



2018 ANNUAL REPORT
التقرير السنوي



Vision

To be an exemplary national stock exchange with an international profile.

Mission

To provide a world-class trading environment characterized by equity, transparency and efficiency.

Objectives

- Offer a trading environment designed to serve and protect investors.
- Increase community awareness of financial markets and products. Forge strong relationships with domestic and international financial institutions and associations.
- Develop investment products that attract Palestinian Diaspora and foreign capital.
- Increase market depth and offer an increasingly broad range of financial tools and services.
- Foster an efficient, innovative and professional working environment by investing in human capital and state-of-the-art technology.





Indicators 2018

Key Financial Indicators

2018

General and administrative expenses

2,236,277 USD

(13.70%)

Operating Revenues

2,331,026 USD

Total Liabilities to Total Assets

10 %

Gross Revenue

2,947,836 USD

Total Liabilities to Total Equity

11 %



Key Financial Indicators

2018

Total Dividends Paid
(Cash & Stock) in 2017

mn **193** USD

%10 compared to 2016

Listed Companies

48

Dividend Yield
(5 years average)

5.79 %

Market Cap. Average growth
(2018-2014)

17.19 %

P/E

12.83



About the Palestine Exchange (PEX)

Established in 1995 as a private company aimed at promoting investment in Palestine, the PEX held its inaugural trading session in February 1997. In 2010, PEX transformed itself to become the second publicly traded Arab stock exchange entirely owned by the private sector.

Headquartered in Nablus, the Exchange provides investors with a fair, transparent and fully automated trading venue. It focuses on attracting a wide range of regional and global investors including those among the Palestinian Diaspora. With paid-up capital of US10\$ mn, the PEX is financially sound and able to weather a volatile world as demonstrated by its performance relative to other MENA exchanges during the global financial crisis.

Since inception, the Palestine Exchange has leveraged the latest technology to ensure maximum transparency, integrity and investor protection. PEX trading is carried out via the HORIZON system and overseen by the SMART electronic surveillance system. Clearing, settlement and depository functions are performed by the Clearing Depository & Settlement Center (CDS) using the EQUATOR system. Both systems are tightly coupled NASDAQ OMX products. The

PEX developed and uses its own e-disclosure “IFSAH” and e-IPO “EKTITAB” systems. Trading will shift to Nasdaq’s next-generation “X-Stream” platform in 2019’s second half.



As of 31 December 2018, the PEX listed 48 companies with a total market capitalization of some USD3.73 bn. Listed companies are grouped into five sectors: banking and financial services, insurance, investment, industry, and services. Shares trade in Jordanian dinars and US dollars. Eight-member brokerage firms with operations across the West Bank and Gaza Strip operated via the PEX. Four banks act as authorized custodians on behalf of foreign investors: Cairo Amman Bank, Bank of Palestine, The National Bank, and Bank of Jordan.

Classed as “Frontier Market” by FTSE Russell and as a stand-alone country within both MSCI and S&P indices, the Palestine Exchange maintains an international presence via membership in several organizations including the World Federation of Exchanges (WFE), the Federation of Arab Stock Exchanges, the Federation of Euro-Asian Stock Exchanges (FEAS), the Forum of Islamic Stock Exchanges, the Africa & Middle East Depositories Association (AMEDA), and the Association of National Numbering Agencies (ANNA).

The PEX is registered (562601187) with the Companies Controller at the Ministry of National Economy and operates under the supervision of the Palestinian Capital Market Authority.

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Overview 2018

January

- Held a press conference for the securities sector.

February

- Signed “X-Stream” next generation trading platform purchase agreement with Nasdaq OMX.

March

- Published the 16th edition of Panorama Exchange e-Bulletin.
- Participated in the annual conference of the World Exchange Congress.

May

- Held the year’s first meeting of the Palestine chapter for Middle East Investor Relations Association - MEIRA.

June

- Automated account administration services.
- Published the 17th edition of Panorama Exchange e-Bulletin.
- Participated in “Technology of the Future” conference organized by Nasdaq OMX.
- Participated in the annual conference of the National Numbering Agency.

July

- Hosted a delegation from the European Bank for Reconstruction and Development (EBRD).
- Listed company visits.
- Signed a program sponsorship agreement with CNBC Arabia for “A’in Ala Falastin”

August

- Held the second meeting of the Palestine chapter for Middle East Investor Relations Association-MEIRA.

September

- Participated in the annual meeting of the Arab Federation of Exchanges (AFE).
- Attended the Exchanges forum of the Organization of Islamic Conference (OIC).
- Participated in the 10th annual conference of the Middle East Investor Relations Association-MEIRA.

October

- Participated in World Investor Week.
- Published the 18th edition of Panorama Exchange e-Bulletin.
- Held the third meeting of the Palestine chapter for Middle East Investor Relations Association.
- Participated in the 59th annual conference of the World Federation of Exchanges (WFE).
- Took part in the Euro Asian Federation of Exchanges (FEAS) annual meeting.

November

- Convened a webinar featuring global port operator DP World’s investor relations manager.

December

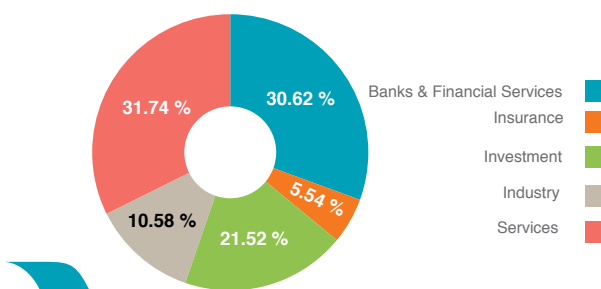
- MEIRA-Palestine Chapter visited companies’ controller at the Ministry of National Economy.
- Developed a new PEX website.
- Produced an infographic movie about PEX achievements.

PEX Performance Summary

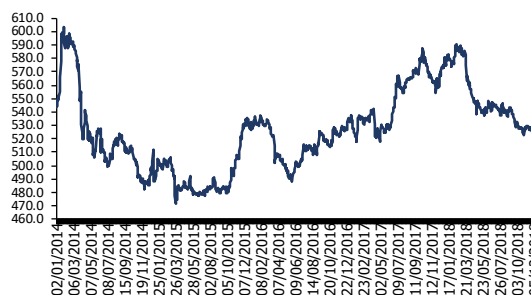
Geopolitical developments during 2018 impacted both the Palestine economy and the PEX. Trading volume declined 32 percent while trading value fell 25 percent. Total market capitalization shrank four percent. The table below details recent years' performance:

Indicators	2014	2015	2016	2017	2018	Change 2018/2017
Number of listed companies	48	49	48	48	48	0.00 %
Number of subscribed shares	1,637,790,538	1,672,754,881	1,695,107,952	1,805,025,267	1,896,726,915	5.08 %
Market capitalization (million USD)	3,187,259,624	3,339,196,379	3,390,122,335	3,891,495,531	3,734,921,019	- 4.02 %
Value of traded shares (million USD)	353,917,125	320,388,213	445,152,368	469,070,221	353,476,019	- 24.64 %
Number of traded shares	181,545,154	175,229,463	232,817,327	271,163,750	185,071,060	- 31.75 %
Number of concluded transactions	41,257	31,014	34,010	53,205	35,030	- 34.16 %
Number of trading days	245	246	245	243	243	0.00 %
Share turnover (%)	11.08	10.48	13.73	15.02	9.76	- 35.03 %
AI-Quds Index (points)	511.77	532.73	530.16	574.58	529.35	- 7.87 %
Average value of traded shares per session	1,444,560	1,302,391	1,816,948	1,930,330	1,454,634	- 24.64 %
Average number of traded shares per session	741,001	712,315	950,274	1,115,900	761,609	- 31.75 %
Average number of transactions per session	168	126	139	219	144	- 34.25 %
Number of member companies	8	8	8	8	8	0.00 %
Number of accounts of (CDS)	107,755	110,638	114,341	117,311	119,598	- 1.95 %

Market Capitalization by sector 2018



AI-Quds Index 2018-2014



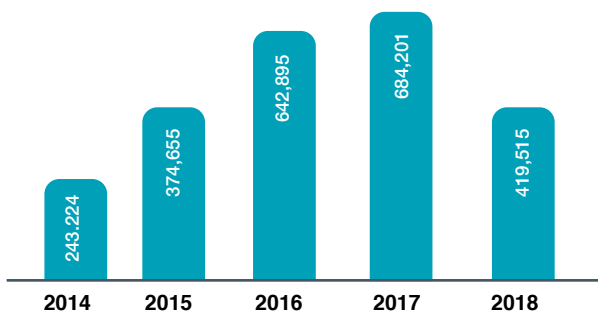
Financial Performance Summary

Despite the declines in trading value and volume, PEX achieved a net after-tax profit of USD420,000, largely as a result of enhancements to operational efficiency. Below are key financial indicators:

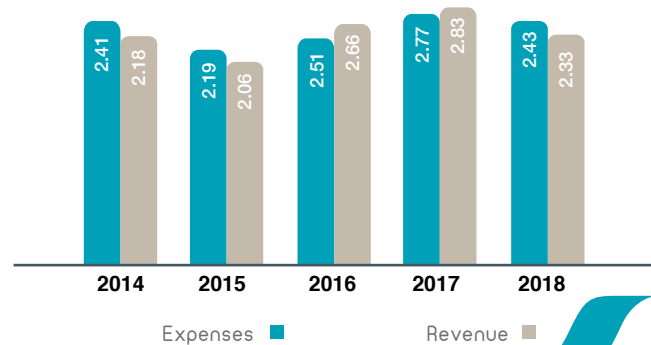
Indicator	2014	2015	2016	2017	2018	Change 2018/2017
Total assets	11,480,780	11,876,356	12,934,931	13,265,313	13,175,974	- 0.67 %
Total liabilities	1,128,990	1,171,021	1,508,544	1,189,973	1,335,241	12.21 %
Net equity	10,351,790	10,705,335	11,426,387	12,075,340	11,840,733	- 1.94 %
Liquidity ratio	11.19	33.75	20.19	25.55	19.20	- 24.85 %
Cash ratio	179 %	349 %	408 %	376 %	74 %	- 80.32 %
Earnings per share	0.024	0.037	0.064	0.068	0.042	- 38.24 %
Return on shareholder equity	0.02	0.035	0.056	0.057	0.035	- 38.60 %
Rate of return on total assets	0.02	0.032	0.05	0.05	0.032	- 36.00 %
Total liabilities to total assets	10 %	10 %	12 %	9 %	10 %	11.11 %
Total liabilities to total equity	11 %	11 %	13 %	10 %	11.28 %	12.80 %
EBITDA	590,673	657,423	984,254	972,607	711,559	- 26.84 %

Currency (USD)

Gains (losses)



Operating Revenues & Expenses (Million USD)







Chairman's Letter

**“ we plan to grow the
company's scope of
investment products
and tools ”**



Maher Al Masri

Chairman of the Board of Directors

Dear Shareholder,

In 2018, we lost Dr. Farouq Z'aiter, a dear friend and an eminent economist who led the Palestine Stock Exchange for many years with utmost skill and ability. He will be remembered with much love and appreciation as we continue to advance the Exchange's strategic vision.

The year was also marked by a variety of systemic challenges. Globally, the Sino/US trade dispute and the UK's intention to leave the European Union had a negative impact on stock markets around the world, the turmoil exacerbating Arab stock exchanges' own economic and political circumstances. Locally, political tension grew following the US withdrawal of support for UNRWA and United States Agency for International Development (USAID) programs. Directly affecting a broad swathe of productive activity, and coupled with the ongoing conditions imposed by occupation, Palestine's economy suffered. It is remarkable then, that most Palestine Stock Exchange-listed firms achieved profits rivalling those of the previous year.

Nor have these challenging conditions hindered the Exchange's strategic development activity. The PSE aims to be a fully digital exchange, applying leading edge information technology in all its systems and operations. A major step in that direction came with the acquisition of Nasdaq OMX's X-Stream trading platform set for launch in the second half of 2019. Additionally, as a market operator, we see the use of securities to finance small business as important to society and have begun work with the European Bank for Reconstruction and Development to build an equity financing platform specially designed to meet growing demand in this market segment.

Despite a drop in trading activity, the Palestine Stock Exchange achieved a net, after-tax profit of some USD420,000 in 2018. Expenses were reduced by approximately 12 percent compared to 2017. The earning per share was USD0.042.

Palestine's Al-Quds Index declined 7.87 percent over the course of the year with the value of traded shares falling 24.64 percent to USD353 million. Total market capitalization at year-end stood at some USD3.73 billion, down four percent from 2017.

Envisioning the future, your Board plans to grow the company's scope of investment products and tools to create value and financial opportunity across the broadest possible range of stakeholders.

Finally, on behalf of the Board, I would like to thank all PSE employees for their ongoing dedication to the company and its plans. I would also like to express my gratitude to all our partners in the securities sector, our auditors, and the Capital Market Authority for its ongoing cooperation.

Peace be upon you,

Maher Al Masri

Chairman of the Board of Directors

CEO's letter

“
2018

will be remembered as a watershed in the evolution of our operations and services.

”



Ahmad Aweidah

CEO

Dear Shareholder,

Well into our third decade, the Palestine Stock Exchange remains committed to its strategic vision and the year 2018 will be remembered as a watershed in the evolution of our operations and services. The fruits of our ongoing efforts to strengthen IT infrastructures to support expansion and match international standards will be harvested in the years to come.

As with many stock markets around the world, 2018 also saw political and economic conditions weigh on trading activity. The Exchange's main source of income, trading value fell about 25 percent from 2017. The Al Quds index declined by 7.87 percent, roughly in line with most Arab stock markets.

Despite the year's operational challenges and the extraordinary political and economic conditions that prevailed in Palestine, our net, after-tax income was USD419,515. The share of the net profit was USD0.042. Administrative expenses decreased 14 percent while total operating revenues decreased 17.7 percent.

Our commitment to leveraging technology to refine our operations and open up new markets passed a milestone with the agreement to acquire Nasdaq OMX's X-Stream trading platform. Set for roll out in the second half of 2019, the new system will integrate

with multiple, specially designed applications for a greatly enhanced electronic trading environment. In tandem, we launched a new, internally developed “Account Management Service at the Depository and Transfer Center”, significantly improving links between brokerage companies and the Depository and Transfer Center. We also began work on a new Exchange website. Robust and user friendly, it will be among the region’s most advanced offerings. Additionally, the Exchange moved forward with the European Bank for Reconstruction and Development and Funderbeam to develop a financing platform for Palestinian SMEs.

Throughout the year, the Exchange remained in close contact with our listed firms. Field visits and correspondence kept us abreast of their challenges and achievements and helped us gather important feedback about our services. Striving to deepen the market, we also conducted outreach initiatives among potential corporate listings.

As part of its awareness raising mission, the Exchange once again hosted several student delegations and presented capital markets seminars at Palestinian universities. We also participated in International Investor Week, organized by the Palestinian Capital

Market Authority. In addition to a presence in various electronic publications and reports, we launched a major campaign to boost the Exchange’s social media profile which included producing an infographic film. We strengthened our regional media presence through sponsorship of the program ‘Eye on Palestine’. Targeting the Arab public and the Palestinian communities in Diaspora, it aired on CNBC throughout the year. And, as always, the Palestinian Investor Relations Branch, headed by the Stock Exchange, continued its work to promote best practice investor relations among enlisted companies.

