply, non-perishable nature, adequate infrastructure for the storage and handling, sold by all the OMCs operating in the country and certified quality standards of the product. Moreover, the price determination of the product is fixed by Oil & Gas Regulatory Authority (OGRA) on fortnightly basis.

PMEX has been encouraged by the interest and enthusiasm shown by the Islamic banking industry in the proposed Murabaha contract and is confident that this product will be a game changer for Islamic banks in overcoming excessive liquidity issue.

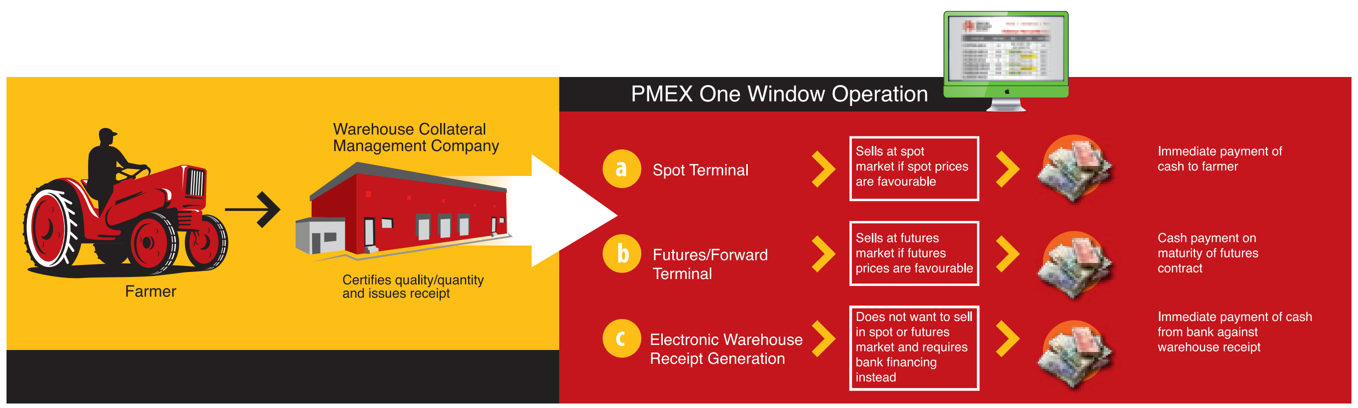
Warehousing, Certification & Spot Trading

The recent initiative of the Central Bank with regards to Warehousing infrastructure and Certification of agricultural products is expected to go a long way in developing a transparent and vibrant market place for these products. The government seems to be focused and enthusiastic about developing the necessary infrastructure for the benefit of the farmers, being the primary beneficiary of such a system.

At present, Pakistan produces around 30 million tons of grains annually but due to lack of storage capacity in the country, post-harvest losses are estimated at more than 10 percent for grains and up to 35 percent for fruits and vegetables. This initiative will not only reduce such wastage, but also facilitate post-harvest financing to the value chain actors including farmers, aggregators, traders and processors.

Absence of warehousing infrastructure and certification of agricultural produce are the two main hurdles contributing to low trading of agricultural products at the Exchange. PMEX is confident that the visionary decision of the government to better organize the agriculture sector by developing the required infrastructure will have a tremendous impact with regards to improved output and fair pricing of these products.

This initiative will also open the door for spot delivery. Once the issues of warehousing and certification are resolved and future contracts of agriculture products are terminated vide spot delivery, PMEX will be in an ideal position to provide spot platform to the farmers by merging the two markets making it a one window operation. Since PMEX already has the market know how, expertise, systems and qualified workforce, it will be cost effective, efficient and relatively quick for PMEX to achieve a one window solution for the entire country.



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

Marching Ahead With Renewed Vigor: PMEX Brand Journey from 2007-2014

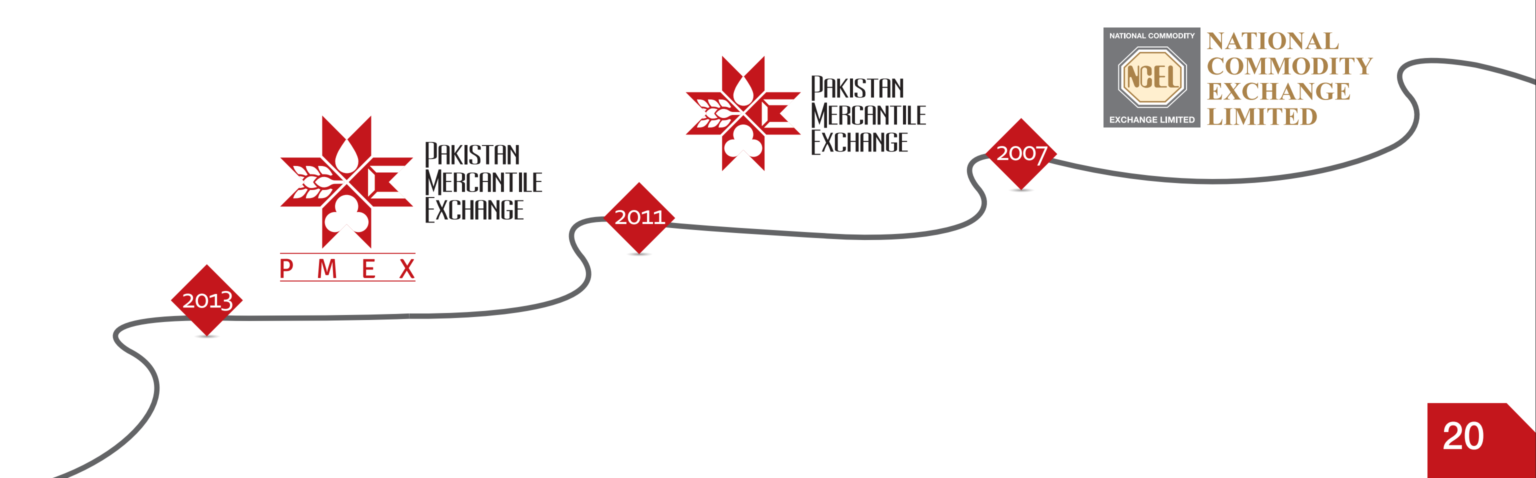
In 2002, first demutualized, technology-driven commodity exchange made its debut as National Commodity Exchange Limited (NCEL) in Pakistan. The Exchange came up with a vision to provide world-class commodity futures trading platform for market participants to trade in a wide spectrum of commodity derivatives, driven by best global practices, professionalism and transparency. In 2007, NCEL started its operations as fully electronic exchange with nationwide reach. A new visual corporate identity was born where symbol, typeface and color were kept simple.

Generally, most people thought of the commodity exchange as a platform that facilitates trading in physical goods. But in reality the Exchange had a much broader mandate, which included futures and physical products ranging from precious metals and agriculture to financial products such as interest rate futures, indices and currencies. Against this backdrop, in 2011, the name of the exchange was changed from National Commodity Exchange Limited to Pakistan Mercantile Exchange Limited (PMEX). The new name gave the Exchange a broad dimension and expressed its mandate clearly as opposed to the perceived mandate associated with National Commodity Exchange.

With the new name came a new visual identity which included graphical symbol, bold color and contemporary typeface. The symbol represented commodities, converging on a single point while red was chosen as the new color of the Exchange due to its strong association with life, vitality and dynamism; qualities also synonymous to the Exchange.

Although the Exchange has been operating since 2007, even today many people in the country are still oblivious to the concept of futures exchange in Pakistan. Resultantly, capturing the mindshare of the market participants has been a challenge for PMEX. This challenge was embraced by the incumbent Managing Director, Ejaz Ali Shah. In 2013, he came with the vision to increase market participation at the Exchange by making PMEX a household name in the country. In the same year, PMEX repositioned itself as a sophisticated platform, which connects buyers and sellers to a diverse product based platform. To emphasize this stance, logo mark underwent a slight change, where the word PMEX was introduced, an acronym commonly used to define the Exchange. And in 2014, for the very first time PMEX positioned itself "Your Local Gateway to Global Markets".

Today, inspired by the new positioning, PMEX is marching ahead with increasing trading volumes and client base. The Exchange has embarked upon a new journey with unwavering determination to transform itself into a next generation futures Exchange providing innovative products, services and leading edge technology driven trading platforms to its brokers and clients.



Year 2013-14 at a Glance

SECP Chairman Inaugurates PMEX New Office

In August 2014, PMEX relocated to a new office, located at the state of the art building, Bahria Complex IV, on Ch. Khalique uz Zaman Road, Karachi.

The new and contemporary space has a warm and welcoming environment that resonates with Exchange's business culture and inspires creativity. Special emphasis has been given on the interior by aligning the space with PMEX brand and culture through the use of imagery, color and furniture. In order to facilitate its employees, PMEX made sure to make its new office space comfortable, practical and inspiring.

The festive inauguration of the PMEX's new office was held on Thursday, August 28, 2014. Mr. Tahir Mehmood, Chairman, Securities & Exchange Commission of Pakistan (SECP), inaugurated the new office at the ribbon cutting ceremony. The event was also attended by Mr. Zafar Abdullah, Commissioner Securities Market Division (SMD), Mr. Imran Iqbal Panjwani, Executive Director, SMD and Mr. Imran Inayat Butt, Director SMD along with the Board of Directors of PMEX.

PMEX Joins Hands with International Associations

With the convergence of IT and telecovmmunication, geographical boundaries are losing relevance when it comes to foreign trade and investment. As the world is becoming a global village, business landscape has radically changed from competition to complementing each other and exploiting the comparative advantage. This requires greater interaction with business players both regionally and globally through trade associations.

Fully cognizant of this fact, PMEX has acquired membership of leading global associations. By actively participating at these forums, PMEX is not only keeping itself abreast of the new developments and policy issues affecting the business but also learning from the experiences of other members countries. At present, the Exchange is a member of Association of Futures Markets (AFM) and Futures Industry Association (FIA) Asia. Attaining these eminence allows the Exchange to play a proactive role in the formation of policies of the Associations and represent Pakistan on its various bodies. In addition, these memberships enable PMEX to participate at a global platform, network with industry peers, discuss common issues, exchange ideas and learn from the experiences of other member exchanges.

PMEX to Rollout New Products

Keeping in view, investors' risk appetite and investment horizon, PMEX plans to widen its product mix, which will enable the investors to diversify their portfolio. The Exchange is constantly striving to develop new products that can offer ease of investment and cater to the needs of investors belonging to different age groups and income strata. At present, the products such as copper, brent crude oil, mill specific sugar and US equity indices have been developed and will be launched soon.

Android App for Brokers

In an endeavor to innovate and provide user friendly services to brokers, PMEX has launched Broker Management System (BMS), a free of cost mobile based android application developed in-house by PMEX.

The application brings together the most frequently used features of two trading systems – Trader Account Management Systems (TAMS) and Clearing, Settlement and Reporting System (CSR) – in a single interface. With this application, brokers can perform following six key operations:

1. Activation and suspension of traders
2. Setting up auto liquidation threshold
3. Raising a fund request
4. Providing fund approval
5. Allocating funds
6. Activation and suspension of users

Investor Awareness Programs

Keeping in view the need of awareness about futures trading in Pakistan, PMEX has taken an initiative to organize awareness programs through workshops, trainings and seminars, which aim to equip existing and potential market participants and investors with the knowledge of the futures market. Currently, Exchange is organizing the following programs:

Futures Trading 101

The Exchange commenced Futures Trading 101, biweekly free of cost training sessions every Tuesday and Thursday from 3:00 PM to 5:00 PM, in Dec 2013. These training sessions are aimed for diverse set of audience such as students, housewives, retirees, salaried and business professionals etc. The training not only provides an in-depth knowledge of commodity fundamentals, technical analysis and listed products at PMEX but also equips trainees with hands on experience with the Trading System at PMEX.

