AIG Israel Insurance Company Ltd

Financial Report for Year Ended 2022

Contents

<u>Chapter A: Description of the Company's Business</u>
For the year ended December 31, 2022

AIG Israel Insurance Company Ltd
Private Company No. 51-230488-2
("The Company)

March 21, 2023

Description of corporate business for the year ended December 31, 2022

This report constitutes a description of the Company's business as of December 31, 2022 and reviews the Company and the development of its business as occurred in 2022 ("**the reported period**"). The information in this report as updated as of December 31, 2022 ("**the report date**"), unless otherwise is explicitly indicated.

The Company is an insurer as this term is defined in the Supervision of Financial Services Law (Insurance), 1981 ("**the Supervision Law**"). Therefore, this report is prepared according to the guidance issued by the Commissioner of the Capital Market, Insurance and Savings Authority ("**the Commissioner**" and “**the Authority**”, respectively).

Forward-looking information

This chapter in the periodic report, describing the Company, the development of its business and its fields of operations may contain forward-looking information, as this term is defined in the Israel Securities Law, 1968 ("**the Securities Law**"). Forward-looking information is uncertain information about the future, based on the information available to the Company on report date and includes the subjective assessment of management based on assumptions and estimates of the Company and/or its intentions as of the date of this report. Providing such information is not a commitment for accuracy or completeness, and actual activity and/or results of the Company may be different than those presented in the forward-looking information presented in this report. It is possible in certain cases to detect passages that contain forward looking information by the use of words such as: "the Company assesses", "the Company believes", "it is the intention of the Company", etc., but it is possible to see such information presented using other language or it may be specifically indicated that as a forward-looking information.

The financial information included in this report is reported amounts. All information in this report are in thousands NIS unless otherwise is indicated.

The business of the Company is in fields that require considerable professional knowhow that involves many professional terms that are essential for understanding the business of the Company. To present a description of the corporation that is as clear as possible, those professional terms are used along with an explanation, to the extent possible. The description in this report on insurance products and coverage types is for the purpose of this report only and may not serve for the interpretation of the products and coverage, and the full and binding terms in the insurance programs.

Please read the all parts of this periodic report as one unit.

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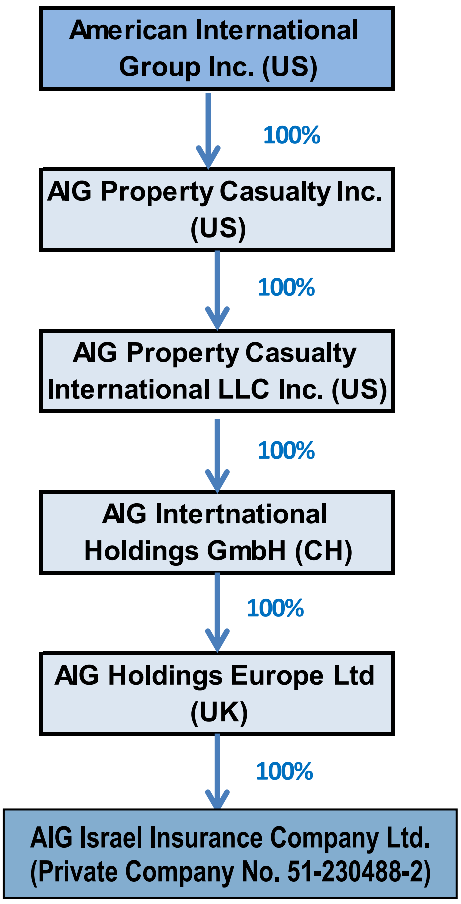
1. Part A: the activity of the Company and the development of its business

1.1 The activity of the Company and the development of its business

AIG Israel Insurance Company Ltd ("**the Company**") was incorporated in Israel on March 27, 1996, as a private limited liability company. The Company began its insurance activity in May 1997. The company does not hold any subsidiaries or related companies. The Company has no activity outside of Israel through branches and associates.

The ultimate parent of the Company is American International Group Inc. ("**the global AIG corporation**" or "**AIG**"). The global AIG corporation is a leading global insurance and finance services corporation, rated BBB+ as of report date by the rating firm, S&P Global Ratings ("**S&P**").

The sole shareholder of the Company is AIG Europe Holdings Limited, which holds the entire issued and paid up share capital of the Company and is a member of the global AIG corporation.
The following is the holding structure of the Company:



The Company was granted licenses by the Commissioner to practice as an insurer in general insurance and life insurance as follows: motor vehicle insurance, compulsory motor vehicle insurance, health insurance (personal injury, serious illness and overseas travel coverage), commercial insurance (property loss, business comprehensive insurance, engineering insurance, employers' liability insurance, third-party liability insurance and product liability insurance), cargo in transit insurance, other risk insurance (limited to crime and fraud damages), comprehensive life insurance, and foreign business insurance for different insurance types.

The Company operates in three business divisions (home and vehicle insurance, life and health insurance and commercial insurance), headquarters, and the private customers division.

The Company is marketing and selling retail insurance policies directly to customers (without insurance agents) through call centers and online. Customers and being serviced mainly through a central service call center. Most business of the Company in commercial insurance, and some of the retail insurance business, is done through mediation of insurance agents. As a result of the above marketing methods, the organizational structure of the Company is based on activity through a head office in Petach Tikva.

1.2 Areas of activity

Most activity of the Company is to retail customers. The main activities of the Company and their general characteristics are as follows:

1.2.1 General insurance - vehicle property

General

The Company began its activity in this segment in 1997. Vehicle property insurance is also known as comprehensive vehicle insurance or "third-party insurance" and is voluntary. Vehicle property insurance is included in the general insurance business and is focused on property damage to vehicles of the customer and those caused to a third-party property.

The format of a vehicle property insurance policy is subject to the standard policy terms in the Insurance Business Supervision Directives (Terms of Private Vehicle Insurance Contract), 1986 ("**the standard policy**").

The standard policy include coverage against loss or damage caused to the insured vehicle as a result of the following risks: fire, thunderbolt, explosion, accidental collision, capsizing, accident of any type, theft and any damage caused by theft, while theft or attempted theft was occurring; flood; storm; snow; volcano eruption; deliberate damage; and liability coverage to third party due to property damages.

The language of the standard policy is mandatory, and it is only possible to extend its coverage in terms of scope, risks, and covered property and persons.

Vehicle property insurance is divided into two main categories:

a. Insurance to private vehicles of up to 3.5 ton – Vehicles in this category are insured under the standard policy.
b. Insurance to vehicles of more than 3.5 tons – the policy for vehicles in this category is not subject to the terms in the standard policy.

Differential rates

Insurance rates are actuarially calculated and differential (variable and risk-adjusted), subject to approval by the Commissioner. The rate is determined based on a number of factors, including: vehicle model, engine size, production year, number of drivers, age and gender, years of driving experience, claim history, etc.

Reserves

The computation of general insurance reserves is based on the Supervision of Financial Services Regulations (Insurance) (Computation of General Insurance Reserves), 2013 ("**the Computation of General Insurance Reserves Regulations**"), the provisions of which have been assimilated in the "Measurement, Equity and Management of Assets and Liabilities" part of the consolidated circular published by the Authority, which incorporates various circulars that apply to public institutions and institutional investors, as updated from time to time ("**the Consolidated Circular**"). This part includes, among others, guidelines for measurement of liabilities in life, general and health insurance. It also includes, among others, provisions regarding insurance reserves, best practice for calculation of general insurance reserves for financial reporting purposes, aggregation of segments, determining the amounts of reserves in respect of policies sold close to balance sheet date and in respect of risks arising subsequent to balance sheet date.

1.2.2 General insurance - compulsory vehicle sector

General

The Company began its activity in this segment in 1997. Compulsory vehicle insurance, also known in Israel as compulsory insurance is mandatory. The Motor Vehicle Insurance Ordinance [New Version], 1970 ("**the Motor Vehicle Ordinance**") obligate a vehicle user or anyone who permits another person to use a vehicle to purchase compulsory insurance for bodily injuries only that may be inflicted to the driver and/or passengers and/or pedestrians hit by the insured vehicle. The Motor Vehicle Ordinance states, among other things, that no person can use, or cause or allow another person to use a motor vehicle unless an insurance policy in effect exists in the name of his name or the other person's name.

The format of a compulsory vehicle policy is subject to the terms of the standard policy that are present in the Financial Services Supervision Directives (Insurance) (Terms of Motor Vehicle Compulsory Insurance Contract), 2010 ("**compulsory vehicle standard policy**").

The compulsory vehicle standard policy covers, under the Motor Vehicle Ordinance, the owner of the vehicle and driver for liabilities they may face under the Compensation to Victims of Road Accidents Law, 1975 (CVRAL). CVRAL states that the user/driver of a motor vehicle must compensate a victim for a bodily harm caused to him/her in an accident in which the vehicle is involved and also sets a liability that is absolute, independent of guilt.

Differential rates – information and supervision

A database of compulsory vehicle insurance rates is maintained for information and is authorized by law to collect information about that segment. Under the Motor Vehicle Insurance Regulations (Creation and Management of Databases), 2004, insurance companies are legally obligated to transfer to the database information about drivers of insured vehicles, as defined by the Commissioner, as well as premium rates, payments and pending claims in scale and dates specified in those regulations.

The Commissioner gave a franchise to a service provider to manage that database, to issue reports that will be used, among other things, to assess the risks in the compulsory vehicle insurance sector and determine the cost of pure risk that underlies the rate. The reports of the franchise holder serve as basis for the rate that is then used by the Commissioner as reference to test compulsory insurance rates.

The Commissioner sets the principles for determining compulsory vehicle insurance rates and regulates them through circulars that he issues from time to time. Those circulars specify the factors that an insurance company can use for determining premiums, the procedures that insurers need to comply with to approve premiums, maximum rates per customer and the process for approval by the Commissioner.

The factors for differential rate determination include, among other things engine size; sex, age of the youngest driver expected to drive the vehicle; years of driving experience of the youngest driver who is expected to drive the vehicle; number of past bodily damage claims and/or number of license suspensions in the previous three years of all drivers who are expected to use the vehicle; airbags installed; and the according systems installed: ESP, ABS, FCW and LDW.

Insurance companies may determine the premium using the risk premium and risk classification criteria set by the information and regulation rate database to align premiums to the covered risk.

Residual insurance ("**the Pool**")

The Israeli Vehicle Insurance Pool is an entity that insures the risks of vehicles that are rejected by compulsory vehicle insurers (residual insurance). This arrangement is provided by Motor Vehicle Insurance Regulations (Residual Insurance Arrangements and Mechanism for Setting Rate), 2001 ("**the Pool Regulations**"). The Pool operates as an ordinary insurance company and its rates are competitive relative to other insurers in the market. All insurance companies active in compulsory vehicle insurance are partners in the Pool, and each bears losses and gains from its income proportionally to its share in the compulsory vehicle insurance market. The share of the Company in residual insurance was 3.52% in 2020, 3.72% in 2021 and 3.47 in 2022 (interim).

The Road Accident Victims Compensation Fund ("**Karnit**")

Karnit is a corporation created under the CVRAL and is tasked with compensating victims who are eligible to compensation under that law and may not claim compensation from an insurer due to the following cases: the hitting driver is unknown, the hitting driver has no valid and paid compulsory vehicle insurance certificate, or the insurance does not cover the liability, the insurer of the vehicle is in liquidation or the insurer was appointed a special manager. Under the provisions of Compensation of Road Accident Victims Order (Financing of the Fund), 2002, insurance companies are required to transfer to Karnit 1% of net compulsory vehicle insurance premiums from policies they underwrite since that date.

