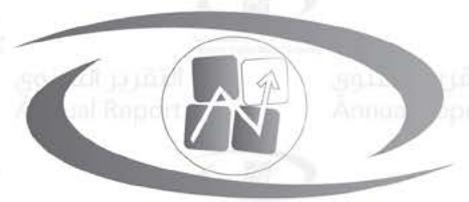


2020



هيئة سوق رأس المال الفلسطينية
Palestine Capital Market Authority

Annual Report





His Excellency President Mahmoud Abbas
President of the State of Palestine



2020 was very different from previous years in terms of the work of the Board of Directors of the PCMA, where the (Covid-19) pandemic that ravaged the world-including State of Palestine- forced the Board of Directors to resort to virtual meetings as a means of communication. Yet despite this, the Board has managed to hold its meetings regularly, dealt with all items on its agenda successfully and efficiently and made the appropriate decisions, which the executive management duly followed up on. It is worth mentioning that the executive management was proactive in tightening public safety measures at the PCMA's headquarters and in regulating the work to ensure its continuity, and for that it deserves praise and appreciation. We are all aware that the pandemic is not over yet, and that vigilance and ultimate caution must be observed for the next period. No one can predict how long this will last, yet no one expects that next year's working mode will not be affected by the conditions imposed for preserving public health. Whereas we have already accumulated considerable experience in dealing with this situation in the coming days and months, we must be cognizant of the importance of continuing to exercise caution and care, and take measures to prevent exposure to (Covid-19). Then hopefully, God willing, we will get to safety before too long, and thereafter we will return to our normal working conditions, having acquired some good habits, whether those relating to consumption, or that may help in preventing outbreaks of diseases. On another and related level, (Covid-19) pandemic had a consequent negative impact on the sectors supervised by the PCMA, whereby the cash flows for financial leasing and insurance companies have decreased significantly, as a result of the inability of many beneficiaries and insured to meet their monthly obligations and insurance premiums. In addition to this, there was a sharp decline in trading activities in the Palestine Exchange as a result of the negative impact of the (Covid-19) pandemic on the Palestinian economy. In line with the directions of the government and the state of emergency regarding which His Excellency the President issued decrees, the

Board of Directors had to take decisions relating to maintaining public safety and sustainability in the sectors supervised by the PCMA, and protecting the rights of stakeholders, or recommending certain decisions to the Council of Ministers, as the case may be, especially in the insurance and securities sectors. This was done in a timely manner, and the work was organized in the various sectors without any noticeable problems, and in a comfortable manner without a negative impact on the requirements of maintaining public health. It is worth noting that the negative impact of the pandemic on the economy as a whole did not affect significantly the financial position of the PCMA, and therefore the PCMA was able to fulfil its obligations as usual. By the end of 2020, the work program associated with the five-year strategic plan 2016 -2020 will end. The Board evaluated the implementation of this plan, expressed its satisfaction with the achievement in general, and have noticed that the obstacles that led to the failure to achieve some of the plan's items were mostly of a legal nature falling outside the powers of the PCMA. In this context, some laws and regulations or amendments relating thereto, such as the insurance law, still require more effort by the competent entities, including the PCMA, and we will work to make these laws and regulations within the program of the first year in the next five-year strategic plan. The efforts exerted by the PCMA continued within its plan to establish a headquarters designed according to its needs, but the prevailing circumstances, due to the pandemic, prevented organizing a ceremony for laying the cornerstone for the building, as planned. Nevertheless, significant progress has been achieved in terms of obtaining the necessary licenses and permissions from the competent governmental authorities. It is our hope that next year, 2021, will witness achievements on the ground, noting that the PCMA had placed a fence surrounding the plot of land and has purchased forest trees to be planted in parts thereof, according to the general design scheme of the building and surrounding areas. In this statement, I wish not to miss thanking the members of the Board of Directors of the PCMA for their efforts in running its work, and for providing the Executive Management, through the Board's decisions and deliberations, with advice and directions that helped the Executive Management in carrying out its duties towards achieving the PCMA's objectives. I would also like to thank, in my name and on behalf of the PCMA's Board of Directors, all the employees of the PCMA, particularly the Executive Management, for their efforts towards developing the work and improving performance thereof.

Nabeel Kassis
Chairman of the Board

Board of Directors



Dr. Nabeel Kassis
Chairman



Mr. Mohammad Manasrah
Palestine Monetary Authority



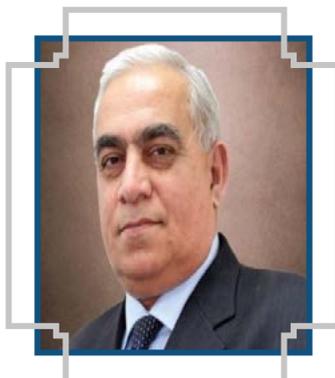
Mr. Mahmoud Nofal
Ministry of Finance



Mr. Tareq Al Masri
Vice-Chairman
Ministry of National Economy



Dr. Abd El Fattah Abu Shokr
Private Sector



Mr. Mohammad Abu Ramadan
Private Sector



Mr. Jamal Hurani
Banking Sector



Vision

“An effective regulatory authority aiming to develop a sound capital market in Palestine and protect the interests of stakeholders.”



Mission

“Regulating, supervising and monitoring the performance of securities, insurance, financial leasing and mortgage finance sectors in Palestine and developing same to achieve transparency, fairness and integrity principles, in accordance with international best practices.”



Strategic Goals

-  Strengthening the insurance sector through restructuring and organizing it in a manner that contributes to the sector's stabilization and growth.
-  Stimulating and enhancing the securities sector and raising society awareness regarding the importance of investment in the securities sector.
-  Creating the suitable environment for the work and growth of the mortgage finance sector.
-  Developing the services provided by the financial leasing sector and increasing its contribution to the economy.
-  Developing internal organizational structures that contribute to achieving the goals of the PCMA.

PCMA	8
PCMA Strategy	9
Securities Sector	10
Introduction	11
Managing the Covid-19 pandemic crisis and its impact on the Securities Sector	11
Major Developments of 2020	12
Insurance Sector	17
Introduction	18
Managing the Covid-19 pandemic crisis and its impact on the Insurance Sector	18
Major Developments of 2020	21
Financial Leasing Sector	
Introduction	25
Managing the Covid-19 pandemic crisis and its impact on the Financial Leasing Sector	26
Major Developments of 2020	26
	27
Mortgage Financing Sector	
Legal and Regulatory Environment	31
Major Developments of 2020	32
	32
Other Financial non-banking Services	
Factoring	34
Corporate Governance and Financial Inclusion	35



PCMA

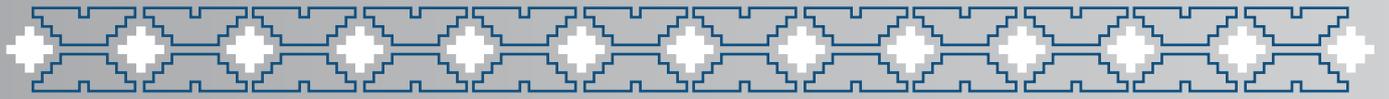


PCMA's strategy:

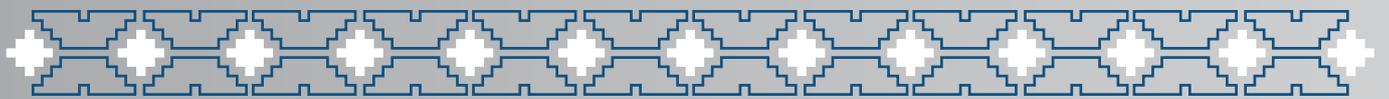
The Board of Directors of the Palestinian Capital Market Authority approved the PCMA's five-year strategy (2021 - 2025). The strategy contributes to achieving three main objectives, namely expanding the scope of the formal financial sector on the account of the informal financial sector, by providing a supervisory and regulatory environment for the introduction of new non-banking financial services and products; contributing to economic development by providing additional options of non-bank financing means for small, medium and micro enterprises and entrepreneurs; And the utilization of financial technology in various sectors subject to the supervision of the PCMA.