Educational Institutions

Students of business schools are 'managers in making' and require extensive interaction with diverse real world business environment. In line with this, PMEX actively participates in comprehensive and interactive workshops & seminars at various educational institutes and educate the next generation business leaders about the benefits of futures trading at a regulated exchange.

Listed Products

- Gold
- Silver
- Crude Oil
- I-Cotton
- Rice
- Wheat
- Sugar
- Palm Olein
- KIBOR

CONTENT

Vision

To be the leading institution in Pakistan for developing and managing commodity and financial futures markets; and to contribute to the economic growth of Pakistan by providing a transparent, safe and efficient marketplace for saving, investment, hedging and trading needs of all participants.

Mission

To achieve our Vision by employing efficient risk management practices, technological advances and product innovations; coupled with education of participants, using our intellectual capital to the fullest and adherence to our core values. To perform our regulatory role without compromising the principles of transparency, fairness and independence. To work closely with stakeholders in order to build market infrastructures that benefit everyone. To ensure highest levels of integrity and ethical business practices without conflicts of interest, internally as well as for participants.

Board of Directors

Shazad G. Dada
Chairman

Ejaz Ali Shah
Managing Director

Abdul Majeed Adam
Director

Asif Baig Mirza
Director

Ehtesham Rashid
Director

Muhammad Hanif Jakhura
Director

Rehmat Ali Hasnie
Director

Syed Ali Sultan
Director

Syed Hasan Irtiza Kazmi
Director

Zahid Latif Khan
Director

Directors' Profiles

Shazad G. Dada

Chairman

Mr. Shazad G. Dada is a seasoned banker and a prominent capital market professional with approximately 25 years of experience. Presently, he is serving as the Chief Executive Officer (CEO) of Standard Chartered Bank Pakistan Limited (SCB). Prior to joining SCB he was CEO of Barclays Bank PLC, Pakistan. He had joined Barclays Bank in October 2010, with the overall responsibility for managing all its businesses including Corporate, Investment and Retail Banking. He was also the Head of Regional Transaction Services Steering Committee for Asia and India / UAE and Pakistan.

Mr. Dada has been contributing towards the development of Pakistan's financial market and continues to do so as the Chairman, Pakistan Banks' Association and Director and Karachi Stock Exchange Limited. He is also the Chairman of Human Resources & Remuneration Committee of PMEX. In addition to his commercial interests, Mr. Dada is an active supporter of a number of social causes and is associated with various reputed charitable organizations.

Besides his professional engagements, Mr. Dada is the Chairman of the Board of Trustees, Development in Literacy (DIL) Pakistan, Board Member, British Overseas School and Board Member, AISEC.

Mr. Dada graduated with honors from University of Pennsylvania with a Bachelor of Science and Bachelor of Arts degree. He also has an MBA degree from The Wharton School, University of Pennsylvania.

Ejaz Ali Shah

Managing Director

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 Karachi 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 Karachi & Lahore Stock Exchanges and also a corporate member of at 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. At present, he is member of Human Resources & Remuneration Committee and Regulatory Affairs Committee of the Exchange.

Mr. Adam is a graduate from University of Karachi.

Asif Baig Mirza

Director

Mr. Asif Baig Mirza is the Nominee Director of Lahore Stock Exchange Limited (LSE) at Pakistan Mercantile Exchange Limited. He is the Chief Executive Officer of ABM Securities (Pvt.) Ltd., a corporate member of LSE.

To augment his professional skills, Mr. Miza has passed Part-I examination from Institute of Bankers of Pakistan. He has successfully completed "Wealth Management" training from Marcus Evans of India in 2008. He has also completed Certification Program for Directors offered by Institute of Chartered Accounts of Pakistan (ICAP). This year he has also successfully completed training program on AML/CFT compliance for Brokers/Dealers.

Mr. Mirza is also a member of the Audit Committee and Regulatory Affairs Committee of PMEX and has held various other Director positions in the past, such as Pakistan Institute of Corporate Governance, Lahore Stock Exchange Limited and Member of SECP's Task Force for the Protection of Minority Shareholders. In addition he has been member of different statutory committees of LSE and PMEX.

Mr. Mirza holds a B. Com. (Hons) degree.

Ehtesham Rashid

Director

Mr. Ehtesham Rashid is the Nominee of National Bank of Pakistan (NBP) at Pakistan Mercantile Exchange Limited. He is a senior banker with over 20 years of treasury and banking experience. Presently, he is an EVP & Head of Corporate Sales, Treasury Management at NBP and also serves as Director and General Secretary of Financial Market Association of Pakistan (FMAP).

His prior experience at State Bank of Pakistan makes him a versatile professional with regard to Regulatory Environment, Treasury, Audit / Inspection and Risk Management. His other involvements include attachments / trainings at World Bank D.C., International Monetary Fund, Deutsche Bundesbank, and BIS Hong Kong.

Mr. Rashid is an MBA from the Institute of Business Administration (IBA), Karachi and also a position holder in Mathematics from University of Karachi.

Muhammad Hanif Jakhura

Director

Mr. Muhammad Hanif Jakhura is the Nominee Director of Securities and Exchange Commission of Pakistan at Pakistan Mercantile Exchange Limited. He is the Chief Executive Officer (CEO) of Central Depository Company of Pakistan Limited (CDC) since 2002, which he joined in 1994 as General Manager. He was also appointed as the first CEO of National Clearing Company of Pakistan Limited (NCCPL) in January 2002 and served in that position as well up to September 2005.

Mr. Jakhura's initiative in adopting diversification as one of CDC's major strategic objectives has resulted in the establishment of CDC's Trustee & Custodial Services, Registrar & Transfer Agent services and IT consultancy and implementation services, all of them becoming trend setting services in their respective industry sectors.

In addition to philanthropic appointments where he is instrumental and promotes the causes of education and health, he is serving as a Director in Institute of Capital Markets and ITMinds Limited (a wholly owned subsidiary of CDC).

Mr. Jakhura is a Fellow Member of the Institute of Chartered Accountants of Pakistan (ICAP). He was amongst the first batch of participants who completed the course conducted by Pakistan Institute of Corporate Governance (PICG) for Certified Directors in 2007.

Rehmat Ali Hasnie

Director

Mr. Rehmat Ali Hasnie is the Nominee Director of National Bank of Pakistan (NBP) at Pakistan Mercantile Exchange Limited. He brings with him over 20 years of diversified experience in the financial sector and capital markets. At present, he is Executive Vice President (Corporate & Investment Banking Group) at NBP.

During his career, he has worked in various capacities at Taurus Securities Limited, Fidelity Investment Bank Limited, Lahore Stock Exchange (Guarantee) Limited, IGI Investment Bank Limited and Pair Investments Limited.

In addition to PMEX, Mr. Hasnie represents National Bank of Pakistan in the capacity of Non-Executive Director on the board of Agritech Limited.

Syed Ali Sultan

Director

Syed Ali Sultan is the Nominee Director of Securities and Exchange Commission of Pakistan at Pakistan Mercantile Exchange Limited. He is a seasoned banker with over 20 years of experience in the financial sector of Pakistan and the Middle-East. He enjoys knowledge of the global markets, investment banking & fund management. Since February 2012, Mr. Sultan is working for Bank Alfalah Limited as a Group Head of Treasury & Financial Institutions. He is responsible for managing both conventional and Islamic treasuries and financial institutions. At present, he manages multicurrency portfolio of approximately US$ 6 billion, investments of US$ 2.5 billion & leading ALCO initiatives and liquidity contingency planning. In addition to his current position at Bank Alfalah, Mr. Sultan is also Chairman, Alfalah GHP Investment Management Limited.

Prior to joining Bank Alfalah, Mr. Sultan has served the State Bank of Pakistan but most of his career time remained with Standard Chartered Bank and BNP Paribas covering Middle Eastern Markets.

He actively participates in international professional forums, meeting of World Bank and International Monetary Fund and Euro-money conferences.

Syed Hasan Irtiza Kazmi

Director

Syed Hasan Irtiza Kazmi is the Nominee Director of National Bank of Pakistan (NBP) at Pakistan Mercantile Exchange Limited. He is a banker by profession and brings with him over 20 years of rich and diversified experience of the local financial sector. Presently he is serving as an Executive Vice President (Commercial & Retail Banking Group) at NBP.

During his career, he has worked in various capacities at Pakistan Kuwait Investment Company (Pvt.) Limited, Dubai Islamic Bank Pakistan Limited, Bank Alfalah Limited, ORIX Investment Bank Limited and MCB Bank Limited.

Apart from being on the Board of Directors of PMEX, Mr. Kazmi is a Member of Sindh Board of Investment as an Independent Director. Previously, he has also served as a Nominee Director on the Boards of various listed and non-listed public companies.

Zahid Latif Khan

Director

Mr. Zahid Latif Khan is the nominee director of Islamabad Stock Exchange Limited (ISE) at Pakistan Mercantile Exchange Limited. Presently, he is the Chairman and Chief Executive Officer of M/s Zahid Latif Khan Securities (Private) Limited, one of the leading corporate brokers of PMEX as well as ISE. 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.

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 credited for expanding the network of retail brokerage outlets which has seen 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

Sitting from left to right

1 Farhan Tahir
Chief Financial Officer & Company Secretary

2 Ejaz Ali Shah
Managing Director

3 Amjad Khan
Chief Operating Officer

4 Shahzad Hussain Makhani
Head of Operations

Standing from left to right

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

6 Umair Ahmed Hassan
Head of Information Technology

7 Rizwan Siddiqui
Head of Internal Audit

8 Uzzma Hayat Khan
Head of Human Resources & Administration

9 Khwaja Asif Karim Ahmad
Head of Systems & Process Assurance

10 Hasan Mahmood
Head of Product Development, Research and Risk

11 Aamir Zareef Khan
Chief Compliance Officer

Company Information

Board of Directors	Mr. Shazad G. Dada	Chairman
	Mr. Ejaz Ali Shah	Managing Director
	Mr. Abdul Majeed Adam	Director
	Mr. Asif Baig Mirza	Director
	Mr. Ehtesham Rashid	Director
	Mr. Muhammad Hanif Jakhura	Director
	Mr. Rehmat Ali Hasnie	Director
	Syed Ali Sultan	Director
	Syed Hasan Irtiza Kazmi	Director
	Mr. Zahid Latif Khan	Director

Chief Financial Officer & Company Secretary Mr. Farhan Tahir

Chief Compliance Officer Mr. Aamir Zareef Khan

Auditors M. Yousuf Adil Saleem & Co.
Chartered Accountants

Bankers Bank Alfalah Limited
MCB Bank Limited
Standard Chartered Bank Limited

Legal Advisor MCAS&W Law Associates

Committees

Audit Committee

1. Mr. Muhammad Hanif Jakhura – Chairman
2. Mr. Asif Baig Mirza
3. Mr. Ehtesham Rashid
4. Mr. Zahid Latif Khan

Human Resource & Remuneration Committee

1. Mr. Shazad G. Dada – Chairman
2. Mr. Ejaz Ali Shah – Managing Director
3. Mr. Abdul Majeed Adam
4. Mr. Muhammad Hanif Jakhura
5. Syed Hasan Irtiza Kazmi

Investment Committee

1. Syed Ali Sultan – Chairman
2. Mr. Ejaz Ali Shah – Managing Director
3. Mr. Asif Baig Mirza
4. Mr. Abdul Majeed Adam

Regulatory Affairs Committee

1. Syed Ali Sultan – Chairman
2. Mr. Ejaz Ali Shah – Managing Director
3. Mr. Abdul Majeed Adam
4. Mr. Asif Baig Mirza
5. Mr. Rehmat Ali Hasnie
6. Mr. Zahid Latif Khan