In addition, according to the Road Accident Victim Compensation Order (Funding the Cost of Rendering Services), 2021, an insurer needs to give Karnit 12.66% of premium for each of the policies issued pursuant to the Motor Vehicles Ordinance.

Arrangements for distributing the compensation burden among insurance companies

According to CVRAL, in a multiple-vehicle accident, each driver will be liable to bodily damages caused to passengers of the vehicle which was insured through that driver.

Arrangement for a victim outside a vehicle – in case of a victim is located outside a vehicle in a multiple-vehicle accident, the drivers are liable to that person together and separately and are required to divide that burden in equal parts among them.

Car-Motorcycle arrangement – In a road accident that involves one or more motorcycles and one or more non-motorcycle vehicles, the non-motorcycle insurers to the insurers of the motorcycle 75% of bodily injury compensation that the insurers of the motorcycle are liable to pay due to the accident, except for compensation to victims outside the vehicle. The insurers of the non-motorcycle vehicle are liable together and separately towards the insurer of the motorcycle and are required to divide the liability burden among them in equal parts.

Light-heavy vehicle arrangement – According to the Road Accident Victims Compensation Order (Arrangements for Dividing the Compensation Burden Among Insurers), 2001, in the event of a road accident involving one or more heavy trucks (over 4 tons) and one or light vehicles, the insurers of the heavy must pay the insurers of the light vehicle 50% of bodily injury compensation as those defined in the CVRAL, while the insurers of the light vehicle are required to pay their liability for the accident, except a payment under the car-motorcycle arrangement or compensation payment to victims outside a vehicle. The insurers of the heavy vehicle are liable together and separately towards the insurers of the light vehicle and among themselves and are required to bear this liability in equal parts.

Subrogation claims of the National Insurance Institute of Israel
Pursuant to the National Insurance Law [Consolidated Version], 1995 (hereinafter: “**the National Insurance Law**”), in the event that the National Insurance Institute has paid an annuity to an individual who is also entitled to compensation from a wrongdoer under the Torts Ordinance [New Version], 1968 (“**the Torts Ordinance**”) or under the Victims of Road Accidents Law, the National Insurance Institute may claim from the wrongdoer compensation for the annuity that it had paid or that is payable by it. Additionally, the provisions of the National Insurance Law requires an insurance company to report to the National Insurance Institute any claim in which it has deducted or was entitled to deduct National Insurance payments of any kind, whether under a compromise agreement or a ruling, that the National Insurance Institute is entitled to demand of it.

The Economic Efficiency Law (Legislation Amendments for Obtaining the Budgetary Targets for 2019), 2018 (“**the Economic Efficiency Law for 2019**”) determines that the regulations will include a mechanism for the global settlement of accounts between the National Insurance Institute and the insurance companies; however, as regulations in this regard have not been published, the aforementioned mechanism did not come into effect.

In July 2021, the Company entered into a new agreement with the National Insurance Institute, whereby the negotiation and settlement mechanism that existed between the two prior to the publication of the Economic Efficiency Law for 2019 shall apply to past and future incidents relating to the years 2014-2022 (“**2014-2022 Incidents**”), subject to certain adjustments, such as extension of the statute of limitations by an additional year for claims under Section 328 of the National Insurance Law, in relation to incidents that took place in the years 2014-2016.

Additionally, as part of the aforesaid agreement, the Company has transferred to the National Insurance Institute, at the end of December 2021, an advance of NIS 31.4 million in respect of the 2014-2022 Incidents, this amount representing 4.06% of the amount of premiums collected in the compulsory insurance sector by the Company during the years 2014-2018.

The Economic Efficiency Law (Legislation Amendments for Obtaining the Budgetary Targets for Budget Years 2021 and 2022), 2021, which contains, among others, an amendment to the Economic Efficiency Law for 2019 determines that every insurance company will be required to transfer to Karnit a percentage of the insurance premiums (as defined) that it had collected in the preceding month, which will subsequently be transferred from Karnit to the National Insurance Institute. The aforesaid Law determines that, in the years 2023-2024, an amount equal to 10% of the insurance premiums collected by the insurance company will be transferred to the National Insurance Institute, and commencing in 2025 and thereafter an amount equal to 10.95% of said insurance premiums will be transferred.

Discount interest rate applicable to annuities
In 2019, the Kaminitz Committee (an inter-ministerial committee established for the purpose of reviewing the discount interest rate applicable to compensation for personal injury under damages) published its final report. Among others, the report reexamines the National Insurance Regulations (Discounting), 2016, which had reduced the discount interest rate to 2%. As part of the aforesaid final report, the Committee recommended, inter alia, the reinstatement of the discount interest rate to 3%.

In the same year, the Supreme Court also issued a ruling (Appeal 3751/17 The Israeli Vehicle Insurance Pool vs. Anonymous), which determines inter alia that, pending a legislation amendment, the updating mechanism provided for by the Kaminitz Committee should be adopted, and that the discount rate will remain at 3%.

On October 10, 2020, the court rejected a motion for an additional discussion (ACD 6370/19) of the ruling concerning the discount rate for compensation in respect of personal injury under damages applicable to the National Insurance Institute in subrogation claims, thereby preserving the existing discount rate of 3%.

The Company estimated the effect of the aforesaid ruling and reduced the provisions in the compulsory vehicle insurance segment in 2020 by approximately NIS 9.1 million in retention before tax, this in respect of subrogation claims by the National Insurance Institute against the Company, and increased the pre-tax profit in the segment by the same amount. See Note 27e(3)(g) to the financial statements.

The interest curve
The Company operates in an economic environment that is affected, inter alia, by the change in the risk-free interest rate curve. The increase in the interest curve during the reporting period has increased the insurance liabilities in those general insurance segments in which the liabilities are calculated in accordance with the Commissioner's position as to the best practice. The interest curve in the reporting period decreased the insurance liabilities in the compulsory vehicle insurance segment by NIS 75 million (including the Pool).

1.2.3 **General insurance – home insurance**

General

The Company began its activity in this sector in 1997. Comprehensive home insurance, also known as home insurance, is a key insurance product of the individual insurance business and is part of the general insurance.

The language of the home insurance policy is subject to the standard policy in Insurance Business Supervision Regulations (Terms of Insurance Contract for Homes and Their Contents), 1986 ("**the home insurance regulations**" and "**the home insurance standard policy**", respectively). The home insurance standard policy includes coverage against loss or other damages that may result from factors such as fire, lightning, extraordinary occurrence of smoke, explosion, wind in excess of 30 knots, including rain, snow or hail that fell at that time; aircraft crash, object falling from an aircraft and supersonic boom from an aircraft, contact or crash of a vehicle into the apartment, certain malicious actions, theft, robbery and break-in or attempt to commit them, illegal gathering and rioting, earthquake and flooding from an external source.

The standard policy is a minimum policy. Its language is binding, and it is only possible to add more coverage in terms of coverage amount, risks and the assets and liabilities covered. Rates of the standard home insurance policy are regulated and approved by the Commissioner.

1.2.4 **General insurance – commercial insurance**

General

The Company commenced its operations in this sector in 2000. The commercial insurance segment of the Company includes the following segments: professional liability insurance, officers' and directors' insurance, cyber insurance, property loss and comprehensive insurance for businesses, third-party liability insurance, product liability insurance, employers' liability insurance and engineering insurance.

The Company manages this insurance business in three main categories:

a) Professional liability insurance
Professional liability insurance policies are designed to provide coverage to businesses and various professionals for claims filed against them for damages caused to a third party as a result of professional error or negligence. The coverage of directors or officers is for their personal liability in respect of an act or omission that they committed during their term of office. Additionally, coverage is provided for employee embezzlement damages and cyber insurance that covers damages of cyber events as defined in the policy.

In professional liability insurance, for the most part, the insurance period is one year, but the duration of claims is longer on average than property insurance. The main reasons for this are: the complexity of the factual and legal clarification, the period between the date on which the liability and the damage was formed and the date of filing the claim, and longer periods of prescription compared to the property insurance. Therefore, professional liability insurance is regarded as long tail claims.

This has two main implications:

- The impact of investment profits in respect of reserve funds and outstanding claims.
- The impact of legal precedents and court rulings on the Company's exposure in every claim and claim.

In professional liability insurance and directors & officers' liability, coverage is based on the date of filing of the claim. In other words, the coverage is given to claims that were filed during the insurance period even if the cause originated prior to the beginning of the insurance period but after the retroactive period stipulated in the policy.

b) Liabilities insurance

Liabilities insurance covers the legal liability of the customer for damage that may be caused to any third party. The main liability types marketed by the Company are: third-party liability insurance, product liability insurance, and employers' insurance.

For the most part, the period of the insurance is one year, but the time for processing the claim is on average longer than property insurance. The main determining factors are: the complexity of factual and legal procedures, the timeframe for the liability and damage and filing the claim, longer statute of limitations relative to property insurance. Therefore, liability insurance is considered to have a longer claim trail.

This has two main consequences:

- The effect of investment profits in respect of reserve funds and outstanding claims.
- The impact of legal precedents and court rulings on the Company's exposure in every claim and claim.

In some liability insurance products, such as third-party and employers' liability, coverage is event-based. That is, coverage is given to events that occurred during the insurance period and the claim can be filed after the end of the insurance period, subject to the statute of limitations in the law.

According to the Insurance Contract Law, 1981 ("**the Insurance Contract Law**"), the statute of limitations on insurance compensation is three years after the occurrence of the insured event and in the life insurance sector, the illness and hospitalization insurance sector, and the long-term care insurance sector the statute of limitations is five years after the occurrence of the insured event (except for a disability claim caused by the insured as a result of illness or accident, the insured has the right to claim insurance benefits according to the policy). However, in liability insurance, claiming for compensation is not subject to statute of limitations as long as a third-party claim against the insurer is not subject to statute of limitations. The Insurance Contract Law requires insurers to disclose to the policyholder or to the beneficiary of the policyholder in any notification on the matter, clearly and conspicuously, the statute of limitations and the fact that the counting of the remaining days therein is not suspended when a claim is filed with the insurer.

c) Property loss and engineering insurance

Property loss insurance, commercial property insurance and loss of profits and engineering insurance is intended to provide customers coverage against physical damage to property. The main insurance products marketed by the Company are: property and loss of earnings insurance, contractors' insurance and mechanical failure insurance.

The main risks covered in those policies are fire, explosion, break-in, earthquake and other natural calamities. The policy covers damages directly caused to property as well as indirect damages (loss of income, etc.) For the most part, the term of those policies is one year, and claims are processed close to the time of the insurance event, and for that, such policies are considered to have a short claim tail.

For the purpose of increasing its share in the aforementioned commercial insurance sectors, the Company builds on the expertise and financial strength of the global AIG corporation, which is a global leader in this field. The Company also constantly seeks to offer suitable coverage to its customer and to develop new customized products.

1.2.5 **Health insurance**

General

The Company began its activity in the healthcare segment in 1998. Healthcare insurance in the Company includes the following sub-segments: personal injury insurance, serious illness insurance and travel insurance.

Health insurance policies are subject, among other things, to the provisions of the Insurance Contract Law, the Supervision Law and the regulations thereunder, including the Supervision of Insurance Businesses Regulations (Terms in Insurance Contracts) (Provisions About Preexisting Medical Conditions), 2004, and the Financial Services Supervision Directives (Insurance) (Collective Health Insurance), 2009, as well as the directives and guidance issued by the Commissioner from time to time. In the reporting period, the Authority published directives that include a new structure for the health insurance sector, as described in section 4.1 below.

