



KPMG Taseer Hadi & Co.
Chartered Accountants

**AL Habib Capital Markets (Private)
Limited**

**Financial Statements
For the year ended 30 June 2016**



KPMG Taseer Hadi & Co.
Chartered Accountants
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Auditors' Report to the Members

We have audited the annexed Balance Sheet of **AL Habib Capital Markets (Private) Limited** ("the Company") as at 30 June 2016 and the related profit and loss account, statement of comprehensive income, 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 Company'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 Company 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 except for the changes, as stated in note 5.1, with which we concur;
 - ii) the expenditure incurred during the year was for the purpose of the Company's business; and
 - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;
- 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, statement of comprehensive income, 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 Company's affairs as at 30 June 2016 and of the loss, its cash flows and changes in equity for the year then ended; and



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- d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

Date: 6 October 2016

Karachi

KPMG Taseer Hadi & Co.

**KPMG Taseer Hadi & Co.
Chartered Accountants
Muhammad Taufiq**

AL Habib Capital Markets (Private) Limited

Balance Sheet

As at 30 June 2016

	Note	2016	2015
		(Rupees)	
ASSETS			
NON-CURRENT ASSETS			
Property and equipment	6	9,693,866	9,156,320
Intangible assets	7	15,135,125	15,212,000
Long term investments	8	40,378,391	40,378,391
Long term loans, advances and deposits	9	8,627,081	8,399,240
Deferred tax asset - net	10	3,853,511	5,336,734
		<u>77,687,974</u>	<u>78,482,685</u>
CURRENT ASSETS			
Short term investments	11	220,070,056	219,187,301
Trade debts	12	44,668,069	66,088,686
Loans and advances	13	932,720	108,261
Deposits and prepayments	14	6,220,738	23,287,551
Other receivables	15	7,419,196	7,312,056
Taxation - net	24.2	19,392,570	18,744,704
Cash and bank balances	16	36,086,168	46,774,136
		<u>334,789,517</u>	<u>381,502,695</u>
		<u>412,477,491</u>	<u>459,985,380</u>
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Issued, subscribed and paid-up capital	17	300,000,000	300,000,000
Unappropriated profit		38,839,931	44,469,352
Unrealised gain on re-measurement of available-for-sale investments		15,914,548	15,177,126
		<u>354,754,479</u>	<u>359,646,478</u>
CURRENT LIABILITIES			
Short term borrowing	18	2,740,038	-
Trade payables, accrued expenses and other liabilities	19	54,715,819	99,419,917
Sales tax and FED payable		267,155	918,985
		<u>57,723,012</u>	<u>100,338,902</u>
		<u>412,477,491</u>	<u>459,985,380</u>
CONTINGENCIES AND COMMITMENTS			
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The annexed notes 1 to 34 form an integral part of these financial statements.

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 Chairman


 Chief Executive

AL Habib Capital Markets (Private) Limited
Profit and Loss Account
For the year ended 30 June 2016

	Note	2016	2015
		----- (Rupees) -----	
INCOME			
Brokerage revenue		26,013,149	39,092,957
Share subscription income		156,456	3,018,239
Dividend income		6,709,738	4,586,469
Interest income from Pakistan Investment Bonds		16,858,264	14,796,960
Profit on saving and deposit accounts		810,930	3,730,863
Gain on sale of investments		5,007,098	2,652,664
Other income	21	<u>584,239</u>	<u>341,785</u>
		<u>56,139,874</u>	<u>68,219,937</u>
EXPENSES			
Administrative expenses	22	<u>(51,148,104)</u>	<u>(54,750,328)</u>
Provision for impairment on available-for-sale investments		<u>(5,030,044)</u>	-
Finance cost	23	<u>(390,589)</u>	<u>(695,378)</u>
		<u>(56,568,737)</u>	<u>(55,445,706)</u>
(LOSS) / PROFIT BEFORE TAXATION		<u>(428,863)</u>	<u>12,774,231</u>
Taxation - current	24	<u>(3,952,922)</u>	<u>(4,065,058)</u>
- deferred	10	<u>(1,247,636)</u>	<u>(1,650,806)</u>
		<u>(5,200,558)</u>	<u>(5,715,864)</u>
(LOSS) / PROFIT FOR THE YEAR		<u>(5,629,421)</u>	<u>7,058,367</u>
(Loss) / earnings per share - basic and diluted	25	<u>(0.188)</u>	<u>0.235</u>

The annexed notes 1 to 34 form an integral part of these financial statements.

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Chairman


Chief Executive

AL Habib Capital Markets (Private) Limited

Statement of Comprehensive Income

For the year ended 30 June 2016

	2016	2015
	----- (Rupees) -----	
(Loss) / profit for the year	(5,629,421)	7,058,367
Other comprehensive income		
<i>Items to be reclassified to profit or loss in subsequent periods</i>		
Unrealised gain on re-measurement of available-for-sale investments - net of tax	737,422	15,022,317
Total comprehensive income for the year	<u>(4,891,999)</u>	<u>22,080,684</u>

The annexed notes 1 to 34 form an integral part of these financial statements.

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Chairman


Chief Executive

AL Habib Capital Markets (Private) Limited

Cash Flow Statement

For the year ended 30 June 2016

Note	2016	2015
	----- (Rupees) -----	
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss) / profit before taxation	(428,863)	12,774,231
Adjustment for:		
Depreciation	1,288,268	1,493,260
Amortisation	217,875	392,320
Provision for impairment on available-for-sale investments	5,030,044	-
Finance cost	390,589	695,378
Amortisation on Pakistan Investment Bonds	(295,658)	(1,034,064)
(Gain) / loss on disposal of property and equipment	(365,749)	11,167
Gain on sale of investments	(5,007,098)	(2,652,664)
	<u>1,258,271</u>	<u>(1,094,603)</u>
Operating profit before working capital changes	829,408	11,679,628
Decrease / (increase) in operating assets		
Trade debts	21,420,617	(43,406,659)
Loans and advances	(824,459)	19,714,652
Deposits and prepayments	17,066,813	17,473,509
Other receivables	(107,140)	(5,539,947)
	<u>37,555,831</u>	<u>(11,758,445)</u>
	38,385,239	(78,817)
(Decrease) / increase in operating liabilities		
Trade payables, accrued expenses and other liabilities	(44,704,098)	34,188,243
Sales tax and FED payable	(651,830)	115,575
	<u>(45,355,928)</u>	<u>34,303,818</u>
Net cash (used in) / generated from operations	(6,970,689)	34,225,001
Finance cost paid	(522,334)	(584,906)
Tax paid	(4,600,788)	(5,857,110)
	<u>(5,123,122)</u>	<u>(6,442,016)</u>
Net cash (used in) / generated from operating activities	(12,093,811)	27,782,985
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments made during the year	(97,753,644)	(241,951,340)
Investments disposed off during the year	98,344,647	52,523,576
Sale proceeds from disposal of property and equipment	541,143	20,000
Additions to property and equipment	(2,001,208)	(300,500)
Additions to intangible assets	(141,000)	-
Long term loans to employees	(174,133)	(70,651)
Long term deposits paid	(150,000)	1,338,762
Net cash used in investing activities	(1,334,195)	(188,440,153)
	<u>(13,428,006)</u>	<u>(160,657,168)</u>
Net decrease in cash and cash equivalents during the year	46,774,136	207,431,304
Cash and cash equivalents at beginning of the year	33,346,130	46,774,136
Cash and cash equivalents at end of the year	33,346,130	46,774,136

The annexed notes 1 to 34 form an integral part of these financial statements.