Management Committee

1. Mr. Ejaz Ali Shah – Managing Director
2. Mr. Amjad Khan – Chief Operating Officer
3. Mr. Farhan Tahir – Chief Financial Officer & Company Secretary
4. Mr. Nauman Lakhani – Head of Marketing, Business Development & Customer Support Services
5. Mr. Hasan Mahmood – Head of Product Development, Research and Risk
6. Mr. Rizwan Siddiqui – Head of Internal Audit
7. Ms. Uzzma Hayat Khan – Head of Human Resource & Administration
8. Mr. Aamir Zareef Khan – Chief Compliance Officer

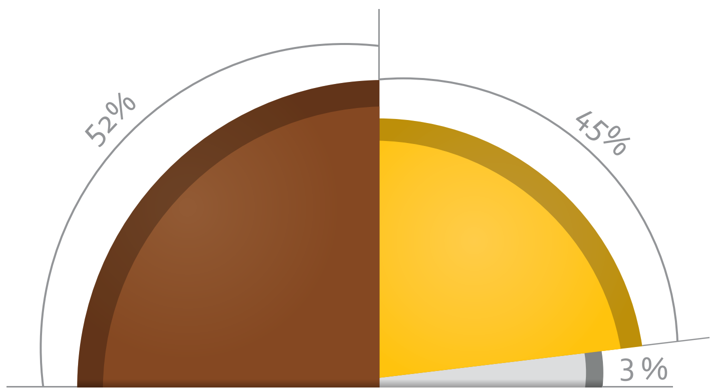
Regulator: Securities and Exchange Commission of Pakistan

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

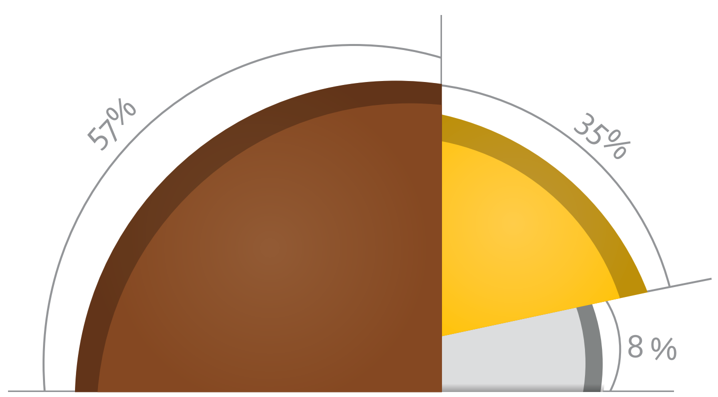
Opertional Highlights

Key figures for the Year 2013-14

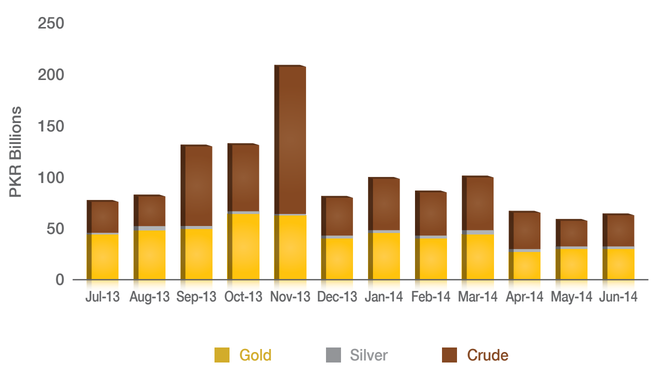
Total traded volume	1,171.5 (PKR in billion)
Crude Oil	613.2 (PKR in billion)
Gold	527.7 (PKR in billion)
Silver	30.5 (PKR in billion)



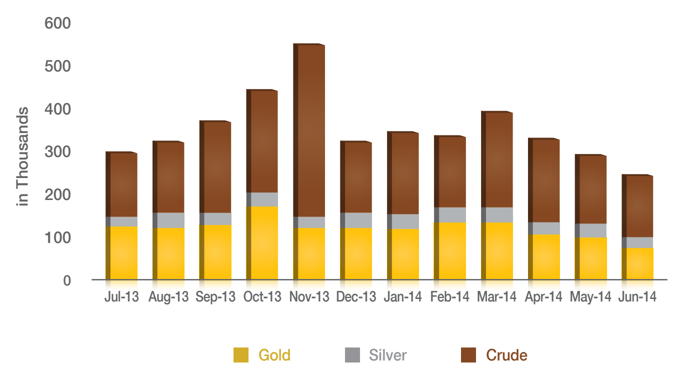
Total traded lots	4,222,032
Crude Oil	2,395,537
Gold	1,463,550
Silver	362,708



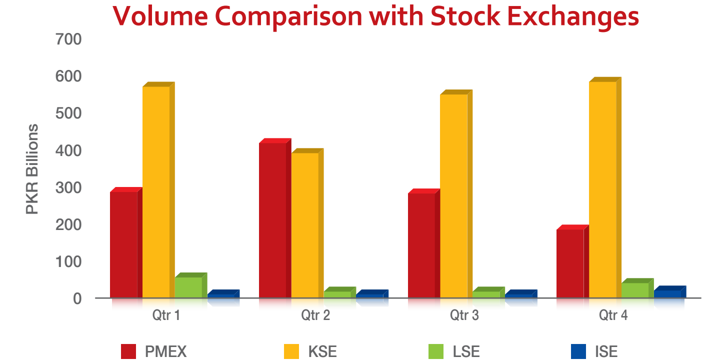
Traded Volume of Three Major Commodities



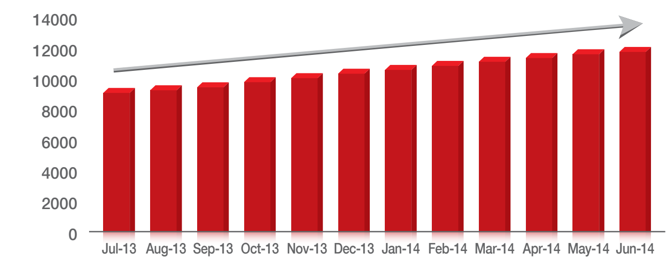
Traded Lots of Three Major Commodities



Volume Comparison with Stock Exchanges



Total Number of Investors (UINs)



Top Ten Brokers

Ranking	Based on Traded Contracts	Based on Traded Value
1	KASB Securities Limited	Mohammad Ashraf Hussain Adhi
2	Enrichers (Pvt.) Limited	KASB Securities Limited
3	Mohammad Ashraf Hussain Adhi	Enrichers (Pvt.) Limited
4	Rahat Securities Limited	Absolute Commodities (Pvt.) Limited
5	Abbasi & Co. (Pvt.) Limited	Foundation Securities (Pvt.) Limited
6	JS Global Capital Limited	JS Global Capital Limited
7	Foundation Securities (Pvt.) Limited	Arif Habib Commodities (Pvt.) Limited
8	Arif Habib Commodities (Pvt.) Limited	Rahat Securities Limited
9	IGI Finex Securities Limited	Abbasi & Co. (Pvt.) Limited
10	Absolute Commodities (Pvt.) Limited	Zafar Securities (Pvt.) Limited

Chairman Review

It has been a mixed year for Pakistan Mercantile Exchange Limited (PMEX) as the company on one hand has worked tirelessly to restructure itself into a vibrant and efficient enterprise but on the other hand some external factors like reduced interest in the core commodities by investors globally has hampered the pace of progress. Nevertheless, we are in much better shape today than ever before and considering the vigor and determination of the management, I am confident that we are very close to turning the corner.

The Company is working with a renewed energy on a variety of fronts to make it a mainstream institution of the financial market. Our focus this year will be on introducing new products especially those that have a ready local market, activating dormant memberships, increasing awareness of the Exchange and its services, supporting infrastructural development initiative of State Bank of Pakistan, creating a winning culture and working on internal systems to ensure smooth and efficient services to our clients. The Exchange will continue to work with the government to remove some of the constraints that are hampering commodity traders to freely trade on the regulated platform of PMEX and be a part of documented economy thereby contributing to the exchequer.

Having said the above, it is important to understand that significant effort is required to further cultivate the commodity derivative market and continued in depth support of all related institutions especially the Regulators is imperative to ensure that PMEX is in a position to offer the entire product suite in order to take this national institution to its full potential.

Shazad G. Dada
Chairman

Karachi: September 16, 2014

Ejaz Ali Shah
Managing Director

Directors' Report

On behalf of the Board of Directors of Pakistan Mercantile Exchange Limited (PMEX), we are pleased to present the Annual Report for the financial year ended June 30, 2014 (FY2013-14) together with the Audited Financial Statements and Auditor's Report there on.

Business Environment

Global Impact

Regulatory and Monetary measures by major economies over the years have now started to reveal their positive impacts. Although, challenges still persist for the global economic giants, their recent performances have indicated macroeconomic stability.

The US economy has recovered from its economic crisis after a stretched tenure of stimulus measures. As compared to the US, the European Union has lagged in its recovery from the recession triggered by the subprime mortgage crisis of 2008 as a result of the delay in restructuring reforms.

The developments during the year provide evidence of stability for robust economies, whilst challenges for the rest. Economic leaders including the U.S. and China require structural reforms to support their policies directed towards growth.

The global economy may have phased out of the recession period. However, corrective policies bring their own challenges. Regulations and reforms would play a vital role in this current phase of global economic recovery.

Pakistan Overview

Pakistan succeeded in attaining 4.14 percent GDP growth in the outgoing fiscal year, which is the highest level achievement since 2008-09. There is also encouraging evidence that the total investments in the country remained stable at 8.45 percent as compared to 8.41 percent last year.

The FDI over the past five years remained slow due to number of internal and external factors. The present government's resolve is to restore investor confidence and create an enabling environment for foreign investment. The major inflow of FDI is coming from US, Hong Kong, UK, Switzerland and UAE. Oil & Gas Exploration, financial business, power, communications and chemicals remained major recipient of foreign investment.

Pakistan's Stock Market has achieved enormous growth during the outgoing fiscal year as demonstrated by sharp and impressive rise in KSE- 100 index as compared to global stock markets including China, India, Japan, Hong Kong, UK and USA.

Overall Exports have increased whereas the increase in imports has been minimal. USA, China, UAE and Afghanistan have emerged as Pakistan's major trading partners in terms of both exports and imports.

Review of Business

The FY2013-14 was a significant year for PMEX. The Exchange witnessed a change of management, completion of 7 years of operations, development of a robust product pipeline and setting up of a dedicated business development & customer support team. In addition, focus was also on developing marketing collateral to support business development activities. Accordingly, we started publishing a quarterly newsletter, daily & monthly research reports and conducting bi-weekly training sessions to educate both current & potential clients about the developments at the Exchange, rudiments of commodity trading, the risk parameters and legal framework.

A significant development during the year was the initiative by the State Bank of Pakistan (SBP) with regards to warehousing and certification of agriculture products. This is an extremely important development as five out of nine commodities listed at the Exchange are agriculture products and absence of warehousing and certification is the primary reason for lack of interest in these commodities. Once such an infrastructure is created, PMEX will have a very active role in providing an efficient and transparent platform for the trade of these commodities. This initiative will also open the door for PMEX to establish a spot trading platform, thereby creating a one window solution for all the agriculture market participants.

With regards to trading activity, futures exchanges around the globe experienced subdued volumes in core commodities such as Gold, Crude Oil and Silver throughout the year, which led to overall business slowdown and low investor participation at PMEX as well. The primary reason for the decline may be attributed to low price volatility. Beside the volatility, the booming local stock market has also negatively impacted PMEX as largely the brokers and as well as investors of the two markets are same.

The impact of low participation of investors felt magnified for young and growing exchanges such as PMEX. The effect on PMEX was felt more also due to an incomplete product suite where there is an absence of third currency pairs, an essential product for any successful futures exchange. While efforts were made throughout the year to seek approval for these contracts, the matter remained pending with the SBP.