The Company manages segment in three main categories:

a) Personal injury insurance

Personal injury insurance policies provide a predetermined monetary compensation to the policyholder in case of accident events under predefined coverages, such as: hospitalization, disability and death resulting from an accident. Contrary to policies in disease and hospitalization policies, which provide coverage for illness, personal injury insurance covers only the results of an accident.

b) Severe illness insurance

A policy that covers the diagnosis of severe illness as defined by the policy. Insurance benefits are paid as a lump sum in case of diagnosing a severe illness or a medical event, without the customer having to prove any expense.

c) Overseas travel insurance

A product providing insurance coverage for various expenses to people traveling overseas, for a number of risk types, such as: hospitalization and non-hospitalization medical expenses, medical flights, luggage and third-party liability. The basic product may be supplemented by purchasing expansions, such as: cancellation or curtailment of a trip due to reasons listed in the policy, property loss and/or threat, extreme and winter sports, laptop coverage, etc. It is also possible to buy coverage for special situations such as: aggravation of preexisting medical condition and coverage for pregnant women. The policy is sold online and by sales reps.

In the reporting year, two optional expansions were introduced that provide coverage in connection with the Coronavirus Event as regarding flight cancellation, extended stay overseas, isolation overseas and hospitalization overseas. For information on the progress of the Coronavirus Event in the reporting year and its impact on the business of the Company, see section 1 of the Directors' Report.

Health insurance for covering medical expenses is managed by the Company jointly with the life insurance segment, as explained below.

1.2.6 **Life insurance – risk only**

General

The Company began its activity in the life insurance segment in 1999. The Company provides policies to individual customers who are interested in life insurance, including to private customers who are interested in such product, including private lenders who take housing loans.

Life insurance

Life insurance policy promises a payment of a lump sum to beneficiaries in case of death of the customer. Usually in such policies, the policy expires when the customer dies or when he/she reach a certain age. Extensions offered to such policies are total permanent disability, accident disability, accident death and critical illness insurance.

Mortgage-related life insurance

A life insurance policy provides the mortgage bank a reimbursement of outstanding loan in the event of death of the customer (the mortgage customer). Those policies can be extended to include permanent total disability.

Health insurance for covering medical expenses

Health insurance policies that cover medical expenses such as "Complementary Additional Health Insurance" and "First Shekel". Policies like "Complementary Additional Health Insurance" complement or extend the coverage and services provided under complementary health coverage of health funds, to complete the coverage that is missing due to legislation, regulations, plan terms and health fund instructions. The policies include, among other things, insurance coverage for medical expenses that are caused to the customer as a result of requiring surgery, non-government sponsored medicine, transplants and ambulatory services.

"Full coverage" policies provide coverages and services for medical expenses that were caused to the insurance customer as a result of surgery, drug that are not covered by the government (the "basket"), organ transplants and ambulatory services, regardless of complementary health insurance provided by health funds.

1.3 **Investments in capital and share transactions**

In 2021 and 2022, no material investments in the Company's equity and material transactions in its shares took place.

1.4 **Dividend distribution**

In accordance with the Company's capital management policy, which also includes its dividend payout policy, the Company has to comply with a solvency ratio of 130% under a regimen based on Solvency II, and subject to certain conditions, the Company will pay dividend above that threshold.

For additional information on the Authority's directives regarding restrictions on dividend distributions and dividends distributed by the Company to its controlling shareholder in the years 2018-2021, see Note 12 to the financial statements.

2. **Part B – Description and information on operating segments of the Company**

2.1 Operating segment A – Vehicle property insurance

2.1.1 Products and services

The Company sells a range of standard insurance products, including: comprehensive insurance (including against theft or accident), comprehensive insurance without theft coverage, comprehensive insurance without accident coverage and third-party insurance. On top of those standard policies, customers can buy more coverage and/or related services such as towing services, replacement car, window breakage, lights and mirrors, repair of bumpers and VIP services.

In addition, the Company markets the plan, AIG Just Drive, offering a special pay-per-distance package for young drivers. This app-based plan addresses the needs of customers with young drivers, who frequently drive the parents' cars.

For more information about the general characteristics of this segment, see 1.2.1 above.

2.1.2 **Competition**

According to the Authority's publications, 14 insurance companies are active in this segment, and the market is highly competitive. According to the financial statements for the first nine months of 2022, the main competition in this segment, by premium turnover are, the Phoenix Insurance Company Ltd ("**the Phoenix**") (14.4%), Harel Insurance Company Ltd. ("**Harel**") (12.2%), IDI Insurance Company Ltd. ("**Direct Insurance**") (10.8%), and Menorah Insurance Company Ltd ("**Menorah**") (10.4%). The market share of the Company in this segment in total premiums during that period is 5.0%.

The approach taken by the Company to address the fierce competition in this segment is using advanced pricing and actuary methods, marketing campaigns, operating excellence, service excellence, automation and digitization.

In this context, note that the insurance company service index for 2021 was published in August 2022 (hereinafter: "**the service index**"). The service index enables clients to compare between different insurance products and it is designed to increase the competition in the insurance market since it reflects the level of service provided by insurance companies by principal insurance products. For each insurance product a service index is calculated, which his based on five components: (1) payment of claims – the percentage of claims approved and paid and how quickly these claims were handled; (2) Handling clients' queries – clients' satisfaction of insurers' handling their queries; (3) Public complaints – weighting of complains which were lodged and assessed by the Capital Market Division; (4) Phone response time – ratio of calls that got responded within 3 minutes; (5) digital tools.

Data published show that the Company is ranked first in the handling of vehicle property insurance claims index component, this for nine consecutive years. The Company believes that the continued publication of the service index will increase competition in the vehicle property sector; the Company estimates that the service index may help maintain the positioning of the Company as the lead player in this insurance sector.

The information that is provided in this section above constitutes forward-looking information, which is based, inter alia, on the current state of the Company's operations. Actual results may differ from the estimated results, including materially, as a result of various factors, most prominently regulatory changes applicable to the Company, as well as a reduction in the rating of the Company on the five components of the service index.

2.1.3 **Customers**

a. The Company sells the product mainly to individual private customers through direct marketing.

b. The following is the distribution of premiums in this segment (in thousands of NIS):

	2022	**2021**	**2020**
Direct marketing	453,683	385,488	337,243
Through insurance agents	43,978	35,733	32,667
Total	**497,661**	**421,221**	**369,910**

c. The Company is not dependent on any single customer.

d. No customer contributes 10% or more of total revenue of the Company

e. Renewals rate in 2022 in terms of premiums for policies that were in effect in the previous year is 79.6%.

f. The rate of customers who are also insured in compulsory vehicle insurance in 2022 is 93.1%.

g. The following information shows customers in vehicle property insurance in terms of premium in 2022 in percentage terms by years of first engagement:

First year of the first policy with the Company:	**%**
2022	37%
2021	21%
2020	12%
Until 2019	30%
Total	**100%**

2.2 **Operating segment B – Vehicle compulsory insurance**

2.2.1 **Products and services**

This segment has only one product – standard compulsory insurance policy. The insurance coverage under the policy includes any liability that might arise under CVRAL, other liability (non-CVRAL) that the customer may be liable for bodily damage to another person by or due to using the insured vehicle and bodily damage caused to the insured in a road accident.

As indicated above, under CVRAL, this is "total liability" coverage. Accordingly, road accident victims are entitled to compensation from the insurer of the vehicle, without a requirement to prove guilt of any of the persons involved. However, the CVRAL presents a number of limits and exceptions that revoke the right for compensation (e.g. a person who caused an accident intentionally), and limits the amounts of compensation, such that non-monetary damage compensation is limited to a fixed amount specified in CVRAL and compensation for lost income and disability income that are limited at three times the average salary in the Israeli economy.

For more information about the general characteristics of this segment, see 1.2.2 above.

2.2.2 **Competition**

Most insurance companies in Israel are active in the compulsory vehicle insurance market, which results in fierce competition. More competition comes from Direct Insurance and the direct marketing arms of other insurance companies, and digital ventures. The competition is mainly reflected in lowering insurance rates to customers.

The main competitors in this sector on the basis of premiums are: Shlomo Insurance Company Ltd., Phoenix, Harel, Clal Insurance Company ("**Clal**"), Menorah and Direct Insurance. According to the data of the financial statements for the first nine months of 2022, the total share of these companies in the total gross premiums in the segment is 64.4% The share of the Company out of the total premiums in this sector was about 3.9%.

Since the insurance coverage offered by all insurance companies is identical, and since it is possible to compare the insurance rates charged by insurance companies on the website of the Commissioner, customers are very sensitive to change in insurance premiums. The approach taken by the Company to address this fierce competition in this segment is using advanced pricing and actuary methods, operating restructuring and ongoing improvement of customer service.

Data published by the Authority show that the Company is ranked third in the handling of compulsory vehicle insurance claims index component. The Company estimates that the continued annual publication of the service index will increase competition in the compulsory vehicle insurance sector and continue to maintain the positioning of the Company as a leader in the provision of insurance services to its customers in this segment.

2.2.3 **Customers**

a. The Company sells the product mainly to individual private customers through direct marketing.
b. The distribution of premium in this segment is as follows (in thousands of NIS):

	2022	2021	2020
Direct marketing	227,589	207,385	187,760
Through insurance agents	3,238	2,489	2,765
Total	**230,827**	**209,874**	**190,525**

c. The Company is not dependent on any single customer.
d. No single customer represents 10% or more from company revenue.
e. Renewals rate in 2022 in terms of premiums for policies that were in effect in the previous year is 81.5%.
f. The rate of customers who are also insured in vehicle property insurance in 2022 is 97.2%.
g. The following information shows customers in compulsory vehicle insurance in terms of premium in 2021 in percent by years of first engagement:

First year of the first policy with the Company:	%
2022	33%
2021	22%
2020	12%
Through 2019	33%
Total	**100%**

2.3 Operating segment C - Home insurance

2.3.1 Products and services

Home insurance is designed to give customers coverage for damage or loss caused to the home and/or its contents. This type of insurance includes extensions such as third-party liability, liability to home workers and cyber extension. As part of a home insurance it is possible to buy additional coverage and/or services such as piping and water damages, sealing and emergency services for water damage, coverage of all risks for valuables, etc.

Home insurance policies are sold to property owners who are interested to insure their home and/or contents. When the insurance is bought for mortgage purposes, the insurance covers the structure only or structure and contents, and the mortgage bank is registered as a nonrecourse beneficiary.

For more information on the general characteristics of this segment, see 1.2.3 above.

2.3.2 **Competition**

According to information released, 14 insurance companies are active in this segment, resulting in fierce competition. According to data in the financial statements for the first nine months of 2022, the main competitors in this segment, by premium turnover are Harel (15.8%), the Phoenix (13.5%), Direct Insurance (11.8%), Clal (11.5%), and Migdal Insurance Company Ltd. ("**Migdal**") (10.7%). The share of the Company in the total premium turnover in the reported period is 7.2%.

Since the insurance coverage offered by all insurance companies is similar, and since the calculator on the Commissioner's website can be used to examine the insurance rates charged by insurance companies on the website of the Commissioner, customers are very sensitive to the issue of insurance premiums. The approach taken by the Company to address this competition in this segment is using advanced pricing and actuary methods, marketing campaigns, operating restructuring and ongoing improvement of customer service.