All in all, I am pleased with our achievement in a tumultuous year. As always, I hope 2019 will bring stability and with it a return to growth for the Palestinian business sector.

In conclusion, I would like to thank you, dear shareholder, for your trust and support. Thanks also to our partners and clients, to the Board of Directors, and to the entire Exchange team for their energy, enterprise and enthusiasm.

I wish you all success.

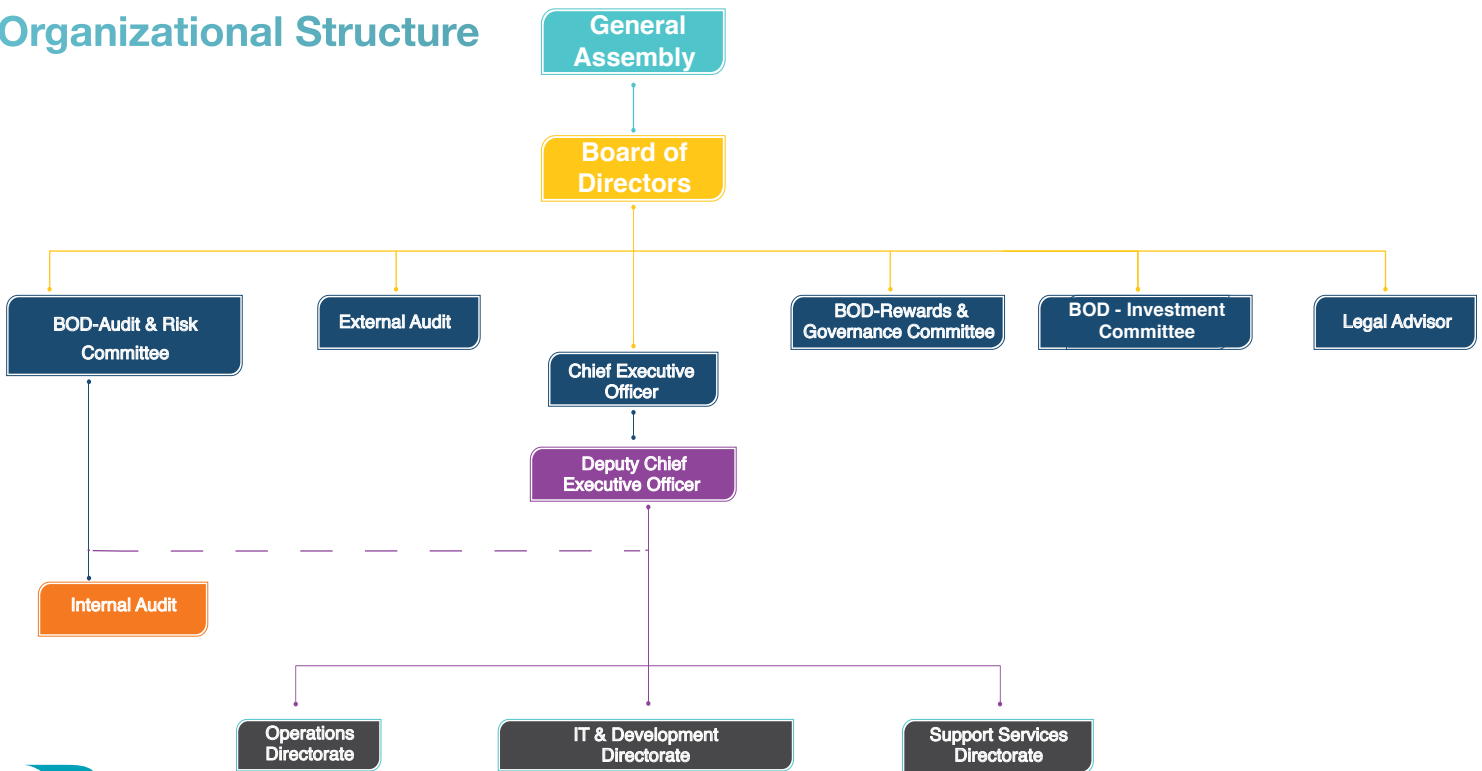
Ahmad Aweidah

CEO

Growth Strategy



Organizational Structure



Members of the Board of Directors

Annual Report 2018



Mr. Maher Masri
Chairman
Representative of (PADICO)



Mr. Abdallah Sabat
Vice Chairman
Representative of (PADICO)



Mr. Ziad Turk
Board member
Representative of (PADICO)



Dr. Mohammad Shtayyeh
Board member
Representative of Al-Sanabel
Trading and Investment
Company Ltd.



Mr. Nihad Kamal *
Board member
Representative of (PADICO)



Dr. Faisal Awartani
Board member
Representative of (PADICO)

*Mr. Nihad Kamal joined the board of directors on Feb. 20th, 2018.

No board member holds an executive position within the PEX. All have Palestinian nationality except Mr. Ziad Turk who is Jordanian.

Permanent Committees:

- Audit and Risk Committee
- Governance and Remuneration Committee
- Investment Committee

Members of the Executive Management



Mr. “Ahmad Sameh” Aweidah
Chief Executive Officer



Mr. Khaled Jian
Deputy Chief Executive Officer
Manager of Financial and Administrative
Affairs Department
Secretary of the Board of Directors



Mr. Mohammad Abu Baker
Acting Chief of Operations



Mr. Mohammad Obeid
Director of Information
Technology and Development



Mrs. Yasmeen Amarneh
Dept. Manager at the
information Technology &
Development Directorate.



Mrs. Lina Abu Diab
Manager of Trading,
Surveillance & Member Affairs.



Mr. Mohammad Khraim
Manager of Public Relations &
Investor Education
Chairman of the Middle East
Investor Relations Association
Palestine Chapter



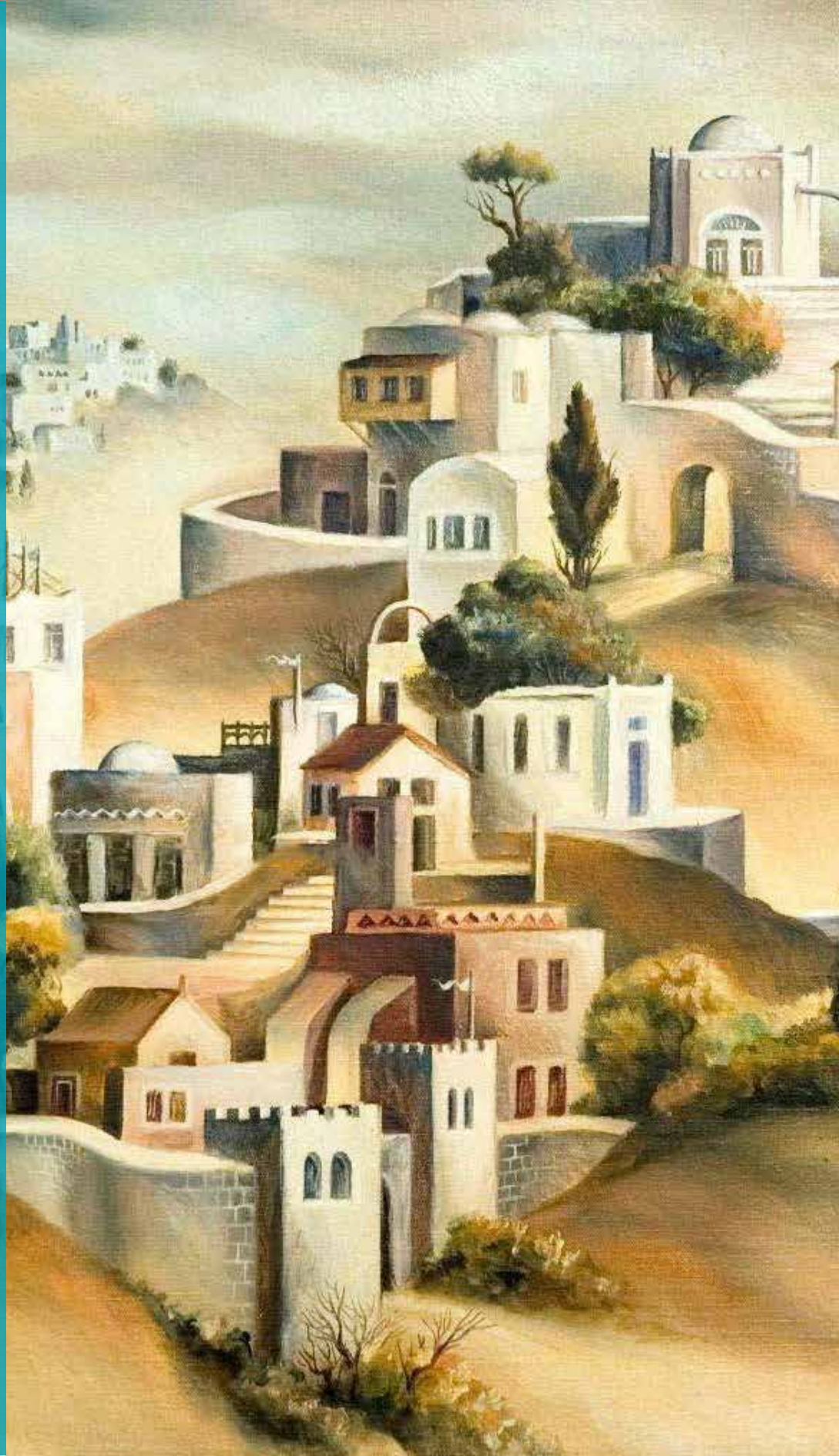
Mr. Khalid Hamdan
Manager of Clearing Depository
& Settlement Center (CDS)

Independent External Auditor
Ernst & Young

Legal Advisor
Al-Zubi Law Office

2018

**Major Achievements
and Developments**



Major Achievements and Developments

European Bank for Reconstruction and Development (EBRD) and Funderbeam crowdfunding platform delegations

In June, delegations from the EBRD and Funderbeam met with PEX staff, government officials and private business entities to explore the potential of an equity crowdfunding platform for small and medium-sized Palestinian companies. Feasibility studies are ongoing.

Commenced implementation of Nasdaq OMX's "X-Stream" trading platform

Based on a purchase agreement signed 4 February 2018, PEX will roll out a specially customized version of Nasdaq OMX's X-Stream trading platform in the second half of 2019. Considered the world's most popular transaction matching engine, X-Stream technology's extensibility makes it particularly cost-effective for small and medium-sized exchanges. X-Stream can process up to 100,000 transactions per second, allowing the Exchange to offer more products and services to investors and listed companies.



Automated account administration services

In preparation for X-Stream implementation and in tandem with CDS systems upgrades, PEX automated trading account administration services for its brokerage clients. Launched in June 2018, the new system integrates CDS reports and streamlines procedures.

Developed new PEX website

Offering robust content, advanced comparison and analysis tools and an adaptive, mobile-friendly interface, the new PEX website is designed to meet the growing needs of an increasingly sophisticated investment community.

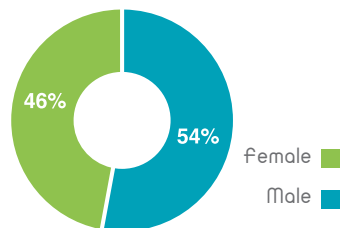
Listed and non-listed public shareholding companies outreach

PEX's CEO conducted field visits at public shareholding companies seeking feedback on PEX service delivery. Unlisted public shareholding companies were also contacted with information about listing's advantages.

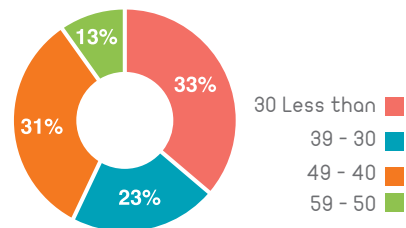
Human Resources

At the end of 2018, PEX had 39 employees, an increase of five employees (%11) over 2017. The increase was due to the Technology and Development Directorate's growing systems development program. Please find additional employee data below.

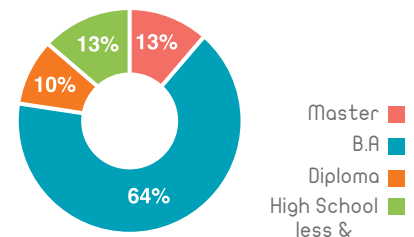
Staff distribution by Gender



Staff distribution by age



Staff distribution by education



Training and Development

PEX believes in qualifying its employees through training participation, below main training courses attended by employees during the year 2018:

- Public Relations management and electronic media, Amman –Jordan. Attended by one employee.
- Federation of Euro-Asian exchanges (FEAS) members' annual training, Cairo- Egypt. Attended by one employee.
- Ernest & Young International Financial Standard (IFRS) Updates Seminar, Ramallah-Palestine. Attended by one employee.
- AMIDEAST English Language Course. Attended by 13 employees.

Investment Awareness

● International investor week

For the second year in a row, PEX took part in the International Investor Week held October 7-2. Initiated by the International Organization of Securities Commissions (IOSCO) and organized locally by the Capital Market Authority, PEX participation included hosting 100 students for an Exchange tour as well as presenting investment workshops at Birzeit and An-Najah National Universities.

● Student Visits

PEX received about 450 students from universities and schools as part of its «Visit the Stock Exchange» program.



● University Presentations

PEX staff gave presentations at several universities during the year.

Media Outreach

- **CNBC Arabia Program “A’in Ala Falastin”**
Aiming to boost interest in Palestinian economic affairs, PEX granted USD15,000 for this sponsorship. Geared to an audience of regional Arab and Diaspora Palestinian communities, the weekly report featured PEX and listed company news and interviews with prominent experts.
- **Press conference for the securities sector**
Held January 22 at the Millennium Hotel in Ramallah, the conference was attended by local and regional media representatives. Ahmad Aweidah, CEO of PEX, and Barraq Nabulsi, GM of PCMA, discussed key challenges and achievements in the securities sector during 2017 and aspirations for 2018. PEX launched its “PALESTINE EXCHANGE” app at the conference.
- **Infographic movie**
As part of a social media campaign, “PEX Recent Achievements”, a 1h16m movie sought to boost the general public’s awareness about the Exchange and its role in society and capital markets.

- **Media activity**
The Palestine Exchange remained a trusted source of information and comment on developments in the Palestinian securities sector.
- **Data dissemination**
PEX expanded information dissemination initiatives with local and external entities. The Data Dissemination Agreement includes the publication of spot stock prices, trading statistics and other information of interest to investors and dealers.



Electronic Publications

- **Panorama Exchange e-Bulletin**
Panorama, a quarterly e-bulletin, features in-depth coverage of issues affecting the Palestinian securities sector. Two Panorama supplements were distributed with Al-Ayyam newspaper. They can be found here: <http://www.pex.ps/panorama>
- **Monthly Investor Bulletin**
A summary of economic and corporate news along with PEX information and performance updates.
- **Monthly Trading Bulletin**
Provides statistical data on trading and other market activity.
- **Monthly CDS Report**
Data on investors, ownership, shares and CDS operations.
- **Quarterly Members Report**
Statistical data on brokerage firm performance.

Palestine Chapter of the Middle East Investor Relations Association – MEIRA

Annual Report 2018

Headed by PEX, MEIRA's Palestine Chapter held three meetings in 2018. Chapter activities also included:

- A webinar where Chapter members learned about (Dubai Ports) DP World's advanced investor relations program.
- A visit with the companies' controller at the Ministry of National Economy aiming to streamline general assembly notification procedures.