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Chairman


Chief Executive

AL Habib Capital Markets (Private) Limited
Statement of Changes in Equity
For the year ended 30 June 2016

	Issued, subscribed and paid-up capital	Unappropriated profit	Unrealised gain on re- measurement of available-for- sale investments	Total
----- (Rupees) -----				
Balance as at 1 July 2014	300,000,000	37,410,985	154,809	337,565,794
<i>Total comprehensive income for the year</i>				
Profit for the year ended 30 June 2015	-	7,058,367	-	7,058,367
<i>Other comprehensive income</i>				
Unrealised gain on re-measurement of available-for-sale investments - net of tax	-	-	15,022,317	15,022,317
Total comprehensive income for the year	-	7,058,367	15,022,317	22,080,684
Balance as at 30 June 2015	300,000,000	44,469,352	15,177,126	359,646,478
<i>Total comprehensive income for the year</i>				
Loss for the year ended 30 June 2016	-	(5,629,421)	-	(5,629,421)
<i>Other comprehensive income</i>				
Unrealised gain on re-measurement of available-for-sale investments - net of tax	-	-	737,422	737,422
Total comprehensive income for the year	-	(5,629,421)	737,422	(4,891,999)
Balance as at 30 June 2016	300,000,000	38,839,931	15,914,548	354,754,479

The annexed notes 1 to 34 form an integral part of these financial statements.

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Chairman


Chief Executive

AL Habib Capital Markets (Private) Limited

Notes to the Financial Statements

For the year ended 30 June 2016

1 LEGAL STATUS AND NATURE OF BUSINESS

AL Habib Capital Markets (Private) Limited (the Company) was incorporated in Pakistan on 23 August 2005 as a private limited company under the Companies Ordinance, 1984 and started operations from 14 December 2005. The Company is a subsidiary of Bank AL Habib Limited (the Holding Company) which holds 66.67% of the shares of the Company. The registered office of the Company is located at Technocity, Hasrat Mohani Road, Pakistan. The Company is a corporate member of the Pakistan Stock Exchange Limited and principally engaged in the business of stocks broking. Other activities includes investment in a mix of listed and unlisted equity securities, economic research and advisory services.

2 BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. Wherever the requirements of Companies Ordinance, 1984 or directives issued there under differ with the requirements of IFRS and IFAS, the requirements of the Companies Ordinance, 1984 and said directives shall prevail.

2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention except for available-for-sale investments, that are carried at fair value as referred in note 5.6 below.

2.3 Functional and presentation currency

These financial statements are presented in Pak Rupees, which is also the functional currency of the Company and rounded off to the nearest Rupee.

3 USE OF ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses.

The estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Revision to accounting estimates are recognised prospectively commencing from the period of revision. Areas where judgments and estimates made by the management that may have a significant effect on the amounts recognised in the financial statements are included in the following notes.

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- Residual value and useful lives of property and equipments (Note 5.2 and 6)
- Residual value and useful lives of intangible assets (Note 5.4 and 7)
- Classification, valuation and impairment of available for sale investments (Note 5.7 and 11)
- Provision for impairment of receivable from customers and other receivables (Note 5.7)
- Provision for impairment of financial and non - financial assets (Note 5.7)
- Recognition of taxation and deferred tax (Note 5.11, 10 and 24)
- Provision for compensated absences (Note 5.13.2 and 19)

4 NEW ACCOUNTING STANDARDS AND IFRIC INTERPRETATIONS THAT ARE NOT YET EFFECTIVE

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 01 July 2016:

- Amendments to IAS 38 'Intangible Assets' and IAS 16 'Property, Plant and Equipment' (effective for annual periods beginning on or after 1 January 2016) introduce severe restrictions on the use of revenue-based amortization for intangible assets and explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. The rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue. The amendments are not likely to have an impact on the Company's financial statements.
- Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10 – Consolidated Financial Statements' and IAS 28 – 'Investments in Associates and Joint Ventures') (effective for annual periods beginning on or after 1 January 2016) clarifies (a) which subsidiaries of an investment entity are consolidated; (b) exemption to present consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity; and (c) how an entity that is not an investment entity should apply the equity method of accounting for its investment in an associate or joint venture that is an investment entity. The amendments are not likely to have an impact on Company's financial statements.
- Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11 'Joint Arrangements' (effective for annual periods beginning on or after 1 January 2016) clarify the accounting for the acquisition of an interest in a joint operation where the activities of the operation constitute a business. They require an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a business. The amendments are not likely to have an impact on Company's financial statements.
- Amendments to IAS 27 'Separate Financial Statements' (effective for annual periods beginning on or after 1 January 2016). The amendments to IAS 27 will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The adoption of the amended standard is not likely to have an impact on the Company's financial statements.
- Agriculture: Bearer Plants [Amendment to IAS 16 and IAS 41] (effective for annual periods beginning on or after 1 January 2016). Bearer plants are now in the scope of IAS 16 'Property, Plant and Equipment' for measurement and disclosure purposes. Therefore, a company can elect to measure bearer plants at cost. However, the produce growing on bearer plants will continue to be measured at fair value less costs to sell under IAS 41 Agriculture. A bearer plant is a plant

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that: is used in the supply of agricultural produce; is expected to bear produce for more than one period; and has a remote likelihood of being sold as agricultural produce. Before maturity, bearer plants are accounted for in the same way as self-constructed items of property, plant and equipment during construction. The amendments are not likely to have an impact on Company's financial statements.

- Amendments to IAS 12 'Income Taxes' are effective for annual periods beginning on or after 1 January 2017. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments are not likely to have an impact on the Company's financial statements.
- Amendments to IAS 7 'Statement of Cash Flows' are part of IASB's broader disclosure initiative and are effective for annual periods beginning on or after 1 January 2017. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are not likely to have an impact on the Company's financial statements.
- Amendments to IFRS 2 - Share-based Payment clarify the accounting for certain types of arrangements and are effective for annual periods beginning on or after 1 January 2018. The amendments cover three accounting areas (a) measurement of cash-settled share-based payments; (b) classification of share-based payments settled net of tax withholdings; and (c) accounting for a modification of a share-based payment from cash-settled to equity-settled. The new requirements could affect the classification and/or measurement of these arrangements and potentially the timing and amount of expense recognised for new and outstanding awards. The amendments are not likely to have an impact on the Company's financial statements.
- Annual Improvements 2012-2014 cycles (amendments are effective for annual periods beginning on or after 1 January 2016). The new cycle of improvements contain amendments to the following standards:
 - IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'. IFRS 5 is amended to clarify that if an entity changes the method of disposal of an asset (or disposal group) i.e. reclassifies an asset from held for distribution to owners to held for sale or vice versa without any time lag, then such change in classification is considered as continuation of the original plan of disposal and if an entity determines that an asset (or disposal group) no longer meets the criteria to be classified as held for distribution, then it ceases held for distribution accounting in the same way as it would cease held for sale accounting.
 - IFRS 7 'Financial Instruments- Disclosures'. IFRS 7 is amended to clarify when servicing arrangements are in the scope of its disclosure requirements on continuing involvement in transferred financial assets in cases when they are derecognized in their entirety. IFRS 7 is also amended to clarify that additional disclosures required by 'Disclosures: Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS7)' are not specifically required for inclusion in condensed interim financial statements for all interim periods.
 - IAS 19 'Employee Benefits'. IAS 19 is amended to clarify that high quality corporate bonds or government bonds used in determining the discount rate should be issued in the same currency in which the benefits are to be paid.

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- IAS 34 'Interim Financial Reporting'. IAS 34 is amended to clarify that certain disclosures, if they are not included in the notes to interim financial statements and disclosed elsewhere should be cross referred.

The above amendments are not likely to have an impact on Company's financial statements.

5 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies have been applied consistently to all periods presented in these financial statements as set out below except for the following standards which became effective during the year:

5.1 Standards, interpretations and amendments effective in current year

- IFRS 10 'Consolidated Financial Statements', IFRS11 'Joint Arrangements', IFRS12 'Disclosure of Interests in Other Entities', IFRS13 'Fair Value Measurements'. These standards became applicable from 1 January 2015, as per the adoption status of IFRS in Pakistan. The application of IFRS 10, IFRS 11 and IFRS 12 did not have any impact on the financial statements of the Company.
- IFRS 13 Fair Value Measurement, consolidates the guidance on how to measure fair value, which was spread across various IFRS, into one comprehensive standard. It introduces the use of an exit price, as well as extensive disclosure requirements, particularly the inclusion of non-financial instruments in to the fair value hierarchy. The application of IFRS 13 did not have an impact on the financial statements of the Company, except certain additional disclosures (refer note 30.4).