Service-Index data published by the Authority show that the Company is ranked second in the handling of home insurance claims, and first in the prompt payment of claims index component in home insurance. The Company believes that smart use by the insurance public population in the home insurance calculator and the continued publication of the service index annually will increase competition in the home insurance sector. The Company estimates that the service index positions the Company as a lead player in this insurance segment.

2.3.3 **Customers**

a. The Company sells its products in this segment mainly to private customers through direct marketing.
b. The Company is not dependent on any single customer.
c. No customer accounts for 10% or more of the total income of the Company.
d. Renewals rate in 2022 in terms of premiums for policies that were in effect in the previous year is 94.8%.
e. The following information shows customers in home insurance in terms of premium in 2020 in percent by years of first engagement:

First year of the first policy with the Company	**%**
2022	18%
2021	14%
2020	11%
Until 2019	57%
Total	**100%**

2.4 **Operating segment D - Commercial insurance**

2.4.1 **Products and services**

a. Professional Liability Insurance

Coverage for the liability of businesses and various professionals in respect of claims filed against them for damages caused to a third party as a result of professional error or negligence. This branch also includes directors & officers' insurance, which covers the liability of the officer under the Companies Law, 1999 and other provisions of law (in Israel and abroad), as well as cyber insurance, which covers liability in respect of cyber events as defined in the policy.

b. Liability insurance

Those types of insurance contracts cover the liability of the insurance customer to damages caused to a third party. Those insurance contracts are divided into a number of segments, and the main ones are:

- Third-party liability insurance – Coverage against bodily injury or property damage caused to a third party, excluding vehicle coverage and employers' insurance. The liability covered by this insurance is for the most part pursuant to the Torts Ordinance.

- Defective products liability insurance – Insurance coverage against injury or damage resulting from a defect in a product that was manufactured, marketed, assembled or maintained by the customer. Such policy is pursuant to two main pieces of legislation: (1) Warranty for Defected Products Law, 1980 which imposes liability on the manufacturer (as defined by the law) and apples to bodily injury only; (2) the Torts Ordinance, which makes a manufacturer liable to bodily injuries and property damages.

- Employers' liability insurance – Covers employees from bodily injury claims (accident or illness) caused to an employee during work due to negligence of the employer. Usually, the policy covers the liability of the employer under the Torts Ordinance in any amount not covered by the Israel National Insurance Institute.

c. Property insurance, contractors, mechanical failure and electronic equipment

- Property insurance – coverage to customers in case of damage to property as a result of fire or lightning. Customers can buy additional coverage such as break-in, natural disasters, earthquake, explosion and insurance for loss income as a result of the insurance event.

- Contractors insurance – Coverage against unexpected damage to the insured assets during the construction of projects and buildings. The customer buys under the policy coverage for liability to third parties and employees as part of performing the construction works.

- Mechanical breakage – Coverage of damages caused by breakage in machines and other engineering equipment.

- Electronic equipment – Coverage against loss of or damage to electronic equipment, including external information storage equipment.

Those segments are reinsurance intensive, among other things, due to the monetary scale of outstanding claims in those segments.

In 2022, the Company approved a new insurance plan for the insurance of small businesses and freelancers. This plan will be marketed through the Company's proprietary digital platform.

For more information about the general characteristics of this segment, see 1.2.4 above.

2.4.2 **Competition**

This segment is characterized by fierce competition from leading companies in this market. According to information in the financial statements for the first nine months of 2022, the main competitors in this segment by premium turnover are Harel (21.7%), the Phoenix (13.7%), Clal (13.6%), Ayalon Insurance Company Ltd. (13.5%), Menorah (10.8%) and Migdal (8.3%). The share of the company in the professional liability and other liability from total premium turnover in the reported period is 2.3%, and the share of the Company in the property and engineering insurance by premium turnover in that period is 1.3%.

The Company addresses this competition by utilizing the expertise and financial robustness of the global AIG corporation, which is a global leader in this segment. In addition, the Company is constantly aspiring to align coverage to customers' needs and develop customized new products.

2.4.3 **Customers**

a. The company is not dependent on any single customer.
b. No customer accounts for 10% or more of the total income of the Company.

2.5 **Operating segment E – Health insurance**

2.5.1 Products and services

Health insurance that exist in the Company are designed to compensate or indemnify customers for medical expenses in case of injury and/or medical conditions and to provide various healthcare services through contracted providers. Health insurance products include accident policies for individuals and families; severe illness insurance; and overseas travel insurance.

In 2020, the premium turnovers of the overseas travel sector dropped following its near shutdown due to the Coronavirus Event. In 2021, the premium turnovers of the overseas travel sector increased, but were still significantly affected by the Coronavirus Event, primarily as a result of the lockdowns imposed in the first half of the year. In 2022, premium turnovers continued to rise, exceeding those recorded in 2019 (prior to the Coronavirus Event).

For more information about the general characteristics of this segment, see paragraph 1.2.5 above.

2.5.2 Competition

In May 2021, a regulatory change was took effect, which extended the insurance coverage of the personal accidents' product, updated the selling process and stipulated the renewal of the product every two years. For additional information regarding the aforesaid regulatory change, see Chapter A (Description of the Company's Business) in the periodic report for 2021. To the publication date of the report, three companies (Harel, Direct Insurance and the Company) market the aforesaid product. In the reporting year, only the Company and Harel marketed the aforesaid product. The share of the Company in personal accident segment of the total premium turnover in the segment in the reported period is 5.6%.

In the overseas travel insurance sector, according to the Authority's data for 2021, the Company's share of the premiums is 4.3%. The Company faces the competition in this segment by constantly considering developing new products, new and innovative tools and constantly improving customer service.

Data published by the Authority rank the Company first in the payment of overseas travel insurance claims and personal accidents insurance claims, and is also ranked first in the service index's overall service in the personal accidents sector. The Company estimates that the service index may help the Company to become the lead player in this insurance sector.

2.5.3 **Customers**

a. The following is the distribution of premiums by customer type in this segment (thousands of NIS):

	2022	**2021**	**2020**
Private customers – personal accidents insurance	108,426	106,962	121,391
Private customers – severe illness insurance	18,830	19,936	22,518
Overseas travel insurance	47,454	16,173	5,489
Collective policies	0	62	170
Total	**174,710**	**143,133**	**149,568**

b. The Company mainly sells its products to private customers through direct marketing.
c. In the overseas travel segment, there is dependency on agreements related to Max IT Finance Ltd. ("**Max**"), Isracard Ltd. ("**Isracard**") and Bank Leumi le Israel Ltd. ("**Bank Leumi**") customers.
d. The sale of overseas travel insurance policies is carried out via the website and the sales center located at the Company's offices that serves, inter alia, the credit card holders of Max, Isracard and Bank Leumi. As part of the agreements, inter alia, that the Company will insure the customers in insurance coverage for travel insurance. Maintaining the current level of activity in this sector depends on the continued existence of these agreements.
e. No customer accounts for 10% or more of the total income of the Company.
f. The rate of cancellations in 2022 of health insurance policies that were in effect at the beginning of the year, in terms of premiums, was 10.15% of total premiums.

2.6 **Operating segment F – Life insurance**

2.6.1 **Products and services**

The Company sells risk only life insurance policies to private customers (including life insurance for mortgage purposes). The policies cover death and include extensions for permanent disability and total disability, accidental disability, accidental death, critical illnesses and health insurance providing coverage of medical expenses.

In risk policies, the beneficiaries are those designated by the insurance customer (if and to the extent that beneficiaries have been determined) In risk policies for mortgages and other loans, the lending bank is registered as a nonrecourse beneficiary up to the outstanding amount of the loan on the date of an insurance event plus inflation linkage and interest, early repayment fee and arrears interest for up to 12 months of repaying the loan.

As discussed above, health insurance for coverage of medical expenses is managed in the company within the life insurance segment.

In the reporting year, there was no material adverse effect on the underwriting results of the Company as a result of the Coronavirus Event.

For more information about the general characteristics of this segment, see 1.2.6 above.

2.6.2 **Competition**

The life insurance segment is characterized by fierce competition. Most insurance companies are active in this insurance segment and 95% of the life insurance market is dominated by the five large insurance companies: Migdal, Clal, Harel, the Phoenix and Menorah. The share of the Company in insurance policies without a savings component (death risk – individual) is 3.5%.

Customers are very sensitive to insurance rates, among others, thanks to the Authority's calculator that facilitates the comparison of the life and health insurance premiums charged by the various insurance companies, as presented on the Commissioner's website. The Company's handling of the competition is in constant improvement in the provision of customer service, branding and differentiation of the Company's unique advantages and operational efficiency.

In the Company's estimation, intelligent use of such calculators that enable policyholders to make an efficient comparison between insurance companies' tariffs and the continued publication of the service index at an annual frequency will lead to increased competition in the life assurance and health insurance sectors and may affect the Company's market share in these sectors. According to data published by the Authority, the Company is ranked first in the Claim Payment Index in health insurance.

2.6.3 **Customers**

a. The Company is not dependent on any single customer or a limited number of customers. The Company sells the product mainly to private customers through direct marketing. The Company does not have collective customers.
b. No customer accounts for 10% or more of the total income of the Company.

3. **Part C – Additional information about general insurance segments not included among activity segments.**

All insurance segments of the Company are included in Part B of this report.

4. **Part D – Additional enterprise-level information**

4.1 Restrictions and regulation applicable to the activity of the Company

The activity of the Company is subject to the provisions of different laws that are designed to ensure that insurance companies are run adequately. The following is a summary of main legal provisions:

Insurance Contract Law - This law mainly provides for the relationship between the parties to the insurance contract.

Supervision Law – The Supervision Law defines the duties of the Commissioner and prescribes its powers in relation to the supervision of insurance company.

a. **Regulations enacted under the Supervision Law – The following is a summary of key regulations enacted under the Supervision Law and which pertain to the Company's activity:**

   a. Supervision of Financial Services Regulations (Insurance) (Minimum Capital Required for Insurer Licensing), 2018 (hereinafter: "**the Minimum Capital Regulations**"). The Minimum Capital Regulations provide for the minimum capital required for obtaining an insurer license in Israel.

   b. The Supervision of Financial Services (Provident Funds) (Investment Rules Applicable to Financial Institutions), 2012 ("**Institutional Investments Regulations**") and the Supervision of Insurance Regulations (Mode of Investment of the Capital and Reserves of an Insurer and the Management of its Obligations), 2001 (collectively with the Institutional Investments Regulations: "**the investment regulations**"). The investment regulations set investment rules for institutional investors and corporate governance for investment activity, respectively.

      For more information on the investment segment of the Company see paragraph 4.4 of this report.

   c. Supervision of Financial Services Regulations (Insurance) (Qualifications of Appointed Actuary), 2019, which provide for the necessary qualifications of an appointed actuary.