Regional and International Presence:

PEX participated in a variety of specialized financial markets events:

- World Federation of Exchanges (WFE) annual conference – Athens
- Arab Federation of Exchanges (AFE) annual conference – Abu Dhabi
- Federation of Euro Asian Exchanges (FEAS) annual conference – Abu Dhabi
- Middle East Investor Relations Association (MEIRA) annual conference. – Dubai.
- The Organization of Islamic Cooperation (OIC) Exchanges Forum – Istanbul
- Nasdaq Conference on “Technology of The Future” “TOF” – Stockholm
- Association of National Numbering Agencies (ANNA) annual conference – New York
- World Exchange Congress – Muscat



Local participation

PEX is a member of both the steering and technical committees of the financial inclusion in Palestine.

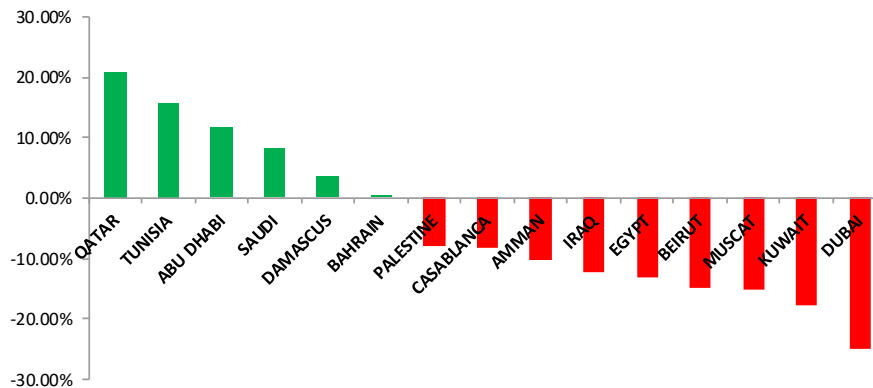
**PEX Technical
Performance**



AI- Quds Index

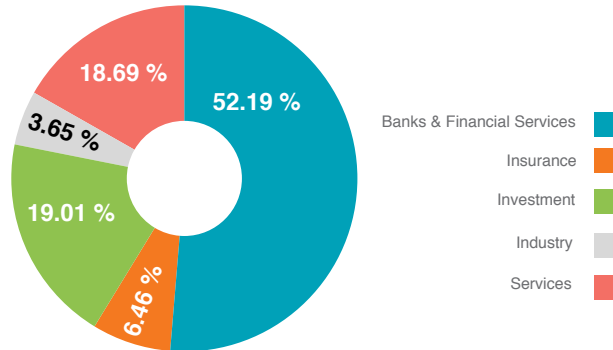


The PEX's AI-Quds index closed the year at 529.35 points, a decline of 7.87 percent over 2017. The index reached a peak value of 590.1 points while registering a low of 522.83 points. The general Index, which includes all listed companies, declined 17.84 points, closing the year at 293.02 points, down 5.74 percent from 2017. In terms of sector indices performance, banking and financial services closed the year at 150.03 points, a decline of 8.54 percent while the investment sector index declined by 7.61 percent closing the year at 28.18. The services sector index closed the year at 40.1 points, a drop of 7.90 percent. For their part, the insurance sector and the industry sector indexes closed the year in the green — 90.26 points (+27.96%) and 98.64 points (+ 0.49 %) respectively. The graph below displays the performance of Arab markets in 2018.



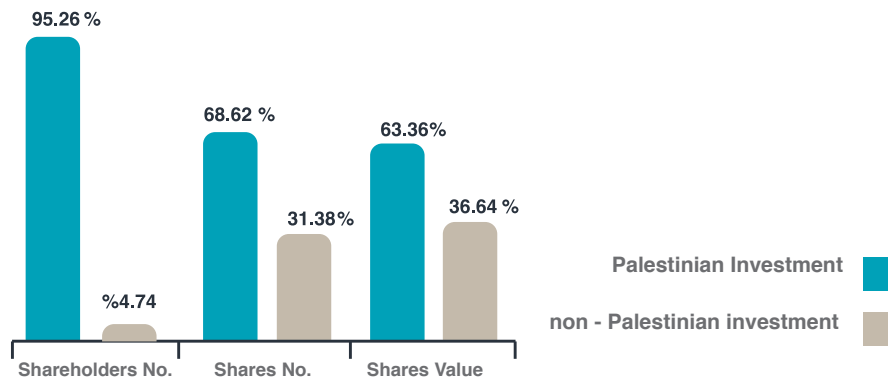
Market Capitalization & Trading:

As of 31 December 2018, PEX listed 48 companies with a total market value of USD 3,735 mn. This represented a year-over-year decline of 4.02 percent. Trading value reached USD353 mn, a drop of 24.64 percent. Trading volume was 185 million shares, a 31.75 percent reduction compared to 2017. The diagram below shows trading volume by sector.



Investment Structure

At year end, 3,365 foreign investors (4.74 percent of all investors) owned USD 1,368 mn of PEX market capitalization or 36.64 percent. Institutional investors make up 67 percent of market capitalization owning 1,267 mn shares valued at USD2,348 mn.



**Shareholder
Information**



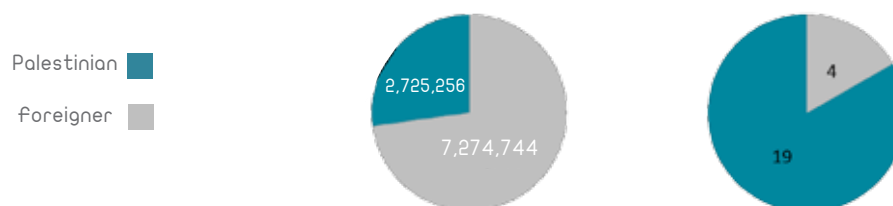
Shares and Shareholders

On 31 December 2018, the PEX had 23 shareholders that owned a total of 10 million shares. The table below provides a breakdown of shareholders and shares.

Shareholders According to Volume of Shareholding

Shareholding volume	No. of shareholders		Percentage of shareholders		Volume of shares		Percentage of shares	
	2018	2017	2018	2017	2018	2017	2018	2017
1 -5,000	7	7	30 %	30 %	9,362	9,362	0.09 %	0.09 %
5,001-10,000	4	4	17 %	17 %	34,332	34,332	0.34 %	0.34 %
10,001-50,000	4	5	17 %	22 %	163,300	213,200	1.63 %	2.13 %
50,001-100,000	3	2	14 %	9 %	160,600	110,700	1.61 %	1.11 %
100001 & above	5	5	22 %	22 %	9,632,406	9,632,406	96.33 %	96.33 %
TOTAL	23	23	100 %	100 %	10,000,000	10,000,000	100 %	100 %

Shareholders by nationality



Type of Shareholders

	No. of Shareholders		Volume of Shares		Percentage of Shares	
	2018	2017	2018	2017	2018	2017
Individuals	4	4	23,000	23,000	0.23%	0.23%
Institutions:						
Companies	14	14	9,759,126	9,759,126	97.59%	97.59%
Brokerage companies	1	1	44,100	44,100	0.44%	0.44%
Banks	2	2	172,674	172,674	1.73%	1.73%
Funds	2	2	1,100	1,100	0.01%	0.01%
TOTAL	23	23	10,000,000	10,000,000	100 %	100 %

► Major Shareholders

	Name of Shareholding Company	Share Volume in 2018/12/31	%	Share Volume in 2017/12/31	%
1	Palestine Development & Investment PADICO Holding	7,471,594	74.72 %	7,471,594	74.72 %
2	.Al-Sanabel Trading and Investment Company Ltd	1,700,000	17.00 %	1,700,000	17.00 %
3	Capital Trust Investments Limited	500,000	5.00 %	500,000	5.00 %
	TOTAL	9,671,594	96.72 %	9,676,006	96.72 %

● Major Shareholder Overview:

■ Palestine Development & Investment PADICO Holding

PADICO is a limited public holding company established on 14 October 1994 according to Liberian nonresident company law. Among its corporate purposes is investment development and promotion in a variety of economic sectors including industry, real estate, tourism, housing, and services. It also conducts technical research and provides consultancy services through the establishment of subsidiaries or projects managed either wholly or partially by it or through its subsidiaries.

■ Al-Sanabel Trading and Investment Company Limited

A private limited liability shareholding company with a share capital of USD 50 mn registered in Palestine with the Companies Controller (562482216) on 17 February 2009. Its registered headquarters is in Ramallah City, and it may establish sub-offices in Palestine and abroad in accordance with the law.

■ Capital Trust Investments Limited

Established and registered in 1993 in Guernsey. A subsidiary of Capital Trust Group. Founded in 1985, CTG is a private equity, real estate and corporate finance advisory firm operating in the UK, Europe, USA, the Middle East and North Africa. The Group has managed nine funds to date and has offices in London, Beirut, Washington and New York.

► PSE Trading Activity

The table below details PSE share trading activity:

Item	2018	2017
Number of traded shares	200	200
Value of traded shares	990	990
Number of executed transactions	2	2
Share average turnover	0.00002 %	0.00002 %
Number of share trading sessions	2	2
Company's market value on 31 December 2017	49,500,000	49,500,000
Percentage of free shares	5.36 %	5.36 %
Highest trading price in 2017 (USD)	4.95	4.95
Lowest trading prices in 2017 (USD)	4.95	4.95
Closing prices on 31 December 2017 (USD)	4.95	4.95

Quarterly share price details were as follows:

Statement	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Highest price (USD)	4.95	4.95	4.95	4.95
Lowest price (USD)	4.95	4.95	4.95	4.95
Closing price (USD)	4.95	4.95	4.95	4.95

► Information dissemination to shareholders

The PEX adheres to a shareholder communication policy which guarantees accurate, clear and transparent information dissemination to its shareholders and the investment community. The PEX utilizes a variety of platforms including its website (www.pex.ps), e-mail (pex@pex.ps), traditional mail, social media, landline and daily newspapers to communicate with shareholders. PEX communication policy is available in the investor relations section of its website.

▶ Dividend Distribution

PEX dividend distribution policy depends upon profitability and sufficient reserves. Distribution is not guaranteed. The following table shows dividends distributed:

Fiscal year	Distribution type	Value of Distributed Dividends	Dividend/Share
2017	Cash	600,000	0.06
2008	Cash	1,900,000	0.19
2007	Cash	2,000,000	0.20
2006	Cash	3,112,709	0.31
2005	free shares	7,171,000	2.53

▶ PEX Competitive Features

Palestinian Securities Exchange successful development rests on several qualities, including:

- Since inception, the PEX has leveraged modern technology; it was the first fully automated electronic Arab financial market.
- PEX listed companies are among the largest and most innovative in Palestine, contributing enormously to the Exchange's success and evolution.
- Prospects are good for increasing the number of listed companies based on the provisions of the Securities Law No. 12 for the year 2004.
- A vital component of any economy, the Exchange is a primary capital raising source for public firms and provides investment opportunities for a multitude of investors, including bank portfolios.
- The Exchange is favored by investors who seek swift and easy trading governed by clear and transparent rules.
- The Exchange serves small and large investors alike. Any amount of capital investment is possible in a diverse range of companies.

► Investment Policy

The PEX Board of Directors Investment Committee develops and monitors the investment policy of the company's assets in line with the Committee's guidelines. Most global stock markets, including the PEX, depend largely on trading returns to drive revenue. However, the PEX strives to diversify income streams and reduce its dependence on fees and trading commissions. PEX may carry out measured investment activities in order to upgrade and promote the efficiency of financial assets utilization and enhance its role in serving both shareholders and the Palestinian economy.

The investment policy maintains a disciplined investment philosophy based on the preservation of capital while seeking opportunities to maximize returns. Balancing investment objectives with risk analysis, it seeks safe, liquid, and long-term opportunities. It avoids speculation and gives priority to promising and practical domestic investments that serve national economic development.

Areas of investment include capital productivity and service companies, monetary market and debt tools, and real estate. As of 2018/12/31, PEX held the following investments:

Investment	Amount
Financial Assets at fair value from statement of comprehensive income:	
V Tel Co.	113,101
(Rawan) portfolio	955,929
Dubai Financial Market	2,764
Arab Bank	877,189
Financial Assets at amortization	7,000,000

► Risks and Challenges

Major risks faced by the PEX are those commonly associated with political risks, the Palestinian internal situation as well as domestic, regional and international economic crises. While it is difficult to find any risk-free investment, and in addition to the general familiar risks just mentioned, there are special potential risks that PEX might face which should be accommodated for irrespective of the possibility of their occurrence. Nor may they be the only risks to take into account since there could be other unknown or intangible risks. The realization of any of the risks mentioned below could have a substantial negative impact on our work, the outcomes of our operations and financial position.

● Risks of Legislation

The Exchange is supervised by the Palestinian Capital Market Authority (PCMA) and the instructions it issues. The PCMA regulates the non-banking financial sector, including the securities industry, securities advisors and other persons working in the securities sector. Any changes to the rules and regulations issued by the PCMA might affect the activities of the Exchange. Note that the PCMA receives fees assessed as a percentage of the Exchange's commissions, being the main source of income for the Exchange.

● **Competitive Edge**

Like other countries in the region, except the UAE, Palestine has one exchange only. Considering that most other countries have only one exchange and the limited number of public shareholding companies operating in the West Bank and Gaza Strip, establishment of a second exchange is not expected. Instead, competition lies in nearby markets, particularly Jordan, Egypt and the UAE, which sometimes drain considerable local liquidity. The banking sector is also considered a competing market.

● **Political and Economic Trends**

The Exchange is registered in Palestine in the city of Nablus. Political fluctuations, especially the Intifada, have adversely affected the economy causing high unemployment rates leading to poverty and limited investment.

● **Stock Price Volatility**

Despite controls placed on share trading following listing, prices are subject to market fluctuations. There will be no guarantee that the value of the shares will rise or that the share price does not fall.

● **Risk of Legal Action**

Foreseeable potential legal risks that we may be exposed to may arise from third party claims in relation to multi-party trading.

▶ **Changes and Future Expected Indicators**

Future indicators are difficult to predict given the singular nature of PEX work which is tightly correlated with prevailing political and economic conditions. Thus any improvement in these conditions will have a direct impact on trading, the PEX's main source of income. PEX income is expected to rise driven by new listings and the provision of additional services.

▶ **Privileges**

As in most countries, Palestine has only one stock exchange. Still, PEX has no exclusive privileges or government protection under the Securities Act or any other law or regulation. Moreover, it has no patents or rights of excellence.

▶ **Research and Development**

While PEX does not provide any products or services that require setting a written policy on research and development, it periodically allocates financial resources to update its electronic infrastructure. In addition, various research initiatives are conducted through internal teams, specialized committees and external parties.

► Procedures and Legal Issues

As at 31 December 2018, PEX and other parties appear as defendants in two cases at USD 3,999,172. PEX management and legal advisor believe these cases are not based on a strong or sound legal basis or cause. With little chance of success, no provision has been made for these issues in the financial statements. Note that no significant legal issues are pending from previous years.

► Resolutions of Financial Impact & Non-Recurrent Operations

investment in the Arab bank.