The above situation encouraged us to think out of the box and to come up with new products to enhance and diversify our product offering. Accordingly, we are working on products that are locally focused to remove PMEX dependencies on international financial markets and their performance.

With regards to the membership base, although the number of eligible-to-trade brokers has increased by 30% due to business development efforts throughout the year, the number of active brokers remained constant due to lack of trading activities during the year. However, Traders/Unique Identification Numbers (UINs) grew encouragingly throughout the year at the rate of 31.2%.

There were no new memberships issued during the year due to the membership halt imposed by Securities & Exchange Commission of Pakistan (SECP) with regards to issuance of new membership rights. The Exchange is consistently following up with the SECP and expects that the halt would be removed soon.

Organizational Restructuring & Office Relocation

We are pleased to inform you that serious efforts have been made during the year to restructure the organization which has started bearing fruit.

The efforts included relocating the Exchange office to a new state of the art building, paving the way to grow further both in terms of human & technological resources. In addition, a comprehensive exercise is being carried out to revamp the entire IT setup and to induct best practices to ensure robust and efficient services for PMEX clients. Moreover, a Business Development section is created to cultivate new clients and to interact with all existing clients for better business growth.

To ensure that all these efforts are sustainable, a comprehensive documentation drive was carried out during the year. Stress was laid on developing Policies & Procedures so that each and every function of the Exchange is documented to ensure greater accountability.

Financial Results

Following is the summary of results for the two years:

	30-Jun-14	30-Jun-13
	(Rs. in million)	
Operating income	125.26	139.60
Profit/ (loss) before taxation	(11.46)	12.32
Profit/ (loss) after taxation	(13.19)	12.76
Total comprehensive income/(loss)	9.30	15.71
	(Rupees)	
Earnings per share - basic and diluted	(0.83)	0.46

The major component in the decrease of operating income was trading fee, which decreased by Rs. 10.7 million from Rs. 114.36 million to Rs. 103.6 million, a decrease of 9.4%. On an overall basis, the total comprehensive loss for the year 2013-14 is Rs. 9.30 million as compared to total comprehensive income of Rs. 15.71 million in 2012-13. Earnings per share in 2013-14 also deteriorated to negative Rs. 0.83 as compared to Rs. 0.46 in 2012-13.

The positive reflections of deferred tax of Rs. 166.28 million (Note 26.2) and unascertained value of 20 Offices in Old Hyatt Regency Hotel Building (Note 13.2 & 16.1) have not been recorded due to uncertainties attached with respect to timings etc.

On the taxation contingencies side, as detailed in note 13.1 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. The auditors have also highlighted the issue in their report.

Right Shares

During the year, 27.5 million rights shares were offered to shareholders in the ratio of 29 shares for each 20 shares. Out of the total 27.5 million shares, 8.57 million shares were subscribed by the Karachi and Islamabad Stock Exchanges. Resultantly, the cumulative shareholding of the three stock exchanges in PMEX increased from 43.06% to 60.76% in concurrence with SECP.

Preference Shares

During the year in April 2014, the two years term of 2.8 million redeemable & convertible preference shares issued to Pak Brunei Investment Company (PBIC) & National Bank of Pakistan (NBP) matured. The Board of PMEX decided not to redeem these preference shares and the accumulated unpaid dividend thereon which is also convertible. However, as the preference shareholders have not exercised their right of conversion so far, the same is recorded and disclosed according to the practice consistent from last year based on legal opinion. Auditors have also highlighted this issue in their report.

Retirement/Separation Benefits Scheme

In May 2014, the Board decided to change the present scheme of gratuity from gross salary based unfunded defined benefit scheme to funded defined contribution based gratuity scheme along with introduction of provident fund. As a result of this decision, the process of constitution of trusts for gratuity and provident funds has been initiated. Moreover, due to this change, the liability was recalculated and resulted in curtailment gain of Rs. 7.64 million which is recorded in the financial statements (Note 8).

Future Outlook

Our focus in future will remain on converting inactive members into active brokers, increasing the numbers of active traders and to further enrich the product portfolio with renewed emphasis on domestic products. However, in order to enhance growth and reach full business potential, it is essential that PMEX gets the required regulatory approvals to list Third Currency Pairs Futures Contracts and the halt on issuance of new membership is removed as any further delays will have significant impact on the Exchange's revenues.

Board of Directors

The current Board comprises of nine directors excluding the Managing Director, in which six directors represent shareholders and remaining three are independent directors appointed by SECP. Their status is as follows:

S. No.	Name	Designation	Status
1	Mr. Shazad G. Dada*	Chairman	Non-Executive
2	Mr. Ejaz Ali Shah	Managing Director	Executive
3	Mr. Abdul Majeed Adam	Director	Non-Executive
4	Mr. Asif Baig Mirza	Director	Non-Executive
5	Mr. Ehtesham Rashid**	Director	Non-Executive
6	Mr. Muhammad Hanif Jakhura*	Director	Non-Executive
7	Mr. Rehmat Ali Hasnie	Director	Non-Executive
8	Syed Ali Sultan*	Director	Non-Executive
9	Syed Hasan Irtiza Kazmi	Director	Non-Executive
10	Mr. Zahid Latif Khan	Director	Non-Executive

*Nominated by SECP
** Mr. Ehtesham Rashid replaced Mr. Khuraam Saeed Naik as nominee director of National Bank of Pakistan subsequent to June 30, 2014.

Attendance of Board meeting during 2013-14 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:

a) The financial statements present fairly Exchange's state of affairs, the result of its operations, cash flow and changes in equity.

b) Proper books of accounts of the Exchange have been maintained.

c) Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment. Any changes have been appropriately applied and disclosed.

d) 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. The Exchange is in the process of developing mechanism for annual performance evaluation of directors.

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) No training program for directors was required during the year.

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.

Auditors

The retiring auditors M. Yousuf Adil Saleem & Co. Chartered Accountants have offered themselves for reappointment. The Board Audit Committee has suggested and the Board of Directors has recommended their reappointment as statutory auditors for the approval of the shareholders.

Acknowledgement

The Directors convey their 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 endeavour to realise the vision of a thriving commodity and futures market in Pakistan.

Managing Director

Karachi: September 16, 2014

Annexure A
Board Meeting Attendance

Total 9 meetings of Board of Directors were held during 2013-14. Attendance history during the tenure of directorship was as follows:

Director	Meetings Held during the Tenure	Meetings Attended
Mr. Shazad G. Dada	9	8
Mr. Ejaz Ali Shah (MD since September 01, 2013)	8	8
Mr. Amjad Khan (Acting MD upto August 31, 2013)	1	1
Mr. Abdul Majeed Adam	9	9
Mr. Asif Baig Mirza	9	9
Mr. Khurram Saeed Naik*	9	2
Mr. Muhammad Hanif Jakhura	9	8
Mr. Rehmat Ali Hasnie	9	5
Syed Ali Sultan	9	5
Syed Hasan Irtiza Kazmi	9	4
Mr. Zahid Latif Khan	9	8

* Mr. Khurram Saeed Naik was replaced by Mr. Ehtesham Rashid as nominee of National Bank of Pakistan subsequent to June 30, 2014.

Annexure B
Committees Attendance

The Board constituted following committees comprising of members of the Board. The composition of the committees as on June 30, 2014 was as under:

Audit Committee	Held	Attended
Mr. Muhammad Hanif Jakhura - Chairman	5	5
Mr. Asif Baig Mirza	5	5
Mr. Khurram Said Naik*	5	1
Mr. Zahid Latif Khan	5	5

*Replaced by Mr. Ehtesham Rashid subsequent to June 30, 2014

Human Resource & Remuneration Committee	Held	Attended
Mr. Shazad G. Dada – Chairman	3	3
Mr. Ejaz Ali Shah - MD	3	3
Mr. Abdul Majeed Adam	3	2
Mr. Muhammad Hanif Jakhura	3	3
Syed Hasan Irtiza Kazmi	3	1

Regulatory Affairs Committee	Held	Attended
Syed Ali Sultan - Chairman	2	1
Mr. Ejaz Ali Shah - MD	2	2
Mr. Abdul Majeed Adam	2	-
Mr. Asif Baig Mirza	2	2
Mr. Rehmat Ali Hasnie	2	-
Mr. Zahid Latif Khan	2	2

Investment Committee	Held	Attended
Syed Ali Sultan - Chairman	2	1
Mr. Ejaz Ali Shah - MD	2	2
Mr. Abdul Majeed Adam	2	1
Mr. Asif Baig Mirza	2	2

Annexure C
Shareholding Pattern as of June 30, 2014

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	1	2,272,727
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	9,000,000
Total	**17**	**27,568,187**

Categories of Shareholders	No. of Shareholders	Shares Held	Percentage
Directors, Chief Executive Officer, and their spouse and minor children	4	22	–
Associated Companies, undertakings and related parties (including banks)	5	25,749,961	93.4%
NIT and ICP	–	–	–
Banks, Development Financial Institutions, Non-Banking Financial Institutions (excluding related parties)	2	1,818,181	6.6%
Insurance Companies	–	–	–
Modarabas and Mutual Funds	–	–	–
Other Shareholders holding 10% or more	–	–	–
Others (individual promoters excluding included above)	6	23	–
Total	**17**	**27,568,187**	**100.0%**

Preference Shareholders	Shareholding	Percentage
National Bank of Pakistan	1,300,000	46.43%
Pak Brunei Investment Company Limited	1,500,000	53.57%
Total	**2,800,000**	**100.00%**

Annexure D
Six Years' Financial Highlights
Financial Years ended on June 30

(Rupees)

Balance Sheet	2009	2010	2011	2012	2013	2014
Shareholders' equity	(146,248,227)	(132,085,810)	(191,909,430)	(172,047,002)	(160,304,348)	(86,817,268)
Advance - preference shares	–	–	28,000,000	–	–	–
Finance lease liabilities	–	2,525,590	1,747,445	825,925	–	–
Long term deposits	195,300,000	195,200,000	195,000,000	196,100,000	196,250,000	195,400,000
Staff gratuity	21,486,560	26,753,536	37,853,728	48,453,368	53,966,360	45,227,574
Dividend on preference shares	–	–	–	772,400	4,740,398	7,638,398
Settlement Guarantee Fund	93,547,019	202,120,386	595,024,005	1,517,913,878	1,649,849,092	1,158,960,085
Fixed assets	26,376,740	14,154,800	7,662,954	12,697,171	20,101,811	36,454,107
Investment in associates	1,000,010	1,000,010	20	20	20	20
Current assets	148,748,914	296,853,728	677,559,082	1,615,065,737	1,772,367,403	1,343,216,648

Operational Results

Total income	32,363,866	36,611,095	76,002,096	158,343,410	184,309,849	171,925,380
Total expenses	155,188,453	114,624,400	134,987,360	166,587,617	171,985,967	185,110,993
Profit / (loss) after taxation	(122,848,867)	(78,195,180)	(58,803,389)	(9,569,436)	12,759,264	(13,185,613)

Earnings per share (EPS)	(12.07)	(5.51)	(3.09)	(0.54)	0.46	(0.83)

Notice of Annual General Meeting

Notice is hereby given that the 13th Annual General Meeting of the shareholders of Pakistan Mercantile Exchange Limited will be held at 01:00 pm on Monday, October 27, 2014, at the Registered Office of the Exchange, situated at 3B, 3rd Floor, Bahria Complex IV, Ch. Khalique-uz-Zaman Road, Gizri, Karachi to transact the following business:

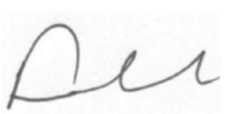
1. To confirm the minutes of the Annual General Meeting held on October 29, 2013.

2. To receive and consider the Directors' Report and Audited annual financial statements together with Auditors' Report thereon for the year ended June 30, 2014.