   For more information about corporate governance applicable to the Company, see Part E. of this report.

b. **Circulars, clarifications, decisions and Commissioner positions:**

<u>Circulars</u>

The following is summary of the key matters concerning the activity of the Company that were addressed by the Commissioner in circulars, clarifications, decisions and opinions of the Commissioner in the reported period and until shortly before the date of issuing this report, and which were not included in the review of lines of business and were not described in prior periodic reports of the Company:

- In November 2022, an amendment was published to the provisions of the consolidated circular in the compulsory vehicle insurance sector - Appendix 6.2.2 to Volume 6 Part 2 of the consolidated circular - "Residual Insurance Tariffs". The amendment determines that the net premiums currently included in the pool will be reduced by 10%, in order to maintain the current status in light of the coming into effect of the amendment to the law, pursuant to which the stipulated rate will be deducted from net premiums, and this component that is currently included in the net premiums will be collected from the policyholders by the insurance companies and the pool as a separate component and transferred directly to the National Insurance Institute.
- In November 2022, the Commissioner published a position paper - Principles for Recognizing Complex and Material Transactions Designed to Improve the Economic Solvency Ratio. The paper presents the position of the Commissioner on the requisite principles in implementing the provisions of Mark C, Chapter 3, Part C (Means and Methods for Mitigating Risks) of the appendix to the Economic Solvency Regime in Mark B, Chapter 2 of Part 2 to Volume 5 of the consolidated circular.
- In November 2022, an amendment was published to the provisions of the consolidated circular - Chapter 3, Part 4, Volume 5, "Reporting to the Commissioner of the Capital Market" - Reporting of Complex and Material Transactions Designed to Improve the Economic Solvency Ratio. The amendment prescribes rules with regard to the obligation to report complex and material transactions to the Commissioner prior to their signing.
- In November 2022, a circular concerning Services to Customers of Agents and Consultants - Amendment, was published. The amendment prescribes additional provisions with regard to the provision of services by a license holder (insurance agent or insurance consultant) to a customer in an engagement, without the involvement of the customer or without the customer's knowledge, among others as a result of the acquisition of an insurance portfolio or the appointment of the license holder by the public institution.
- In December 2022, a second update was published in relation to the Roadmap for the Adoption of IFRS 17 - Insurance Contracts, which contains the principal milestones set by the Authority to ensure that insurance companies in Israel prepare for the quality implementation of the new standard in an adequate and reliable manner. The update prescribes, inter alia, the adjustment of the disclosure requirements in the financial statements in 2023, the introduction of an obligation to report to the Authority the results of the company and its financial position, in accordance with IFRS 17 and IFRS 9, for the first quarter of 2023, and the updating of the timetable concerning IT systems, and clarifies that the accounting policy document submitted to the Authority must include a list of the reinsurance portfolios held, as determined by the company.

- In February 2023, an amendment was published to the provisions of the consolidated circular - Volume 6 Part 3 Chapters 1, 2, 3, 4 and 6 - “Drawing Up a Health Insurance Plan”. The amendment prescribes, inter alia, updates regarding the following: 1) a clarification that the directives shall also apply to various discounts provided in the policies commencing on the effective date and thereafter, even if the policy was signed prior to the effective date; 2) updating of the effective date of the directives to May 1, 2023; 3) updating of the surgical plan under “complementary healthcare services” with a deductible of NIS 5,000; 4) updating the name of the “medical diagnosis” insurance plan to “expedited medical diagnosis”; 5) a clarification that where a policyholder has, prior to the effective date, entered into a policy that contains a consulting and testing or an expedited medical diagnosis insurance plan, the insurance company will allow the policyholder to purchase the insurance plan that is not included in the policy that he holds; 6) a clarification that a policyholder shall be entitled to choose to transition to a follow-form policy for all or part of the coverages provided in the collective insurance plan; 7) a clarification that the marketer may allow the policyholder to purchase the remaining insurance coverage for all or part of his existing coverages; 8) adjustment of the acceptance process to include a videoconferencing solution or another digital solution, including the health insurance section of “Har Habituach” website; 9) a clarification concerning the sale of the remaining insurance coverage to the policyholder; 10) a clarification that the obligation to notify existing policyholders only applies to holders of a basic health insurance policy; 11) a clarification that, if the various basic health insurance policies were purchased on different dates, the counting of the six months from the acquisition date will commence on the date of acquisition of the basic insurance policy’s supplementary insurance plan; and 12) the introduction of an exception to the cancellation of the insurance, pursuant to which insurance companies will not cancel a basic health insurance policy under the clause where the policyholder has a basic health insurance policy with another company and where the policyholder has exchanged an original policy for a policy for surgery in Israel or for a fourth layer policy.
- In February 2023, the Supervision of Financial Services (Insurance) (Terms of Basic Health Insurance Contracts) Directives, 2022 were published. The directives prescribes the following updates: 1) the effective date of the directives is May 1, 2023; 2) limiting the exclusion of insurance incidents due to war activity, hostilities or actions of a military nature from the coverage of the transplants and special treatments outside Israel insurance policy, which shall apply only if the incident was directly caused by the aforesaid; 3) exclusion of cannabis from the coverage of the insurance policy for drugs not included in the Services Basket, with the exception of authorized drugs containing its components and derivatives, and granting an option to include it in the coverage as part of an expansion to the basic policy; 4) limiting the exclusion of insurance incidents due to war activity, hostilities or actions of a military nature from the coverage of the surgery and non-surgical alternative treatments outside Israel insurance policy, which shall apply only if the incident was directly caused by the aforesaid; and 5) amendments concerning the age groups of the policyholders.
- In February 2023, the Supervision of Financial Services (Insurance) (Terms of Surgical Procedures and Non-Surgical Alternative Treatments in Israel Insurance Contracts) Directives, 2022, were published, which prescribe, inter alia, amendments concerning the age groups of the policyholders.
- In February 2023, an amendment was published to the circular concerning “Institution of Services Appendices and Their Marketing”. The circular prescribes directives that are designed to adjust the provisions of the circular to the practices that developed in the sector and to the

reform in the health insurance sector and, in order to facilitate the introduction of upgraded services appendices in various areas, it was determined that certain services appendices, once approved by the Commissioner, will be marketed exclusively by a single service provider. The amendment postpones the effective date of the aforesaid to May 1, 2023.

- In February 2023, an update was published to the provisions of the consolidated circular - Allocation of Assets Other than at Fair Value in Assessing the Insurance Reserves in General Insurance. The update clarifies how to account for the revaluation method of the assets when assessing the insurance reserves in general insurance.
- In February 2023, the Commissioner published an updated Excel file for the 2022 report on the collection of statistical information in relation to public inquiries.
- In March 2023, an amendment was published to the circular concerning "Confirmation of Existence of an Insurance Policy". The amendment postpones the effective date of the relevant amendments included in the circular to May 1, 2023 and clarifies that confirmation of consent to draw up an insurance policy is conditional upon there being no material changes that alter the risk to the insurer between the date on which consent is granted and the date of signing of the insurance policy.
- In March 2023, an amendment was published to the circular concerning "Web-Based Interface for the Location of Insurance Products". The amendment postpones the effective date of the provisions of the circular with regard to the health insurance sector and the compulsory vehicle insurance sector.
- In March 2023, an amendment was published to the circular concerning "Acceptance to an Insurance Plan". The amendment postpones the effective date of the circular to May 1, 2023.

Drafts

Following is a summary review of drafts published by the Commissioner in the reporting period until shortly before the date of publication of the report, which may have a material effect on the Company:

- In November 2022, a third draft circular was published, which updates Chapter 3 of Part 4 in Volume 5 of the consolidated circular concerning "Reporting to the Commissioner of the Capital Market", with regard to the reporting of an itemized list of assets. The draft proposes, inter alia, to update the reporting file for said list, the reporting directives concerning the publication of the yield components of the public institutions, as well as the reporting date of the publication of the contribution of the investment components in the nostro portfolio.
- In December 2022, a draft circular was published concerning an update to the consolidated circular, "Reporting to the Commissioner - IFRS 17-Compliant Reporting Forms". The purpose of the draft is to update the requisite information in the reports accompanying the financial statements of insurance companies, to comply with the provisions of IFRS 7, IFRS 9 and IFRS 17.
- In December 2022, a third draft was published concerning the sample financial statements of insurance companies in accordance with IFRS 17. The draft aims to establish a uniform financial reporting structure for insurance companies.
- In December 2022, a seventh draft was published concerning professional issues pertaining to the implementation of IFRS 17 in Israel. The draft updates, inter alia, the guidelines concerning

the risk adjustment for a non-financial risk and the contract boundaries in health and life insurance policies.

- In December 2022, a fourth draft was published concerning the FAQ file, “Implementation of International Financial Reporting Standard (IFRS) No. 17 in Israel”. The draft clarifies the position of the Authority, inter alia, on the contract boundaries and the classification into insurance portfolios, the classification of investments in financial assets provided against equity and other liabilities and the implementation of IFRS 1, First-time Adoption of International Financial Reporting Standards.
- In March 2023, draft circular, “Information Sources that are Public Institutions,” was published. The draft circular, which will apply to information sources that are public institutions possessing information on credit, prescribes the necessary actions and obligations in connection with the implementation of the provisions of the Financial Information Law, 2021, as regarding such sources of information.

4.2 **Entry and exit barriers**

4.2.1 **Key entry barriers**

Key barriers on entering the different activity areas of the Company are as follows:

a. Licenses and permits: According to the Supervision Law, practicing in each insurance sector required obtaining an insurer license from the Commissioner. In addition, holding more than five percent of a specific type of controlling instrument in an insurance company is conditioned on obtaining a permit to hold controlling instruments from the Commissioner, and controlling an insurance company also requires a controlling permit from the Commissioner.

b. Capital: An insurer has to comply with capital to solvency ratio requirements as prescribed by the Commissioner. For more information about regulatory capital requirements that apply to the Company and compliance of the Company, see Section 3 of the Directors' Report and Note 12 to the Financial Statements.

c. Infrastructure: Given the complexity of the insurance products and their daily management, an insurance company needs to create an organizational, IT and operating infrastructure and continuously maintain it.

d. Expertise, experience and reputation: Being an insurer requires a focused professional knowledge and understanding of different insurance aspects, mainly involving actuary, underwriting, investment, reinsurance, marketing and risk management. In addition, to set rates and underwriting terms for new policies, it is important to have experience and a broad actuarial database.

e. Minimum revenue: An insurance Company must generate minimum revenue to cover the high operating costs involved in investment in buying, maintaining and upgrading systems and infrastructure, including the need to comply with regulatory change that take place from time to time.

f. Reinsurance: the ability and knowhow to buy adequate protection from reinsurers and to engage in reinsurance contracts with them.

4.2.2 Key exit barriers

The key barriers on exiting the different activity areas of the Company are as follow:

a. Liquidation or dissolution of insurance business: A liquidation or dissolution of an insurer are subject to oversight by the Commissioner, who may order the insurer to act in a certain way upon dissolution of its business or to ask a court to order the dissolution to be controlled or overseen by the court.

b. Run-off: The around policies with long claims tail may continue for many years until all claims for policies sold prior to the termination of the activity are settled and until all rights of existing insurance customers are satisfied or until the sale of the insurance activity.

4.2.3 Limitations in control permit

The main limits in a permit to control a company are as follows:

a. Maintaining control over the Company: The control permit is granted to AIG based on the rate of its holdings, direct and indirect, in the means of control, as at the date effective date of the permit, subject to obtaining the Commissioner's approval, in writing and in advance, and under the terms set by the Commissioner.

b. Prohibition on transferring rights to controlling instruments to a third party: AIG committed to maintain all controlling instruments of the Company free and clear at all times, as set out in the control permit.

c. Capital replenishment: A company in the AIG control chain irrevocably committed to replenish the capital of the Company, if required, up to the amount required by the Minimum Capital Regulations, or by any other regulation or law that supersedes said Regulations, while AIG is controlling the company.

d. Interested party transactions: AIG, the entities it controls and companies in the control chain of the Company are entitled to management fee from the Company only under a written management agreement that is submitted to the Commissioner at least sixty days prior to its effective date, provided that the Commissioner has not opposed that agreement prior to its effective date. The above limitation does not apply to providing services in the ordinary course of business and at arm's length by such companies.

e. Change to articles of association: Any change in the articles of association of the Company that may impact the control over the Company or any term of the controlling permit is subject to an advance, written approval by the Commissioner.