► Issues Referred to Voting by Shareholders

During its ordinary meeting 2018/04/17, the General Assembly unanimously approved the Board of Directors' report of PEX operations, the Financial Statements, and Auditor's Report of 2017. A new seven-member board of directors was elected for a four-year term — six members for PADICO and one for Al-Sanabel Co. The General Assembly also unanimously approved a cash dividend of six percent for the year 2017, discharged the members of the board of directors for the exercise of their mandates, re-elected Ernst & Young as external auditor and delegated responsibility for setting their fees to the board of directors.

► Assets

The following table shows main PEX assets on 31 December 2018:

#	Assets	Amount (USD)
1	Real estate	1,720,821
2	Decorations and leasehold improvement	33,207
3	furniture and office equipment	24,273
4	Computers	268,251
5	Cars	54,415

► Changes in company business

- Agreement with Nasdaq to acquire the X-Stream trading platform.
- Developed account administration services for brokerage firms.

▶ **New products and services**

The PEX seeks to diversify its income sources by providing innovative services. These initiatives are announced via a press release in local newspapers and media agencies as well as the PEX website.

▶ **Seasonal business of the company**

PEX business is permanent throughout the year and it is indefinite by a period of time or a certain season.

▶ **Business interruptions**

PEX has incurred no interruptions to its business since inception.

▶ **Operations outside Palestine**

PEX has no operations abroad.

▶ **Differences between the audited financial statement and preliminary financial data**

There were no differences

▶ **Exchange Rate**

Exchange rates for daily accounting operations are taken daily from the Palestinian Monetary Authority. On 2018/12/31 the exchange rate for USD/ILS was 3.7614 and 0.708 for USD/JOD.

Addresses and contact numbers

Palestine Securities Exchange
Amman St. - Trust Building - 4th Floor - Nablus - Palestine
Phone : +0970 9 2390999 Fax: +0970 9 2390998
e-mail : pex@pex.ps Website : www.pex.ps

Investor Relations

Phone: +0970 9 2390945 Fax: +0970 9 2390998
Mail: IR@pex.ps

Please visit the PEX website's Investor Relations section for a review of the 2018 Annual Report along with reports of previous years.

PEX Governance



► Commitment to the Code of Corporate Governance

Compliant with the Palestinian company Code of Corporate Governance, the PEX prepared a Governance Guide to assist board members in carrying out their responsibilities towards shareholders and other stakeholders. Aiming to promote thoughtful and independent decision-making, the guide covers five areas: Board of Directors, Board Committees, auditing, investor relations, and disclosure and transparency. Since its April 2012 stock market listing, the PEX has flawlessly complied with all data disclosure regulations,

laws and instructions. Neither the PCMA nor the Palestine Exchange has ever required clarification on any information or disclosure of a missing item.

PEX strongly supports widespread adoption of the good governance code for companies in Palestine. A vital component of the Palestinian economy, it also seeks to create a model in this respect for listed companies and regional markets through its management of a regulated financial market under a legal structure integral and transparent.

► Board of Directors Responsibilities

Pursuant to PEX bylaws, the Board of Directors consists of seven members elected by the General Assembly by secret ballot for a term of four years. The current Board was elected 17 April 2018 and consists of seven members representing two legal entities. The term of the current Board ends in April, 2022.

The Board of Directors oversees PEX affairs and identifies its mission and strategy in cooperation with the Executive Management. The Board reviews internal controls of financial reports, conducts risk assessment and ensures the existence of exemplary governance criteria. The Board's tasks include:

- Review, approve and supervise implementation of PEX's strategic plan.
- Organize PEX financial, accounting and administrative matters.
- Ensure compliance with relevant instructions and laws.
- Assess main risks and review strategies to limit them or reduce their impact.
- Appoint the CEO and eminent officials, identify their executive mandate and responsibilities and assess their performance.
- Provide high governance criteria and assess the performance of the Board, its members and committees.

► Changes on the Board of Directors:

- Dr. Farouq Zuaiter, PEX Chairman, passed away.
- Mr. Maher Masri was appointed the chairman until the new board election.
- Mr. Nihad Kamal joined PEX board of directors on Feb.,20th ,2018.
- Dr. Atef Alawneh membership in the board was terminated on April 21st,2018
- A new board of directors was elected.

▶ Board of Directors

Mr. Masri is chairman of the Palestine Islamic Bank and a board member of the Palestine Investment Fund (PIF) and Sanad Construction Resources Company.

Previously, he was Chairman of Palestine Capital Market Authority from 2006 to 2014. In 1996 he was elected a Member of the Palestinian Legislative Council (Parliament) and later served as Minister of National Economy until 2005. As Minister, he chaired the Palestinian Investment Promotion Agency (PIPA), Palestine Standards Institution (PSI) and Palestinian Industrial Estates and Free Zone Authority (PIEFZA).

Mr. Masri served as the Chairman of the Palestine Development Fund from 1995 to 2006, as Member of the MAS Board of Trustees from 2001 to 2007, and as General Manager of the Vegetable Oil Industries Company in Nablus from 1991 to 1996. He also worked in various positions in the private sector in Jordan and Saudi Arabia (1987-1976) and as an economist in Lebanon & the UK (-1973 1976).

Mr. Masri holds a BA and an MA degree in economics from the American University in Beirut.

Mr. Maher Masri



Chairman
Representative of Palestine
Development and
Investment Co. (PADICO)
Membership Date:
04 May 2014
Date of Birth:
25 December 1946

Abdallah E. Sabat is Managing Partner of Siraj Fund Management Company (SFMC). Mr. Sabat led the financial and legal aspects of the establishment of the first private equity fund in Palestine. With USD 90\$M in committed capital, Siraj Palestine Fund I, was awarded Best Asset Manager in Palestine in 2013, in recognition of the success of the first Fund.

Mr. Sabat heads a team of 15 professionals and currently has USD 300\$M of assets under management deployed in over 20 diversified companies in sectors including finance, agriculture, real estate, services, and information and communication technology. Mr. Sabat is fundraising for a second fund with expected committed capital of 100\$M.

Mr. Sabat has over fifteen years of experience in accounting, auditing, investment, private equities, deal structuring, financial analysis and monitoring, and investor relations. He serves on several private and public company boards and chairs the Board of Directors of Palestine's leading leasing company. Prior to joining SFMC, he was with Ernst and Young as manager-in-charge of several public listed corporations, investment funds and private companies, including Palestine Development and Investment Limited, Palestine Investment Fund, and The Housing Bank.

Mr. Sabat holds an MBA with distinction in Finance & Accounting from the University of Liverpool, and a BA in Accounting with a minor in Business Administration from Bir Zeit University. He is also a Certified Public Accountant in the State of New Mexico, USA and a Certified Internal Auditor by the Institute of Internal Auditors. Mr. Sabat is a member of the American Institute of Certified Public Accountants and the Institute of Internal Auditors.

Mr. Abdallah Sabat



Vice Chairman
Representative of Palestine
Development and
Investment Co. (PADICO)
Membership Date:
27 May 2017
Date of Birth:
01 Dec. 1980

Mr. Ziad Turk

Mr. Ziad Turk is Secretary General and Regional Director of the Palestine Development and Investment Company (PADICO). Mr. Turk currently represents PADICO on several subsidiary and allied company boards of directors. In addition to being a PEX board member and audit committee member, Mr. Turk is a member of the Audit Committee of PADICO Company.

Mr. Turk is Vice Chairman of Rum Agricultural Company, and Vice Chairman of the South Agricultural Company. He is a board member of several public joint stock companies in Jordan and Palestine including Marafiq and PRICO Jordan.

Previously, he held various positions in the fields of civil aviation and trade in several countries. He served as Deputy General Manager of ASTRA Construction Company, and General Manager of ASTRA Transport Company.

Mr. Turk received his Civil and Commercial Aviation certificate from the USA in 1971. He also holds other degrees in Business Administration.



Board Member
Representative of Palestine
Development and
Investment Co. (PADICO)
Date of Membership:
14 March 2010
Date of birth:
28 June 1947

Dr. Faisal Awartani has been CEO of Alpha International since its inception in 2001.

Having supervised more than 200 projects, Dr. Awartani is highly experienced in designing and implementing socio-economic studies, market research, monitoring and evaluation projects. With a solid grasp of data analytics and predictive analytics at both the theoretical and practical levels, he has developed credit scoring models using techniques such as multivariate regression analysis and tree-based analysis. In the telecom sector, he developed churn models to help spot risky customers.

Dr. Awartani led various market research/informatics and policy analysis studies supporting large scale local private sector companies and international organizations that carried out projects in Palestine in the area of economic development like Chemonics International, USAID, DAI, ARD, CHF, UNDP, World Bank, and Quartet.

Dr. Awartani currently works at the regional level promoting predictive analytics and Big Data approaches to decision making among both public and private sector organizations.

Dr. Awartani was Assistant Professor of Statistics at Birzeit University from 1993 to 2005. Previously, he was an instructor at American University in Washington DC from 1989 to 1993.

Dr. Awartani earned his PhD (1993) in Statistics and his master's degree in Computer Science from American University in Washington DC. He holds a bachelor's degree in Mathematics with distinction from Birzeit University (1986).

Dr. Faisal Awartani



Board Member
Representative of Palestine
Development and
Investment Co. (PADICO)
Date of Membership:
27 May 2017
Date of Birth:
1964

Mr. Nihad Kamal has 25 years' experience in finance, accounting, business development and management. He specializes in deal sourcing, exit negotiations, strategy setting and implementation. Mr. Kamal began his career in 1994 as an Assistant Manager/VAT Auditor in the Customs Directorate, Ministry of Finance. From 1999 to 2010, he assumed a variety of positions within Palestine Development and Investment Company and its subsidiaries before moving to Siraj Fund Management Company. He gained experience in investment management, strategy formulation, planning, financial monitoring, organizational restructuring, expansion strategies, and providing exit recommendations on investment targets and transactions.

In 2017 Mr. Kamal rejoined PADICO as Deputy General Manager where he led its restructuring process and now initiates and oversees a variety of ongoing strategic investment projects.

Mr Kamal serves on a variety of shareholding companies' boards and in 2016 was appointed to the board of the "Advisory Committee for Group Projects" by the Minister of Social Development to review and approve investment initiatives for the UNDP's "Productive Families Economic Empowerment Programme".

Mr Kamal studied accounting and investment management in Jordan in the early 1990s and earned his CPA certificate from the United States in 2005. He is also Certified Islamic Specialist in Capital Markets (2015) and Certified Investment Manager (2009).

Mr. Nihad Kamal



Board Member
Representative of Palestine
Development and
Investment Co. (PADICO)
Date of Membership:
20 February 2018
Date of Birth:
21 February 1973

Since 2006, Dr. Shtayyeh has been both Minister of the Palestinian Economic Council for Development and Reconstruction (PECDAR) and Palestine Governor of the Islamic Development Bank. He also chairs the Board of Trustees of the Arab American University and is Vice Chairman of the Board of Trustees of Al Quds University.

Dr. Shtayyeh served as President of the Palestinian Center for Regional Studies (PCRS) from 1996 to 2008 and is a former Minister of Public Works and Housing.

He obtained his PhD in Economic Development from Sussex University, UK, a Diploma in Development Studies from the same university, and a BA in Economy and Business Administration from Birzeit University.

Dr. Mohammad Shtayyeh



Board Member
Representative of
Al-Sanabel Trading and
Investment Company Ltd.
Date of Membership:
11 April 2012
Date of Birth:
17 January 1958

▶ Executive Management

Ahmad Aweidah has been Chief Executive Officer of the Palestine Exchange since June 2008. His strategic vision is to position the PEX on the world's investment map, reaching out through international road shows to communicate the dynamism of its listed companies to frontier market investment funds as well as Palestinian Diaspora communities. Aweidah believes the PEX must play a leading role in the development of an independent national economy.

Before joining the PEX, Aweidah held senior positions with a variety of private sector institutions including VP Commercial and Operations at Palestine's leading telco PALTEL Group and VP of Retail Banking at Palestine's largest bank the Arab Bank (2005-2002). Previously, Aweidah worked in the fields of banking, marketing and telecoms in Palestine and France.

Aweidah's core professional skills include setting and driving strategy, leadership, and mentoring. He also has strong sales, marketing, customer service, management and business development expertise. He has extensive experience in the design, planning and roll out of new products and services.

Aweidah gained multicultural and interpersonal skills through studying, living and working in the UK, France and the Middle East. He speaks three languages: Arabic, English and French. Aweidah holds a Master's Degree in Economics from the University of St. Andrews, Scotland. He is a fellow of the Aspen Institute Global Leadership Initiative.

Ahmad Aweidah



CEO

Date of Appointment:
22 June 2008
Date of Birth:
22 June 1970

Mr. Khalid Jian is Deputy Chief Executive Officer and Head of the Administrative and Financial Affairs department at the Palestine Securities Exchange. He also serves as Board Secretary and chairs the PEX Employees' Provident Fund. Mr. Jian is a senior financial executive with over 30 years' experience in finance, accounting, management, and the financial services industry.

Formerly head of the Accounting department at Birzeit University, Mr. Jian joined the Palestine Securities Exchange in February 1996. Since then he has held positions of increasing scope and responsibility including leadership of the Administrative and Financial Affairs department and the Clearing Depository and Settlements department. Mr. Jian has assumed the role of acting Chief Executive Officer, chaired various executive committees, lectured at many PEX training courses, and represents the Exchange at local and international events. He also was editorial manager of the Palestinian Capital Market Journal, a specialized economic publication issued by the Palestine Securities Exchange.

Mr. Jian earned a master's degree in Tax Disputes from An-Najah National University and a bachelor's degree in Accounting from Birzeit University.

Khaled Jian



Deputy CEO

Date of Appointment:
6 February 1996
Date of Birth:
5 October 1961

Mohammad Obeid

Mr. Obeid, PEX's technology manager, joined the organization in 2004 following 12 years' experience in starting, leading and mentoring technology start-ups in the finance, manufacturing, government and education sectors. Today he works full time applying technological solutions to stock market and financial problems. This work involves complex transactions processing systems, automation and integration, virtualization, DRP and BCP and high availability, information security and complex ICT networks and infrastructures.

A strategic, results-oriented manager, Mr. Obeid leads large-scale, high-value IT projects that ensure PEX and its customers have access to cutting edge technology.

Mr. Obeid holds a BA in Computer Science from An-Najah National University. He is also a Certified Systems Engineer.



**Director of Information
Technology &
Development**

Date of Appointment:
1 September 2004
Date of Birth:
1 January 1976

Khalid Hamdan

Mr. Hamdan has more than 20 years' experience in securities sector accounting and management with a focus on central depository clearing and settlement and post-trade services.

Since joining the Exchange in 1998, Mr. Hamdan has held a wide variety of positions and committee memberships. As CDS manager, he has overseen the launch of an array of leading edge products and services designed to enhance capital markets efficiency. Mr. Hamdan represents PEX and the CDS at local seminars as well as regional and global gatherings including AMEDA & ANNA. He holds a BA and MBA from An-Najah National University.



**Manager of Clearing
Depository & Settlement
Center-CDS**

Date of Appointment:
23 May 1998
Date of Birth:
26 February 1967

Mohammad Khraim

Following a -13year career in the banking sector, Mr. Khraim joined PEX in 2008 taking on a variety of assignments until assuming responsibility for investor relations in the run-up to the exchange company's 2012 listing. In his current post, Mr. Khraim ensures local media interest in PEX and leads the Exchange's investor education efforts. A member of many PEX committees, he is also head of the Palestine chapter of the Middle East Investor Relations Association. Mr. Khraim holds an Executive MBA from Indiana University of Pennsylvania. He is a US Certified Anti-Money Laundering Specialist (CAMS).