The main programs and projects of the PCMA's strategy are summarized as follows:

1. Enhancing the use of financial technology in the non-banking financial sector and providing the suitable environment therefor.
2. Promoting Islamic Sharia-compliant financing services and tools.
3. Sustainability of the financial sectors under the supervision of the PCMA and enhancing its stability.



Securities Sector



Introduction

The reader of the results of the companies' businesses and the follower of the market's activity in the past year 2020, realizes that with the declaration of a state of emergency during the month of March, market stakeholders began to fear that the outbreak of the Covid-19 virus would turn into a global pandemic, which led to a sharp drop in the prices of the Palestinian securities from unprecedented levels at that time compared to previous years, as it coincided with global changes in regional markets, and a record drop in oil prices due to weak global demand, which increased the weak appetite for investment risks, and the reluctance of securities stakeholders from the market, looking for another safe haven for their investments.

Managing the Covid-19 pandemic crisis and its impact on the securities sector

The stock exchange indices declined significantly in terms of market capitalization and trading volumes during the pandemic period. Al-Quds Index declined 54 points in 2020, with a decline rate of about 10%. The number of traded shares decreased by 39% and the value of trading decreased by 31%. In terms of market capitalization, it has decreased by 8% since the beginning of the year.

The fact that many listed companies postponed the distribution of cash dividends or reduced the distribution ratio this year had negatively affected the trading data, and gave a negative feeling among the stakeholders in their dealings in the stock exchange.

As to the sectors constituting the total of listed companies, we see that the banking and financial services sector was one of the most affected sectors, as it decreased by nearly 39% compared to the year 2019, followed by a decline in the services sector by 27% and a decline of 16% in the investment sector. As for the industry sector, it decreased by 5%. On the other hand, the insurance sector including Listed and non listed Companies singled out an increase of 10.15% over the profits it achieved in 2019.

Major Developments and the Scope of Work of the Securities Directorate

Major Developments of 2020

Despite that the year 2020 was exceptional in all respects, the securities directorate continued to developing its legal environment by updating the solvency instructions for the listed companies, as well as amending some of the disclosure instructions.

The Securities Directorate, in addition to its contribution to the environmental, legislative and technical development of the securities sector on the one hand, and through its central departments on the other hand, does the following:

1. Monitoring of Trading:

- Carry out complete monitoring on trading through the Market Operations Monitoring Department, in conjunction with the decision of the Palestine Exchange to terminate the electronic system for monitoring of trading (SMARTS) and to rely on technical alternatives that were self-developed by the PCMA, which operate within the same regulatory standards and thresholds of the system (SMARTS).
- Monitoring the market to ensure competition and transparency in the provision of financial brokerage services, and taking the necessary measures to reduce market manipulation and fraud.

2. Licensing:

Every year, a licensing committee is formed by 3 members of the employees working in the securities sector, whereby licensing and renewal of securities business and activities to the following entities:

- A. Licensing of eight member securities companies to conduct financial brokerage business for its own account and for the account of others and to manage issuances.
- B. Licensing of 29 accredited brokers and six financial advisors.
- C. Licensing of five banks to act as custodians.
- D. Licensing a legal entity to practice the activity of an investment advisor.

3. Issuance and Financial Analysis:

- The financial analysis of all listed public shareholding companies is carried out annually in a detailed and cumulative manner according to the sector to which these companies belong.
- The PCMA agreed to increase the capital of eight public shareholding companies by distributing free shares, secondary subscription and private subscription, through the capitalization of voluntary reserves and/or retained earnings, and/or a strategic partner, as follows:

Company	Number of shares
Iben Sina Specialized Hospital	22,000,000
Bank of Palestine	4,000,000
Arab Islamic Bank	3,550,000
Al Quds Bank	3,000,000
Palestine Islamic Bank	3,000,000
Arab Palestinian Investment Company	6,000,000
Tamkeen Palestinian Insurance	4,000,000

The PCMA also agreed to increase the capital of one company through private subscription, as follows:

Company	Shares
The National Bank	13,000,000

The PCMA also approved the issuance of bonds to Arab Palestinian Investment Company APIC worth \$74 million, as follows:

Company	Bonds	Currency
Arab Palestinian Investment	1,400	Euro
Arab Palestinian Investment	5,800	US Dollar

4. Inspection:

In the field, the inspection team acts as the PCMA's watchful eyes over the entities and parties licensed by the PCMA. As a result of the state of emergency, one round of field inspection was carried out on member financial companies, and the other round was made through an office inspection plan, within the emergency plan, whereby the inspection is carried out in accordance with the risk-based methodology relating to the enforcement of the provisions of Securities Law No. (12) of 2004. In addition, during the inspection process, a special part is allotted specifically to examine the compliance of the securities and stock exchange companies with the provisions of Law No. (20) of 2015 and the legislation, circulars and decisions issued by virtue thereof, relating to combating the crimes of money laundering and terrorist financing.

5. Disclosure and Governance:

Accurate disclosure, providing information to the public and stakeholders in securities, and striving towards obligating the listed companies with the requirements of governance are considered among the main objectives of the PCMA, in order to achieve the principles of integrity, price efficiency and justice for stakeholders in the Palestine Exchange. The General Administration of Securities monitors the compliance of the companies issuing securities with the provisions of the Securities Law No. (12) of 2004, the disclosure instructions and regulation issued by the PCMA and the Stock Exchange, and takes the necessary measures against violators.

The following table shows the extend of commitment of listed companies in disclosing periodic reports during 2020:

Periodic reports	Deadline for the disclosure of periodic reports	Listed Companies	Complying Companies	Compliance Rate
Preliminary Financial Statements for 2019	16/2/2020	48	43	89%
Annual Reports for 2019	30/4/2020	48	40	83%
Financial statements for the first quarter 2020	17/5/2020	48	42	87%
Semi-annual reports for 2020	31/8/2020	48	42	87%
Financial Statements for the third quarter 2020	1/11/2020	46	41	89%

6. Complaints:

The PCMA endeavors to protect the rights of the stakeholders in the Palestine Stock Exchange. During 2020, a number of supervisory notes and customer complaints were dealt with, as a result of which the PCMA took legal requisites against violators.

7. Financial results of companies listed on the Palestine Exchange

At the end of 2020, there was a change in the number of companies listed on the Palestine Exchange, which amounted to (46) companies, as two companies were delisted during the year 2020.