5.2 Property and equipment

These are stated at cost less accumulated depreciation and accumulated impairment, if any.

Depreciation is charged applying the straight line method at the rates specified in note 6 to these financial statements, which are considered appropriate to write off the cost of the assets over their useful economic lives.

Proportionate depreciation is charged in respect of additions and disposals made during the year. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Maintenance and normal repairs are charged to profit and loss account. Major renewals and improvements are capitalized.

Gains and losses on disposal of assets, if any, are determined by comparing the sale proceeds with the carrying values and are charged to profit and loss account.

5.3 Operating leases / Ijarah agreements

The Company accounts for assets under ijarah arrangements in accordance with IFAS-2 "Ijarah" whereby periodic ijarah payments for such assets are recognized as an expense in profit and loss account on straight line basis over the ijarah term.

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5.4 Intangible assets

These represent computer software, website developed and Trading Right Entitlement (TRE) Certificate.

Computer software and website developed are recognized in the financial statements, if and only if, it is probable that the future economic benefits that are attributable to the assets will flow to the Company; and the cost of the assets can be measured reliably. These are carried at cost less accumulated amortization and impairment, if any. Amortization of computer software and website developed is charged to profit and loss account for the year on a straight line basis at the rates specified in note 7. The amortization period and the amortization method for intangible assets with finite useful life are reviewed, and adjusted if appropriate.

Details of the basis of valuation of the Trading Right Entitlement (TRE) Certificate is given in note 7 to these financial statements.

5.5 Trade debts and other receivables

Debts originated by the Company are recognized and carried at original invoice amount (which generally equals the fair value) less any amount written off or provision made for debts considered doubtful.

5.6 Investments

Investments in securities are initially recognized at cost, being the fair value of the consideration given, including the transaction costs associated with the investment, except in case of investments at fair value through profit or loss, in which case these transaction costs are charged to the profit and loss account. All regular way purchases and sales of investments are recognized / derecognized on the trade date. These are classified and measured as follows:

Investment at fair value through profit or loss

Investment classified as 'investment at fair value through profit or loss' are carried at fair value. Gain / loss on re-measurement of such investments to fair value is recognised in the profit and loss account.

Held-to-maturity

Investment securities with fixed maturities and fixed or determinable payments are classified as held-to-maturity investments when management has both the intention and ability to hold to maturity. After initial recognition, these investments are carried at amortised cost less any provision for impairment.

Available-for-sale

Investments which are not classified in any of the preceding categories are classified as available-for-sale investments. After initial recognition, these investments are re-measured at fair value. Surplus / deficit arising from re-measurement are taken to other comprehensive income until the investments are sold / disposed-off or until the investments are determined to be impaired, at which time, cumulative gain or loss previously reported in the other comprehensive income is included in the current year's profit and loss account.

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If, in a subsequent period, the fair value of an impaired increases and the increase can be objectively related to an event occurring after the impairment loss recognised in profit and loss, the impairment loss is reversed, with the amount of the reversal recognised in profit and loss. However, any subsequent recovery in the fair value of an impaired available for sale equity security is recognised in other comprehensive income.

Details of the basis of valuation of the investment in shares of Pakistan Stock Exchange Limited are given in note 8 to these financial statements.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified by the Company as fair value through profit or loss or available for sale. These are carried at amortised cost using effective yield method, less impairment losses, if any.

5.7 Impairment

Equity Securities

The Company assesses at each reporting date whether there is objective evidence that the financial asset is impaired. In case of equity securities, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the security is impaired. If any such evidence exists, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss account is reclassified from other comprehensive income to profit and loss account.

Debt Securities

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated recoverable amount. The recoverable amount represents present value of future cash flows discounted at original rate of return. An impairment is recognised in profit and loss account whenever the carrying value of asset exceeds its recoverable amount.

Non-Financial assets

The Company assesses at each balance sheet date whether there is any indication that assets except deferred tax assets may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognized in profit and loss account.

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

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5.8 Financial instruments

All financial assets and financial liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the Company loses control of the contractual rights that comprise the financial assets. Financial liabilities are derecognised when they are extinguished, that is, when the obligation specified in the contract is discharged, cancelled, or expired. Any gain or loss on derecognition of the financial assets and financial liabilities is taken to profit and loss account.

5.9 Off-setting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet if the Company has a legally enforceable right to set-off the transaction and also intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses arising from such assets and liabilities are also accordingly offset.

5.10 Revenue recognition

- Brokerage, commission, consultancy and advisory fee are recognised as and when such services are rendered.
- Income from government securities is recognised on time proportion basis taking into account the effective yield.
- Gain / loss arising on disposal of investments is included in income and is accounted for on the date at which the transaction takes place.
- Mark-up income, return on bank deposits and balances are recognised on accrual basis taking into account the effective yield
- Dividend income is recorded when the right to receive the dividend is established.

5.11 Taxation

Current

The charge for taxation is based on taxable income at the current rate of tax after taking into account applicable tax credits, rebates and exemptions available, if any, in accordance with Income Tax Ordinance, 2001.

Deferred

Deferred tax is recognized using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the tax base. This is recognized on the basis of expected manner of the realization and the settlement of the carrying amount of assets and liabilities using the tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognized to the extent that future taxable profits will be available against which the deductible temporary differences can be utilised. Deferred tax assets are reduced to the extent that is no longer probable that the related tax benefit will be realised.

Deferred tax, if any, on revaluation of investments is recognised as an adjustment to surplus / deficit arising on revaluation.

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5.12 Dividends distributions and appropriations

Dividend and appropriation to reserves are recognised in the financial statements in the period in which these are approved.

5.13 Staff retirement benefits

5.13.1 Defined contribution plan

The Company operates a contributory provident fund for all its permanent employees and contributions are made monthly in accordance with the fund rules.

5.13.2 Employee compensated absences

Employee entitlements to annual leaves are recognised when they accrue to employees. A provision is made for the estimated liability for annual leaves as a result of services rendered by employees upto the balance sheet date.

5.14 Cash and cash equivalents

Cash in hand and at banks is carried at cost. For the purposes of cash flow statement, cash and cash equivalents comprises of cash in hand, bank balances, short term borrowings which are repayable on demand and other short term highly liquid investments with original maturities of three months or less, if any.

5.15 Foreign currency transactions

Monetary assets and liabilities in foreign currencies are translated into Pak Rupees at the rates of exchange prevailing at the balance sheet date. Transactions in foreign currencies are converted into rupees at the rates of exchange prevailing at the transaction date. Exchange gains or losses are taken to profit and loss account. Non-monetary-items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

5.16 Provisions

Provisions are recognised when the Company has a legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation of which reliable estimate of the amount can be made.

5.17 Trade and other payables

Trade and other payables are recognised initially at fair value plus directly attributable cost, if any, and subsequently measured at amortised cost.

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6. PROPERTY AND EQUIPMENT

		2016							
Note	Cost			Accumulated depreciation			Written down value as at 30 June 2016	Rate of depreciation per annum	
	As at 01 July 2015	Additions / (disposals)	As at 30 June 2016	As at 01 July 2015	Charge for the year / (disposals)	As at 30 June 2016			
(Rupees)									
%									
Room and booths	6.2	14,500,000	-	14,500,000	6,887,500	725,000	7,612,500	6,887,500	5
Motor vehicles		160,000	1,309,900 (160,000)	1,309,900	117,860	68,114 (117,859)	68,115	1,241,785	20
Furniture and fixture		1,958,467	-	1,958,467	1,390,135	164,010	1,554,145	404,322	10
Office equipments		6,673,078	477,372 (947,128)	6,203,322	6,190,308	175,189 (813,875)	5,551,622	651,700	20
Computer equipment		5,403,329	213,936	5,617,265	4,952,751	155,955	5,108,706	508,559	20
		<u>28,694,874</u>	<u>2,001,208</u> <u>(1,107,128)</u>	<u>29,588,954</u>	<u>19,538,554</u>	<u>1,288,268</u> <u>(931,734)</u>	<u>19,895,088</u>	<u>9,693,866</u>	
		2015							
Note	Cost			Accumulated depreciation			Written down value as at 30 June 2015	Rate of depreciation per annum	
	As at 01 July 2014	Additions / (disposals)	As at 30 June 2015	As at 01 July 2014	Charge for the year / (disposals)	As at 30 June 2015			
(Rupees)									
%									
Room and booths	6.2	14,500,000	-	14,500,000	6,162,500	725,000	6,887,500	7,612,500	5
Motor vehicles		160,000	-	160,000	85,860	32,000	117,860	42,140	20
Furniture and fixture		1,916,467	42,000	1,958,467	1,198,412	191,723	1,390,135	568,332	10
Office equipments		6,488,578	184,500	6,673,078	5,850,330	339,978	6,190,308	482,770	20
Computer equipment		5,383,729	74,000 (54,400)	5,403,329	4,771,433	204,551 (23,233)	4,952,751	450,578	20
		<u>28,448,774</u>	<u>300,500</u> <u>(54,400)</u>	<u>28,694,874</u>	<u>18,068,535</u>	<u>1,493,252</u> <u>(23,233)</u>	<u>19,538,554</u>	<u>9,156,320</u>	