Manager of Public Relations & Investor Education

Date of Appointment:
5 October 2008
Date of Birth:
12 August 1969

Mohammad Abu Baker

Mr. Abu Baker is Acting Chief Operations Officer. He joined PEX in 2006 and has played a pivotal strategic role representing PEX at local and regional levels. Mr. Abu Baker's positions have included serving as Coordinator of the Corporate Governance file, as a member of the National Governance Team, as Coordinator of PEX Regional and International Relations, and as Quality Management Representative. He also led the FEAS Surveillance Task Force which issued a technical guide for stock exchange surveillance professionals. Before joining PEX, he worked in the banking sector in Jordan. Mr. Abu Baker holds a Bachelor's Degree in Accounting from An-Najah National University and is a member of the Executive MBA program at Northwestern University.



Acting Chief Operations Officer

Date of Appointment:
6 March 2006
Date of Birth:
24 July 1978

Mrs. Lina Abu Diab is Manager of Trading, Surveillance and Members Affairs. She joined the Exchange in 2007, having previously served as Head of Public Relations and Investor Education where she oversaw the implementation of a variety of investment awareness programs, public relations activities and social responsibility initiatives. She is currently a member of the PEX employees saving fund committee, as well as the strategic planning team of the Palestinian Capital Market Sector.

Mrs. Abu Diab holds a BA in Business Administration from Bethlehem University.

**Mrs. Lina
Abu Diab**



**Manager of Trading,
Surveillance and
Members Affairs**

Date of Appointment:
15 September 2007
Date of Birth:
25 May 1985

Ms. Yasmin Amarna is a manager in the Development and Technology Directorate. Since joining the Exchange in 2009, she has played a key role in the conception, design and implementation of the Exchange's automation and information technology strategy.

Ms. Amarna holds a BA in computer information technology from the Arab American University in Jenin.

**Mrs. Yasmin
Amarna**



**Manager at the
development and
technology directorate**

Date of Appointment:
14 December 2008
Date of Birth:
05 November 1985

▶ Board Committees

● Audit Committee

Date of composition: April 29th, 2019

Members:

Mr. Abdullah Sabat	Vice Chairman	Member
Mr. Ziad Turk	Board Member	Member
Dr. Faisal Awartani	Member	Member

Note: The committee head will be elected in the first meeting 2019.

Powers and Responsibilities:

The Audit Committee has the following powers and responsibilities

- Review financial statements prior to submission to the Board of Directors, meet with external auditors, and make recommendations about the financial statements to the Board.
- Examine and approve the internal annual audit plan, review internal audit reports, and follow up action taken thereon.
- Present recommendations to the Board of Directors on PEX accounting policies and review accounting cases that have a significant impact in the financial statements.
- Supervise the internal surveillance and control systems, and verify their adequacy to the state of affairs of internal and external audit.
- Present recommendations to the Board of Directors on the appointment, termination of contract, internal auditor reward, and objectively assess the external audit while taking into account any other actions the external audit has carried out outside the scope of audit.
- Receive and follow up compliance and internal surveillance reports relevant to compliance management (i.e., supervise the application of Capital Market Authority instructions).
- Ensure the safety of internal surveillance and control procedural operations.
- Ensure the efficaciousness of procedures and implemented policies relevant to administrative affairs and personnel matters.
- Communicate and report remarks on financial statements to the Financial Department.
- Discuss financial statements and present relevant recommendations to the Board of Directors.
- Review the scope, results and adequacy of PEX internal and external audit.
- Examine the fees paid to the external auditor to ensure that they have no impact on his independence and integrity, and that he has not undertaken any action that could affect his independence.
- Approve the additional operations of the external audit, provided that they do not affect his independence, and their wages.
- Perform any other tasks assigned to it by the Board of Directors.

● Governance and Compensation Committee

Date of Composition: April 29th, 2019

Members:

Mr. Maher Masri	BOD Chairman	Head of Committee
Dr. Mohammad Shtayyeh	Board Member	Member
Mr. Nihad Kamal	Board Member	Member

Powers and Responsibilities:

Governance

- Ensure the availability and application of high standards of corporate governance at PEX.
- Constantly review work procedures to verify compatibility and efficiency.
- Develop policies ensuring adherence to laws and regulations, and ensure the application of those policies in order to upgrade staff performance.
- Issue a report on the Board's performance, check the attendance of the members in the meetings of the Board as well as in the meetings of the sub-committees, and appraise their contribution to discussion and issuance of resolutions in order to assist the Board in assessing its own performance at least once a year.
- Verify compliance with the norms of disclosure and transparency as well as with all the regulations, laws, bylaws, and governance code, and prepare relevant reports.
- Ensure that the employment and management system adopted by PEX guarantees compliance with the laws, regulations and instructions, on the one hand, and respect for the rights of other stakeholders on the other. The employment and management system must include clear and transparent minimum employment announcement procedures, and eliminate favoritism or discrimination in appointments.

Remuneration

- The Compensation Committee is responsible for ensuring the existence of a clear and well-defined compensation policy whereby rewards and salaries are sufficient to attract qualified personnel to work at PEX. The rewards and salary scale must be consistent with that of similar companies.
- Develop clear policies for the compensation and rewards of Board members and senior executive officers. The development of the policies must accommodate for the use of norms relevant to performance. Moreover, the Committee shall undertake review and amendment of the salary scale in the market.
- The Compensation Committee shall recommend rewards (including the monthly salary and other benefits) for the Executive Manager. In addition, the Committee shall revise and approve the salary scale.
- Disclose a summary on the rewards policy used by PEX in its Annual Report and present recommendations to the Board of Directors on rewards for Board members and Executive Management. Moreover, the remuneration received by the members of the Board including allowances and other financial and in-kind privileges shall be determined.

● Investment Committee

Date of Composition: April 29th, 2019

Members:

Mr. Maher Masri	BOD Chairman	Head of Committee
Dr. Faisal Awartani	Board Member	Member
Mr. Nihad Kamal	Board Member	Member
Mr. Ahmad Aweidah	CEO	Member

Powers and Responsibilities:

- Study the assets of the company and develop an investment strategy and relevant policies in line with the interest of the company and obtain the approval of the Board of Directors.
- Directly supervise the company's investments internally and abroad.
- Ensure the safety of investment procedures and develop relevant controls in order to ensure the interest of the company.
- Appoint an efficient service provider to perform specific investment tasks in accordance with laws and regulations.
- Select a service provider, or terminate their contract, according to the orientation of the Committee and for the benefit of the company.
- Determine the fees and commissions of the service provider.
- Make recommendations on signing of contracts with the service provider in line with the company's strategy and policies.
- Receive and follow up the reports and recommendations submitted by the service provider.
- Monitor and periodically assess the performance of the service provider against investment returns.
- Regularly follow up the assessment of the performance of the investment portfolio of the company, and periodically present relevant reports to the Board of Directors.
- Whenever necessary submit recommendations to the Board of Directors concerning the amendment of the investment strategy and relevant policies.
- Review the Investment Committee Guide and make necessary recommendations for its amendment.
- Perform any other relevant task assigned to it by the Board of Directors.

▶ Board of Directors Meetings and Decisions

During 2018, the Board of Directors held six meetings. Following are its main decisions:

Meeting	Date	Time	Main Decisions
First	2018/03/05	12:00	<ul style="list-style-type: none"> • Elected Mr. Maher Masri Chairman of the board of directors. • Named Mr. Nihad Kamal a board member representing PADICO. • Recommended to the general assembly a cash dividend distribution of six percent. • Reviewed contents of the annual report and approved its publishing. • Scheduled PEX 2018 General Assembly meeting and approved its agenda. • Approved the resignation of Mr. Ahmad Aker, Chief of Operations.
Second	2018/04/17	13:00	<ul style="list-style-type: none"> • Approved Q1 financial statements. • Approved the provident fund financial statements for 2017. • Approved Ms. Lina Abu Diab a member for PEX provident fund.
Third	2018/04/29	15:00	<ul style="list-style-type: none"> • Elected a new board of directors for a four-year term. • Formed the board of directors' committees. • Approved authorized signatories for bank accounts. • Delegated both the chairman and the CEO to set the fees of the external auditors (Ernst &Young) for 2018.
Fourth	2018/07/23	12:00	<ul style="list-style-type: none"> • Approved 1H 2018 financial statements. • Approved the governance and remunerations committee recommendation on amending the provident fund bylaws. • Extended the investment contract with Rawan International for another year.
Fifth	2018/10/22	13:00	<ul style="list-style-type: none"> • Approved Q2018 3 financial statements. • Discussed the governance and remunerations committee recommendation on subscribing with the social security. • Discussed the governance and remunerations committee recommendation on paying out the employees' end of service dues.
Sixth	2018/12/11	13:00	<ul style="list-style-type: none"> • Approved PEX annual plan 2019. • Approved PEX 2019 budget. • Approved PEX 2019 holidays. • Approved a reduction in board members' compensation for 2019. • Approved employees 2018 bonus. • Named Dr. Faisal Awartani a member in the audit and risk committee. • Approved the resignation of Mr. Khalid Ji'an, Deputy CEO.

▶ Board and Sub-Committee Meeting Attendance

Members of the Board of Directors attended meetings either in person or through tele-conference to contribute to drawing up PEX strategies and policies and take actions necessary for its operations. The table below records each Board Member's attendance.

	Board of Directors	Audit & Risk Committee	Governance & Remuneration Committee	Investment Committee
Investment Committee	6	0	3	1
Mr. Maher Masri	6/6	-	3/3	1/1
Mr. Abdullah Sabat	6/5	-	-	-
Mr. Ziad Turk	6/3	-	-	-
Mr. Nihad Kamal	6/6	-	3/3	1/1
Dr. Mohammad Shtayyeh	6/5	-	3/1	-
Dr. Faisal Awartani	6/6	-	-	1/1
Mr. Ahmad Aweidah	----	-	-	1/1
*Dr. Atef Alawneh	6/2	-	-	-

*His membership has finished on 2019/04/29.

▶ Board of Directors Meeting Compensation Policy

The policy is based on Decision No. 2017/15 issued by the Board of Directors of Palestine Securities Exchange plc. on 09 April 2017 concerning the reimbursement, compensation and reward system for the members of the Board of Directors based on the delegation of the General Assembly on 4 April 2017. The decision provides for reimbursing members of the Board for the meetings attended with the amount of USD 2,000 for each member, USD 2,500 for the Chairman of the Board and USD 500 for each meeting of the board committees, noting that committee's meetings total reimbursement shouldn't exceed USD 2,000 for each member. (A new, reduced compensation policy was approved effective of 2019/01/01.)

▶ Benefits and Remuneration of the Board of Directors

Board Member	Title	Attendance Reimb. (USD)	Committees Attendance Reimb.(USD)	Total Annual Benefits (USD)
Mr. Maher Masri	Chairman	15,000	2,000	17,000
Mr. Abdullah Sabat	Vice Chairman	10,000		10,000
Mr. Ziad Turk	Vice Chairman	6,000		6,000
Mr. Nihad Kamal	Board member	12,000	2,000	14,000
Dr. Mohammad Shtayyeh	Board member	10,000	500	10,500
Dr. Faisal Awartani	Board member	12,000	500	12,500
Dr. Atef Alawneh	Former board member	4,000		4,000
Mr. Khalid Ji'an	Board Secretary	* 3,000		3,000

* The Secretary of the board 2018 reimbursement

▶ Senior Management Benefits and Remuneration

Item	2018 (\$)	2017(\$)	Change (%)
Salaries (USD)	* 800,641	580,067	38 %
End-of-service indemnity (USD)	82,898	66,868	24 %

*Contains bonuses of USD 267,304 and salaries of USD 533,337.

▶ Transactions by the Board of Directors in Securities

Pursuant to Articles (90 ,11) of the Securities Act No. 12 of 2004 and the disclosure instructions issued by the Palestinian Capital Market Authority as well as the valid disclosure system in the Palestine Exchange, each member of the PEX Board of Directors, their representatives, and relatives of the first degree shall be committed to the disclosure of their transactions in securities in listed companies in general and in the PEX in particular. Disclosure shall take place before both the Palestinian Capital Market Authority and the PEX within three work days as of the date of dealing with securities, noting that based on the disclosure instructions issued by the Palestinian Capital Market Authority, members of the PEX Board, their representatives and relatives of the first degree as well as the PEX employees and their relatives of the first degree shall be prohibited from selling purchased shares before one month of owning them in order to avoid taking advantage of any insider information. PEX Board of Directors made no transactions of PEX shares in their personal capacity.

▶ Relationship between Board Members and Executive Management Staff

There is no blood relationship or affinity between any of the Board Members and the Executive Management staff.

▶ Transactions with Related Parties

Transactions with relevant parties in 2018 compared to 2017:

#	Item	2018(\$)	2017(\$)
1	Financial Assets at amortization	7,000,000	7,000,000
2	Accounts receivable from key shareholders	1,572	1,560
3	Amounts receivable from sister companies	177,032	250,302
4	Available-for-sale investments	955,929	930,524

▶ Dominancy

Palestine Development and Investment Company (PADICO) owns approximately 74.72 percent of PEX shares. The Board of Directors considers broadening the investor base as a strategic goal.

▶ Subsidiaries

The PEX has no subsidiaries.

▶ Shareholding in companies with over 10 percent of its capital

The PEX is not a shareholder in any company with over 10 percent of its capital.

▶ PEX shareholdings

Company	Amount (USD)
V Tel Co.	113,101
(Rawan) portfolio	955,929
Dubai Financial Market	2,764
Arab Bank	877,189

▶ Internal Surveillance and Compliance Systems

PEX activities are monitored by three external and one internal party to ensure its adherence to relevant instructions as well as to verify internal surveillance and control systems. The parties are:

● External Auditor

Annually audits and reviews PEX accounts to ensure accuracy and compliance with IFRS.

● PADICO's Internal Audit Department

The Audit department at the Palestine Development and Investment Company PADICO conducts the internal audit in PEX and regularly submits its reports to the Board's Audit & Risk Committee. The audit mechanism covers all financial aspects to ensure the efficiency of available control systems.

● Operations Compliance Section

The Operations Compliance Section reviews all daily technical operations to ensure compliance with Exchange and Palestinian Capital Market Authority instructions and regulations. It also monitors PEX operating risks and develops risk management procedures.

● Palestinian Capital Market Authority

The Palestinian Capital Market Authority conducts an audit that covers all technical departments and the operations compliance section to ensure PEX compliance with laws and regulations as well as with relevant instructions.

"No substantial observations or irregularities were found in the results of the 2018 audit."

▶ Standards that Ensure Timely Disclosure

As a public shareholding company, the Palestine Securities Exchange plc is committed to the PEX disclosure regulations and PCMA related instructions, including disclosure nature and timing. As the PEX seeks to be a role model for listed companies in applying the code of good governance, it ensures the highest level of integrity and transparency in its business.

▶ Standards that Ensure Disclosing the Conditions of Listing

The Palestine Securities Exchange plc was classified in the second market in light of its inability to comply with first market requirements. Second market listing conditions:

- The company's capital shall be over 500,000\$ USD.
- The company's capital shall be fully paid, or all shares instalments are overdue for payment by shareholders.
- The shareholders' equity net shall not be less than 50 percent of the company's paid up capital.