The following table shows the financial results of the companies during the year 2020, based on the audited financial statements and the annual report submitted by the companies to the PCMA:

Business results of listed companies for 2020

Banks and Financial Services	Arab Islamic Bank	AIB	US Dollar	8,014,336	
	Bank of Palestine	BOP	US Dollar	22,412,148	
	Palestine Islamic Bank	ISBK	US Dollar	11,169,723	
	Palestine Investment Bank	PIBC	US Dollar	3,675,302	
	Al Quds Bank	QUDS	US Dollar	10,899,944	
	The National Bank	TNB	US Dollar	(713,437)	
	Palestine Securities Exchange	PSE	US Dollar	282,996	
Industry	Arab Paint Products	APC	Dinars	863,305	
	Palestine Poutry	AZIZA	Dinars	4,572,586	
	Birzeit Pharmaceuticals	BPC	US Dollar	7,375,483	
	Al Shark Electrode	ELECTRODE	Dinars	(23,978)	
	Jerusalem Cigarette	JCC	Dinars	2,098,795	
	Jerusalem Pharmaceuticals	JPH	US Dollar	3,667,829	
	Palestine Plastic Industries	LADAEN	Dinars	(13,589)	
	National Aluminium and Profile	NAPCO	Dinars	7,455	
	The National Cartoon Industry	NCI	US Dollar	804,308	
	The Vegetables Oil Industries	VOIC	Dinars	6,203,171	
	Dar Al-Shifa'a for the Manufacturing of Pharmaceuticals	PHARMACARE	US Dollar		
	Golden Wheat Mills	GMC	Dinars	65,069	
	Beit Jala Pharmaceutical Co.	BJP	Dinars	745,327	
	Insurance	Ahliea Insurance Group	AIG	US Dollar	
		Global United Insurance	GUI	US Dollar	2,332,165
Al Mashriq Insurance		MIC	US Dollar	1,252,471	
National Insurance		NIC	US Dollar	7,809,052	
Palestine Insurance		PICO	US Dollar	1,189,750	
Al-Takaful Palestinian Insurance		TIC	US Dollar	2,218,526	
Trust International Insurance Company		TRUST	US Dollar	1,931,434	
Investment	Al-Aqariya Trading Investment	AQARIYA	US Dollar	962,640	
	Arab Investors	ARAB	Dinars	435,687	
	Jerusalem Real Estate Investment	JREI	US Dollar	(39,719)	
	Palestine Development & Investments	PADICO	US Dollar	4,765,000	
	Palestine Investment & Development	PID	Dinars	(832,126)	
	Palatine Industrial Investment	PIIC	Dinars	5,469,964	
	Palestine Real Estate Investment	PRICO	Dinars	(4,947,269)	
	Sanad construction resources	SANAD	US Dollar	(9,676,687)	
	Union construction and Investment	UCI	US Dollar	1,203,225	
	Arab Palestinian Investment Company (APIC)	APIC	US Dollar	24,642,723	
Services	Al-Wataniah Towers	ABRAJ	US Dollar	1,277,524	
	The Arab Hotels	AHC	Dinars	(2,992,560)	
	Nablu Surgical Center	NSC	Dinars	417,030	
	PALAQAR For Real Estate Dev. & Management	PALAQAR	Dinars	377	
	Palestine Telecommunications	PALTEL	Dinars	43,038,000	
	Palestine Electric	PEC	US Dollar	11,329,690	
	The Ramallah Summer Resorts	RSR	Dinars	263,307	
	Palestinian Distribution & Logistics	WASSEL	US Dollar	170,833	
	WATANIYA Palestine Mobile Telecommunications	OOREDOO	US Dollar	7,541,215	

* There are three companies that did not disclose the annual report until the date of preparing this report 4 / 07 / 2021, where a decision was published banning insiders from dealing in securities until disclosure.



Insurance Sector



Introduction

The insurance sector is considered one of the most important economic sectors, and instrumental element in the economic stability along with the banking sector and the judicial sector, as it manages the risks of the national economy, by protecting national savings and the lives and properties of individuals and institutions, and actively contributes to economic development. During the past years, the insurance sector in Palestine witnessed a significant development, not only in terms of doubling the size of the insurance portfolio, but also, in terms of the level, nature and quality of insurance services provided to the public.

The Palestine Capital Market Authority regulates and supervises the insurance sector in Palestine in accordance with the Insurance Law No. (20) of 2005 and the secondary legislations issued by virtue thereof. The PCMA has given the insurance sector special importance to ensure the achievement of the economic and social objectives desired from the insurance activity, and to ensure that insurance companies continue to fulfil their insurance obligations and protect the rights of insurance policyholders and the beneficiaries therefrom, through continuous follow-up, ensuring the soundness and solvency of the financial positions of insurance companies, and circumventing against risks that such companies may be exposed to, in accordance with best international practices and principles specified by the International Association of Insurance Supervisors (IAIS) , in addition to adopting a risk-based supervision and control (RBS) approach.

Managing the Covid-19 pandemic crisis and its impact on the Insurance Sector:

The State of Palestine was not far from the repercussions of the Covid-19 pandemic that whipped the world, as the impact of the pandemic extended to various economic sectors, including the insurance sector. The most prominent of these effects was the decline in the ability of individuals and institutions to pay insurance premiums, which was negatively reflected on the level of cash flows and cash liquidity of insurance companies, in parallel with the increase in returned cheques, which increased by (85%) from 37,839 returned cheques during 2019

to 69,917 returned cheques by the end of 2020. The value of these cheques amounted to US\$ (37.9) million in 2019, and increased to reach US\$ (61.9) million by the end of 2020. In addition, extending the validity period of insurance for vehicles during the pandemic, considering it valid automatically, resulted in increasing the total receivables by 11% from US\$ 98.4 million in 2019 to US\$ 109 million in 2020, raising the doubtful receivables for 2020 by 10% over the 2019 ones.

Despite the unprecedented exceptional circumstances and the closure of economic activities for long and repeated periods during 2020, insurance premiums maintained the same level, reaching US\$ 303.2 million for 2020 compared to US\$ 302.5 million in 2019. However, there was a slight decrease by 1.66 % of the total compensation paid to beneficiaries of insurance coverages from US\$ 182.7 million to US\$ 179.6 million in 2020.

The insurance companies achieved net profits of US\$ 18,6 million during the year 2020, compared to US\$ 16.9 million in 2019, with an increase of 10.15%, mainly due to the decrease in the number of during 2020 as a result of the precautionary measures undertaken by the government, limiting the movement on the roads in addition to the reduction in the number of working days.

The PCMA has had an active role in stabilizing the insurance sector during the pandemic, through a set of measures it has taken aiming to mitigate the negative effects on the sector, on the one hand, and on the other hand ensuring that insurance companies continue to provide their insurance services, fulfil their legal obligations, pay compensation to those entitled to, and encourage them to direct their social responsibility allocations towards supporting the government's efforts, including adopting precautionary measures to preserve the health and safety of workers in the sector.