3. To appoint auditors for the year ending June 30, 2015 and fix their remuneration.

4. Any other business with the permission of chairman.

By order of the Board of Directors



Farhan Tahir
Company Secretary

Karachi: October 03, 2014

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, 2014 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 Regulation No. 35 of Listing Regulations of the Karachi 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. 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 Board of Directors for their consideration and approval, 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, recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the Audit Committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the 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, 2014.

We draw attention to paragraph 23 of the Statement wherein it is stated that the Exchange is in the process of developing mechanism for annual performance evaluation of the Board of Directors.

M. Yousuf Adil Saleem & Co.
Chartered Accountants

Engagement Partner:
Nadeem Yousuf Adil

Karachi: September 16, 2014

Statement of Compliance

with the Code of Corporate Governance

For the year ended June 30, 2014

The Code of Corporate Governance (the Code), being part of listing regulations of stock exchanges in Pakistan, 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 which have been nominated by SECP. At present, the Board comprises of:

Category	Names
Independent Directors	Mr. Shazad G. Dada
	Mr. Muhammad Hanif Jakhura
	Syed Ali Sultan
Executive Director	Mr. Ejaz Ali Shah
Non-Executive Directors	Mr. Asif Baig Mirza
	Mr. Abdul Majeed Adam
	Mr. Zahid Latif Khan
	Mr. Rehmat Ali Hasnie
	Syed Hasan Irtiza Kazmi
	Mr. Khurram Saeed Naik

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. No casual vacancy has occurred on the board during the year.

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. The meetings of the Board were presided over by the Chairman and 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 April 04, 2014 which was chaired by Mr. Muhammad Hanif Jakhura in the absence of the Chairman. 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. Three directors of the Exchange have certification under the directors training program offered by professional institutions that meet the criteria specified by SECP.

10. The Board has approved the appointment of Head of Internal Audit including his remuneration and terms and conditions of employment. However, no new appointments of Chief Financial Officer and Company Secretary were made during the year.

11. The Directors' Report for the year ended June 30, 2014 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 are non-executive directors and the Chairman of the Committee is an independent director.

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 Exchange is in the process of developing mechanism for annual performance evaluation of the directors.

Chairman	Managing Director	Karachi: September 16, 2014

Auditors' Report to the Members

We have audited the annexed balance sheet of PAKISTAN MERCANTILE EXCHANGE LIMITED (the Exchange) as at June 30, 2014 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, 2014 and of the loss, its cash flows and 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 the following matters:

- Note 6.1 to the financial statements, which states that Preference Share Subscription Agreement was matured in April 2014 but the conversion option has not yet been exercised by the preference shareholders due to the reasons stated in the said note.
- Note 13.1.1 to the financial statements regarding tax implication relating to security deposit 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 the above matters.

M. Yousuf Adil Saleem & Co.
Chartered Accountants

Engagement Partner:
Nadeem Yousuf Adil

Karachi: September 16, 2014

Financial Statements

Pakistan Mercantile Exchange Limited
Balance Sheet
As at June 30, 2014

	Note	2014 Rupees	2013 Rupees
EQUITY AND LIABILITIES			
Share capital and reserves			
Authorised capital 47,200,000 (2013: 37,200,000) ordinary shares of Rs.10 each		472,000,000	372,000,000
2,800,000 (2013: 12,800,000) preference shares of Rs.10 each		28,000,000	128,000,000
Issued, subscribed and paid-up capital 27,568,187 (2013: 19,000,012) ordinary shares of Rs. 10 each	5	275,681,870	190,000,120
2,800,000 (2013: 2,800,000) preference shares of Rs. 10 each	6	28,000,000	28,000,000
Capital reserve - premium on issue of ordinary shares		22,250,000	22,250,000
Accumulated loss		(412,749,137)	(400,554,468)
		(86,817,267)	(160,304,348)
Non-current Liabilities			
Long-term deposits	7	195,400,000	196,250,000
Deferred liability - staff gratuity	8	45,227,574	53,966,360
Current Liabilities			
Dividend on preference shares	6	7,638,398	4,740,398
Settlement guarantee fund	9	1,158,960,085	1,649,849,092
Advance annual subscription and other fee	10	5,894,039	7,599,137
Advance members admission fee	11	2,500,000	6,750,000
Creditors, accrued expenses and other liabilities	12	51,315,162	33,618,595
		1,226,307,684	1,702,557,222
Contingencies and Commitments	13		
		1,380,117,991	1,792,469,234

The annexed notes from 1 to 32 form an integral part of these financial statements.

	Note	2014 Rupees	2013 Rupees
ASSETS			
Non-current Assets			
Property and equipment	14	23,793,477	14,341,820
Intangible assets	15	12,660,630	5,759,991
Investment in associates	16	20	20
Long term prepayment		447,216	–
Current Assets			
Supplies and consumables	17	93,124	330,042
Annual subscription receivable - considered good		7,725,000	4,050,000
Deposits and short-term prepayments	18	7,278,164	4,280,926
Other receivables	19	8,677,721	2,628,624
Short term investments	20	107,513,682	–
Assets relating to settlement guarantee fund	21	1,158,960,085	1,649,849,092
Taxation - net		44,514,150	44,895,156
Cash and bank balances	22	8,454,722	66,333,563
		1,343,216,648	1,772,367,403
		1,380,117,991	1,792,469,234

Chairman

Managing Director

Pakistan Mercantile Exchange Limited
Profit and Loss Account
For the year ended June 30, 2014

	Note	2014 Rupees	2013 Rupees
Operating income	23	125,262,007	139,598,660
Administrative and operating expenses	24	(183,291,508)	(171,834,625)
		(58,029,501)	(32,235,965)
Other income	25	46,663,373	44,711,189
Other charges		(90,897)	(86,693)
Finance costs		–	(64,649)
(Loss) / profit before taxation		(11,457,025)	12,323,882
Taxation - net	26	(1,728,588)	435,382
Net (loss) / profit after taxation		(13,185,613)	12,759,264
Other comprehensive income for the year			
Items that will not be reclassified to profit and loss account			
Remeasurement of post retirement benefits obligation - staff gratuity	8.7	3,888,944	2,951,388
Total comprehensive income for the year		(9,296,669)	15,710,652
Earnings per share - basic and diluted	27	(0.83)	0.46

The annexed notes from 1 to 32 form an integral part of these financial statements.

Chairman

Managing Director

Pakistan Mercantile Exchange Limited
Statement of Changes in Equity
For the year ended June 30, 2014

	Issued, subscribed and paid-up capital	Preference share capital	Capital reserve premium on issue of ordinary shares	Accumulated loss	Total
	Rupees				
Balance as at July 01, 2012	190,000,120	28,000,000	22,250,000	(412,297,122)	(172,047,002)
Total comprehensive income for the year ended June 30, 2013					
- Profit for the year	–	–	–	12,759,264	12,759,264
- Other comprehensive income for the year	–	–	–	2,951,388	2,951,388
	–	–	–	15,710,652	15,710,652
Dividend on preference shares	–	–	–	(3,967,998)	(3,967,998)
Balance at June 30, 2013	190,000,120	28,000,000	22,250,000	(400,554,468)	(160,304,348)
Issue of right shares at Rs.10 per share	85,681,750	–	–	–	85,681,750
Total comprehensive income for the year ended June 30, 2014					
- Loss for the year	–	–	–	(13,185,613)	(13,185,613)
- Other comprehensive income for the year	–	–	–	3,888,944	3,888,944
	–	–	–	(9,296,669)	(9,296,669)
Dividend on preference shares (note 6.1)	–	–	–	(2,898,000)	(2,898,000)
Balance at June 30, 2014	275,681,870	28,000,000	22,250,000	(412,749,137)	(86,817,267)

The annexed notes from 1 to 32 form an integral part of these financial statements.

Chairman

Managing Director

Pakistan Mercantile Exchange Limited
Statement of Cash Flows
For the year ended June 30, 2014

	Note	2014 Rupees	2013 Rupees
A. Cash flows from operating activities			
Cash generated from operations	28	(1,817,161)	39,709,093
Long-term deposits		(850,000)	150,000
Taxes paid - net		(1,347,582)	(1,292,447)
Gratuity paid	8.5	(11,372,492)	(7,454,575)
Long term prepayment		(447,216)	–
Net cash (used in) / generated from operating activities		(15,834,451)	31,112,071
B. Cash flows from investing activities			
Purchases of property and equipment	14	(15,643,409)	(10,833,053)
Purchase of intangible assets	15	(10,446,515)	(3,865,845)
Proceeds from disposal of property and equipment		68,800	887,191
Proceeds from sale of open end mutual fund units		–	65,059,576
Payment against investment in open end mutual fund units		–	(22,000,000)
Proceeds from sale of treasury bills		174,400,731	–
Payments against investment in government securities		(277,676,807)	–
Mark-up received on bank deposits		1,571,060	531,641
Net cash (used in) / generated from investing activities		(127,726,140)	29,779,510
C. Cash flows from financing activities			
Issue of right shares		85,681,750	–
Lease rentals paid		–	(890,574)
Net cash used in financing activities		85,681,750	(890,574)
Net (decrease) / increase in cash and cash equivalents **(A+B+C)**		(57,878,841)	60,001,007
Cash and cash equivalents at the beginning of the year		66,333,563	6,332,556
Cash and cash equivalents at the end of the year	22	8,454,722	66,333,563

The annexed notes from 1 to 32 form an integral part of these financial statements.

Chairman

Managing Director

Pakistan Mercantile Exchange Limited
Notes to and forming part of the Financial Statements
For the year ended June 30, 2014

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, Chaudary 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 (formerly National Commodity Exchange Limited (NCEL) 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. The base of active brokers and their clients are stable and expected to grow in future. Moreover, new products are in the process of being designed and launched for trading on the Exchange. During the year, the Exchange issued right shares of Rs. 85.68 million to existing shareholders to strengthen its equity base.

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 financial reporting standards as applicable in Pakistan. Approved financial reporting 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 staff retirement benefits are carried at present value and 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 amendments and interpretations are effective for the year ended June 30, 2014. These amendments and interpretations are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements other than certain additional disclosures.

Standards or Interpretations	Effective date (accounting periods beginning on or after)
Amendments to IAS 1 - Presentation of Financial Statements – Clarification of Requirements for Comparative information	January 01, 2013
Amendments to IAS 16 - Property, Plant and Equipment – Classification of servicing equipment	January 01, 2013
Amendments to IAS 32 Financial Instruments: Presentation - Tax effects of distributions to holders of an equity instrument, and transaction costs of an equity transaction	January 01, 2013
Amendments to IAS 34 - Interim Financial Reporting - Interim reporting of segment information for total assets and total liabilities	January 01, 2013
Amendments to IFRS 7 Financial Instruments: Disclosures - Offsetting financial assets and financial liabilities	January 01, 2013
IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine	January 01, 2013

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

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 Company's operations or are not expected to have significant impact on the Company's financial statements other than certain additional disclosures.

Standards or Interpretations	Effective date (accounting periods beginning on or after)
Amendments to IAS 19 Employee Benefits: Employee contributions	July 01, 2014
IAS 27 (Revised 2011) – Separate Financial Statements	January 01, 2015. IAS 27 (Revised 2011) will concurrently apply with IFRS 10.
IAS 28 (Revised 2011) – Investments in Associates and Joint Ventures	January 01, 2015
Amendments to IAS 32 Financial Instruments: Presentation - Offsetting financial assets and financial liabilities	January 01, 2014
IAS 36 Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets	January 01, 2014
IAS 39 Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting	January 01, 2014
IFRS 10 – Consolidated Financial Statements	January 01, 2015. Earlier adoption is encouraged.