4.3 **Key success criteria**

a. Changes in the macroeconomic situation in Israel and globally, including changes in the security situation, inflation, interest rates, unemployment, the average salary, pandemics, disasters, etc., may have material impact on the Company's business results. Changes in the regulatory policy for capital markets and volatility in the capital markets, in general, and bond yields, in particular, may have material impact on the business results of the Company.

b. The internal political situation and the foreign affairs and security situation of Israel affects the fiscal and monetary situation of the Israeli economy and the position of the capital market. In addition, different security arrangement may have impact on the prevalence of car theft in Israel and thus, have material impact on the results in the vehicle property insurance business.

c. The Israeli insurance market is competitive, especially so in retail insurance, which is the main activity of the Company. Raising rates given the competition in this market may impact profitability of the Company. For more information about the competition in the Company's different areas of activity and measures that the Company is taking to deal with this competition, see paragraphs 2.1.2, 2.2.2, 2.3.2, 2.4.2, 2.5.2 and 2.6.2 above.

d. Frequent changes in regulatory requirements and case law may have material impact on the business results of the Company.

e. In addition, the Company believes that the key factors for success in its activity include: frequent revision of actuary assumptions that underlies rates; improvement of quality, professionalism and underwriting data reliability; the quality of reinsurance and stability of reinsurers; customer mix and loyalty; customer retention levels; cutting operating costs; marketing and distribution; costs of IT and supporting systems; quality of investment portfolio management and investment income; streamlining claims management and settlement costs; achieving a high rate of subrogation; improving the quality of customer service to customers; low frequency of natural disasters; reducing the scale of insurance fraud; recruiting and retaining quality human capital; the Company's ability to improve agreements with suppliers, the quality of collection of the Company, the creation of new distribution channels, continuous improvement in the field of digitization and automation and the ability of the Company to allow its employees to work remotely in contingencies.

Those success factors have not materially changed in 2022, except the effect of the rise in inflation rates and the raising of the interest rate on the economic and financial situation, most notably on the gains on the Company’s investments.

4.4 **Investments**

Investments of the Company are managed by the Company's external portfolio managers according to instructions by the Investments Committee, which was set up pursuant to the Supervision Law and investments regulations, and according to investment asset chapter in the consolidated circular, as well as other provisions of the Commissioners concerning investments.

The investment policy of an insurer is determined by the Company's board based on recommendations of the investment committee according to the law. The Company mainly implements a prudent and conservative investment policy including:

- Investment in listed government bonds
- Investment in high-rated corporate bonds
- Investment in bonds with short to long average term to maturity and in accordance with the duration of the insurance liabilities
- Investment in shares through instruments that track leading share indices internationally

Credit risks involved with those investments are managed according to the law and the policy of the board through the investments committee and the distress debt center of the Company. The Company is not required to appoint a specialized credit committee. The risk management policy includes exposure limits, including, limits on exposure to one debtor, a group of creditors, linkage basis, industry, liquidity and credit rate.

For more information on the composition of Company investments, see notes 10 and 27 to the financial statements. For information about the contribution of investment components on the proprietary portfolio, go to: http://www.aig.co.il/אודות-aig/תיק-הנוסטרו

For more information about the composition of net investment income and net financing income, see note 21 to the financial statements.

4.5 **Reinsurance**

a. **General**

Reinsurance engagements of the Company are made on an annual basis according to the activity area. All engagement agreement with reinsurers are discussed annually by the Company's Audit Committee and board and reported annually to the Commissioner according to the Commissioner's guidance. In each insurance segment, the reinsurance coverage is adjusted to the nature of risk and its level. The types of coverage that the Company commonly uses:

- **Proportional reinsurance**: Those reinsurance arrangements include quota share and surplus insurance. In quota share insurance, the relative division between the reinsurer and the insurance company is identical for all policies in a given insurance area. That proportion is used for dividing both premiums and claims. In a surplus insurance, the insurance company predefines the risk level it assumes, and the remaining risk in each policy is transferred to the reinsurer, meaning that the share of the reinsurance in the risk can vary from one policy to the other.

- **Non-proportional reinsurance**: Excess of loss insurance ("**XOL**") – this type of reinsurance covers claims or events over a certain amount, i.e., the insurance cover exceptionally high multiple-risk individual claims. Any amount below the predetermined amount is covered by the insurance company only and not by the reinsurance.

- **Facultative reinsurance**: Those reinsurance arrangements cover special risks embedded in specific policies. For the most part, such business is reinsured in this way when the insurance amount exceeds the capacity of reinsurance contracts mentioned above.

The reinsurance exposure policy is established by the risk management and equity committee of the Company and is approved annually by the board of directors of the Company. This policy is based on internal actuarial assessments, various models and claim history. As part of this policy, the sectors in which it is more efficient to transfer the risk to reinsurers based on risk management factors and the size of capital held by the Company. According to the provisions of the Supervision Regulations, the board approves once annually the retention that the Company holds by activity segments and the exposures to reinsurers.

b. **American International Overseas Association companies:**

A major share of reinsurance is by the following three insurance companies (referred to together as: "**AIOA companies**"):

Company name	Participation (%)
New Hampshire Insurance Company	12%
National Union Fire Insurance Company of Pittsburgh, PA	78%
American Home Assurance Company	%10

Those three companies are members of the global AIG Corporation, and are related parties of the Company

As of the date of this report, those three reinsurers are rated A+ by S&P.

For more information about total premiums transferred in 2022 to reinsurers, see note 27f(5) to the financial statements. For more information about balances and transactions with interested and related parties, see note 28 to the financial statements.

c. **Compulsory vehicle insurance**

The Company engaged in the reported year in this insurance segment in an XOL reinsurance contract with AIOA. The premiums recorded in favor of that company in the reported year was NIS 3,129 thousand. No fees are paid under this contract. The Company activated the reinsurance contracts in 2022 and the coverage ceiling of the contract is in an unlimited amount.

d. **Home insurance**

The Company entered in the reported year into a surplus reinsurance contract with AIOA. The fee is 31%.

For catastrophe events (e.g. earthquakes and other natural disasters), the Company purchases in addition to a proportional reinsurance coverage also XOL reinsurance for home insurance. The assessment of the risk for a catastrophe event, and the expected damage was made by a professional team. According to updated calculation using special statistical models, the maximum probable loss (MPL) after self-retention is 0.34%. The Company protects itself against earthquake events, including one in 250-year magnitude events. The MPL for calculating catastrophe risks in general insurance in calculating the Company’s economic solvency regime (Solvency II) is 1.75%.

As of December 31, 2022, the insurance amount covered by proportional reinsurance in relation to earthquakes is NIS 581 thousand, while amounts covered in non-proportional reinsurance amount to NIS 100,304 million. As of the date of this report, the Company acquired reinsurance coverage of NIS 1,665 million over the Company's retention, which is NIS 30 million for catastrophe.

The following is a list of premiums in home reinsurance (in thousands of NIS):

Home reinsurance premium:	**2022**	**2021**	**2020**
Proportional	3,686	3,180	2,916
Proportional - earthquake	-	-	425
Non-proportional - earthquake	15,077	10,748	9,795
Total	**18,763**	**13,928**	**13,136**

Note that this table does not refer to underwriting years but to the general calendar results at the segment level as presented in note 4 to the financial statements and may not indicate the underwriting results of reinsurers by underwriting years.

The premium recorded in favor of the AIOA companies in the reported year is NIS 18,419 thousand, and fees amount to NIS 1,090 thousand.

e. **Health insurance**

The Company entered in the reported year into the following reinsurance contracts in this segment:

- A surplus reinsurance contract, with fee as a fixed percent of premium (35%). Reinsurers in this contract are AIOA.
- A Quota Share reinsurance contract in a certain critical illness sector. The reinsurer in this contract is Swiss Re, which is rated AA- by S&P.

In 2022, the Company entered into an insurance contract of the XOL type from the retention amount of the Company up to an amount of NIS 80 million with the AIOA companies, and the Company renewed the aforementioned engagement in respect of 2023 up to an amount of NIS 72 million. The Company did not reach the ceilings set out in the contract during the reporting period and has no outstanding claims in an amount approximating its ceilings.

The premiums recorded in favor of AIOA companies in the reported year are NIS 1,654 thousand. Commissions from reinsurance amounted to NIS 420 thousand.

f. **Commercial insurance**

The Company engaged in the reported year in quota share and surplus reinsurance contracts in liabilities, professional liability, property, contractors, mechanical breakage and electronic insurance contract with AIOA. The premiums recorded in the reported year to the related companies amounted to NIS 132,353 thousand. The Company received fees on those contracts at a fixed rate of 26% to 37% from the premium.

In property insurance, the Company also entered into an agreement with two other companies for fixed facultative quota share reinsurance. The two companies are Munich Re, rated AA- by S&P, and Hannover Re, rated AA- by S&P.

The Company does not purchase XOL catastrophe coverage in property insurance and commercial insurance due to the lower retentions to which the Company is exposed.

g. **Life insurance**

The Company engaged in surplus reinsurance contracts with Swiss Re, which is rated AA- by S&P. Previously, the Company also engaged with Partner Re, which is rated A+ by S&P and with Gen Re, which is rated AA+ by S&P. Fees on those contracts are at a fixed rate of premium.

In 2021, the Company engaged in a XOL insurance contract to cover catastrophe events with AIG Reinsurance Company Ltd ("**AIRCO**"), which is a company in the AIG global corporation, a related party of the Company and rated A+ by S&P. The Company renewed the engagement for 2022. Company did not reach the ceilings set out in the contract during the reporting period and has no outstanding claims in an amount approximating its ceilings.