The table below shows the consolidated operational and financial data from 01/01/2020 to 31/12/2020 Currency: US\$

	Description	31/12/2020
General Information	Number of Companies	10
	Number of Branches	176
	Number of Employees	1,493
	Number of Agents and Producers	276
	Number of Insurance Intermediaries	16
	Number of Reinsurance Intermediaries	1
Insurance Sector Results	Motor Insurance Premiums	208,203,153
	Workers Insurance Premiums	24,105,476
	Health Insurance Premiums	32,103,237
	Civil liability Insurance Premiums	4,238,377
	Non-life Insurance Premiums	4,873,296
	Fire Insurance Premiums	15,753,554
	Marine Insurance Premiums	1,542,319
	Engineering Insurance Premiums	6,061,942
	Life Insurance Premiums	6,362,749
	Total Insurance Premiums	303,244,103
	Total Paid-up Claims	179,630,303
Summary of assets and liabilities for insurance sector	Total Current Assets	439,045,400
	Total Investments	266,330,030
	Accounts Receivable, Total	113,388,046
	Accounts Receivable, Net	91,484,701
	Total Assets	685,585,125
	Total Insurance Policies Assets	69,541,706
	Total Insurance Policies Liabilities	327,879,767
	Paid-up Capital	98,460,000
	Statutory Reserve	20,288,158
	Optional Reserve	11,845,117
	Cumulative Change in Assets fair Value	15,579,865
	Retained Earnings (Losses)	53,480,159
	Total Shareholder's Equity	209,767,829

The table below shows some insurance indicators for the insurance sector as of: -

Description	31/12/2020
Retention to Net Written Premiums Ratio	89.0%
Return on Owners Equity	12.9%
Investment to Total Assets Ratio	38.8%
Investment to Technical Reserves Ratio	81.2%
Claims Ratio	64.3%
Expense Ratio	28.6%
Combined Ratio	92.9%
Insurance Penetration Ratio	1.8%
Insurance Density (US Dollar)	58.72

Major developments of 2020:

Despite the early and strict precautionary measures taken by the PCMA at the beginning of 2020, to confront the Covid-19 pandemic and preserve the safety of its employees, the PCMA was able to ensure the continuation of operational and vital functions without recording any interruption, in addition to continuing to implement the strategic objectives of the PCMA, especially in the insurance sector, which witnessed a number of developments, including:

1. Launching the Professional Certification Program for the Insurance Sector and its Competency Framework:

The professional certification program linked to the competency framework for the insurance sector was launched at the beginning of 2020, with cooperation of each of the Bahrain Institute of Banking and Finance (BIBF), the Chartered Insurance Institute (CII), and the Life Office Management Association (LOMA).

2. Adoption of a new tariff for motorcycle insurance premiums:

In continuation to the PCMA's efforts carried out in 2019 in preparing a special actuarial study to determine an appropriate insurance premium

* The figures and ratios for the year 2020 include preliminary data related to an insurance company "will not have a fundamental effect".

for motorcycle insurance, a new insurance tariff was approved to insure this category of vehicles, following the ratification of the Council of Ministers of a draft regulation amendment regarding setting the price level, or the special tariff of vehicle insurance, and workers' insurance provided by the PCMA, and the issuance of Decision No. (2) of 2020 in February 2020, which became effective in March 2020, where the said amendment addressed the problems that were facing motorcycle owners, by setting a minimum and a maximum premiums for motorcycle insurance.

3. Developing the statistical database of the insurance sector:

In its endeavor to developing a database for the insurance sector, and to access a database that includes important and necessary insurance indicators for researchers and those interested specifically in the field of gender and geographical distribution, the PCMA has developed a statistical database for the insurance sector, by including many indicators to meet the requirements of financial inclusion in Palestine, besides displaying the insurance sector's financial and operational data, which are published on a quarterly basis on the website of the PCMA.

4. Addressing the crisis of the public transport sector resulting from the Covid-19 pandemic:

The PCMA has dealt positively with the demands of the public transportation sector regarding insurance premiums for public transport vehicles during the closure period and preventing the movement between cities, based on government measures to contain the outbreak of the Covid-19 pandemic, by submitting a recommendation from the PCMA's Board of Directors to the Council of Ministers to grant a discount to vehicle insurance premiums of taxis and public transport buses by 15%, which will benefit approximately 12,000 vehicles.

5. Amending the mechanism for calculating the value of insurance companies' deposits tied to the order of the PCMA:

In the context of keeping pace with the best international practices in facing the risks of the insurance industry in Palestine, and in the context of strengthening means to protect the rights of insurance policyholders and beneficiaries of insurance services, and to enhance public confidence in the insurance services provided, and to ensure that insurance companies fulfill their insurance obligations, the mechanism for determining the value of deposits tied to the PCMA's order has been amended, and linked to the size of the annual insurance portfolio, in contrast to being set at a fixed amount.

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6. Amending the mechanism of calculating the financial solvency margin for insurance companies:

In the context of developing the mechanism used in calculating the solvency margin of insurance companies, which is one of the most important financial indicators used in measuring and determining the ability of insurance companies to fulfill their insurance obligations, the PCMA has worked on amending the instructions in place to objectively reflect the ability of the insurance company to fulfill its insurance obligations; rendering the instructions more compatible with the basic insurance principles issued by the International Association of Insurance Supervisors, and in particular addressing the mortgaged and restricted assets of insurance companies. Furthermore, fundamental amendments were made into the mechanism for calculating the financial solvency margin of insurance companies, in a manner relating to the risks. These amendments will be made applicable to the annual financial statements of the insurance companies and submitted to the PCMA as of 2021.

7. Preparation for the application of International Financial Reporting Standards (IFRS 9 & IFRS 17):

As part of the PCMA's endeavor to keep abreast of developments and updates on international standards and practices, including the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), the PCMA

issued circulars to insurance companies regarding the application of International Financial Reporting Standard No. 9 (IFRS9), and International Financial Reporting Standard No. 17 (IFRS17). Such circulars aimed primarily at preparing companies for an effective, smooth and standardized application of international standards, as 2023 will be the final date of the grace period to comply.

8. Development of standard actuarial models for insurance companies:

Standard actuarial models have been developed, and actuarial experts for insurance companies have been obligated to use them when preparing actuarial reports. The models aim to clarify the actuarial assumptions and methodologies used in preparing the actuarial report on the insurance companies' business, and to increase the level of disclosure of data, information and actuarial methods that were relied upon in preparing the reports.

* The figures and ratios for the year 2020 include preliminary data related to an insurance company "will not have a fundamental effect".

9. Organizing the work of the Palestinian Road Accident Casualties Compensation Fund:

Taking into account that the Palestinian Road Accident Casualties Compensation Fund is part of the insurance sector system in Palestine, and performs road accident compensation services to those who are not entitled to by virtue of the provisions of the Insurance Law No. (20) of 2005, and based on the provisions of Decree No. (41) for the year 2018 regarding the amendment of Insurance Law No. (20) of 2005 as amended; and in particular Article (2), paragraph (3) thereof, which provides that: "The fund's work is subject to the supervision and control of the PCMA in accordance with instructions issued by the PCMA in this regard." Consequently, the PCMA issued instructions No. (1) of 2020 to monitor and supervise the work of the Palestinian Road Accident Casualties Compensation Fund, for the purpose of completing the system of control and supervision of all components of the insurance sector.

* The figures and ratios for the year 2020 include preliminary data related to an insurance company "will not have a fundamental effect".



Financial Leasing Sector



Introduction

2020 witnessed a noticeable decline in the activity of financial leasing companies due to the economic repercussions that arose due to Covid-19 and the subsequent many closures and halts in the business cycle and the economic activity in compliance with safety and preventive measures imposed due to this epidemic.