Standards or Interpretations	Effective date (accounting periods beginning on or after)
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
IFRIC 21 - Levies	January 01, 2014

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

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

The Settlement Guarantee Fund (SGF) has been established under clause 12.1.1 of the PMEX General Regulations approved by Securities and Exchange Commission of Pakistan (SECP). SGF comprises of initial margins and clearing house deposits received from brokers / clients and is recognized and remeasured at fair value.

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 comprises 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, carry forward of unused tax credits and unused tax losses to the extent that it is probable that the temporary differences will reverse in the future and taxable income or taxable temporary differences 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

Owned

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. All expenditures connected to the 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.

Subsequent costs are included in the assets carrying amounts or recognized as a separate asset, as appropriate, only when it is probable that future 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 14 to these financial statements after taking into account residual value, if significant. The assets 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.

Leased

Assets subject to finance lease are depreciated over their expected useful lives on the same basis as owned assets.

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 15 to these financial statements. Amortization on additions and deletions of intangible assets during the year is charged in proportion to the period of use. The useful lives 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 Leases

Leases are classified as finance lease whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating lease.

Assets held under finance leases are recognized as assets of the Exchange at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as liability against assets subject to finance lease. The liabilities are classified as current and non-current depending upon the timing of payment. Lease payments are apportioned between finance charges and reduction of the liability against assets subject to finance lease so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit and loss account.

3.8 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.

3.9 Annual subscription and other receivables

Annual subscription and other receivables are 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 recognised when there is objective evidence that the Exchange will not be able to collect the amount due in accordance with the original terms of the receivable. Significant financial difficulties of the debtors, probability of debtor's bankruptcy, default or delinquency are considered as indicators that the receivable may be impaired. Balances considered bad and irrecoverable are written off when identified.

3.10 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 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 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.

3.11 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. Cash equivalents are investments readily convertible to known amount of cash and are not subject to significant change in value.

3.12 Staff retirement benefits

The Exchange operates an unfunded gratuity scheme covering all eligible employees. The liability recognized in the balance sheet in respect of defined benefit gratuity scheme is the present value of the defined benefit obligation at the balance sheet date. The defined benefit obligation is calculated by an independent actuary using the "Projected Unit Credit Method". All actuarial gains and losses are recognised in 'other comprehensive income' as they occur.

Past service costs are recognised immediately to the profit and loss account. Current service costs and net interest cost are charged to expenses.

3.13 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.

3.14 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, redeemable preference shares, long term deposits, liability of settlement guarantee fund, advance annual subscription and members admission fee, liability against assets subject to finance lease and 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.

3.15 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.

3.16 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. The 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.

3.17 Earnings per share

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of these financial statements in conformity with approved accounting standards as applicable in Pakistan, requires management to make estimates, assumptions and use judgements that affect the application of policies and reported amounts of assets and liabilities and income and expenses. Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Revisions to accounting estimates are 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, 2013.

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:

- Deferred liability - staff gratuity (note 3.12 and 8);
- Useful lives and residual values of property and equipment (note 14);
- Useful lives and residual values of intangible assets (note 3.5 and 15);
- Classification of short term investments (note 3.10 and 20);
- Recoverable amount of assets relating to 'Settlement Guarantee Fund' (note 21); and
- Taxation (note 3.3 and 26).

5. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

2014	2013		2014	2013
Number of Shares			Rupees	Rupees
27,568,187	19,000,012	Ordinary shares of Rs 10 each fully paid in cash	275,681,870	190,000,120

	2014	2013
	Number of Shares	
5.1 Reconciliation of number of ordinary shares of Rs. 10/- each		
At beginning of the year	19,000,012	19,000,012
Add: Issued during the year as right shares	8,568,175	–
At end of the year	27,568,187	19,000,012
5.2 Ordinary shares were held as at June 30 by:		
Associates		
National Bank of Pakistan	9,000,000	9,000,000
Karachi Stock Exchange Limited	8,909,052	3,636,348
Islamabad Stock Exchange Limited	5,568,181	2,272,727
Lahore Stock Exchange Limited	2,272,727	2,272,727
Others		
Pakistan Kuwait Investment Company (Private) Limited	909,090	909,090
Zarai Taraqiati Bank Limited	909,091	909,091
Others - individuals	46	29
Total	27,568,187	19,000,012

6. REDEEMABLE PREFERENCE SHARES

2014	2013		2014	2013
Number of Shares			Rupees	Rupees
1,300,000	1,300,000	National Bank of Pakistan - Associate	13,000,000	13,000,000
1,500,000	1,500,000	Pak Brunei Investment Company Limited	15,000,000	15,000,000
2,800,000	2,800,000		28,000,000	28,000,000

6.1 These represents two-years redeemable, cumulative, callable, convertible and non-participatory preference shares of Rs 10 each issued on April 04, 2012. These carry cumulative dividend at the rate of one year KIBOR (Ask price) plus 250 basis points equivalent payable annually. In April 2014, above preference shares were matured. The Exchange decided not to exercise redemption or call option. Accordingly, the conversion option became available to the preference shareholders. However, one of the preference shareholder, Pak Brunei Investment Company Limited is of the view that as the proceeds of Rs. 85.681 million (refer note 5) against right issue made by the Exchange was received before maturity date of preference shares, the same should be used for the redemption of preference shares as per the Preference Share Subscription Agreement. However, based on the legal opinion, the Exchange is of the view that as the subscription of right offer by Karachi and Islamabad Stock Exchanges would increase the cumulative shareholding of the three stock exchanges in PMEX from 43% to 60% for which concurrence of Securities and Exchange Commission of Pakistan was not available as at maturity date, the subscription money was not usable by the Exchange in any manner including for redemption of preference shares. As the conversion option has not yet been exercised by the preference shareholders, the status of preference shares is unchanged without any further accrual for dividend after maturity date.

7. LONG-TERM DEPOSITS

	Note	2014 Rupees	2013 Rupees
Security deposits from members	7.1	192,500,000	193,250,000
Clearing house deposits	7.2	2,900,000	3,000,000
		195,400,000	196,250,000

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 if the same amount is received from the incoming member subject to PMEX General Regulations.

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 subject to PMEX General Regulations.

8. DEFERRED LIABILITY - STAFF GRATUITY

	2014 Rupees	2013 Rupees
Defined benefit obligation (staff gratuity) - unfunded	45,227,574	53,966,360

8.1 The actuarial valuation of gratuity scheme was carried out as at June 30, 2014. The Projected Unit Credit Method was used for this valuation using the following significant assumptions:

	2014	2013
- Discount rate - per annum compound	13.25%	11%
- Expected rate of increase in salaries - per annum	13.25%	11%

8.2 Mortality rate

The rates assumed were based on the State Life Insurance Corporation of Pakistan SLIC (2001-05) Ultimate mortality tables.

	Note	2014 Rupees	2013 Rupees
8.3 Net Liability on Balance Sheet			
Present value of defined benefit obligation	8.4	45,227,574	53,966,360
8.4 Movement in defined benefit obligation			
Present value of defined benefit obligation as at July 01		53,966,360	48,453,368
Current service cost		7,914,018	8,920,406
Interest cost on defined benefit obligation		6,246,919	6,998,549
Benefits paid		(11,372,492)	(7,454,575)
Negative past service cost - curtailment gain		(7,638,287)	–
Remeasurements on obligations		(3,888,944)	(2,951,388)
Present value of defined benefit obligation as at June 30		45,227,574	53,966,360
8.5 Movement in net liability in the balance sheet:			
Opening balance of net liability as at July 01		53,966,360	48,453,368
Add: charge for the year	8.6	6,522,650	15,918,955
Less: payments made during the year		(11,372,492)	(7,454,575)
Net remeasurement for the year		(3,888,944)	(2,951,388)
Closing balance of net liability as at June 30		45,227,574	53,966,360

8.6 The following amounts have been recognised in the profit and loss account in respect of the gratuity scheme:

	Note	2014	2013
Current service cost		7,914,018	8,920,406
Net interest cost		6,246,919	6,998,549
Negative past service cost - curtailment gain		(7,638,287)	–
	24	6,522,650	15,918,955

	2014 Rupees	2013 Rupees
8.7 Remeasurements recognised in Other Comprehensive Income during the year		
Actuarial gains and losses on obligation		
Changes in financial assumptions	685,825	(604,342)
Changes in demographic assumptions	(675,278)	–
Experience	(3,899,491)	(2,347,046)
	(3,888,944)	(2,951,388)

8.8 The Board in its meeting dated May 29, 2014 approved to replace the existing gross salary based defined benefit unfunded gratuity scheme with a funded defined contribution gratuity scheme having contribution @ 8% of 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, which are expected to be operative from October 01, 2014. In continuation to this approved change in staff retirement benefits scheme, the Board also decided to change the structure of gratuity benefits of the existing scheme. Thus, computation of staff retirement liability by the actuary under the existing unfunded gratuity scheme is determined on the basis of revised benefits structure and due to this change in benefits structure and expected discontinuation of existing defined benefit unfunded gratuity scheme, net curtailment gain of Rs. 7.64 million is recognized in the profit and loss account for the current year.

8.9 Expected contribution to the scheme for the period ending September 30, 2014 is Rs. 1.838 million.

9. SETTLEMENT GUARANTEE FUND

	Note	2014 Rupees	2013 Rupees
Clearing house deposits relating to brokers	9.1	119,140,608	162,332,976
Initial margins - relating to brokers and clients			
As cash	9.1	775,945,997	1,251,881,032
As gold	9.1	263,873,480	235,635,084
		1,039,819,477	1,487,516,116
		1,158,960,085	1,649,849,092

9.1 The Settlement Guarantee Fund has been applied as follows:

	Note	2014 Rupees	2013 Rupees
i) Clearing house deposits			
Saving / current accounts		188,267	12,687,582
Investment in Treasury Bills	9.1.1	23,753,900	149,645,394
Investment in Pakistan Investment Bonds (PIBs)	9.1.2	90,534,889	–
Accrued markup paid on purchase of PIBs		3,027,068	–
Accrued markup on PIBs and saving accounts		1,636,484	–
		119,140,608	162,332,976
ii) Initial margins			
- Cash and investments			
Saving / current accounts / pay orders in hand		1,392,420	58,738,421
Investment in Treasury Bills	9.1.1	–	1,193,106,611
Investment in Pakistan Investment Bonds (PIBs)	9.1.2	736,630,005	–
Accrued markup paid on purchase of PIBs		25,010,213	–
Accrued markup on PIBs and saving accounts		12,877,359	–
Security deposit / prepayments - Locker (Gold)		36,000	36,000
		775,945,997	1,251,881,032
- Gold			
Gold relating to brokers and clients		263,873,480	235,635,084
		1,039,819,477	1,487,516,116
Settlement Guarantee Fund contributed by brokers and clients		1,158,960,085	1,649,849,092

9.1.1 The aggregate cost of these treasury bills is Rs. 23.811 million (2013: Rs. 1,343.74 million). These Treasury Bills carry markup rate ranging from 9.99% (2013: 9.13% to 9.43%) per annum and will mature on January 08, 2015.

9.1.2 The aggregate cost of investment in PIBs is Rs. 828.629 million (2013 : Nil). These PIBs carry markup rate of 11.25% and will mature on July 18, 2016.

9.2 As required by the PMEX General Regulations (the Regulations), as part of risk management measures to guarantee timely performance of financial obligation entered into on the Exchange being central counter party to each contract and to maintain the integrity of the clearing and settlement system, the Exchange has established a 'Settlement Guarantee Fund'. All clearing house deposits of trading members and margins are accounted for as part of the 'Settlement Guarantee Fund'. 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, the Exchange will utilize the Settlement Guarantee Fund and other monies of the broker to the extent necessary to fulfill his obligations as specified under the Regulations.

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.