6.1 The cost of fully depreciated assets as at 30 June 2016 is Rs. 10.333 million (2015: Rs. 10.24 million).

6.2 The rights to occupy room no. 16 at Pakistan Stock Exchange building were acquired through lease and license agreement for the purpose of the Company's business. The Pakistan Stock Exchange Limited, as the lessee of the building, has sub-leased the said room in favour of the Company.

6.3 Details of disposals of property and equipment made during the year ended 30 June 2016, are given below:

	Cost	Accumulated depreciation	WDV	Sale proceeds	Gain / (loss) on sale	Mode of disposal	Particulars of purchasers
(Rupees)							
Motor Vehicles	160,000	117,859	42,141	68,000	25,859	Tender	SM Traders
Office Equipment							
- PABX System	475,000	475,000	-	213,750	213,750	Insurance claim	Habib Insurance Company Limited
- UPS	330,128	224,605	105,523	209,893	104,370	Insurance claim	Habib Insurance Company Limited
- Photocopier	110,000	110,000	-	49,500	49,500	Insurance claim	Habib Insurance Company Limited
- Mobile Phone	32,000	4,270	27,730	-	(27,730)	Lost in transit	Lost in transit
	<u>1,107,128</u>	<u>931,734</u>	<u>175,394</u>	<u>541,143</u>	<u>365,749</u>		

7. INTANGIBLE ASSETS

		2016							
Note	Cost			Accumulated amortisation / impairment			Written down value as at 30 June 2016	Rate of amortisation per annum	
	As at 01 July 2015	Additions	As at 30 June 2016	As at 01 July 2015	Charge for the year	As at 30 June 2016			
(Rupees)									
%									
Website		125,000	-	125,000	125,000	-	125,000	-	50
Computer software		958,849	141,000	1,099,849	746,849	217,875	964,724	135,125	50
Trading right entitlement certificate	7.2	17,158,785	-	17,158,785	2,158,785	-	2,158,785	15,000,000	-
		<u>18,242,634</u>	<u>141,000</u>	<u>18,383,634</u>	<u>3,030,634</u>	<u>217,875</u>	<u>3,248,509</u>	<u>15,135,125</u>	
		2015							
Note	Cost			Accumulated amortisation / impairment			Written down value as at 30 June 2015	Rate of amortisation per annum	
	As at 01 July 2014	Additions	As at 30 June 2015	As at 01 July 2014	Charge for the year	As at 30 June 2015			
(Rupees)									
%									
Website		125,000	-	125,000	125,000	-	125,000	-	50
Computer software		958,849	-	958,849	354,529	392,320	746,849	212,000	50
Trading right entitlement certificate	7.2	17,158,785	-	17,158,785	2,158,785	-	2,158,785	15,000,000	-
		<u>18,242,634</u>	<u>-</u>	<u>18,242,634</u>	<u>2,638,314</u>	<u>392,320</u>	<u>3,030,634</u>	<u>15,212,000</u>	

2016

- 7.1 The cost of fully amortised intangible assets as at 30 June 2016 is Rs. 1.084 million (2015: Rs. 0.3 million).
- 7.2 The TRE Certificate acquired on surrender of Stock Exchange Membership Card is stated at Rs. 15 million (note 8.2).

According to the Stock Exchange (Corporatization, demutualization and integration) Act, 2012, the TRE Certificate may only be transferred once to a company intending to carry out shares brokerage business in the manner prescribed. Up to 31 December 2019, the Stock Exchange shall offer for issuance of 15 TRE Certificate each year in the manner prescribed. After 2019, no restriction shall be placed on issuance of TRE Certificate.

8. LONG TERM INVESTMENTS

8.1 Available for sale investments - (unquoted)	Note	2016	2015
		----- (Rupees) -----	-----
Investment in shares of Pakistan Stock Exchange Limited	8.2	<u>40,378,391</u>	<u>40,378,391</u>
		<u>40,378,391</u>	<u>40,378,391</u>

8.2 This represents shares of Pakistan Stock Exchange Limited (PSX) (formerly Karachi Stock Exchange Limited) acquired in pursuance of corporatization and demutualization of PSX as a public company limited by shares. As per the arrangements the authorized and paid-up capital of PSX is Rs. 10,000,000,000 and Rs. 8,014,766,000 respectively with a par value of Rs. 10 each. The paid-up capital of PSX is equally distributed among 200 members (termed as initial shareholders of exchange after corporatization) of PSX by issuance of 4,007,383 to each initial shareholder in the following manner:

- 40% of the total shares allotted (i.e. 1,602,953 shares) are transferred in the House Account of CDC to each initial shareholder;
- 60% of the total shares (i.e. 2,404,430 shares) have been deposited in a sub-account in Company's name under PSX's participant ID with CDC which will remain blocked until they are divested to strategic investor(s), general public and financial institutions (as per the provisions of the Act).

Right to receive distributions and sale proceed against 60% shares in the blocked account shall vest in the initial bonus and right shares (if any), shall be transferred to blocked account and disposed off with the blocked shares.

Right to vote against blocked shares shall be suspended till the time of sale.

The shares of PSX shall be listed within such time as the SECP may prescribe in consultation with the Board of Directors of PSX.

In compliance with the sub regulation 2.1 of the Regulation Governing Risk management (Regulation) of the PSX, every TREC holder registered as the broker under Brokers and Agents Registration Rules 2001, is required to maintain a Base Minimum Capital (BMC) in the amount and form as prescribed in the Regulations. As per notice No. KSE/GEN – 10621 dated 21 December 2015, the BMC is Rs. 28 million.

The Company's BMC is comprised of the sum of notional value of the TREC, breakup value of pledged 40% PSX shares and 1 million Exchange shares out of 60% pledged shares assigned in favour of Pakistan Stock Exchange Limited to meet the deficit in BMC deposit. As per notice no. PSX/N – 1947 dated 30 March 2016, the revised notional value of the TREC was Rs. 5 million and the breakup value of the shares was Rs. 26.14 million (Rs. 10.042 per share) resulting in BMC maintained at Rs. 31.14 million against the requirements of Rs. 28 million.

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9. LONG TERM LOANS, ADVANCES & DEPOSITS

	Note	2016	2015
		----- (Rupees) -----	
Long term loans			
Staff loan	9.1	291,912	117,779
Less: current portion of staff loan		(140,056)	(43,764)
Long term portion of staff loan		151,856	74,015
Advance against Dubai Gold and Commodities Exchange membership			
	9.2	7,913,725	7,913,725
Security deposits			
- National Clearing Company of Pakistan Limited		200,000	200,000
- Pakistan Stock Exchange Limited		350,000	200,000
- Others		11,500	11,500
		561,500	411,500
		<u>8,627,081</u>	<u>8,399,240</u>

9.1 This represents personal loan carrying mark-up rates of 8% (2015: 10% to 12.5%) provided to employees who have completed at least one year of service with the Company. These are recoverable over a period of three years and are secured against retirement benefit payable to respective employees.