▶ Key Providers and Clients

Top five service providers in 2018:

#	Provider's Name	USD	%
1	Al Badawi Information Systems	283,245	28.72
2	Trust Real-estate Co.	81,899	8.31
3	Smarts (Asia) Limited	60,000	6.08
4	Al-Takaful Palestinian Insurance Co.(TIC)	54,277	5.50
5	United Motor Trade Co. ltd.	51,724	5.25

Top five clients in 2018:

#	Name of Client	%
1	Lotus Financial Investment Co.	16.85
2	United Securities Co.	12.88
3	Sahem Trading and Investment Company	11.37
4	Al-Wasata Securities Co.	8.30
5	Al Arabi Investment group Co.	4.72

▶ Claims and Provisions Against Board Members and Executive Management

None of the board members or executive management declared bankruptcy, there are no suits or provisions issued against any of them, and no decree has been issued to prevent any of them from doing business or certain administrative activities during the last five years

▶ Employment Contracts

Employment contracts are permanent and compatible with Palestine labor law.

**Corporate Social
Responsibility**



► Policy

The Palestine Securities Exchange recognizes its vital role in the national economy and society. Social responsibility remains a priority and is based on the following components:

● The Exchange

To maintain a viable and innovative financial market as the backbone of the Palestinian economy, the PEX adopts best practices in governance, transparency, integrity and investor protection. The Exchange seeks to be a model amongst listed companies through its CSR, financial and technical mandates.

● Staff

The PSE strives to nurture an inspiring working environment characterized by fair, non-discriminatory employment policies. It safeguards employees' rights, invests in their capacities, provides a healthy and safe workplace and vigorously adheres to labor laws.

● Community

The PSE deploys financial, human and technical resources to promote sustainable community development. It encourages employee volunteerism and, based on available resources, extends financial and in-kind sponsorship support to other local institutions.

● Environment

PSE activities and operations do no harm to its environment; it monitors energy and water resources and avoids pollution. A notably successful workplace initiative has been the drive to reduce paper waste.

PEX Social Responsibility Activities Include:

- **Stock Simulation Competition**

Since 2009, more than 2,100 university commerce students have taken part in the popular annual contest. A unique opportunity to refine academic skills with practical exercise in a competitive environment, winners receive financial awards. (The contest was not held in 2018).

- **“Visit the Exchange”**

This program aims to raise investment awareness among Palestinian high school and university students. PEX staff provides a comprehensive overview of financial concepts, equity capital markets, and the role of the Exchange. The PEX hosted some 450 students throughout 2018.

- **Donations and Scholarships**

PEX made the following donation:

	Beneficiary	Donation (USD)
1	At-Tadamun Charitable Society-The Orphan fund	1000

- **Staff Social Committee**

PEX staff annually elects a social committee. Funded with both employee and PEX contributions, the social committee organizes recreational and social activities aimed at strengthen links among PEX employees and deepening their sense of company pride and spirit. This year the PEX contributed USD3,000.

- **Protection of our environment**

The PEX strives to improve the environment in which it operates by:

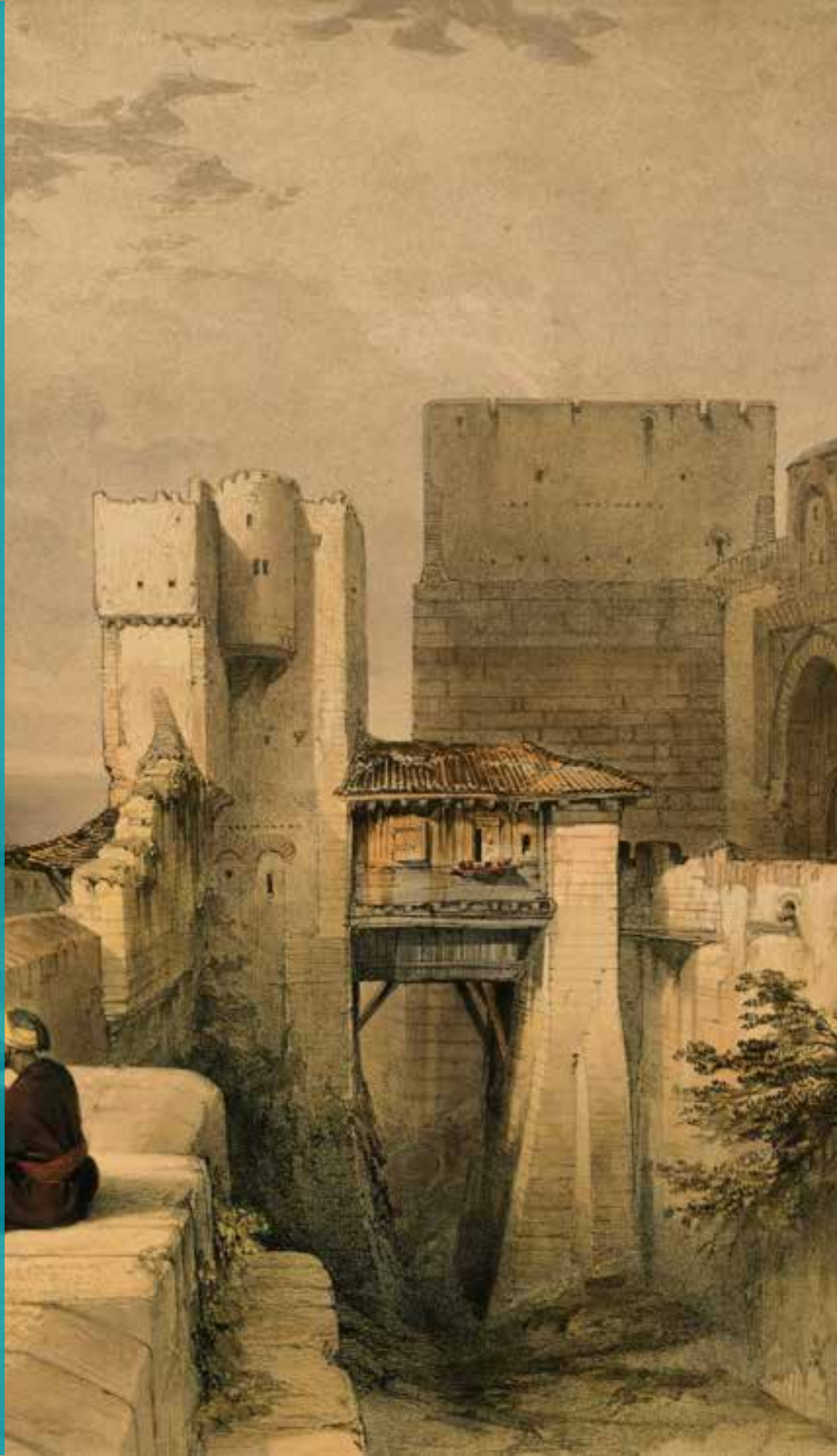
- **Leveraging environment-friendly technologies**

The PEX operates an electronic work environment that minimizes paperwork.

- **Creating a healthy work environment**

The PEX adopted a nonsmoking policy within its offices.

**Audited
Financial
Statements**



**Independent Auditor's Report
To the Shareholders of Palestine Securities Exchange Company P.L.C.**

Opinion

We have audited the financial statements of Palestine Securities Exchange Company P.L.C. (PSE), which comprise the statement of financial position as at December 31, 2018, and the statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of PSE as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of PSE in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements as at December 31, 2018. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter	How our audit addressed the key audit matter
<p>Revenue recognition</p> <p>Operating Revenues for the year ended December 31, 2018 amounted to USD 2,331,026. Stock trading and membership and registration fees are the major revenue streams within the business. The calculation of those accounts depends on the internal control procedures applied by PSE.</p> <p>We have considered this as a key audit matter due to significant risk in both the occurrence and accuracy of revenues and due to high volume of transactions during the year.</p>	<p>We have tested relevant controls on the billing and bookkeeping operations. In addition, our audit procedures included obtaining confirmation letters from financial intermediaries confirming their balances and total trading commissions incurred as of December 31, 2018.</p> <p>We also tested a sample of journal entries that are related to membership and registration fees.</p> <p>Details of revenues are disclosed in Note (18) to the financial statement.</p>

Other information included in the PSE's 2018 Annual Report

Other information consists of the information included in the PSE's 2018 Annual Report other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The PSE's 2018 Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of Management and the Board of Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors is responsible for overseeing PSE's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



**Building a better
working world**

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PSE's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on PSE's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause PSE to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements as at December 31, 2018 and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Ernst & Young – Middle East

License # 206/2012

Abdelkarim Mahmoud

License # 101/2017

Ramallah - Palestine

March 21, 2019

Palestine Securities Exchange Company P.L.C.

STATEMENT OF FINANCIAL POSITION

December 31, 2018

	Notes	2018 USD	2017 USD
Assets			
Non-current assets			
Property and equipment	3	2,100,967	1,972,217
Projects in progress	4	330,621	-
Financial assets at fair value through other comprehensive income	5	1,948,983	1,081,831
Investment property	6	1,215,017	1,215,017
		<u>5,595,588</u>	<u>4,269,065</u>
Current assets			
Financial assets at amortized cost	7	7,000,000	7,000,000
Accounts receivable	8	91,426	472,940
Other current assets	9	197,242	198,182
Cash and cash equivalents	10	291,718	1,325,126
		<u>7,580,386</u>	<u>8,996,248</u>
Total assets		<u>13,175,974</u>	<u>13,265,313</u>
Equity and liabilities			
Equity			
Paid-in share capital	11	10,000,000	10,000,000
Statutory reserve	12	1,822,409	1,780,457
Fair value reserve	5	(404,490)	(350,368)
Retained earnings		422,814	645,251
Net equity		<u>11,840,733</u>	<u>12,075,340</u>
Non-current liabilities			
Provision for employees' indemnity	14	940,521	837,833
		<u>940,521</u>	<u>837,833</u>
Current liabilities			
Accounts payable	15	62,527	33,556
Other current liabilities	16	309,346	289,188
Income tax provision	17	22,847	29,396
		<u>394,720</u>	<u>352,140</u>
Total liabilities		<u>1,335,241</u>	<u>1,189,973</u>
Total equity and liabilities		<u>13,175,974</u>	<u>13,265,313</u>

Palestine Securities Exchange Company P.L.C.

STATEMENT OF INCOME

For the Year Ended December 31, 2018

	Notes	2018 USD	2017 USD
Revenues from contracts with customers	18		
Trading and transfer commissions		1,442,056	1,871,101
Membership, registration and binding fees		658,537	636,848
Securities collateral commission		143,533	201,803
Other operating revenues		86,900	124,133
		<u>2,331,026</u>	<u>2,833,885</u>
General and administrative expenses	19	(2,236,277)	(2,592,441)
Depreciation	3	(195,822)	(180,920)
		<u>(101,073)</u>	<u>60,524</u>
Other Revenues			
Investment income		402,684	411,617
Interest revenue		38,258	33,322
Other revenue, net	20	175,868	286,224
Profit for the year before Income Tax		<u>515,737</u>	<u>791,687</u>
Income tax expense	17	(96,222)	(107,486)
Profit for the year		<u>419,515</u>	<u>684,201</u>
Basic and diluted earnings per share for the profit of the year	21	<u>0.042</u>	<u>0.068</u>

Palestine Securities Exchange Company P.L.C.

STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended December 31, 2018

	<u>2018</u>	<u>2017</u>
	<u>USD</u>	<u>USD</u>
Profit for the year	419,515	684,201
Other comprehensive income		
Items not to be reclassified to profit or loss in subsequent periods:		
Change in fair value of financial assets at fair value through other comprehensive income (OCI)	<u>(54,122)</u>	<u>(35,248)</u>
Total other comprehensive income	<u>(54,122)</u>	<u>(35,248)</u>
Total comprehensive income for the year	<u><u>365,393</u></u>	<u><u>648,953</u></u>

Palestine Securities Exchange Company P.L.C.

STATEMENT OF CHANGES IN EQUITY
For the Year Ended December 31, 2018

	Paid-in share capital USD	Statutory reserve USD	Fair value reserve USD	Retained earnings USD	Net Equity USD
<u>2018</u>					
As at January 1, 2018	10,000,000	1,780,457	(350,368)	645,251	12,075,340
Profit for the year	-	-	-	419,515	419,515
Total other comprehensive income	-	-	(54,122)	-	(54,122)
Total comprehensive income for the year	-	-	(54,122)	419,515	365,393
Transferred to statutory reserve	-	41,952	-	(41,952)	-
Cash dividends (Note 13)	-	-	-	(600,000)	(600,000)
As at December 31, 2018	<u>10,000,000</u>	<u>1,822,409</u>	<u>(404,490)</u>	<u>422,814</u>	<u>11,840,733</u>
<u>2017</u>					
As at January 1, 2017	10,000,000	1,712,037	(315,120)	29,470	11,426,387
Profit for the year	-	-	-	684,201	684,201
Total other comprehensive income	-	-	(35,248)	-	(35,248)
Total comprehensive income for the year	-	-	(35,248)	684,201	648,953
Transferred to statutory reserve	-	68,420	-	(68,420)	-
As at December 31, 2017	<u>10,000,000</u>	<u>1,780,457</u>	<u>(350,368)</u>	<u>645,251</u>	<u>12,075,340</u>

The attached notes 1 to 28 form part of these financial statements

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2018

	Notes	2018 USD	2017 USD
Operating activities:			
Profit for the year before income tax		515,737	791,687
Adjustments for:			
Depreciation		195,822	180,920
Interest revenue		(38,258)	(33,322)
Investment income		(402,684)	(411,617)
Provision for employees' indemnity		138,249	113,695
Loss (Gain) on disposal of property and equipment		1,568	(11,195)
Other non-cash items		11,973	(8,736)
		422,407	621,432
Working capital adjustment:			
Accounts receivable		381,514	(397,208)
Other current assets		963	56,345
Accounts payable		28,971	6,502
Other current liabilities		19,543	(13,837)
Income tax payments		(114,744)	(194,251)
Employees' indemnity paid		(38,745)	(329,430)
Net cash from (used in) operating activities		699,909	(250,447)
Investing activities:			
Purchase of property and equipment		(337,253)	(22,493)
Proceeds from sale of property and equipment		11,113	11,399
Purchase of financial assets at fair value through OCI		(921,274)	-
Purchase of Investment property		-	(715,017)
Additions to project in progress		(327,437)	-
Investment income		402,684	411,617
Interest revenue received		38,235	33,322
Net cash used in investing activities		(1,133,932)	(281,172)
Financing activities:			
Cash dividends		(599,385)	-
Net cash used in financing activities		(599,385)	-
Decrease in cash and cash equivalents		(1,033,408)	(531,619)
Cash and cash equivalents, beginning of year		1,325,126	1,856,745
Cash and cash equivalents, end of year	10	291,718	1,325,126

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

1. Activities

Palestine Securities Exchange Company P.L.C. (PSE) is a limited liability public shareholding company located in Nablus, registered and incorporated as private shareholding company in Palestine on March 27, 1995 under registration No. (563108810).

On April 27, 2006, PSE's General Assembly decided to amend the Article of Incorporation to become a public shareholding company. On February 4, 2010, PSE was registered as public shareholding company at the Companies Registrar in Palestine under registration No. 562601187.

PSE's objectives include the establishment of a securities exchange market in Palestine and the organization of issuance and trading of securities. The operations of the security exchange market commenced on February 18, 1997.