The following is information about premiums transferred to those companies:

Reinsurer name	Total reinsurance premiums (NIS in thousands)	% of total reinsurance premiums
Swiss Re	28,028	88%
Partner Re	2,833	9%
AIRCO	530	2%
Gen Re	465	1%
Total	31,910	**100%**

h. Summary of reinsurance results in general and health insurance (in thousands of NIS):

	2022	2021	2020
Compulsory vehicle insurance			
Reinsurance premiums	3,129	2,878	2,609
Income / (loss)	15,941	(35,247)	(3,131)
Home insurance			
Reinsurance premiums	18,763	13,928	13,136
Income	15,167	11,868	11,242
Health insurance			
Reinsurance premiums	3,150	2,717	2,786
Income	540	873	406
Commercial insurance (*)			
Reinsurance premiums	163,339	156,237	123,651
Income / (loss)	78,449	15,077	(37,518)
Total			
Reinsurance premiums	188,381	175,760	142,182
Income / (loss)	110,067	(7,429)	(29,001)

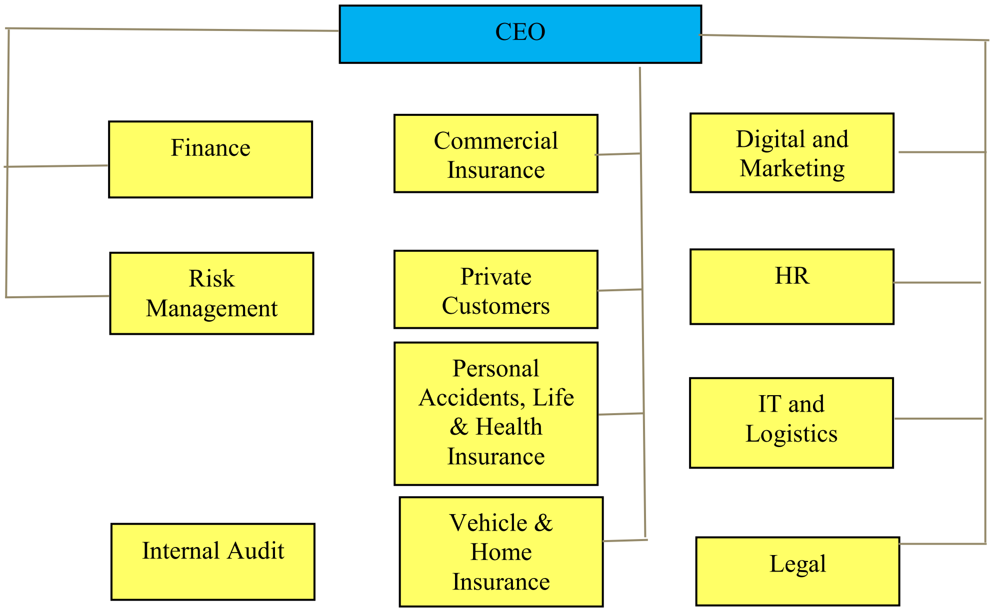
(*) Reinsurance premiums in commercial insurance are proportional contracts only and include earthquake premium of NIS 8,930 thousand in 2022 and NIS 12,487 thousand in 2021.

For more information on reinsurance results, see note 27.f.3.5 to the financial statements.

4.6 **<u>Human capital</u>**

a. General

The following is an organizational structure of the Company as of the date of this report:



The organizational structure of the Company is based on operations through a head office, located in Petach Tikva, Israel.

As of December 31, 2022, the Company had 744 employees, compared with 761 employees at the end of 2021. Some 70% of employees work in the Company's sales centers, compared with 71% in 2021. The Company has no dependence on any single employee.

The Company believes in the importance of improving its human capital and is conducting from time to time professional seminars to managers and other employees about different areas of activity. The Company is investing special efforts to train new employees in sales and customer service centers. In addition, trainings are also provided by AIG Global on professional matters with the attendance of managers and other employees of the Company. The Company constantly reviews its workforce and options for improving the efficiency of its employees.

The weighted number of employees in the Company based on full-employment equivalent as of December 31, 2022 and 2021, based on the organizational structure if as follows:

Activity area:	2022	2021
Sales and services centres	474	489
Claims	74	67
Headquarters - business divisions	39	38
IT	42	39
Administrative and general	20	17
HR	12	14
Finance	24	24
Marketing and digital	15	15
Total	**699**	**703**

b. Executives:

- Senior management, including the CEO, comprised 12 executives on the date of issuing this report, as compared to 13 last year. For more information about management – see Regulation 26A in Chapter D to the report "Additional Information on the Corporation".
- As of December 31, 2022, the board of the Company includes 7 directors, of which 3 are independent directors. For more information see Regulation 26 in Chapter D of the "Additional Information on the Corporation" chapter.

c. Compensation policy of the Company

Company employees, who are not executive, may be eligible to an annual bonus. The bonus will be paid based on the Company's financial position and its meeting of its business targets; payment of the bonus is subject to the approval of the Company's board of directors. The amount of the potential annual bonus is set based on the rank of employees as a range of several salaries. This range is based on the level of performance of the employees compared to other employees in the relevant department in the Company or in the Group.

Employees in sales and services - employees of the Company who are engaged in marketing and sales to customers, such as sales managers, portfolio managers, portfolio retention managers, and service and sales representatives may be eligible to monthly or quarterly bonuses on top of their basic salary; this bonus is based on the scope of activities they are in charge of. This type of bonus changes from time to time in accordance with the business targets of the Company. The targets such employees need to meet in order to become eligible to the bonus are determined in a manner that will not encourage employees to behave unfairly to clients in order to become eligible to the bonus.

Control and supervision employees – the eligibility of those employees to annual bonus is not determined in accordance with their meeting any performance targets relating to the activities they are in charge of.

Officers (who are not directors) – The Company compensation policy to offices are according to legal requirements, including the provision of the circular titled "Compensation Policy in Financial Institutions" and the amendments of that circular. In early, 2016, a compensation plan was adopted for officers of the Company (including the CEO of the Company). The policy has been validated and updated in 2019 pursuant to the updated Compensation Policy circular. Subject to meeting personal annual goals, officers are entitled to a bonus whose overall ceiling and its payment are predetermined by the compensation committee and board of the Company. The amount of bonus to officers is determined according to the rate of meeting those goals, multiplied by the number of salaries as determined by the compensation committee and board of the Company. The provisions of the aforesaid plan determine, inter alia, that for those whose bonus amount exceeds 50% of the total annual compensation, the bonus will be spread over four years (50% in the first year and the remainder in three equal batches over the subsequent years, subject to the Company's compliance with a predetermined profit criterion), while others shall be entitled to a full one-time payment.

According to this compensation plan, no bonus is paid to officers if the Company fails to meet the capital level as required by law.

Approval of the goals of each annual plan, review of actual results and approval of bonus payment are approved by the compensation committee and the board of the Company.

The annual compensation for each bonus period is computed as the percentage of meeting the targets for the bonus period multiplied by the amount in the personal target for each officer, which is composed of his/her average salary during the bonus year, times the "salary component" that was set by the Board of Directors of the Company according to his/her role in the Company.

Directors – the salary of Company's independent directors is determined in accordance with the provisions of The Companies Regulations (Rules Regarding Compensation and Expenses to Independent Directors), 2000.

For further details regarding the employment terms of senior office holders in the Company, see Regulation 21 in Part D of the annual report.

For more information about the compensation policy of the Company, go to:
https://www.aig.co.il/about_aigמדיניות-התגמול/

4.7 **Marketing and distribution**

The Company sells coverage directly to customers without involvement of insurance agents. This methodology is characterized by a direct relationship between the Company and its existing and prospect customers. This relationship is maintained by the main centers of the Company (sales and service) through digital channels, including marketing, sales and service websites.

The call centers and websites of the Company are major marketing and sales resources of the Company. A disruption of those communications resources over time may materially impact the activity of the Company. The Company also sells retail policies (vehicle, home insurance, mortgage insurance and personal injury) and commercial insurance through insurance agents. Agents receive commissions at a percentage of premiums according to the rate of collection of those premiums.

The amendment to the circular concerning the process of acceptance to an insurance plan obligates insurance agents to disclose to insurance candidates, during the acceptance process, that most of their income is derived from specific insurance companies.

As part of promoting its marketing efforts, the Company uses, among other things, advanced methods for storing databases allowing automated connectivity as well as decision-supporting systems and auxiliary systems like: a telephone system, recording applications, email, telemarketing, document scanning, sending automated email and more. The Company has a computer system that monitors work flow.

The main marketing channels of the Company are as follows:

- Advertising on mass media (television, billboards, press and radio);
- Advertising on digital media (search engines, such as Google, social media, such as Facebook and Instagram, advertising on various websites, etc.).
- Purchase of leads from specialty firms (e.g. mortgage consultants).
- Collaborations with leading companies (e.g. credit cars companies, loyalty clubs, car importers, etc.).
- Use of databases of the company for cross-sales and up-sales; and
- Public relations.

a. Vehicle property insurance

Policies in this segment are marketed mainly through direct marketing. The average commission paid to agents (before VAT) is 15.2% of gross premium.

b. Compulsory vehicle insurance

Policies in this segment are marketed mainly through direct marketing. The average commission paid to agents (before VAT) is 3.3% of gross premium.

c. Home insurance

Policies in this segment are marketed mainly through direct marketing. Additionally, the Company sells policies in the segment through customers who are interested to buy life insurance for mortgage lending purposes and contacted the Company thanks to marketing efforts in life insurance.

d. Health insurance

Policies in this segment are marketed mainly through direct marketing. In addition, the Company sells its products in this segment through telemarketing (cross sale) and on the Company's website (overseas travel insurance only). With regard to dependence on a distribution channel in the sector of overseas travel insurance see section 2.5.3 above.

e. Commercial insurance

Policies in this segment are marketed exclusively through insurance agents. As of the date of this report, the average commission paid to agents (before VAT) in the liability business is 17.2% of gross premium, in professional liability 16.4% and in property and engineering 11.1%.

f. Life insurance

The Company mainly sells individual insurance policies in this sector to customers directly.

The information that is provided in this section above constitutes forward-looking information, which is based, inter alia, on the current state of the Company's operations. Actual results may differ from the estimated results, including materially, as a result of various factors, most prominently regulatory changes applicable to the Company, and the behavior of competitors in this segment.

4.8 **Suppliers and services providers**

a. General

The Company buys products and services from numerous suppliers including advertising and marketing providers, equipment and maintenance providers, legal services providers, appraisers, investigators, healthcare institutions, software and hardware providers, auto repair and parts services, towing services, auto glass repair, damage repair, providers of water claim management, car leasing, etc. The cost of some of those purchases is recognized within cost of claims in the different insurance segments, and mainly in compulsory and property insurance.

The Company selects its suppliers according to cost, quality, quality, availability and expertise. Usually, engagement with providers is for a predefined period (automatic annual renewal) and do not involve exclusive arrangements.

b. Vehicle property insurance

The Company purchases products and services from different providers, including advertising and marketing providers; legal services providers; appraisers; investigators; vehicle repair and parts services; used car dealers for damaged or retrieved after theft; towing; auto glass repair, light and mirror repair, bumper repair etc. A significant part of the cost of those purchases is carried to the cost of claims. The Company is not materially dependent on any supplier or services providers.

c. Compulsory vehicle insurance

The Company purchases products and services in this segment from different providers, including: advertising and marketing providers legal services providers, hospitalization and other healthcare services, investigators etc. A significant part of the cost of those purchases is carried to the cost of claims. The Company is not materially dependent on any supplier or service providers.

d. Home insurance

In this segment, the Company purchases products and services from different providers, including: advertising and marketing providers, legal services providers, appraisers and investigators, as well as direct engagement with a management company for the settlement of water damage claims and with plumbers under arrangement. A significant part of the cost of those purchases is carried to the cost of claims. The Company is not materially dependent on any supplier or service providers.

e. Health insurance

The Company purchases in this segment products and services from various providers, including healthcare service providers, advertising and marketing services, legal services providers, investigators, overseas traveler assistance services, etc. A significant part of the cost of those purchases is carried to the cost of claims. The Company is not materially dependent on any supplier or services providers.

f. Commercial insurance

The Company purchases in this segment legal, survey, appraisal and investigation services. A significant part of the cost of the above services is carried to the cost of claims. The Company is not materially dependent on any supplier or services providers.

g. Life insurance

The Company purchases in this segment products and services from various providers, including healthcare and legal service providers, investigators, advertising and marketing providers, etc. The cost of those purchases is carried to the cost of claims. The Company is not materially dependent on any supplier or services providers.

h. Non-segment specific service providers

- **Computer and software suppliers** – The Company is engaged with a number of software and hardware providers for both purchasing new products and for regular maintenance of its systems. The main suppliers for maintaining the insurance system are Comtech Ltd. and Dortel Software Systems Ltd. The total payment (including VAT) to those suppliers in NIS millions are as follows:

Provider	2022	2021
Comtech Ltd.	3.1	2.5
Dortal Software Systems Ltd.	2.1	2.3

- **Marketing and advertising service providers** – The Company sells most of its products through direct marketing to customers and therefore its marketing and advertising purchases are material in relation to most other insurance companies. The primary advertising service provider of the Company in this area in 2022 was the advertising agencies Reuveni Pridan Ltd. and Google in digital For more information about the scope of expenses in this area, see note 24 to the financial statements.