9.2 This amount has been paid for corporate membership of Dubai Gold and Commodities Exchange (DGCX). The Company has a plan to open a subsidiary for commencement of business and all charges will be transferred to subsidiary.

10. DEFERRED TAX ASSET - net

Deferred tax liabilities / assets comprises of temporary differences in respect of the following:

	Balance at 1 July 2014	Recognised in profit and loss	Recognised in OCI	Balance at 30 June 2015	Recognised in profit and loss	Recognised in OCI	Balance at 30 June 2016
----- (Rupees) -----							
Deferred tax assets arising in respect of:							
Intangible assets	639,747	(503,916)	-	135,831	88	-	135,919
Provision for impairment in value of investments	613,214	-	(244,651)	368,563	695,047	(1,063,610)	-
Provision for compensated absences	259,338	60,281	-	319,619	14,924	-	334,543
Tax losses	12,154,398	(1,434,676)	-	10,719,722	(1,991,731)	-	8,727,991
Less: Deferred tax liabilities arising in respect of:							
Accelerated tax depreciation allowance	(1,526,597)	227,505	-	(1,299,092)	34,036	-	(1,265,056)
(Surplus) / deficit on revaluation of investments - net	-	-	(4,907,909)	(4,907,909)	-	828,023	(4,079,886)
Net deferred tax assets	<u>12,140,100</u>	<u>(1,650,806)</u>	<u>(5,152,560)</u>	<u>5,336,734</u>	<u>(1,247,636)</u>	<u>(235,587)</u>	<u>3,853,511</u>

The deferred tax assets recognized in the financial statements represents the management's best estimate of the tax benefit which is expected to be realized in future years as the Company expects to set off the profits earned in these years against tax losses carried forward from prior years.

11. SHORT TERM INVESTMENTS

	Note	2016	2015
		----- (Rupees) -----	
Available-for-sale			
Listed shares	11.1	67,364,775	63,386,181
Pakistan Investment Bonds	11.2	152,705,281	155,801,120
		<u>220,070,056</u>	<u>219,187,301</u>

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11.1 Listed shares

2016 --- (Number of shares) ---	2015	Name of investee	2016		2015
			Carrying amount	Market value (Rupees)	Market value
252,500	252,500	The Hub Power Company Limited *	21,518,276	30,315,150	23,626,425
128,100	128,100	Pakistan Petroleum Limited *	17,236,289	19,861,905	21,041,706
87,000	87,000	Habib Bank Limited *	15,016,581	17,187,720	18,718,050
			<u>53,771,146</u>	<u>67,364,775</u>	<u>63,386,181</u>
		Unrealized gain on re-measurement of investment	<u>13,593,629</u>		
		Carrying value	<u>67,364,775</u>		

* These shares are pledged against PSX exposure (2015: Nil).

11.2 Pakistan Investment Bonds - movement

	2016 ----- (Rupees) -----	2015 ----- (Rupees) -----
Pakistan Investment Bonds - cost	145,000,000	145,000,000
Unamortised value of discount	(3,971)	(3,022,136)
Pakistan Investment Bonds - carrying value	<u>144,996,029</u>	<u>141,977,864</u>
Surplus on revaluation of investments	7,709,252	13,823,256
Fair value as at 30 June 2016	<u>152,705,281</u>	<u>155,801,120</u>

These Pakistan Investment Bonds will mature on 17 July 2017 (2015: 17 July 2017) and carry yield 6.68% to 12.43% per annum (2015: 12.38% to 12.42%). These are placed in the IPS account maintained with Bank AL Habib Limited (the Holding Company) (refer note 18).

12. TRADE DEBTS - considered good

	2016 ----- (Rupees) -----	2015 ----- (Rupees) -----
Due from clients against trading of securities	44,456,234	8,835,407
Due from National Clearing Company of Pakistan Limited	-	56,726,860
Due from associated companies / persons against trading of securities	211,835	526,419
	<u>44,668,069</u>	<u>66,088,686</u>

12.1 The value of marketable securities held against trade debts by the Company amounted to Rs. 6,179.1 million (2015: Rs. 5,288.7 million).

13. LOANS AND ADVANCES

	Note	2016 ----- (Rupees) -----	2015 ----- (Rupees) -----
Loan to employees - secured	9.1	140,056	43,764
Advances to employees - secured	13.1	57,664	64,497
Advance for expenses to contractors & suppliers		735,000	-
		<u>932,720</u>	<u>108,261</u>

13.1 This represents advance salaries provided to permanent employees of the Company. These are recoverable within a maximum period of six months.

14. DEPOSITS AND PREPAYMENTS

	Note	2016 ----- (Rupees) -----	2015 ----- (Rupees) -----
Exposure deposit with National Clearing Company of Pakistan Limited	14.1	6,000,000	21,373,400
Security deposit to First Habib Modaraba		-	1,133,900
Prepayments			
- Insurance		31,327	639,159
- Others		189,411	141,092
		<u>6,220,738</u>	<u>23,287,551</u>

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14.1 This represents deposits held under the Pakistan Stock Exchange Limited exposure rules. These deposits also carry interest at the rate of 4.5% to 6.7% (2015: 6.6% to 8.61%) per annum.

15. OTHER RECEIVABLES	Note	2016	2015
		----- (Rupees) -----	
Interest receivable on Pakistan Investment Bonds	11.2	7,414,387	7,307,247
Others		4,809	4,809
		<u>7,419,196</u>	<u>7,312,056</u>

16. CASH AND BANK BALANCES

Cash in hand		25,349	18,133
Cash with banks in:			
- Current accounts	16.1	31,207,552	29,100,581
- Saving accounts	16.2	4,853,267	1,215,725
- Call treasury deposit account	16.3	-	16,439,697
		<u>36,060,819</u>	<u>46,756,003</u>
		<u>36,086,168</u>	<u>46,774,136</u>

16.1 This includes bank balances held with Bank AL Habib Limited (the Holding Company) amounting to Rs. 0.11 million (2015: Rs. 28.02 million).

16.2 This includes bank balances held with Bank AL Habib Limited (the Holding Company) amounting to Rs. 0.085 million (2015: Rs. 0.15 million) and carry interest at the rate of 4.5% to 6.5% (2015: 6% to 6.5%) per annum.

16.3 This represents bank balances held with Bank AL Habib Limited (the Holding Company) and carry interest at the rate of Nil (2015: 6% to 9%) per annum.

17. SHARE CAPITAL

17.1 Authorised Capital

2016	2015	Note	2016	2015
----- (Number of shares) -----			----- (Rupees) -----	
<u>50,000,000</u>	<u>50,000,000</u>		<u>500,000,000</u>	<u>500,000,000</u>
		Ordinary shares of Rs. 10/- each fully paid in cash		

17.2 Issued, subscribed and paid-up share capital

<u>30,000,000</u>	<u>30,000,000</u>		<u>300,000,000</u>	<u>300,000,000</u>
		Ordinary shares of Rs. 10/- each fully paid in cash		

18. SHORT TERM BORROWING - related party

Short Term Running Finance - Secured	18.1	<u>2,740,038</u>	-
--------------------------------------	------	------------------	---

18.1 Running finance facility of Rs. 175 million (2015: Rs. 500 million) has been obtained by the Company from Bank AL Habib Limited (the Holding Company) which is secured against hypothecation of amounts due from customers and lien over government securities. The mark-up is payable quarterly. The facilities carry mark-up rate at 3 month Average KIBOR Ask +1 % (2015: 3 month Average KIBOR Ask +1%).

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19. TRADE PAYABLES, ACCRUED EXPENSES AND OTHER LIABILITIES	Note	2016	2015
		----- (Rupees) -----	
Due to clients against trading of securities		51,653,271	96,517,370
Workers' Welfare Fund payable		135,874	260,699
Accrued expenses		2,466,468	2,641,848
Other liabilities		460,206	-
		<u>54,715,819</u>	<u>99,419,917</u>

20. CONTINGENCIES AND COMMITMENTS

Contingencies

There were no contingencies at year end.