By the end of 2020, the number of financial leasing companies licensed by the Palestine Capital Market PCMA reached 10 companies, with portfolios ranging from commercial and personal vehicles, heavy equipment, production lines, equipment and alternative energy plants. These companies proceed in duly registering the assets that are financially leased with the relevant authorities, which are the traffic departments within the Ministry of Transportation, and the Register of Movable Properties within the Ministry of National Economy. During the year 2020, the license of (3) companies was canceled due to the inability of these companies to rectify their status in compliance with the provisions of Instructions for Licensing and Supervising Financial Leasing Companies number (1) of 2016.

Managing the Covid-19 pandemic crisis and its impact on the Financial Leasing Sector

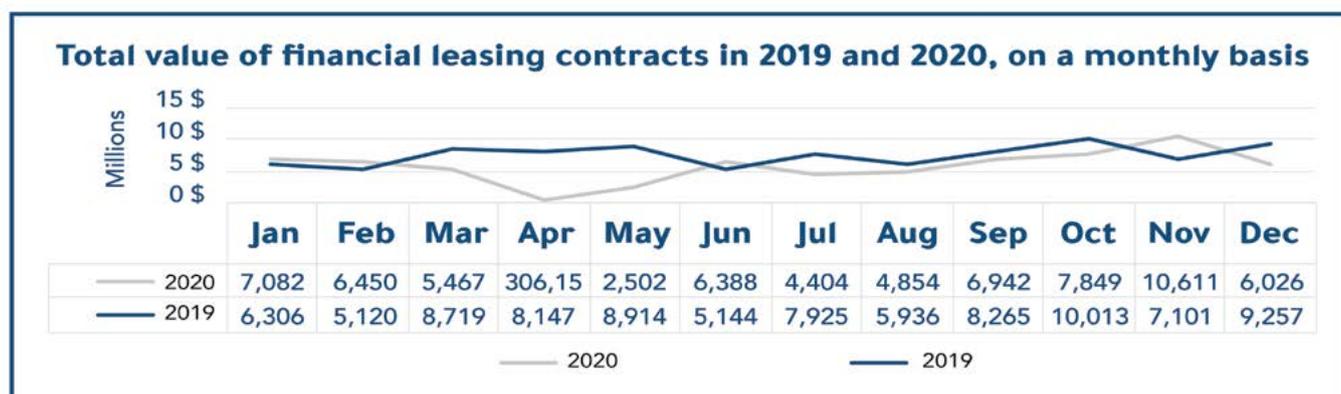
These repercussions also had negative risks (downside risks) on companies' portfolios, as some of them were exposed to a high degree of defaults, according to the preliminary data made available to us, thus negatively affecting the profits of operating companies, and subsequently determining their ability to grant new financing.

As a result of these circumstances and the negative effects of the pandemic on the operating environment of companies, and in order to ensure stability of the financial leasing sector, the PCMA has issued the appropriate circulars to companies, allowing them to postpone lessees' installments in parallel with coordination with the Palestine Monetary Authority, in order to issue the necessary instructions to banks to postpone loan installments due from companies, ensuring a balance in the cash flows of companies.

Major Developments of 2020

According to the Register of Financial Leasing Contracts with the PCMA, the value of total investment contracts registered with the PCMA amounted to US\$ 68.9 million, with 1,364 contracts as of the end of 2020; When comparing 2020 with 2019 in terms of the total value of contracts, there is a decrease of 24.2%, and a decrease of 32% in the number of contracts. Such decrease is due to the Covid-19 pandemic, and the subsequent closures of all economic sectors, including the financial leasing sector.

The following graph shows the total investment for financial leasing contracts registered in 2019 and 2020, on a monthly basis, so that the reader can notice the impact of the pandemic on corporate activity, as the decline focused in April, the closure month.



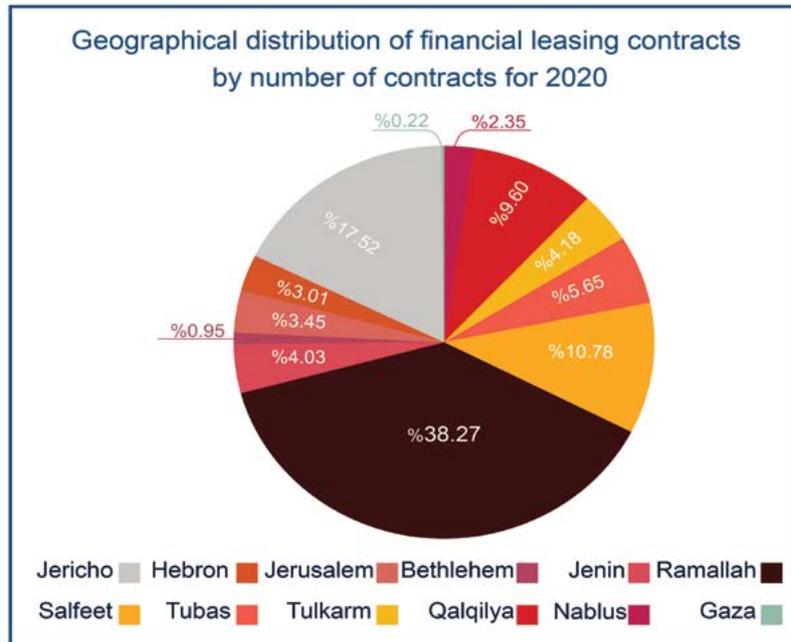
As for the number of financial leasing contracts registered in 2019 and 2020, it appears on the following chart on a monthly basis:



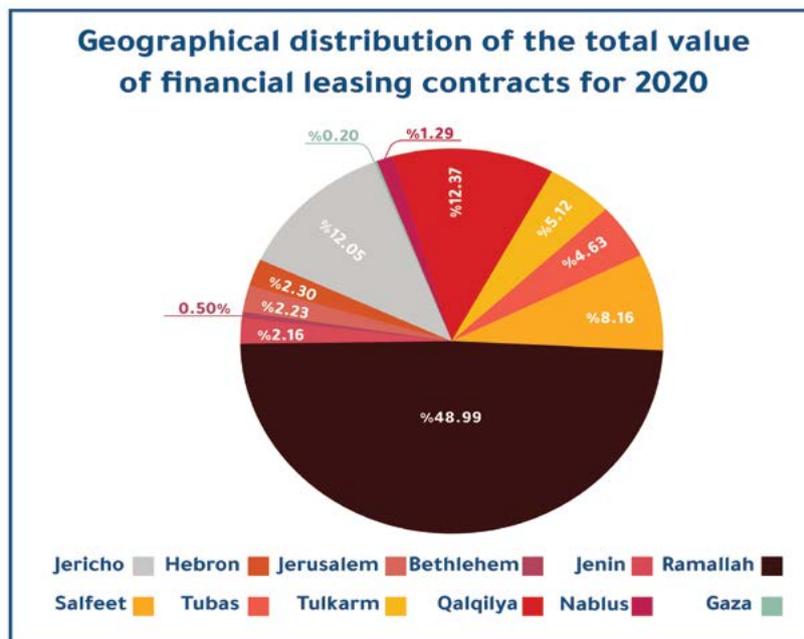
The share of vehicles in the financial leasing portfolio decreased as well, constituting 69.5% of the total value of contracts, compared to 83.63% in 2019. In contrast, there was an increase in the share of trucks and heavy vehicles in 2020, with a ratio of 22.48% compared to 9.37% in the previous year. This means that when comparing the ratios of the two years, and despite the continued concentration in private vehicles, there is an increase in the trend towards production vehicles versus a decrease in the concentration in the private vehicles. As for the movable properties i.e., equipment, production lines, etc., the value of financial leasing contracts amounted to 8.02%, compared to 7% in the previous year.