9.3 The income/ profit/ gain resulting from investment of initial margin / clearing house deposits is distributed monthly among the brokers and clients on daily product basis after charging the management fee of 2% (June 30, 2013: 2%) per annum. However, from March 01, 2014, the Exchange decided to distribute income to brokers and clients at 50 basis points below the minimum bank profit rate on average monthly balance of the 'Settlement Guarantee Fund'.

10. ADVANCE ANNUAL SUBSCRIPTION AND OTHER FEE

	Note	2014 Rupees	2013 Rupees
Advance annual subscription fee		5,075,000	6,650,000
Advance transfer fee		750,000	750,000
Technology fee		69,039	107,470
Others		–	91,667
		5,894,039	7,599,137

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. CREDITORS, ACCRUED EXPENSES AND OTHER LIABILITIES

	Note	2014 Rupees	2013 Rupees
Creditors		1,707,280	2,178,588
Accrued expenses	12.1	9,600,305	2,066,021
Withholding tax payable		891,947	519,772
Payable to Investor Protection Fund Trust		158,372	135,662
Payable to market makers		28,476,165	18,744,644
Accrued finance cost		–	3,862,000
SECP fee payable	12.2	5,042,081	902,432
Other liabilities	12.3	5,439,012	5,209,476
		51,315,162	33,618,595

12.1 This includes directors' fee amounting to Rs. 80,000 (2013: Rs. 580,000).

12.2 This includes SECP transaction fee and supervision fee of Rs. 2,837,130 (2013: Rs. 902,432) and Rs. 2,204,951 (2013: Nil) respectively.

12.3 This includes reimbursement of travelling and conveyance expenses to directors amounting to Rs. 321,058 (2013: Rs.616,075).

13. CONTINGENCIES AND COMMITMENTS

13.1 Income tax

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

13.1.1 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 favour of the Exchange. Accordingly, no provision is made in these financial statements.

13.1.2 Tax years 2005 and 2006

For 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 favour of the Exchange. Accordingly, no provision is made in this regard in these financial statements.

13.1.3 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 favour of the Exchange. Accordingly, no provision is made in this regard in these financial statements.

13.2 Contingent asset

As explained in note 16.1, recognition of offices as assets is contingent upon the completion of the project and allotment of offices and shares by NCEL Building Management Limited to the Exchange.

	2014 Rupees	2013 Rupees
13.3 Commitments		
Commitments in respect of capital expenditure and services	17,596,743	2,897,195

	2014 Rupees	2013 Rupees
14. PROPERTY AND EQUIPMENT		
Operating assets (note 14.1)	20,194,977	13,879,408
Capital work-in-progress (note 14.2)	3,598,500	462,412
	23,793,477	14,341,820

14.1 Operating Assets

	Owned						Leasehold	
	Leasehold improvements	Furniture and fittings	Office equipment	Electrical equipment	Computer equipment	Motor vehicles	Motor vehicles	Total
	Rupees							
As at July 1, 2012								
Cost	3,036,720	3,362,505	1,810,392	7,934,680	37,183,163	–	3,203,000	56,530,460
Accumulated depreciation	(2,939,439)	(3,138,661)	(1,615,103)	(5,825,004)	(34,261,589)	–	(1,139,884)	(48,919,680)
Net book value	97,281	223,844	195,289	2,109,676	2,921,574	–	2,063,116	7,610,780
For the year ended June 30, 2013								
Opening net book value	97,281	223,844	195,289	2,109,676	2,921,574	–	2,063,116	7,610,780
Additions during the year	730,782	14,000	948,125	1,539,096	8,619,644	–	–	11,851,647
Disposals during the year								
Cost	–	–	–	968,630	–	–	3,203,000	4,171,630
Accumulated depreciation	–	–	–	(968,630)	–	–	(1,353,411)	(2,322,041)
	–	–	–	–	–	–	(1,849,589)	(1,849,589)
Depreciation for the year	(59,102)	(92,802)	(151,950)	(837,325)	(2,378,724)	–	(213,527)	(3,733,430)
Closing net book value	768,961	145,042	991,464	2,811,447	9,162,494	–	–	13,879,408
As at June 30, 2013								
Cost	3,767,502	3,376,505	2,758,517	8,505,146	45,802,807	–	–	64,210,477
Accumulated depreciation	(2,998,541)	(3,231,463)	(1,767,053)	(5,693,699)	(36,640,313)	–	–	(50,331,069)
Net book value	768,961	145,042	991,464	2,811,447	9,162,494	–	–	13,879,408

	Owned						Leasehold	
	Leasehold improvements	Furniture and fittings	Office equipment	Electrical equipment	Computer equipment	Motor vehicles	Motor vehicles	Total
	---- Rupees ----							
For the year ended June 30, 2014								
Opening net book value	768,961	145,042	991,464	2,811,447	9,162,494	–	–	13,879,408
Additions during the year	–	–	70,901	875,041	5,583,439	5,977,940	–	12,507,321
Disposals during the year								
Cost	–	–	245,233	35,800	1,517,713	–	–	1,798,746
Accumulated depreciation	–	–	(245,233)	(35,800)	(1,503,278)	–	–	(1,784,311)
	–	–	–	–	(14,435)	–	–	(14,435)
Depreciation for the year	(160,924)	(42,264)	(219,735)	(1,009,222)	(3,948,113)	(797,059)		(6,177,317)
Closing net book value	608,037	102,778	842,630	2,677,266	10,783,385	5,180,881	–	20,194,977
As at June 30, 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
Rate of depreciation (%)	20	20	20	20	25	20	20	

	2014 Rupees	2013 Rupees
14.2 Capital work-in-progress		
Advance for capital expenditure	3,598,500	462,412

14.3 Included in cost of property and equipment are fully depreciated assets still in use aggregating to Rs.44,655,896 (2013: Rs.44,978,404).

	Note	2014 Rupees	2013 Rupees
15. Intangible Assets - computer softwares			
Gross carrying value			
Cost		29,954,759	19,508,244
Accumulated amortization		(17,294,129)	(13,748,253)
Net carrying value		12,660,630	5,759,991
Opening net book value		5,759,991	3,605,385
Additions during the year		10,446,515	3,865,845
Amortization for the year		(3,545,876)	(1,711,239)
Closing net book value		12,660,630	5,759,991
Rate of amortization (%)		25	25
16. Investment in associates - at cost			
NCEL Building Management Limited (1 share of Rs.10)	16.1	10	10
Pakistan Institute of Capital Markets (200 shares of Rs.5000 each)	16.2		
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.

16.1 The Exchange, during 2003-04, received advances of Rs. 645.2 million from its contributing members (Rs. 2.5 million against each office space) for the acquisition of Old Hyatt Regency Hotel Building (the Building) on Pakistan Railway land in Karachi. The Building, along with certain equipment, were 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 and physical possession 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 lease hold 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 entered 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.

16.2 The Exchange holds 2.63% (2013: 2.63%) ordinary shares of the Institute and a permanent seat on the board of directors of the Pakistan Institute of Capital Markets.

	Note	2014 Rupees	2013 Rupees
17. SUPPLIES AND CONSUMABLES			
Universal Serial Bus (USB) keys	17.1	93,124	330,042

17.1 To provide secured direct online access, the Exchange issues USB keys with identity recognition software. The staff of the Exchange as well as all market participants require this for direct access to the systems. During the year, USB keys costing Rs. 236,918 (2013: Rs. 245,042) were issued.

18. DEPOSITS AND SHORT-TERM PREPAYMENTS

	2014	2013
Security deposits	2,555,502	1,544,300
Prepaid expenses	4,722,662	2,736,626
	7,278,164	4,280,926

19. OTHER RECEIVABLES

- Considered good

	2014	2013
Receivable against accounting and other services from NCEL Building Management Limited	1,168,925	1,068,925
Accrued markup paid on purchase of PIBs	4,959,863	–
Technology fee from members	989,045	1,233,668
Accrued markup on PIBs and saving accounts	898,767	–
Others	661,121	326,031
	8,677,721	2,628,624

20. SHORT TERM INVESTMENTS

Fair value through profit and loss

	Note	2014	2013
Investments in Pakistan Investment Bonds (PIBs)	20.1	107,513,682	–

20.1 The Exchange held investments in three years Pakistan Investment Bonds (PIBs) having carrying value of Rs. 107,358,956 (2013: Nil). These PIBs carry markup rate of 11.25% and will mature on July 18, 2016.

21. ASSETS RELATING TO SETTLEMENT GUARANTEE FUND

	Note	2014	2013
Cash and bank balances	22	1,580,687	71,426,003
Investments	21.1	850,918,794	1,342,752,005
Gold	9.1 & 21.2	263,873,480	235,635,084
Accrued markup paid on purchase of PIBs	9.1	28,037,281	–
Accrued markup on PIBs and saving accounts	9.1	14,513,843	–
Security deposit - Lockers	9.1	36,000	36,000
		1,158,960,085	1,649,849,092

	Note	2014 Rupees	2013 Rupees
21.1 Investments			
At fair value through profit or loss			
Investment in Treasury Bills and PIBs			
- For clearing house deposits	9.1	114,288,789	149,645,394
- For initial margins	9.1	736,630,005	1,193,106,611
		850,918,794	1,342,752,005

21.2 Gold - at market value

	Note	2014	2013
Gold held on behalf of members / clients	9.1	263,873,480	235,635,084

This represents physical gold held on behalf of brokers and clients.

22. CASH AND BANK BALANCES

	Note	2014	2013
With banks			
- in current accounts		1,548,831	5,063,635
- in saving accounts	22.1	8,474,093	132,694,801
		10,022,924	137,758,436
Cash in hand		12,485	1,130
		10,035,409	137,759,566
Less: Cash and bank balances relating to Settlement Guarantee Fund			
With banks			
- in current accounts		1,057,615	4,888,570
- in saving accounts		523,072	66,537,433
	21	(1,580,687)	(71,426,003)
Relating to the Exchang		8,454,722	66,333,563

22.1 These accounts carry mark up at the rate of 7% per annum (2013: 6% to 7%)

23. OPERATING INCOME

	2014	2013
Entrance fee	3,500,000	5,750,000
Annual membership fee	16,750,000	17,062,500
Trading fee	103,602,007	114,356,160
Fee for membership transfer and issuance of certificates	1,410,000	2,410,000
Application fee	–	20,000
	125,262,007	139,598,660

24. ADMINISTRATIVE AND OPERATING EXPENSES

	Note	2014 Rupees	2013 Rupees
Salaries and benefits	24.1 & 24.2	100,858,029	92,752,613
Gratuity expense	8.6	6,522,650	15,918,955
Directors' fee		1,090,000	800,000
Depreciation	14	6,177,317	3,733,436
Amortization	15	3,545,876	1,711,239
Communication		11,252,155	8,287,174
Utilities		5,589,311	4,020,671
Legal and professional		3,107,523	1,121,321
Rent		5,834,820	4,540,133
Repairs and maintenance		3,943,238	2,836,990
Market making / liquidity expenses		9,925,611	10,899,015
Travelling and conveyance			
- Employees and others		713,881	1,423,897
- Directors		822,707	649,404
		1,536,588	2,073,301
Fee and subscription		4,638,263	5,248,952
Security services		1,280,510	878,400
Insurance		1,435,027	1,188,249
SECP fee	24.3	9,850,548	11,603,118
Auditors' remuneration	24.4	485,000	484,000
Marketing expense		5,093,256	2,718,239
Printing and stationery		450,037	382,872
Entertainment		675,749	635,947
		183,291,508	171,834,625

24.1 Total number of employees as at June 30, 2014 is 69 (June 30, 2013: 53). Average number of employees during the year ended June 30, 2014 is 62 (June 30, 2013: 52)

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

	2014	2013
	Managing Director	
	---------Rupees---------	
Managerial remuneration	8,835,800	12,329,019
Bonus	2,000,000	3,000,000
Retirement benefits - Provision for gratuity	398,460	2,598,607
Others	336,000	767,192
Sale of vehicles to outgoing MD having book value of Rs.1,849,586 for	–	740,185
	11,570,260	19,435,003
Number of persons	2	2

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

	Note	2014 Rupees	2013 Rupees
24.3 SECP fee			
Transaction fee	24.3.1	7,645,597	11,603,118
Supervision fee	24.3.2	2,204,951	–
		9,850,548	11,603,118

24.3.1 This represents fee of the Securities and Exchange Commission of Pakistan at the rate of 10% of trading fee of the Exchange. Effective from March 03, 2014, the SECP transaction Fee is charged from traders.