Commitments

Commitments for rentals under Ijarah finance:

Within one year

20.1

585,660

3,327,150

After one year but not later than five years

1,122,515

-

1,708,175

3,327,150

20.1 This represents ijarah finance facility entered into with First Habib Modarba in respect of vehicles. Total ijarah payments due under the agreement are Rs. 1.708 million (2015: Rs. 3.33 million). These commitments are secured by on-demand promissory notes of Rs. 1.773 million (2015: Rs. 13.108 million).

21. OTHER INCOME

Note

2016

2015

----- (Rupees) -----

Gain / (loss) gain on disposal of property and equipment

365,749

(11,167)

Other income

218,490

352,952

584,239

341,785

22. ADMINISTRATIVE EXPENSES

Salaries and other benefits	22.1	31,277,096	31,097,963
Printing and stationery		407,886	316,060
Auditors' remuneration	22.2	439,282	309,384
Rent, rates and taxes		2,100,000	2,253,920
Vehicles running		1,371,058	1,312,568
Utilities		174,946	1,554,319
Legal and professional charges		1,060,231	944,477
Insurance		1,338,082	1,434,357
Newspapers and periodicals		46,472	43,648
Entertainment		95,771	109,019
Advertisement and business promotion		71,191	170,480
Annual Membership Fees DGCX		530,250	-
Computer expenses		613,699	724,759
Clearing house charges		2,142,964	3,267,494
Office security		790,620	721,509
Depreciation	6	1,288,268	1,493,260
Amortization	7	217,875	392,320
Repairs and maintenance		609,577	664,307
Conveyance and travelling		167,603	115,057
Provision of workers' welfare fund *		135,874	260,699
Communication		587,121	674,165
Fee and subscription		2,104,353	1,708,017
Lease rental of vehicles		3,349,284	4,006,557
Office supplies		224,027	213,884
Others *	22.3	4,574	962,105
		<u>51,148,104</u>	<u>54,750,328</u>

* Reclassified to administrative expenses.

22.1 Salaries, allowances and other benefits include the Company's contribution to the provident fund amounting to Rs. 1.76 million (2015: Rs. 1.6 million).

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22.2 Auditors' remuneration

	2016	2015
	----- (Rupees) -----	
Statutory audit fee	200,000	150,000
Half yearly review fee	100,000	50,000
Other certifications	15,000	15,000
Out of pocket expenses	124,282	94,384
	<u>439,282</u>	<u>309,384</u>

22.3 Other charges

This represents sales tax on share subscription income, other income and surcharge on sales tax.

23. FINANCE COST*Note*

		2016	2015
		----- (Rupees) -----	
Mark-up on short term running finance	18	277,484	564,467
Bank charges		113,105	130,911
		<u>390,589</u>	<u>695,378</u>

24. TAXATION

Current		3,952,922	4,065,058
Deferred	10	1,247,636	1,650,806
		<u>5,200,558</u>	<u>5,715,864</u>

24.1 The assessments of income tax of the Company have been finalised upto tax year 2013. The income tax return for the tax year 2014 and 2015 have been filed under the Universal Self Assessment Scheme. This scheme provides that the return filed is deemed to be an assessment order.

24.2 This represents difference between refundable amount claimed in the income tax returns of prior years and the advance tax recognized in the books of the Company.

24.3 Relationship between income tax expense and accounting profit

	2016	2015
	----- (Rupees) -----	
Taxation	<u>5,200,558</u>	<u>5,715,864</u>
Accounting (loss) / profit before tax	(428,863)	12,774,231
Tax at the applicable tax rate of 32% (2015: 33%)	(137,236)	4,215,496
Tax effect of income subject to final tax regime and separate block of income	3,011,678	(381,445)
Tax effect of permanent differences	(19,347)	(564,270)
Tax effect of TRE (deferred tax recognized in previous years)	-	690,811
Tax effect of change in rate on deferred tax and others	2,345,463	1,755,272
	<u>5,200,558</u>	<u>5,715,864</u>

25. (LOSS) / EARNINGS PER SHARE - BASIC

(Loss) / profit for the year after taxation	<u>(5,629,421)</u>	<u>7,058,367</u>
	----- (Number) -----	
Weighted average ordinary shares in issue during the year	<u>30,000,000</u>	<u>30,000,000</u>
	----- (Rupees) -----	
(Loss) / earnings per share - basic	<u>(0.188)</u>	<u>0.235</u>

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Diluted earnings per share has not been presented as the Company does not have any convertible instruments in issue as at 30 June 2016 and 30 June 2015 which would have any effect on the earnings per share.

26. REMUNERATION OF CHIEF EXECUTIVE AND EXECUTIVES

The aggregate amounts charged in the financial statements for the remuneration, including all benefits to the Chief Executive and Executives of the Company are as follows:

	2016		2015	
	Chief Executive	Executives	Chief Executive	Executives
	(Rupees)			
Managerial remuneration	7,600,000	5,688,000	7,000,000	5,636,476
Housing and utilities	3,800,000	2,844,000	3,500,000	2,818,238
Medical	25,000	100,000	25,000	98,991
Retirement benefits	760,000	568,800	700,000	524,117
Bonus	500,000	180,000	-	-
Commission	-	785,884	-	2,034,550
	<u>12,685,000</u>	<u>10,166,684</u>	<u>11,225,000</u>	<u>11,112,372</u>
Number of persons	<u>1</u>	<u>4</u>	<u>1</u>	<u>5</u>

26.1 In addition to the above, Chief Executive and Executives have been provided with free use of the Company maintained vehicles and mobile phones under the service contracts.

27. PROVIDENT FUND

Details of investments held by the provident fund of the Company for its employees is as follows:

	2016	2015
	Un-audited	Audited
	(Rupees)	
Size of the fund	48,929,792	38,468,647
Cost of investments made	40,430,411	34,228,782
Percentage of investments made	83%	89%
Fair value of investments	47,078,809	38,026,850

27.1 Breakup of investments in terms of amount and percentage of the size of the provident fund are as follows:

	2016		2015	
	Investments	% of investments as size of the fund	Investments	% of investments as size of the fund
	(Un audited)		(Audited)	
	(Rupees)		(Rupees)	
Government securities	27,991,058	57%	23,547,604	61%
Mutual fund units	566,711	1%	555,579	1%
Listed securities	18,521,040	38%	13,923,667	36%
	<u>47,078,809</u>	<u>96%</u>	<u>38,026,850</u>	<u>98%</u>

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27.2 Investments out of the provident fund have been made in accordance with the provisions of the section 227 of the Companies Ordinance, 1984 and the rules formulated for this purpose.

28. CASH AND CASH EQUIVALENTS	Note	2016	2015
----- (Rupees) -----			
Cash and bank balances	16	36,086,168	46,774,136
Short term borrowings	18	(2,740,038)	-
		<u>33,346,130</u>	<u>46,774,136</u>

29. TRANSACTIONS WITH RELATED PARTIES

Related parties comprises of the holding company, companies with common directorship, associated companies / undertakings, directors of the Company, other associated companies and key management personnel and their close family members including thereof the Holding Company. Remuneration of key management personnel are in accordance with their terms of employment. Other transactions with related parties are entered into at rates negotiated with them.