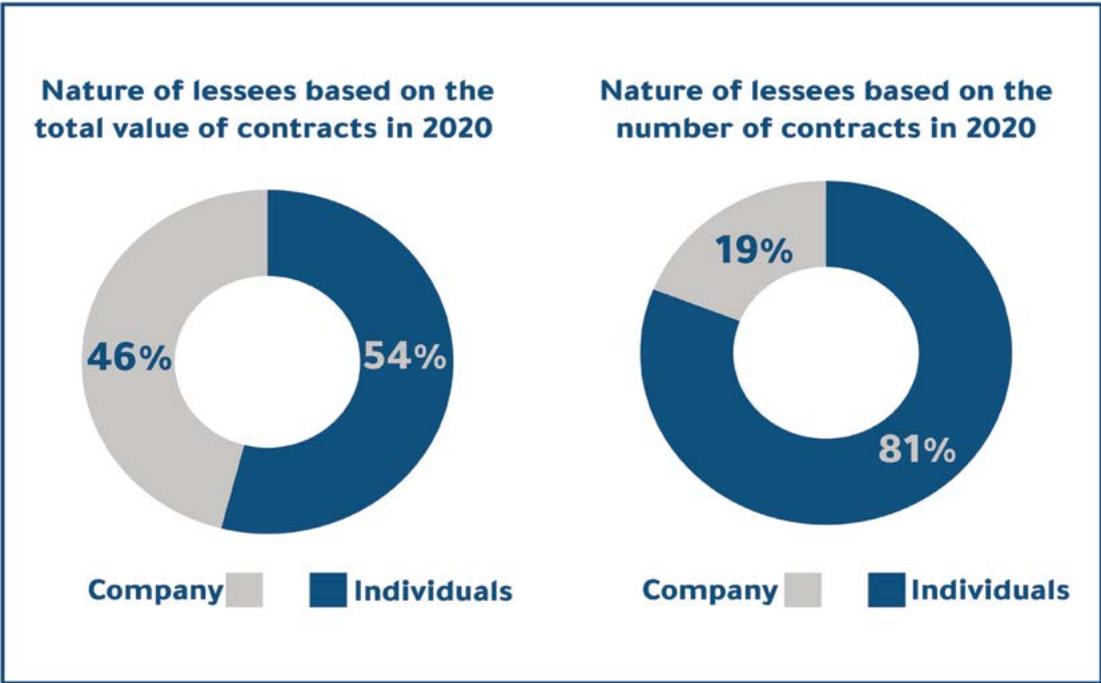
As can be realized from the figure below, Ramallah and Al-Bireh governorate ranks first with a rate of 38.27%, due to the concentration of employees and large institutions in the governorate, in addition to a number of industrial and service companies, followed by Nablus governorate with 17.52%, followed by Jenin governorate with 10.78%, then Hebron governorate with 9.60%, and the rest of the governorates together constitute a total of 23.83% of the total number of contracts.



As for the geographical concentration of the total value of contracts, the largest concentration was in Ramallah and Al-Bireh governorate with 48.99%, followed by Hebron governorate with 12.37%, Nablus governorate with 12.05%, and then Jenin governorate with 8.16%, while the rest of the governorates constituted 18.43% of the total value of contracts. The figure below draws the geographical distribution of the total value of financial leasing contracts for 2020:



value of the financial leasing contracts registered in 2020 are shown in the following figure:



As is clear above, 81% of the number of registered contracts belong to individuals, with a total value of up to 54% of the contracts and 19% of the number of contracts belong to companies, with a value of 46% of the total contracts.



Mortgage Financing Sector



Legal and Regulatory Environment

In its endeavor to develop the legislative environment regulating the real estate mortgage financing sector, due to its economic importance, and the development of the volume of real estate financing operations in this market, which suffers from a lack of regulation and taking into consideration the dynamics of this market and the main players therein, the PCMA works on studying and evaluating the Real Estate Mortgage Financing Sector in a comprehensive manner, and finding mechanisms to regulate Real Estate Mortgage Financing operations that take place in the informal market for this sector.

During 2019, the PCMA worked on revising the Instructions for licensing Mortgage Finance Appraisers No. 3 of 2012 once and for all, to ensure their compatibility with developments in the Palestinian reality and market changes.

Major Developments of 2020

The Palestine Mortgage Finance Company and its financing arm, the Palestinian Mortgage Finance Company, are still the only companies operating in the mortgage finance sector, specifically the secondary market (refinancing mortgages), due to the availability of liquidity at banks operating in the Palestinian territories, and low interest rates globally. This has led to the company's products becoming more costly to banks than using their deposits to grant mortgage financing loans, in addition to the expansion of informal activity in the field of real estate financing.

Being a member of the National Sustainable Development Team for the implementation of Goal 11: "Make cities and human settlements inclusive, safe, resilient and sustainable" of the Sustainable Development Agenda 2015 - 2030, the PCMA continuous coordination with team members to ensure the achievement of this goal.

With regard to real estate appraisal, and given the importance of this profession in determining the value of real estate guarantees on the basis of which loans are granted, and thus reducing the risks to which lenders are exposed, the PCMA seeks to grant a license to those with experience and competence. It also follows up licensed real estate appraisers through inspection tours to ensure their compliance with the Instructions.

In line with its principle to coordinate and cooperate with all parties related to the housing sector, the PCMA continuously communicates with the Land Authority to discuss

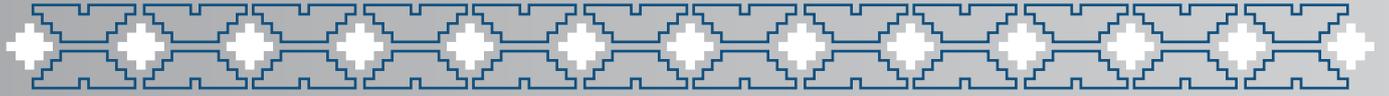
and deliberate matters of common interest, specifically with regard to the real estate appraisal activity, in a manner that serves the real estate sector and the mechanisms regulating and monitoring this sector.

And out of its keenness to have licensed real estate appraisers carry out the appraisal process in accordance with the best international practices, and applying the instructions, the PCMA has monitored the application and commitment of appraisers to the standardized appraisal report template that was developed in 2019, in cooperation with the Association of Banks, to meet the needs of banks, and in a manner that ensures unifying the principles and practices in the real estate market, enhancing the efficiency of licensed real estate appraisers, and giving confidence to the users of this report prepared in accordance with international best practices.