PSE is a subsidiary of Palestine Development and Investment Company P.L.C. (PADICO), which owns 74.72% of PSE's share capital. PSE's financial statements are consolidated with PADICO's financial statements.

PSE's financial statements for the year ended December 31, 2018 were authorized for issuance by the Board of Directors on March 17, 2019.

2. Basis of preparation and changes in accounting policies

2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), as issued by the International Accounting Standards Board (IASB).

The financial statements have been presented in United States Dollar (USD), which is the functional currency of PSE.

The financial statements are prepared under the historical cost convention except for the measurement of financial instruments investments at fair value.

2.2 Changes in accounting policies

The accounting policies used in the preparation of the financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2017. Except that PSE applied for the first-time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2018.

The application of these amendments has no effect on PSE's financial position and performance, or the disclosures of the financial statements of PSE.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018. Bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

PSE had previously implemented the first phase of IFRS 9 related to classification and measurement of financial assets during 2012.

IFRS 9 requires the Company to record an allowance for Expected Credit Loss (ECL) for all debt instruments measured at amortized cost.

The standard eliminates the use of the IAS 39 incurred loss impairment model approach, uses the revised hedge accounting framework, and the revised guidance on the classification and measurement requirements.

Impairment

The adoption of IFRS 9 has fundamentally changed the Company's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

The Company has applied the standard's simplified approach and has calculated ECL based on lifetime expected credit losses.

The effect of adopting IFRS 9 has no material impact on the financial statements.

IFRS 7 Financial Instruments - Amendments on Disclosure

IFRS 7 was amended to include more qualitative and quantitative disclosures to accommodate IFRS 9 requirements such as classifications, impairment and hedge accounting.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 specifies the accounting treatment for all revenue arising from contracts with customers. It applies to all entities that enter into contracts to provide goods or services to their customers, unless the contracts are in the scope of other IFRSs, such as IAS 17 Leases. IFRS 15 supersedes:

- ISA (11) - Construction contracts
- ISA (18) - Revenue
- IFRIC (13) - Customer loyalty program
- IFRIC (15) - Agreements for the construction of real estate
- IFRIC (18) - Transfer of assets from customers
- SIC (31) - Revenue - Barter transactions involving advertising services

During the year, PSE adopted IFRS 15, except for some additional disclosures. The effect of adopting IFRS 15 has no material impact on the financial statements.

Issued but not yet effective standards

The International Accounting Standards Board (IASB) issued certain standards that are not yet effective and have not yet been adopted by PSE. The following criteria are PSE's management's expectation that, when they become effective, they will have an impact on the financial position or performance or the disclosures of PSE's financial statements. These criteria will be applied when they become effective.

IFRS 16 Leases

During January 2016, the IASB issued IFRS 16 "Leases" which sets out the principles for the recognition, measurement, presentation and disclosure of leases.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRS 16 introduced a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

The new standard will be effective for annual periods beginning on or after January 1, 2019, and early application is permitted. PSE will adopt IFRS 16 using the modified retrospective approach. During 2018, PSE has performed a detailed impact assessment of IFRS 16. The adoption of the standard is expected to result in an increase in assets (use rights) and liabilities (lease liabilities). PSE is currently studying the quantitative impact of Standard No. (16).

Significant accounting judgments, estimates and assumptions

The preparation of Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets, and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

The key areas involving a higher degree of judgment or complexity are described below:

Provision for impairment of financial assets

Financial assets are assessed for impairment on the basis described in the "Impairment of financial assets" section.

When determining the impairment of financial assets, management uses certain estimates to determine the amounts and timing of future cash flows and also assesses whether the credit risk on the financial asset has increased substantially since initial recognition and includes future information in the measurement of expected credit losses.

Useful lives of tangible assets

PSE's management reassesses the useful lives of tangible and intangible assets, and makes adjustments if applicable, at each financial year end.

Provision for income tax

PSE's management uses certain estimates in determining the provision for income tax. PSE's management believes that the estimates and assumptions used are reasonable.

Fair value of financial instruments

When the fair values of financial assets and financial liabilities cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the DCF model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumption about these factors could affect the reported fair value of financial instruments.

Investment Properties

External valuers are involved for valuation of investment properties.

Summary of significant accounting policies

Revenue recognition from contracts with customers

Revenues from security trading and transfer commissions (and what follows from cash settlement revenues) and securities collateral commission are recognized when performing the service and at a certain point of time.

Revenues from registration fees for listed companies, membership fees for financial intermediaries, and subscription fees for PEX services are recognized over a period of time by referring to the percentage of completion of the services at the financial statements date.

Prices for services performed by PSE are determined by referring to the list of fees, commissions, fines, and penalties approved by The Palestinian Capital Market Authority (PCMA).

Other revenue recognition

Interest revenue is recognized as the interest accrues using the effective interest method.

Dividend revenue is recognized when the right to receive the dividend is established.

Rent revenue is recognized over the renting period based on the straight line method.

Expense recognition

Expenses are recognized based on the accrual basis of accounting.

Current versus non-current classification

PSE presents assets and liabilities in statement of financial position based on current/non-current classification. An asset is classified as current when it is:

- Expected to be realised or intended to be sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period

Or

- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading IAS
- It is due to be settled within twelve months after the reporting period

Or

- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

PSE classifies all other liabilities as non-current. Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Income tax

PSE provides for income tax in accordance with the Income Tax Law and IAS (12), which requires recognizing the temporarily differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, as deferred taxes.

Income tax expense represents the accrued income tax which is calculated based on PSE taxable income. Taxable income may differ from accounting income as the later includes non-taxable income or non-deductible expenses. Such income/expenses may be taxable/deductible in the following years.

Securities trading software systems

Securities trading software system is stated at cost and amortized using the straight line method over its estimated useful life.

Property and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. All other repair and maintenance costs are recognized in the income statement as incurred.

Depreciation is calculated on a straight line basis over the estimated useful lives of the assets as follows:

	<u>Years</u>
Real estate	33
Decorations and leasehold improvement	10
Computer hardware and software	5
Office equipment and furniture	10
Motor vehicles	5

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognized.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

Investment properties

Investment properties are measured at cost plus the cost of acquisition. The carrying value of investment properties is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, investment properties are written down to their recoverable amount.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the consolidated income statement in the period of derecognition.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the book value at the date of change in use. If owner-occupied property becomes an investment property, PSE accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Investment in Financial assets:

Financial assets investments are initially measured at fair value plus cost of acquisition if they are not classified at fair value through profit or loss (FVTPL). Subsequent to initial recognition all financial assets are stated at fair value or amortized cost as follows:

Financial assets at fair value

This item includes equity instruments and financial derivatives that are recognized at FVTPL. The entity can irrevocably elect to designate equity instruments not held for trading through other comprehensive income.

If PSE elects to designate equity instruments at fair value through other comprehensive income (FVOCI), PSE recognizes change in fair value in a special account in equity. Where the asset is disposed of, the gain or loss is not reclassified to the income statement, but is reclassified directly to retained earnings. These financial instruments do not apply to impairment loss test.

Dividends on these investments in equity instruments are recognized in the statement of income when PSE's right to receive the dividends is established.

Financial assets at amortized cost

Debt instruments are measured at amortized cost if both of the following conditions are met:

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- The contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

If either or both of the two conditions are not met the financial instrument is classified as at FVTPL. Even if the instrument meets the two conditions, PSE has the option to classify the financial asset as at FVTPL if this designation reduces any inconsistency recognition.

Subsequent to initial recognition, debt instruments are measured at amortized cost (including accounts receivable) using the effective interest method net of impairment losses, if any. PSE determines whether there is any evidence that the financial assets are impaired. If this is the case, PSE calculates the amount of impairment and recognizes the amount in the income statement. Interest revenue from the financial assets at amortized cost is recognized in the income statement.

Derecognition of financial assets

PSE derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If PSE neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, PSE recognizes its retained interest in the asset and an associated liability for the amounts it may have to pay. If PSE retains substantially all the risks and rewards of ownership of a transferred financial asset, PSE continues to recognize the financial asset.

Impairment of financial assets

Subsequent to the adoption of IFRS 9 as of 1 January 2018, Impairment allowances for expected credit losses (ECL) are recognized for financial instruments that are not measured at FVTPL. No impairment loss is recognized on equity investments.

An ECL provision is made at an amount equal to the lifetime ECL, except for the following, for which they are measured as a 12-month ECL:

- Debt investment securities that are determined to have a low credit risk (equivalent to investment grade rating) at the reporting date; and
- Other financial instruments for which the credit risk has not increased significantly since their initial recognition.

PSE classifies its financial instruments into stage 1, stage 2 and stage 3, based on the applied impairment methodology, as described below:

- Stage 1: for financial instruments where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination. PSE recognizes an allowance based on the 12-month ECL.
- Stage 2: for financial instruments where there has been a significant increase in credit risk since initial recognition but they are not credit-impaired. The Group recognizes an allowance for the lifetime ECL.
- Stage 3: for credit-impaired financial instruments. PSE recognizes the lifetime ECL.

Provisions for credit-impairment are recognized in the income statement and are reflected in an allowance account against financial instrument.

Financial assets are written off after all restructuring and collection activities have taken place and there is no realistic prospect of recovery. Subsequent recoveries are included in other income.

Financial assets that are measured at amortized cost are tested as to whether they are credit-impaired. Objective evidence that a financial asset is credit-impaired may include a breach of contract, such as default or delinquency in interest or principal payments, the granting of a concession that, for economic or legal reasons relating to the borrower's financial difficulties.

PSE applied the simplified approach for recording expected credit losses (ECL) on account receivables, and expected credit losses account over the life time of the receivables.

Fair value measurement

PSE measures most of its financial instruments at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or pay a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or pay the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by PSE.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

PSE uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows:

- Level 1 – Quoted (unadjusted) market prices in active markets
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, PSE determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External valuers are involved for valuation of significant assets, such as investment properties. The Group decides, after discussions with the external valuers, which valuation techniques and inputs to use for each case.

For the purpose of fair value disclosures, PSE has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Projects in progress

Projects in progress comprise all construction costs incurred on the date of financial statements, which include the cost of direct materials, direct wages, and equipment. After completion, projects in progress are transferred to property and equipment.

The carrying values of projects in progress are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the projects are written down to their recoverable amount.

Accounts receivable

Accounts receivable are stated at original invoice amount less a provision for impaired debt. Where financial assets are assessed for impairment on the basis shown in paragraph "Impairment of financial assets". When determining the impairment on financial assets, PSE uses specific estimates to determine the amounts and timing of future cash flows and also assesses whether there are a significant increase in credit risk of the financial asset since initial recognition and includes the use of future information in the measurement of expected credit losses.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash in hand, bank balances, and short-term deposits with an original maturity of three months or less, net of outstanding bank overdrafts, if any.

Accounts payable and accruals

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Provisions

Provisions are recognized when PSE has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into USD using the rate of exchange ruling at the financial statements date. All differences are recognized in the income statement.

Earnings per share

Basic earnings per share is calculated by dividing net profit for the year attributable to ordinary equity holders of PSE by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the profit attributable to ordinary equity holders of PSE (after deducting interest on the convertible preference shares) by the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

3. Property and equipment

2018	Real estate	Decorations & leasehold improvement	Computer hardware and software	Office equipment and furniture	Motor vehicles	Total
	USD	USD	USD	USD	USD	USD
As at January 1, 2018	2,240,000	514,675	1,245,639	526,733	44,803	4,571,850
Additions	-	-	277,253	-	60,000	337,253
Disposals	-	(31,494)	(341,214)	(49,210)	(44,803)	(466,721)
As at December 31, 2018	2,240,000	483,181	1,181,678	477,523	60,000	4,442,382
Accumulated depreciation						
As at January 1, 2018	451,811	433,076	1,222,678	447,265	44,803	2,599,633
Depreciation for the year	67,368	46,586	31,720	44,563	5,585	195,822
Disposals	-	(29,688)	(340,971)	(38,578)	(44,803)	(454,040)
As at December 31, 2018	519,179	449,974	913,427	453,250	5,585	2,341,415
Net book value						
As at December 31, 2018	1,720,821	33,207	268,251	24,273	54,415	2,100,967

Property and equipment include USD 1,239,152 of fully depreciated assets that are still operational as of December 31, 2018.

Property and equipment (Cont'd)

2017 Cost	Real estate	Decorations & leasehold improvement	Computers	Office equipment and furniture	Motor vehicles	Total
	USD	USD	USD	USD	USD	USD
As at January 1, 2017	2,240,000	514,675	1,228,838	526,733	78,026	4,588,272
Additions	-	-	22,493	-	-	22,493
Disposals	-	-	(5,692)	-	(33,223)	(38,915)
As at December 31, 2017	<u>2,240,000</u>	<u>514,675</u>	<u>1,245,639</u>	<u>526,733</u>	<u>44,803</u>	<u>4,571,850</u>
Accumulated depreciation						
As at January 1, 2017	384,442	381,760	1,211,503	401,693	78,026	2,457,424
Depreciation for the year	67,369	51,316	16,663	45,572	-	180,920
Disposals	-	-	(5,488)	-	(33,223)	(38,711)
As at December 31, 2017	<u>451,811</u>	<u>433,076</u>	<u>1,222,678</u>	<u>447,265</u>	<u>44,803</u>	<u>2,599,633</u>
Net book value						
As at December 31, 2017	<u>1,788,189</u>	<u>81,599</u>	<u>22,961</u>	<u>79,468</u>	<u>-</u>	<u>1,972,217</u>

Property and equipment include USD 1,337,724 of fully depreciated assets that are still operational as of December 31, 2017.

4. Projects in progress

This item represents total costs incurred to set up a number of projects as at December 31, 2018. After completion, projects in progress are transferred to property and equipment. The following table illustrates all the details of the projects:

	Cost incurred as at December 31, 2018
	<u>USD</u>
Project in progress	
Purchasing of the new security trading system and related infrastructure	247,500
Developing the depository and transfer center	<u>83,121</u>
	<u>330,621</u>

The expected cost to complete these projects amounts to USD 1,039,379. It is expected to complete these projects during 2019.

	<u>2018</u>	<u>2017</u>
	USD	USD
Quoted securities	879,953	3,794
Units in a portfolio of financial investments*	955,929	930,524
Unquoted securities	<u>113,101</u>	<u>147,513</u>
	<u>1,948,983</u>	<u>1,081,831</u>

* This portfolio is managed by a sister company "Rawan International Investment Company" which is a subsidiary of PADICO.

5. Financial assets at fair value through other comprehensive income

Movement on fair value reserve was as follows:

	<u>2018</u>	<u>2017</u>
	USD	USD
Balance, beginning of year	(350,368)	(315,120)
Change in fair value	<u>(54,122)</u>	<u>(35,248)</u>
Balance, end of year	<u>(404,490)</u>	<u>(350,368)</u>

6. Investment property

This item represents a land lot in Ramallah city with a total cost of USD 1,215,017. The land is held for the purpose of recognizing rent revenues or for capital appreciation. Therefore, it was classified as an investment property. The fair value of the land does not differ from its carrying value.

7. Financial assets at amortized cost

This item represents an investment in financial assets at amortized cost through an investment portfolio managed by a sister company. The financial assets at amortized costs are due at December 31, 2018 and bear a minimum annual interest rate of 5% recalculated monthly and payable every six months. Interest revenue from these financial assets is recognized in the income statement.