<u>Transactions for the year</u>	2016	2015
----- (Rupees) -----		
Bank AL Habib Limited (Holding company)		
- Equity brokerage commission	1,548,563	649,016
- Purchase of Pakistan Investment Bonds	-	142,711,438
- Mark-up accrued on bank balances	564,737	3,569,156
- Mark-up expense on running finance	277,484	564,467
- Office rent	2,100,000	2,100,000
- Bank charges	36,525	127,260
- Information technology services	500,000	500,000
Associated Companies		
Habib Insurance Company Limited		
- Equity brokerage commission	552,101	772,386
- Insurance premium paid	604,816	1,482,152
- Insurance claim received	473,143	-
First Habib Stock Fund		
- Equity brokerage commission	176,168	167,725
Habib Sugar Mills Limited		
- Equity brokerage commission	28,282	231,266
First Habib Islamic Balanced Fund		
- Equity brokerage commission	84,440	198,552
Habib Asset Management Staff Provident Fund		
- Equity brokerage commission	17,198	-
Key management personnel		
- Contribution to the provident fund	1,328,800	1,224,118
- Equity brokerage commission	18,688	7,232
- Loans and advances	580,000	480,000
- Sales proceed from disposal of computer equipment	-	20,000
AL Habib Capital Markets employees' Provident Fund		
- Equity brokerage commission	10,506	8,500

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<u>Balances at year end</u>	2016	2015
	----- (Rupees) -----	
Bank AL Habib Limited (Holding Company)		
- Bank balances	195,969	44,609,315
- Short term borrowing	2,740,038	-
- Equity brokerage commission receivable	132,429	460,650
Associated Companies		
First Habib Stock Fund		
- Equity brokerage commission receivable	40,400	11,909
Habib Insurance Company Limited		
- Equity brokerage commission receivable	8,047	-
Habib Sugar Mills Limited		
- Equity brokerage commission receivable	1,216	976
Habib Asset Management Limited		
- Equity brokerage commission receivable	5,721	-
First Habib Islamic Balanced Fund		
- Equity brokerage commission receivable	18,953	52,884
Key management personnel		
- Equity brokerage commission receivable	38	-
- Other payable	4,530,802	-

30. FINANCIAL RISK MANAGEMENT

The Management of the Company has an overall responsibility for the establishment and oversight of the Company's risk management framework. Management is also responsible for developing and monitoring the Company's risk management policies.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

Risk Management Framework

The Company is exposed to the following risks in respect of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

30.1 Credit risk

Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss for the Company by failing to discharge an obligation. The risk is generally limited to principal amounts and accrued interest thereon, if any. The Company's policy is to enter into financial contracts in accordance with the risk management framework. Out of total assets of Rs. 412.48 million (2015: Rs. 459.99 million) the financial assets which are subject to credit risk amounted to Rs. 96.29 million (2015: Rs. 143.86 million). The carrying amount of these financial assets represents the maximum credit exposure at the reporting date.

	Note	2016	2015
		----- (Rupees) -----	
Long term loans	9	151,856	74,015
Long term advances and deposits	9	8,475,225	8,325,225
Trade debts	12	44,668,069	66,088,686
Loans and advances	13	932,720	108,261
Short term deposits	14	6,000,000	22,507,300
Other receivables	15	4,809	4,809
Bank balances	16	36,060,819	46,756,003
		<u>96,293,498</u>	<u>143,864,299</u>

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30.1.1 The aging analysis of the trade debts is as follows:

	2016			Total
	Carrying amount		Provision held	
	Amount outstanding	Impaired		
	(Rupees)			
Not yet due	40,741,427	-	-	40,741,427
Upto 3 months	3,457,517	-	-	3,457,517
3 to 6 months	469,125	-	-	469,125
More than 6 months	-	-	-	-
	<u>44,668,069</u>	<u>-</u>	<u>-</u>	<u>44,668,069</u>

	2015			Total
	Carrying amount		Provision held	
	Amount outstanding	Impaired		
	(Rupees)			
Not yet due	62,774,508	-	-	62,774,508
Upto 3 months	2,956,085	-	-	2,956,085
3 to 6 months	358,093	-	-	358,093
More than 6 months	-	-	-	-
	<u>66,088,686</u>	<u>-</u>	<u>-</u>	<u>66,088,686</u>

30.1.2 The analysis below summarizes the credit quality of the Company's bank balances:

Ratings of Banks*	2016	2015
	(Rupees)	
AA+	515,596	45,030,346
AAA	332,385	612,810
AA	34,504,635	1,072,289
A+	169,080	19,373
AA-	539,123	21,185
	<u>36,060,819</u>	<u>46,756,003</u>

* Rating of banks performed by PACRA & JCR-VIS.

30.2 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due. Liquidity risk arises because of the possibility that the Company could be required to pay its liabilities earlier than expected or difficulty in raising funds to meet commitments associated with financial liabilities as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The following are the contractual maturities of financial liabilities:

	2016				Total
	On Demand	Upto three months	More than three months and upto one year	More than one year	
	(Rupees)				
Trade payables, accrued expenses and other liabilities	54,579,945	-	-	-	54,579,945
Short term borrowing	2,740,038	-	-	-	2,740,038
	<u>57,319,983</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>57,319,983</u>

	2015				Total
	On Demand	Upto three months	More than three months and upto one year	More than one year	
	(Rupees)				
Trade payables, accrued expenses and other liabilities	99,159,218	-	-	-	99,159,218
Short term borrowing	-	-	-	-	-
	<u>99,159,218</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>99,159,218</u>

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30.3 Market risk

Market risk means that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices such as foreign exchange rates, interest rates and equity prices. The objective is to manage and control market risk exposures within acceptable parameters, while optimising the return. Market risk comprises of three types of risk: foreign exchange or currency risk, interest / mark up rate risk and price risk. The market risks associated with the Company's business activities are discussed as under:

30.3.1 Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in the market yield. At the reporting date the interest rate profile of the Company's significant interest bearing financial instruments was as follows:

	2016						Total
	Effective yield / interest rate percent	Interest / mark-up bearing				Non interest / mark-up bearing	
		Maturity not later than one month	Maturity later than one month and not later than three months	Maturity later than three months and not later than one year	Maturity later than one year and not later than five years		
On Balance Sheet Assets	(Rupees)						
Financial Assets							
Long term Investments	-	-	-	-	-	40,378,391	40,378,391
Long term loans, advances and deposits	8%	-	-	-	151,856	8,475,225	8,627,081
Short term investments	6.68% to 12.43%	-	-	152,705,281	-	67,364,775	220,070,056
Trade debts	-	-	-	-	-	44,668,069	44,668,069
Loans and advances	8%	-	-	140,056	-	57,664	197,720
Deposits	-	-	-	-	-	6,000,000	6,000,000
Other receivables	-	-	-	-	-	7,419,196	7,419,196
Bank balances	4.5% to 6.5%	4,853,267	-	-	-	31,232,901	36,086,168
		4,853,267	-	152,845,337	151,856	205,596,221	363,446,681
Financial Liabilities							
Trade payables, accrued expenses and other liabilities	-	-	-	-	-	54,579,945	54,579,945
Short term borrowing	7.35% to 7.96%	2,740,038	-	-	-	-	2,740,038
		2,740,038	-	-	-	54,579,945	57,319,983
On Balance Sheet Gap		2,113,229	-	152,845,337	151,856	151,016,276	306,126,698
Total net assets							306,126,698
	2015						
	Effective yield / interest rate percent	Interest / mark-up bearing				Non interest / mark-up bearing	Total
		Maturity not later than one month	Maturity later than one month and not later than three months	Maturity later than three months and not later than one year	Maturity later than one year and not later than five years		
On Balance Sheet Assets	(Rupees)						
Financial Assets							
Long term Investments	-	-	-	-	-	40,378,391	40,378,391
Long term loans, advances and deposits	10% to 12.5%	-	-	-	74,015	8,325,225	8,399,240
Short term investments	12.38% to 12.42%	-	-	155,801,120	-	63,386,181	219,187,301
Trade debts	-	-	-	-	-	66,088,686	66,088,686
Loans and advances	10% to 12.5%	-	-	43,764	-	64,497	108,261
Deposits	-	-	-	-	-	22,507,300	22,507,300
Other receivables	-	-	-	-	-	7,312,056	7,312,056
Bank balances	6% to 9%	17,655,422	-	-	-	29,118,714	46,774,136
		17,655,422	-	155,844,884	74,015	237,181,050	410,755,371
Financial Liabilities							
Trade payables, accrued expenses and other liabilities	-	-	-	-	-	99,159,218	99,159,218
Short term borrowing	-	-	-	-	-	-	-
		-	-	-	-	99,159,218	99,159,218
On Balance Sheet Gap		17,655,422	-	155,844,884	74,015	138,021,832	311,596,153
Total net assets							311,596,153

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30.3.2 Price risk

Price risk is the risk of unfavourable changes in the fair value of securities as a result of changes in the value of individual shares. The price risk exposure arises from the Company's investments in equity securities. The Company's policy is to manage price risk through selection of blue chip securities.