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

	Note	2014 Rupees	2013 Rupees
24.4 Auditors' remuneration			
Annual audit fee		302,500	302,500
Fee for review of:			
Half yearly financial information		121,000	121,000
Code of Corporate Governance		24,200	24,200
Out of pocket expenses		37,300	36,300
		485,000	484,000

25. OTHER INCOME - NET

	Note	2014 Rupees	2013 Rupees
Income from financial assets:			
Mark-up on bank deposits		1,919,964	531,641
Mark-up on government securities		4,635,779	–
Unrealized gain on remeasurement of investment at fair value through profit or loss		154,726	–
Realized (loss) / gain on sale of investment at fair value through profit or loss		(3,036)	3,793,732
Income from non - financial assets:			
Income from IT related services		4,625,379	4,531,404
Fee for accounting and other services to NCEL Building Management Ltd.		1,200,000	1,200,000
Management fee on Settlement Guarantee Fund	25.1	28,051,815	30,963,390
Gain / (loss) on disposal of property and equipment		54,365	(962,398)
Gain on sale of USB keys		413,082	674,725
Advertisement income		1,515,000	1,676,000
Gold vault charges		1,810,337	1,359,764
Others		2,285,962	942,931
		46,663,373	44,711,189

25.1 The fee is charged by the Exchange in compliance with Regulation No. 4.5 of the PMEX General Regulations.

	Note	2014 Rupees	2013 Rupees

26. TAXATION

	Note	2014 Rupees	2013 Rupees
Current - for the year	26.1	1,713,701	889,847
- prior year		14,887	(1,325,229)
		1,728,588	(435,382)

26.1 The provision for current income tax is based on minimum taxation under section 113 of the Income Tax Ordinance, 2001. Accordingly reconciliation of tax expense with the accounting profit is not presented.

26.2 The Exchange has not recognised deferred tax debit balance amounting to Rs. 165.607 million as at June 30, 2014 (June 30, 2013: Rs 164.14 million) on net deductible temporary differences aggregating to Rs. 470.937 million as at June 30, 2014 (2013: Rs. 481.05 million) as a matter of prudence. These net deductible temporary differences arise on normal business losses, unused tax depreciation, provision for staff gratuity and minimum tax aggregating to Rs. 371.048 million, Rs. 61.796 million, Rs. 45.227 million and Rs. 1.713 million respectively net of taxable temporary difference of Rs. 8.85 million representing difference between tax base and carrying value of property and equipment.

The break-up of unused tax losses and unabsorbed depreciation alongwith expiry dates are stated below:

Tax Year	Normal business loss (Rupees)	Unabsorbed depreciation (Rupees)	Year of expiry of normal business loss
Tax Year 2008	–	27,777,782	
Tax Year 2009	141,502,657	9,623,315	Tax Year 2015
Tax Year 2010	96,467,828	7,560,442	Tax Year 2016
Tax Year 2011	87,098,676	2,433,061	Tax Year 2017
Tax Year 2012	43,310,093	4,298,248	Tax Year 2018
Tax Year 2014	2,669,105	10,102,793	Tax Year 2020
	371,048,359	61,795,641	
Total unused tax losses		432,844,000	

27. EARNINGS PER SHARE

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

27.1 Basic earnings per share

		2014 Rupees	2013 Rupees
(Loss) / profit for the year		(13,185,613)	12,759,264
Dividend on preference shares		(2,898,000)	(3,967,998)
(Loss) / profit attributable to ordinary shareholders		(16,083,613)	8,791,266
Weighted average number of ordinary shares	Number	19,422,552	19,000,012
Earnings per share		(0.83)	0.46

27.2 Diluted earnings per share

		2014	2013
(Loss) / profit for the year		(13,185,613)	12,759,264
Weighted average number of ordinary shares	Number	19,422,552	19,000,012
Weighted average number of notionally convertible preference shares	Number	2,800,000	2,800,000
		22,222,552	21,800,012
Diluted earnings per share		(0.59)	0.59
Diluted earnings per share restricted to (note 27.2.1)		(0.83)	0.46

27.2.1 The effect of the conversion of the preference shares into ordinary shares is anti-dilutive, accordingly the diluted EPS is restricted to basic EPS.

28. CASH GENERATED FROM OPERATIONS

	Note	2014 Rupees	2013 Rupees
(Loss) / profit before taxation		(11,457,025)	12,323,882
Adjustments for non cash charges and other items:			
Depreciation		6,177,317	3,733,436
Amortization		3,545,876	1,711,239
Finance cost		–	64,649
Provision for gratuity		6,522,650	15,918,955
Unrealized gain on remeasurement of investment at fair value through profit or loss		(154,726)	–
Realized loss / (gain) on investment at fair value through profit or loss		3,036	(3,793,732)
Mark-up on government securities		(4,635,779)	–
Mark-up on bank deposits		(1,919,964)	(531,641)
(Gain) / loss on disposal of property and equipment		(54,365)	962,398
Working capital changes	28.1	155,819	9,319,907
		(1,817,161)	39,709,093

28.1 Working capital changes

	2014	2013
Decrease / (increase) in current assets		
Supplies and consumables	236,918	(281,525)
Annual subscription receivable	(3,675,000)	(1,225,000)
Deposits and short-term prepayments	(2,997,238)	(569,716)
Other receivables	(5,150,330)	(827,225)
	(11,585,650)	(2,903,466)
(Decrease) / increase in current liabilities		
Advance annual subscription and other fee	(1,705,098)	(749,828)
Advance member admission fee	(4,250,000)	4,250,000
Creditors, accrued and other liabilities	17,696,567	8,723,201
	155,819	9,319,907

29. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

29.1 FINANCIAL INSTRUMENTS BY CATEGORY

	2014 Rupees	2013 Rupees
Financial assets as per balance sheet		
Fair value through profit or loss		
- Exchange's investment in government securities - PIBs	107,513,682	
- Settlement Guarantee Fund's investments	850,918,794	1,342,752,005
- Accrued markup in Settlement Guarantee Fund	42,551,124	
Loans and receivables		
- Annual subscription receivable -considered good	7,725,000	4,050,000
- Deposits	2,555,502	1,544,300
- Other receivables	8,677,721	2,628,624
- Assets relating to settlement guarantee fund other than investments at fair value through profit or loss	1,616,687	71,462,003
- Cash and bank balances	8,454,722	66,333,563
	1,030,013,232	1,488,770,495
Financial liabilities as per balance sheet		
Financial liabilities measured at amortized cost		
- Long-term deposits	195,400,000	196,250,000
- Dividend on preference shares	7,638,398	4,740,398
- Settlement guarantee fund	895,086,605	1,414,214,008
- Creditors, accrued expenses and other liabilities	50,327,215	32,992,623
	1,148,452,218	1,648,197,029

29.1.1 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 Pakistan Investment Bonds (PIBs) amounting to Rs. 107.51 million (June 2013: Nil), investments held on account of 'Settlement Guarantee Fund' in PIBs amounting to Rs. 827.165 million (2013: Rs. Nil million) and treasury bills of Rs. 23.754 million (2013: Rs. 1,342.75 million) which are valued under Level 2 valuation method. The Exchange does not have any investment valued under Level 1 or Level 3 category.

29.2 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:

29.2.1 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 investments made out of Settlement Guarantee fund (refer note 21).

(a) **Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate 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, 2013, 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. 1,349,036 (2013: Rs. 280,000) 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:

	Carrying Amount	
	2014 Rupees	2013 Rupees
Fixed rate instruments		
Financial assets		
- Exchange's saving bank accounts	7,951,021	66,157,368
- Settlement Guarantee Fund's saving bank accounts	523,072	66,537,433
- Exchange's investment in PIBs	107,513,682	–
- Settlement Guarantee Fund's investment in PIBs	827,164,894	–
	943,152,669	132,694,801

(b) **Currency risk**

Foreign currency risk arises mainly where receivables and payables exist due to transactions with foreign undertakings. However, the Exchange is not exposed to any foreign currency risk.

(c) Other price risk

As at June 30, 2014, the Exchange is not exposed to other price risk.

29.2.2 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
KASB Bank Limited *	PACRA	A3	BBB
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-3	A-
United Bank Limited	JCR-VIS	A-1+	AA+

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

29.2.3 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 profitable operations in future. 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 21).

Following are the contractual maturities of financial liabilities.

	2014		
	Carrying amount / contractual cash flow	Maturity up to one year	Maturity after one year
	-------------------- Rupees --------------------		
Financial liabilities			
Long-term deposits	195,400,000	-	195,400,000
Dividend on preference shares	7,638,398	7,638,398	-
Settlement guarantee fund	895,086,605	895,086,605	-
Creditors, accrued expenses and other liabilities	50,327,215	50,327,215	-
	1,148,452,218	953,052,218	195,400,000

	2013		
	Carrying amount / contractual cash flow	Maturity up to one year	Maturity after one year
	-------------------- Rupees --------------------		
Financial liabilities			
Long-term deposits	196,250,000	-	196,250,000
Dividend on preference shares	4,740,398	4,740,398	-
Settlement guarantee fund	1,414,214,008	1,414,214,008	-
Creditors, accrued expenses and other liabilities	32,992,623	32,992,623	-
	1,648,197,029	1,451,947,029	196,250,000

29.3 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 and clearing house deposits received from the members are treated as debt for the purposes of risk management. Details of the Exchange's capital (both ordinary and preference share capital) are stated in note 5 and note 6 to these financial statements.

30. 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:

Relationship with Exchange	Nature of transaction	2014 Rupees	2013 Rupees
Associated undertakings	Dividend on preference shares	1,345,500	3,967,998
	Receipt of fee for accounting and other services	1,200,000	1,200,000
	Payment to Investor Protection Fund Trust	3,221,005	4,554,973
	Deposit of annual subscription	50,000	50,000
	Receipt of deposit against initial margin	9,125,285	16,096,555
	Repayment of deposit against initial margin	11,365,265	15,598,569
	Receipt of clearing house deposit	200,000	1,250,000
	Repayment of deposit against clearing house deposit	1,495,249	1,350,000
	Technology fee	84,000	42,000
	Research fee	25,000	–
Directors	Directors' meeting fee	1,090,000	800,000
Key management personnel	Salaries and benefits	34,879,904	32,926,850
(excluding Managing Director)	Post employment benefits	5,301,212	5,778,885

30.1 Certain key management personnel are also provided with fixed education and medical allowances in accordance with their employment contracts.

30.2 The outstanding balances with related parties as at June 30, 2014 are included in the respective notes to the financial statements.

30.3 The remuneration to the Managing Director is disclosed in note 24.2 to the financial statements.

31. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorized for issue on September 16, 2014 by the Board of Directors of the Exchange.

32. GENERAL

Figures have been rounded off to the nearest Rupee.

Chairman

Managing Director

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 27, 2014 or at any adjournment thereof.

Signed by me on this ________ day of ____________ 2014.

____

Signature of Appointer

(Revenue stamp of Rs. 5/-)

____

Signature of Proxy

WITNESS 1:

Signature:____________________

Name: ____________________

CNIC No.:____________________

WITNESS 2:

Signature:____________________

Name: ____________________

CNIC No.:____________________

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