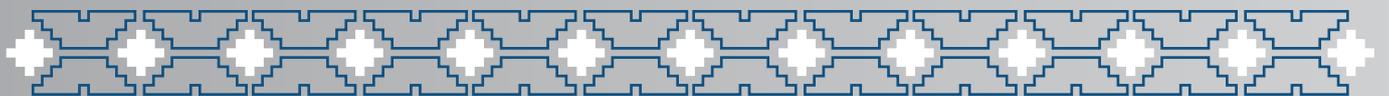
Regarding coordination with the Palestine Monetary Authority, as a main partner, developments relating to calculating the housing price index, which are developed with the help of appraisers licensed by the PCMA, are continuously monitored.

With regard to the PCMA's program in organizing real estate appraisal courses and holding subsequent exams, as one of the criteria for obtaining a license to practice the activity, during 2020, the PCMA did not organize such courses due to the pandemic situation in the country as a result of the spread of the Covid-19, and in compliance with the standards safety and preventive measures relating thereto.

As for the persons involved in the real estate appraisal activity, 2020 witnessed the licensing of four real estate appraisers, bringing the number of licensed real estate appraisers to 58.



Other Financial non-banking Services:



(Factoring)

Based on its role in regulating, controlling and supervising the activities of non-banking financial institutions, including factoring, and in order to ensure the provision of a new type of financing that will contribute to enhancing liquidity in the Palestinian capital market, and help small and medium-sized enterprises in obtaining appropriate financing for capital financing. Factor, during the year 2020, the PCMA, through a contract with the European Bank for Development and Reconstruction, began providing technical assistance through which, first, a concept paper was submitted to assess the market situation and review laws related to factoring activity in order to recommend the appropriate legislative framework, and then help in implementation of this legislation.

The administration also participated in the online factoring conference, which was organized by the European Bank for Development and Reconstruction, in partnership with (IFC), which included a review of factoring activity, highlighting the experiences of different countries of the world, the development of markets, and the basic legal principles required. It is available to create and stimulate factoring activity, in addition to a presentation of various financial statistics, in comparison with traditional financing activities and financial leasing.

Corporate Governance and Financial Inclusion

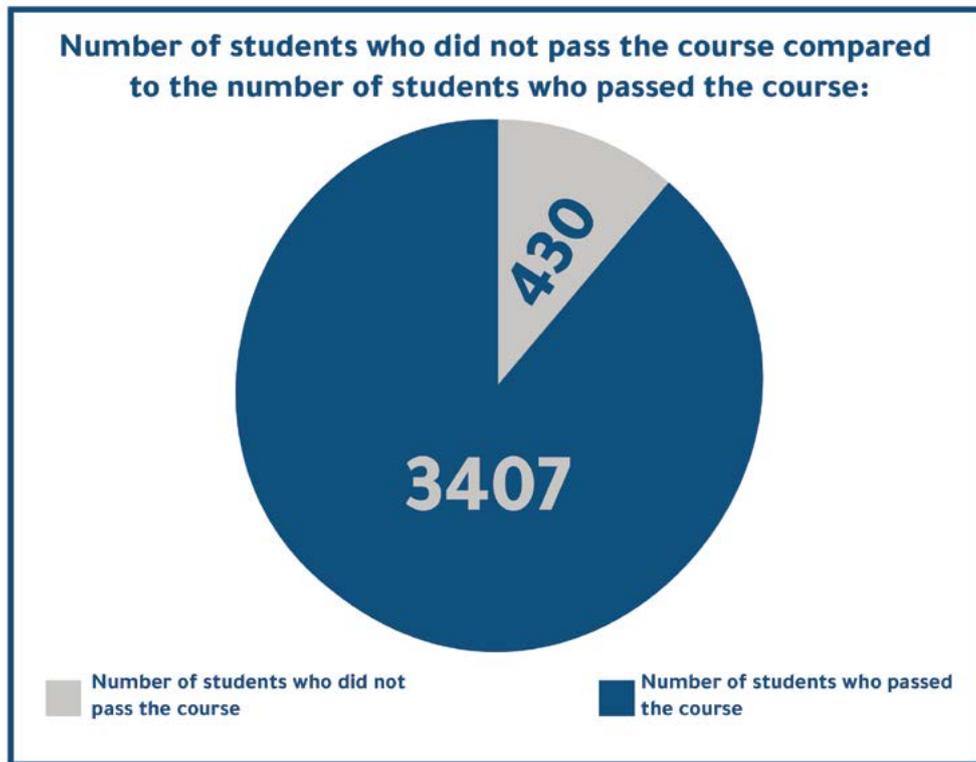
Governance

2020 witnessed a set of achievements in the field of corporate governance, most of which focused on the developmental level of sectoral governance, in addition to the continued strategic cooperation with the International Finance Corporation (IFC) in the field of strengthening corporate governance in Palestine. The following is a summary of the most important developments that occurred in 2020 in the field of corporate governance:

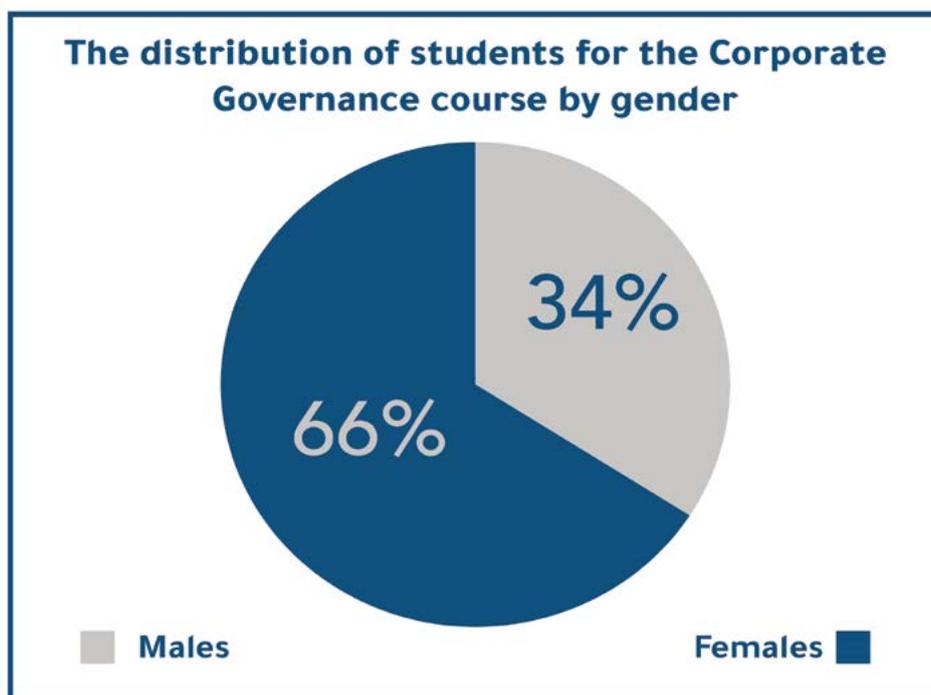
- **Developing the Code of Corporate Governance.** During the year 2020, the PCMA worked in cooperation with the International Finance Corporation (IFC), to complete the rebuilding and development of the Corporate Governance Code issued in 2009, based on the requirements of Environmental and Social Governance (ESG). The State of Palestine is one of the first countries in the region to include the requirements of ESG in the Corporate Governance Code, taking into account the Palestinian reality. In this context, an in-depth review of the Code issued in 2009 was carried out, to include developments in the principles and requirements of corporate governance at the international level, in addition to developments in local legislative frameworks, principles of governance and its developments, especially with regard to disclosure and risk management, and the role of the Board of Directors and the Executive Management. In addition to carrying out a comparative study with a group of countries, leading to the development of a new code of corporate governance in Palestine.
- **Signing of a memorandum to renew cooperation with the International Finance Corporation (IFC),** during the third quarter of 2020, the PCMA signed a memorandum to renew cooperation with the International Finance Corporation (IFC) in the field of corporate governance, which comes as a continuation of the strategic partnership between the PCMA and the International Finance Corporation in strengthening corporate governance in Palestine, which has been ongoing for years. Such cooperation was culminated in several distinguished achievements and left a noticeable positive impact on many segments of the society.
- **Completing the development of corporate governance rules for the insurance sector, during the year 2020 and in cooperation with the International Finance Corporation (IFC),** the development of corporate governance instructions for insurance companies licensed by the PCMA was completed, which includes mandatory rules based on the requirements contained in the Insurance Core Principles (ICPs), in addition to a set of optional rules specific to insurance companies.