No provision for expected credit losses was recorded this year since this investment is collateralized with stocks listed in Palestine Exchange. Coverage percentage of these collaterals has reached about 117%.

8. Accounts receivable

	2018	2017
	USD	USD
Trade receivables	122,031	430,287
Due from related parties	3,604	76,862
	125,635	396,078
Provision for impairment of receivables	(34,209)	(34,209)
	<u>91,426</u>	<u>472,940</u>

Most of trade receivables represent unimpaired receivables that are due within 30 Days. Unimpaired receivables are expected, on the basis of past experience, to be fully recovered. PSE obtains collaterals on accounts receivables in which, letter of guarantee are issued by listed companies and financial intermediaries in favor of PSE.

9. Other current assets

	2018	2017
	USD	USD
Accrued revenue	175,023	175,000
Prepaid expenses	15,157	16,120
Other	7,062	7,062
	<u>197,242</u>	<u>198,182</u>

10. Cash and cash equivalents

Cash and cash equivalents in the statement of cash flows consist of the following amounts:

	2018	2017
	USD	USD
Cash on hand	452	464
Cash at banks	91,266	68,955
Short term deposits*	200,000	1,255,707
	<u>291,718</u>	<u>1,325,126</u>

* Short term deposits represent deposits in US Dollar with an original maturity of three months or less. The average interest rate was 3.8% and 3.5% during 2018 and 2017, respectively.

11. Paid-in share capital

PSE's authorized, subscribed and paid share capital amounted to 10,000,000 ordinary shares (one USD per share) as of December 31, 2018 and 2017.

12. Statutory reserve

Statutory reserve represents accumulation of profits transferred at 10% of annual profit in accordance with the Corporate Law. This reserve is not available for distribution to shareholders.

13. Cash dividends

PSE's General Assembly decided in its meeting held on April 17, 2018, to approve the proposed cash dividends of USD 0.06 per share with a total amount of USD 600,000.

14. Provision for employees' indemnity

	<u>2018</u>	<u>2017</u>
	USD	USD
Balance, beginning of year	837,833	1,053,568
Additions during the year	141,433	113,695
Payments during the year	<u>(38,745)</u>	<u>(329,430)</u>
Balance, end of year	<u>940,521</u>	<u>837,833</u>

Provision for employee's end of service benefits is provided for in accordance with the labor law prevailing in Palestine policies based on one-month salary for each year of employment. The Palestinian Social Security Law was expected to be implemented during 2018, but was suspended in accordance with a presidential decree on January 28, 2019, which states that the dialogue with the relevant parties will continue to arrive at a national consensus on the provisions of the law and the date of enforcement. The current law obliges the employer to settle the end of service benefits for the periods preceding the application of the provisions of this law.

15. Accounts payable

	<u>2018</u>	<u>2017</u>
	USD	USD
Trade payable	<u>62,527</u>	<u>33,556</u>
	<u>62,527</u>	<u>33,556</u>

16. Other current liabilities

	<u>2018</u>	<u>2017</u>
	USD	USD
Accrued bonuses	179,304	110,000
Accrued expenses	37,777	34,982
Accrued employees' vacation	34,170	38,107
Deferred revenues	32,883	38,130
Due to employees' income tax	14,644	-
Due to Value Added Tax Department	9,953	61,969
Accrued dividends	615	-
Due to Board members	-	6,000
	<u>309,346</u>	<u>289,188</u>

17. Income tax provision

Following is the movement on the income tax provision for the year ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
	USD	USD
Balance, beginning of year	29,396	124,897
Income tax for the year	96,222	107,486
Payment during the year	(114,744)	(194,251)
Currency variances	<u>11,973</u>	<u>(8,736)</u>
Balance, end of year	<u>22,847</u>	<u>29,396</u>

Following are the balances of provision for income tax and advances to Income Tax Department:

	<u>2018</u>	<u>2017</u>
	USD	USD
Provision for income tax	181,830	121,951
Advance payments to Income Tax Department	<u>(158,983)</u>	<u>(92,555)</u>
Net balance	<u>22,847</u>	<u>29,396</u>

PSE did not reach to a final settlement with Income Tax Department for its operation for the year ended December 31, 2017.

18. Revenues from contracts with customers

The following table present summary of revenues from contracts with customers for the year ended December 31, 2018 and 2017:

	USD				Total	2017
	2018		2017			
	Trading and transfer commission	Membership, registration and binding fees	Stock mortgage commission	Other operating revenues		
Customers:						
Brokers	1,442,056	120,000	7,602	46,013	1,615,671	2,054,353
Listed companies in Palestine securities exchange	-	538,537	123,771	23,674	685,982	662,259
Other companies	-	-	12,160	17,213	29,373	117,273
	<u>1,442,056</u>	<u>658,537</u>	<u>145,533</u>	<u>86,900</u>	<u>2,331,026</u>	<u>2,833,885</u>
Revenues details:						
Trading commission	1,273,388	-	-	-	1,273,388	1,799,704
Transfer commission	168,668	-	-	-	168,668	71,397
Registration fees	-	508,537	-	-	508,537	480,905
Membership fees	-	120,000	-	-	120,000	120,000
Stock mortgage commission	-	-	143,533	-	143,533	201,803
Cash settlement revenue	-	-	-	40,198	40,198	48,589
System link fees	-	30,000	-	-	30,000	31,500
Commission on subscription in depository center	-	-	-	20,000	20,000	20,000
Data Dissemination revenue	-	-	-	9,544	9,544	8,685
Activities sponsorship revenue	-	-	-	-	-	15,000
Others	-	-	-	17,158	17,158	36,302
	<u>1,442,056</u>	<u>658,537</u>	<u>143,533</u>	<u>86,900</u>	<u>2,331,026</u>	<u>2,833,885</u>
Date of recognizing revenues:						
At a point of time	1,442,056	-	143,533	66,900	1,652,489	2,181,480
Over a period of time	-	658,537	-	20,000	678,537	652,405
	<u>1,442,056</u>	<u>658,537</u>	<u>143,533</u>	<u>86,900</u>	<u>2,331,026</u>	<u>2,833,885</u>

19. General and administrative expenses

	<u>2018</u>	<u>2017</u>
	USD	USD
Salaries and related expenses	1,470,900	1,779,806
Membership and license fees	176,582	171,387
Board of Directors remuneration	77,000	85,500
Rent	75,177	82,425
Trading software expenses	60,000	60,000
Professional and consulting fees	53,950	72,850
Accommodation, travel and transportation	52,443	45,458
Insurance	52,277	67,550
Water, electricity and air conditioning	47,947	50,576
Maintenance	40,071	39,047
Mail, telephone and internet	37,172	39,153
Vehicles expenses	31,387	35,765
Conferences, investment awareness and other activities	20,769	29,716
Training	10,391	4,415
Stationery and printing	3,264	3,084
Donations	1,000	838
Other	25,947	24,871
	<u>2,236,277</u>	<u>2,592,441</u>

20. Other revenues, net

	<u>2018</u>	<u>2017</u>
	USD	USD
Rent revenue	176,000	176,000
Advertising revenue	4,000	26,000
Recovery of accrued bonus - Board members bonus	-	40,500
(Losses) gains from disposal of property and equipment	(1,568)	11,195
Foreign currency exchange differences	(12,861)	3,532
Other revenues	10,297	28,997
	<u>175,868</u>	<u>286,224</u>

21. Basic and diluted earnings per share for the profit of the year

Basic and diluted earnings per share for the years ending December 31, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Gain for the year (USD)	419,515	684,201
Weighted average of subscribed shares	<u>10,000,000</u>	<u>10,000,000</u>
Basic and diluted earnings per share for the profit of the year (USD)	<u>0.042</u>	<u>0.068</u>

22. Related party transactions

Related parties represent major shareholders, directors and key management personnel of PSE, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by PSE's management.

Balances with related parties included in the statement of financial position are as follows:

	Nature of relationship	2018 USD	2017 USD
Due from major shareholders	Parent company	1,572	1,560
	Managed by sister company (owned by parent company)		
Financial assets at amortized cost	Sister company (owned by parent company)	7,000,000	7,000,000
Accrued revenues		175,000	175,000
Due from related parties	Sister companies	2,032	75,302
Due to Board of Directors members	Board members	-	6,000
	Managed by sister company (owned by parent company)		
Financial assets through other comprehensive income		955,929	930,524

Transactions with related parties included in the income statement are as follows:

	Nature of relationship	2018 USD	2017 USD
<u>Revenues</u>			
Registration fees	Parent and sister companies	72,851	77,237
Securities collateral commission	Parent company	56,000	21,000
Investment revenue	Sister company	402,784	411,617
Other Income	Parent and sister companies	2,217	8,595
<u>Expenses</u>			
Services expenses	Sister company	11,250	11,250
Compensation of key management personnel:			
Salaries and related benefits		800,641	580,067
Employees' end-of-service benefits		82,898	66,868
Remuneration of attending Board of Directors meetings and sub committees' meetings		77,000	85,500
Board of Directors travel and transportation		-	13,197

23. Fair value measurement

The following table provides the fair value measurement hierarchy of PSE's financial assets as of December 31, 2018, and 2017:

2018	Date of Measurement	Total USD	Fair value Measurement using		
			Quoted Prices in active markets (Level 1) USD	Significant observable inputs (Level2) USD	Significant unobservable inputs (Level3) USD
Financial assets measured at fair value					
Financial assets at FVOCI (Note 5):					
Quoted	December 31, 2018	879,953	879,953	-	-
Unquoted	December 31, 2018	113,101	-	-	113,101
Units in a portfolio of financial investment	December 31, 2018	955,929	-	955,929	-
2017	Date of Measurement	Total USD	Quoted Prices in active markets (Level 1) USD	Significant observable inputs (Level2) USD	Significant unobservable inputs (Level3) USD
Financial assets measured at fair value					
Financial assets at FVOCI (Note 5):					
Quoted	December 31, 2017	3,794	3,794	-	-
Unquoted	December 31, 2017	147,513	-	-	147,513
Units in a portfolio of financial investment	December 31, 2017	930,524	-	930,524	-

There have been no transfers between Level 1, Level 2 and level 3 during the year.

24. Fair value of financial instruments

The following table illustrate the fair value of financial instruments that are not measured on recurring basis at fair value as at 31 December 2018 and 2017:

	Carrying amount		Fair value	
	2018 USD	2017 USD	2018 USD	2017 USD
Financial assets				
Financial assets at amortized costs	7,000,000	7,000,000	7,000,000	7,000,000
Accounts receivable	91,426	472,940	91,426	472,940
Other financial assets	182,085	182,062	182,085	182,062
Cash and cash equivalents	291,718	1,325,126	291,718	1,325,126
	<u>7,565,229</u>	<u>8,980,128</u>	<u>7,565,229</u>	<u>8,980,128</u>
Financial liabilities				
Accounts payable	62,527	33,556	62,527	33,556
Other financial liabilities	241,678	212,951	241,678	212,951
	<u>304,205</u>	<u>246,507</u>	<u>304,205</u>	<u>246,507</u>

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

- The fair values of accounts receivable, other financial assets, cash and cash equivalents, accounts payable and other financial liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.
- The fair values of quoted financial assets through other comprehensive income were based on their price quotations at the reporting date.
- The fair values of the units in a portfolio of financial investments were determined by referring to PSE's share in the net assets value of the portfolio investments (NAV).
- The fair value of the financial assets at amortized cost is estimated by discounting future cash flows using rates currently available for debt on similar terms and credit risk.
- The fair values of unquoted financial assets are stated at FVOCI using appropriate valuation techniques.

25. Risk Management

Interest rate risk

PSE's is exposed to interest rate risk on assets subjected to fluctuation in interest rate. The financial assets of the company are measured at fixed interest rates so there is no interest rate risk on these assets.

Credit risk

PSE seeks to limit its credit risk with respect to customers by setting credit limits and monitoring outstanding receivables. PSE's 8 major customers, which are brokerage firms, account for 93% and 83% of trade accounts receivable as of December 31, 2018 and 2017.

PSE obtains collaterals in exchange of accounts receivables by issuing letter of guarantee from listed companies and financial intermediaries in favor of PSE in which it is conditioned to be issued from a certified bank and effective for a year and is renewed annually. The letter of guarantee for listed companies comprises 0.1% from the company's subscribed and paid in capital with a minimal value of USD 10,000 or equivalent to Jordanian Dinar and maximum value of USD 50,000 or equivalent to Jordanian Dinar. PSE is allowed to request an increase in the value of the letter of guarantee either at the time of listing securities or after, if it is necessary, taking into consideration the increase of the company's risks. As for financial intermediaries, it also issues letter of guarantee to settle its daily trading transactions at PEX with a minimal value of USD 1,000,000.

With respect to credit risk arising from the other financial assets, including cash and cash equivalents and accounts receivable and other receivable, PSE's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these other financial assets.

Liquidity risk

PSE's terms of credit required amounts to be paid within 5 days of the date of the invoice. Trade payables are normally settled within 20 days of the date of purchase. Most of PSE's accounts payable are due within 3 months of the financial statement date.

Equity price risk

The following table demonstrates the sensitivity of the cumulative changes in fair value to reasonably possible changes in equity prices, with all other variables held constant.

The effect of decreases in equity prices is expected to be equal and opposite to the effect of the increases shown:

	<u>Change in equity price</u>	<u>Effect on equity</u>
	%	USD
2018		
Equity instruments listed in Amman Market	+10	87,719
Equity instruments listed in Dubai Market	+10	276
Unquoted equity instruments	+10	11,310
Units in portfolio of financial investments	+10	95,593
2017		
Equity instruments listed in Dubai Market	+10	380
Unquoted equity instruments	+10	14,751
Units in portfolio of financial investments	+10	93,052

Foreign currency risk

PSE maintains its major assets and liabilities in USD or JOD. However, the JOD currency is linked to the USD currency with a consistent rate, therefore, there is no effect resulting from the fluctuations in USD rate on PSE financial statements.

Capital Management

The primary objective of PSE's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholders value.

PSE manages its capital structure and makes adjustments to it in light of changes in business conditions. No changes were made in the objectives, policies or processes during the years ended December 31, 2018 and 2017. Capital comprises paid in share capital, other reserves, retained earnings, and is measured at USD 11,840,733 as at December 31, 2018 against USD 12,075,340 as at December 31, 2017.

26. Concentration of risk in geographic area

PSE is carrying out all of its activities in Palestine. The instability of the political and economic situation in the area increases the risk of carrying out business and may adversely affect PSE's performance.

27. Contractual Obligations

As of the financial statements date, the Company has contractual commitments resulting from signed purchase contracts with suppliers to purchase a new trading system and configure its infrastructure. The contractual commitments represent the difference between total contract cost and the amounts of materials received or services rendered as of the financial statements date. Below are the contractual commitments to be paid in subsequent years:

	<u>2018</u>	<u>2017</u>
	USD	USD
Purchases contracts	<u>247,500</u>	<u>812,763</u>
	<u>247,500</u>	<u>812,763</u>

28. Contingent liabilities

PSE and other parties appear as defendants in two lawsuits in the Palestinian courts which amounted to USD 3,999,172 as of December 31, 2018. PSE's management and legal counsel believes that these cases are not based on a legal merit. The Company's management believes that the success of the two claims is not probable and therefore no provision for these legal cases was recognized in the financial statements.

حمل تطبيق

PALESTINE EXCHANGE

وتابع حركة البورصة