The Company's investments in quoted equity amounted to Rs. 67.36 million (2015: Rs 63.39 million) at the balance sheet date. The carrying value of investments subject to equity price risk are, in almost all instances, based on quoted market prices as of the balance sheet date. Market prices are subject to fluctuation. Fluctuation in the market price of a security may result from perceived changes in the underlying economic characteristics of the investee, the relative price of alternative investments and general market conditions.

In case of available-for-sale investments, a 10% increase / decrease in share prices value at year end would have increased / decreased the other comprehensive income of the Company by increasing / decreasing surplus on revaluation of such investment by the amounts given below.

	2016	2015
	----- (Rupees) -----	
Effect on profit or loss (impairment loss)	-	-
Effect on other comprehensive income - net of tax	<u>5,726,006</u>	<u>5,387,825</u>
Effect on investments	<u>6,736,478</u>	<u>6,338,618</u>

30.3.3 Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company, at present is not exposed to currency risk as all transactions are carried out in Pak Rupees.

30.4 Fair value of financial assets and liabilities

Fair value is an amount for which an asset could be exchanged or a liability settled between knowledgeable willing parties in arm's length transaction. The table below analyses financial instruments carried at fair value, by valuation method. The different levels (methods) have been defined as follows:

Level 1: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair value measurements using 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: Fair value measurements using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

Fair value of the financial assets that are traded in active markets are based on quoted market prices. Since investment in Pakistan Stock Exchange Limited (PSX) is not listed on any stock exchange, a quoted market price is not available and the fair value of such investment can not be determined with reasonable accuracy. The following table shows fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for investment in PSX and financial assets and financial liabilities not measured at fair value. These financial assets and financial liabilities, except investment in PSX, are short term and their fair value approximates their carrying value.

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**On balance sheet
financial instruments**

30 June 2016

	Carrying Amount					Fair value			
	Available for Sale	Held for Trading	Held to Maturity	Loans and Receivables	Other financial liabilities	Level 1	Level 2	Level 3	Total
(Rupees)									
Financial assets measured at fair value									
Short term investments									
- Listed shares	67,364,775	-	-	-	-	67,364,775	-	-	67,364,775
- Pakistan Investment Bonds	152,705,281	-	-	-	-	-	152,705,281	-	152,705,281
	<u>220,070,056</u>	-	-	-	-	<u>67,364,775</u>	<u>152,705,281</u>	-	<u>220,070,056</u>
Financial assets not measured at fair value									
Long term investments	40,378,391	-	-	-	-	-	-	-	40,378,391
Long term loans, advances and deposits	-	-	-	8,627,081	-	-	-	-	8,627,081
Trade debts	-	-	-	44,668,069	-	-	-	-	44,668,069
Loans and advances	-	-	-	932,720	-	-	-	-	932,720
Deposits and prepayments	-	-	-	6,220,738	-	-	-	-	6,220,738
Other receivables	-	-	-	7,419,196	-	-	-	-	7,419,196
Cash and bank balances	-	-	-	36,086,168	-	-	-	-	36,086,168
	<u>40,378,391</u>	-	-	<u>103,953,972</u>	-	-	-	-	<u>144,332,363</u>
Financial liabilities not measured at fair value									
Short term borrowing	-	-	-	-	(2,740,038)	-	-	-	(2,740,038)
Trade payables, accrued expenses and other liabilities	-	-	-	-	(54,579,945)	-	-	-	(54,579,945)
	-	-	-	-	(57,319,983)	-	-	-	(57,319,983)
	<u>260,448,447</u>	-	-	<u>103,953,972</u>	<u>(57,319,983)</u>	-	-	-	<u>307,082,436</u>

**On balance sheet
financial instruments**

30 June 2015

	Carrying Amount					Fair value			
	Available for Sale	Held for Trading	Held to Maturity	Loans and Receivables	Other financial liabilities	Level 1	Level 2	Level 3	Total
(Rupees)									
Financial assets measured at fair value									
Short term investments									
- Listed shares	63,386,181	-	-	-	-	63,386,181	-	-	63,386,181
- Pakistan Investment Bonds	155,801,120	-	-	-	-	-	155,801,120	-	155,801,120
	<u>219,187,301</u>	-	-	-	-	<u>63,386,181</u>	<u>155,801,120</u>	-	<u>219,187,301</u>
Financial assets not measured at fair value									
Long term investments	40,378,391	-	-	-	-	-	-	-	40,378,391
Long term loans, advances and deposits	-	-	-	8,399,240	-	-	-	-	8,399,240
Trade debts	-	-	-	66,088,686	-	-	-	-	66,088,686
Loans and advances	-	-	-	108,261	-	-	-	-	108,261
Deposits and prepayments	-	-	-	23,287,551	-	-	-	-	23,287,551
Other receivables	-	-	-	7,312,056	-	-	-	-	7,312,056
Cash and bank balances	-	-	-	46,774,136	-	-	-	-	46,774,136
	<u>40,378,391</u>	-	-	<u>151,969,930</u>	-	-	-	-	<u>192,348,321</u>
Financial liabilities not measured at fair value									
Short term borrowing	-	-	-	-	-	-	-	-	-
Trade payables, accrued expenses and other liabilities	-	-	-	-	(99,159,218)	-	-	-	(99,159,218)
	-	-	-	-	(99,159,218)	-	-	-	(99,159,218)
	<u>259,565,692</u>	-	-	<u>151,969,930</u>	<u>(99,159,218)</u>	-	-	-	<u>312,376,404</u>

30.5 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, technology and infrastructure supporting the Company's operations either internally within the Company or externally at the Company's service providers, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of investment management behaviour. Operational risks arise from all of the Company's activities.

The primary responsibility for the development and implementation of controls over operational risk rests with the Board of Directors. This responsibility encompasses the controls in the following areas:

- requirements for appropriate segregation of duties between various functions, roles and responsibilities;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- ethical and business standards;
- risk mitigation, including insurance where this is effective.

31. CAPITAL RISK MANAGEMENT

The Company's objective when managing capital is to safe guard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and to maintain a strong capital base to support the sustained development of its business. Further, Pakistan Stock Exchange Limited also require the Company to maintain a minimum net capital.

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31.1 Base Minimum Capital

In compliance with the sub-regulation 2.1 of the Regulation Governing Risk Management (Regulations) of the Pakistan Stock Exchange Limited (PSX) (formerly Karachi Stock Exchange Limited), every Trading Right Entitlement Certificate (TREC) holder registered as a broker under Brokers and Agents Registration Rules, 2001, is required to maintain a Base Minimum Capital (BMC) in the amount and form as prescribed in the Regulations.

The PSX vide notice No. KSE/GEN – 10621 dated 21 December 2015 notified the TREC holder that in accordance with the Regulations, the BMC is comprised of the sum of notional value of the TREC, the break up value of 40% of the PSX shares (i.e. 1,602,953) allotted to the initial share holders and 1,000,000 Exchange shares out of 60% of the total shares (i.e. 2,404,430 shares) assigned to the PSX to meet the BMC deposit requirement.

The notional value of the TREC and the break up value of the shares for the purpose of BMC is determined by the PSX as under:

	2016 (Rupees)
Trading Right Entitlement Certificates	5,000,000
Break up value of PSX shares (Rs. 10.042 per share)	26,138,854
	<u>31,138,854</u>

32. NUMBER OF EMPLOYEES

	2016	2015
	----- (Number) -----	

The details of number of employees are as follows:

Average number of employees during the year	<u>23</u>	<u>22</u>
Number of employees at year end	<u>24</u>	<u>24</u>

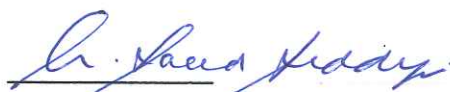
33. GENERAL

Comparative information has been re-classified, re-arranged or additionally incorporated in these financial statements, wherever necessary to facilitate comparative and to confirm with changes in presentation in the current year.

34. DATE OF AUTHORISATION

These financial statements were authorized for issue by the Board of Directors of the Company in their meeting held on 06 OCT 2016

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Chairman


Chief Executive