- **Continuing the program of integrating the corporate governance course in Palestinian universities**, during 2020, the PCMA and the International Finance Corporation signed three agreements to renew the integration of the corporate governance course in Palestinian universities, in cooperation with Al-Quds Open University, the Arab American University, and Palestine Technical University-Kadoorie. The new agreements extend for the next three years. In the same context and during the year 2020, the PCMA completed the program to integrate the corporate governance course into the teaching plans of the participating Palestinian universities, and since the launch of the program several years ago until the end of the second semester of the academic year 2019 / 2020, the number of applicants in the course reached 3,837 students from five universities, which are signatories to the agreement to integrate the course of corporate governance. Out of these students, 3,407 male and female students successfully passed the course, with a success rate of 89%, while the percentage of students who did not pass was 11%, corresponding to 430 students. The graph below shows the number of students who passed the course compared to those who did not pass:

Number of students who did not pass the course compared to the number of students who passed the course:



The graph below shows the distribution of students by gender, where the percentage of male students was 34% compared to 66% females:



Financial Inclusion

- **The National Financial Inclusion Strategy in its second year**

Two years have passed since the approval of the national strategy for Financial Inclusion in Palestine by the Council of Ministers, which is considered one of the most important achievements to advance the national economy, on both the national level, and at the Arab level, as well, as Palestine is considered one of the first Arab countries that worked to establish the strategy in accordance with international standards and best practices. The implementation of such strategy began in early 2019, and aims to raise the level of financial inclusion in Palestine from 36.4% to 50% by the end of 2025, and to achieve financial stability and economic growth by integrating all segments of society and its sectors into the official financial system and protecting their financial rights.

During 2020, financial inclusion in Palestine was affected due to the Covid-19 pandemic. According to the national financial inclusion strategy of 2018 in Palestine, the percentage of financially covered adults is 36.4%, meaning that 63.6% of individuals suffer from financial exclusion, and it is expected that the rate of exclusion will rise this year due to the decline in the rates of use of financial products and services, due to the Covid-19, especially non-banking financial services, such as insurance and financial leasing, as a result of the weakness and decline in the demand for these services, because of the decrease in the total and individual income of individuals and establishments, which was negatively affected by the pandemic, and in particular small and micro enterprises.

There is also a potential risk that the levels of protection of the rights of users of financial services will be negatively affected, especially borrowers in the event of non-full commitment by some banks and lending institutions in postponing periodic installments without any additional costs to borrowers, which will lead to higher costs of these financial services on consumers, particularly individuals, micro-entrepreneurs and entrepreneurs, whose ability to afford the high costs of such services is often limited.

As for the supply side, there is a fear of a contraction in the supply of financial services due to the decline in the willingness and ability of financial institutions to serve specific groups of the society, especially small and micro-enterprises and individuals, lacking sufficient financial solvency, whereby such financial institutions will be reluctant to expand lending or provide other financing services; such as finance leasing, due to the high levels of risk in these categories, or the unwillingness of these financial institutions to expose themselves to additional credit risks. On the other hand, there may be a positive impact on financial inclusion as a result of this crisis, for example focusing the granting of funding for some groups, such as small, medium and micro-sized enterprises, in the event of the policies announced by the Council of Ministers and the Palestine Monetary Authority have been adopted. Furthermore, and due to the decline in the demand for financial services, it is also expected that providers of financial service will increase their efforts in targeting specific groups that were not previously a priority for their business, which will benefit financial inclusion, should these providers succeed in reaching out to these new categories

It is also expected that financial inclusion will increase through the trend towards using electronic media to provide financial services. Despite the repercussions of the Covid-19 on financial inclusion in Palestine, in general, and the implementation of its strategy in particular, 2020 witnessed a number of achievements as follows:

- **Launching the Financial Inclusion website:** In cooperation between the Palestine Monetary Authority and the PCMA, the financial inclusion website was launched, constituting a communication channel and a main source of information on financial inclusion in Palestine and the banking and non-banking financial sectors. The website aims to introduce financial inclusion and its objectives, and to publish guidelines and awareness messages for all segments of society, and in particular marginalized and financially excluded groups, in addition to introducing awareness campaigns and initiatives that have been implemented by the Palestine Monetary Authority and the PCMA during the previous years. The launching of the website comes as one of the steps to implement the national strategy for financial inclusion in Palestine, which was hurred in 2018.

- Developing the financial database for the banking and non-banking financial sector:** In cooperation between the Palestine Monetary Authority and the PCMA, a (Data Portal) has been developed, which aims to create an automated financial inclusion database at the national level, in partnership with all parties of relevance. This database is characterized by accuracy, comprehensiveness and modernity. The data is collected at the gender level. In this database, the largest amount of financial data, both banking and non-banking, is collected from service providers who fall under the umbrella of the Palestine Monetary Authority for the banking financial sector, and under the umbrella of the PCMA for the non-banking financial sector. In accordance with the requirements of financial inclusion and other requirements specific to each sector, the PCMA worked on developing databases for the sectors it supervises, especially insurance, financial leasing and securities, whereby these data rules became more detailed and more in depth, in addition to being in line with the requirements necessary to feed the Data Portal.
- Developing a proposal for indicators of financial inclusion in Palestine:** In line with global trends regarding the measurement of financial inclusion, the Technical Committee of the financial inclusion developed a proposal for indicators of financial inclusion in Palestine, containing a number of indicators based on international references in regards thereto, and simulating the reality and context of the banking and non-banking financial sectors in Palestine, within the three main dimensions of financial inclusion, which are accessing financial services and products, using of these products and services, in addition to the financial capabilities of citizens. The importance of these indicators lies in measuring the level of financial inclusion in Palestine, and providing a clear image thereof in a comparable manner with other countries, based on the database developed by the Palestine Monetary Authority and the PCMA, which will be relied upon to provide the necessary information and data to feed indicators of financial inclusion. In addition, these indicators are extremely important in measuring the progress achieved on the outcomes of the activities of the executive plan of the national financial inclusion strategy 2018 - 2025.
- Financial Inclusion Plan of 2021:** Based on the strategic plan of 2018-2025, the technical committee, through the financial inclusion working groups, developed the annual plan of 2021 that will be approved and adopted by the technical committee. Such plan is based on the current reality during the Covid-19 pandemic and its repercussions on the Palestinian economy, and the priorities that will be launched by virtue thereof.



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