4.9 Property, plant and equipment

a. Property, plant and equipment (PPE) of the Company is located at the Company's headquarters at 25 Hasivim St., Petach Tikva, and in the emergency site of the Company Tirat Hacarmel. For more information, see notes 5 and 7 to the financial statements.

b. Computer systems – The Company has an internal information technology (IT) unit, providing automation services to Company units, and is uses the services of suppliers and software companies, as necessary, for ensuring the required computing services. The main development and production site is located at Company headquarters in Petach Tikva, and there is also a backup site for emergencies in the Haifa area.

The main core systems of the Company include the insurance systems and financial systems that are installed on an IBM AS-400 computer.

In 2021 and 2022, the Company invested NIS 38 million in hardware and software, the majority of which was allocated to the development of advanced digital services for the Company and its customers (such as self-service on the Company’s website) and to the development of automation capabilities. The depreciated cost balance of computer systems (including computer software) in the Company as of December 31, 2022 was NIS 35.4 million.

4.10 Seasonality

a. The following table presents gross premiums (general insurance and life insurance) by quarters:

2022 Quarter	1	2	3	4	Total
Vehicle property insurance	136,471	111,958	133,391	115,481	497,661
Compulsory vehicle insurance	63,792	53,351	60,663	53,021	230,827
Home insurance	38,784	33,435	39,907	33,617	145,743
Commercial insurance	47,592	38,341	50,589	38,750	175,272
Health insurance	36,917	43,535	50,326	43,933	174,710
Life insurance	38,022	38,784	39,464	39,855	156,125
Total	**361,578**	**319,404**	**374,337**	**325,022**	**1,380,341**

2021 Quarter	1	2	3	4	Total
Vehicle property insurance	123,537	96,188	107,870	93,626	421,221
Compulsory vehicle insurance	61,382	49,914	53,682	44,896	209,874
Home insurance	36,376	31,426	36,657	30,915	135,374
Commercial insurance	49,410	39,076	45,152	34,524	168,162
Health insurance	32,628	34,613	38,693	37,199	143,133
Life insurance	37,187	37,183	37,765	38,005	150,095
Total	**340,520**	**288,355**	**319,819**	**279,165**	**1,227,859**

b. The mechanism for computing reserves for unexpired risk in general insurance is mitigating the impact of seasonality on income turnover.

4.11 Intangible assets

<u>Trademarks / Logo</u>

a. As a rule, the trademarks used by the Company in its ongoing activities are registered under the global AIG corporation;

- AIG is the registered trademark of the global AIG corporation, as is the trademark "AIG Israel 1-800-400-400", which the primary brand used by the Company for contacting its sales center.
- In addition to the aforesaid, the global AIG corporation owns trademarks that are used by the Company in its ongoing activity, such as "Just Drive", "Safe Travel", and more.

<u>Databases</u>

b. As of December 31, 2022, the Company owns eight databases that are critical to its business activities and that it uses in the ongoing operation of its business and in the marketing of insurance policies.

c. For more information on intangible assets - see note 5 to the financial statements.

4.12 Risk factors

There are a number of risk factors affecting the profitability and stability of the Company. The following table presents risk factors and their impact on the Company:

		The degree of influence of the risk factor on the Company		
Risk type	**Risk factors**	**Significant impact**	**Moderate impact**	**Small impact**
Macro risks	Economic slowdown in Israel		√	
	Interest	√		
	Inflation	√		
	Share and bond prices	√		
	Credit spreads		√	
	Exchange rates			√
	International market risks		√	
	Credit risk		√	
	Asset/liability alignment risk			√
	ESG			√
Industry risks	Portfolio retention		√	
	Competition	√		
	Earthquake	√		
	Terrorism			√
	Epidemic		√	
	Regulation and compliance	√		
	Theft, accidents and fire	√		
	Reinsurance stability		√	
Company-specific risks	Legal risks		√	
	Model, parameters, underwriting risks		√	
	Operating risks		√	
	IT risk	√		
	Information security and cyber risk	√		
	Liquidity risk			√
	Reputation risk	√		
	Employment rate in the economy		√	
	Work relations			√

The impact of the above risk factors is based on the discretion of management based on the judgment of management based on the existing assessment as of the date of this report. This assessment is general and it is possible that different factors may have indirect impact if occurring concurrently.

For more information on the overall risk exposure of the Company – see note 27 to the financial statements.

4.13 **Material agreements and cooperation agreement**

No material agreements were signed in the reporting year outside the ordinary course of business.

4.14 **Other forecasts and assessments on the business of the Company**

This section, by nature, includes forward-looking information, as defined by the Israel Securities Law, which is uncertain and based on assessments and intentions of the Company as of the date of the report. Company assessments may not materialize or partially materialize or in a different way than assessed by the Company.

The business strategy of the Company and its main targets for each line of business are as follows:

- Increasing sales in each insurance line of business
- Maximizing profit from all sources of income of the Company, while focusing on maximizing underwriting profit in each line of business separately.
- Providing expeditious and high-quality customer service
- Exercising business discipline in underwriting and investment operation
- Maintaining the strength of Company brand
- Focusing on customer retention
- Strict adherence to the values of the Company: trust, people, customer at the center, excellence, enthusiasm and simplicity.
- Balancing between the insurance lines of business without relying on any given line of business.
- Priority for investment in digital and automation.
- Constantly expanding the variety of digital personal services that is available to customers of the Company.
- Constantly exploring new means of distribution and new collaborations.
- Constant awareness to customer needs, and accordingly, developing new stand-alone and bundled products
- Control over the extent of Company expenses
- Improving operating efficiency of anything related to decision-support systems
- Nurturing excellence in all Company units
- Careful compliance with regulation.

5. Part E – Corporate governance information

5.1 Information about independent directors

As of the date of the report, the Company's Board of Directors has 7 directors, of which 3 are independent directors. In the reported period, the Board held 8 board meetings.

For information on the independent directors of the Company, see Regulation 26 of the Additional Information Report of the corporation.

5.2 Internal auditor

a. **Information about the internal auditor and beginning of service**:

The internal auditor of the Company is Mr. Thomas Lowe. Mr. Lowe is an accountant (holds a South African license) and has thirteen-year experience in the AIG corporation, including ten years of different rolls in the internal audit system of AIG and three years in financial positions in Europe. He began his services in this roll on September 1, 2013.

b. **Securities holding and conflict of interest**:

The internal auditor has no business relations with the Company or a related entity. The internal auditor holds two ordinary shares in a related AIG company. This shareholding may not affect his work in any way.

c. **Work relations and additional roles:**

The internal auditor is a Company employee who has no other rolls outside the global AIG corporation. The internal auditor is assisted by two internal audit employees of the Company, and when necessary, uses external service providers and the internal audit resources of AIG.

d. **Scope of employment**:

The internal auditor' scope of employment is derived from the work plan approved by the Audit Committee and is subject to changes as a result of the business activity. In 2022, the internal auditor invested 3,700 hours in his work. In 2023, the scope of employment was set at 3,500 hours.

In addition to the internal audit performed by the internal auditor, periodic audits are performed by various divisions of the AIG corporation. Those audits mainly focus on the underwriting, financial, risk management and IT aspects.

e. **Compensation**:

The internal auditor is compensated by a monthly salary under a personal work contract, at amounts that reflect his position and responsibility. In 2022, the compensation of the internal audit (fees and related expenses) was NIS 2.0 million. Total compensation to the internal auditor in 2021 was NIS 1.7 million. The board believes that the compensation of the internal auditor may not affect his professional judgment.

5.3Independent auditors

The independent auditors of the Company are KPMG Somekh Chaikin Certified Public Accountant. The partner responsible for the internal audit services is Taly Bisker Avisar, CPA.

The date of the commencement of service as the Company's auditors is December 2017.

The following is the independent auditors' fee in NIS (excluding VAT) for services provided in 2022 and 2021:

2022	**Fee for audit and tax services**	**Special tax services**	**Other services**	**Total**
NIS thousand	**1,381**	**5**	**53**	**1,440**

2021	**Fee for audit and tax services**	**Special tax services**	**Other services**	**Total**
NIS thousand	1,265	69	31	1,365

5.4 **Effectiveness of internal controls and the procedures over financial reporting and disclosure of the Company**

Controls and procedures related to disclosure:
A financial institution management, in cooperation with CEO and CFO of that financial institution assessed as of the end of the reported period the effectiveness of the controls and procedures in relation to the disclosure of the financial institution. Based on this assessment, CEO and CFO of the financial institution concluded that as of the end of that period, the controls and procedures related to disclosure of the financial institution are effective in order to record, process, summarize and report the information that the financial institution is require to disclose in the annual financial statements according to the provisions of the law and the reporting requirements set by the Commissioner of Capital Markets, Insurance and Savings and on the times indicated in such regulations.

Internal control over financial reporting:
During the covered period ended December 31, 2022, no change has occurred in the internal control of the financial institutions over financial reporting that has had a material impact or is likely to have a material impact on the internal control of the financial institutions over financial reporting.

5.5 **The solvency regime based on Solvency II**

For details of the regulatory capital requirements applicable to the Company and the manner in which the Company complies with them, see Section 3 of the Directors' Report and Note 12 to the Financial Statements.

AIG Israel Insurance Company Ltd

Edward Levin Chairman of the Board	Yfat Reiter CEO

March 21, 2023

Chapter B: Directors Report of Company's Business
for the Year Ended December 31, 2022

AIG Israel Insurance Company Ltd.
("the Company")

Table of Contents

Chapter B: Directors' Report

1. General

Operating segments of the Company

The Company is an Israeli insurance company that operates in the following areas: compulsory vehicle insurance, property vehicle insurance, home insurance, commercial insurance, health insurance and life insurance (risk only). The primary activity of the Company is individual insurance, where it markets and sells policies directly to policyholders

Event or matter outside the ordinary course of Company's business

In 2020 and 2021, a vast spreading of the coronavirus and its different variants took place in Israel and worldwide (hereinafter: "the Coronavirus Event"), which had severe implications on the local and global economy. For additional information on the effects of the Coronavirus Event in 2020 and 2021 and the related actions taken by the Company, see Section 1 of the Board of Directors' Report attached to the Periodic Report for 2020.

At the beginning of 2022, morbidity rates in Israel somewhat increased but had a limited impact, as the number of severe cases remained constant, and was shortly followed by a decrease in morbidity rates. As at the date of the report, activity in the Israeli economy has fully resumed, with no restrictions.

2. Description of the business environment

Trends and developments in the operating segments and their impact on the Company's business and on the financial statements

General

In accordance with data published by the Capital Market, Insurance and Savings Authority, ("**the Authority**") more than 15 insurance companies operate in Israel; most of these companies are engaged in general insurance. In accordance with this data, as at September 30, 2022, insurance premiums arising from the general insurance business amounted to NIS 21,369 million; the share of the 5 largest insurance companies – Harel, Phoenix, Clal, Menorah and Ayalon – amounted to NIS 12,628 million, which constituted 59% of the total premiums in the Israeli general insurance sectors.

For further details regarding the competition in the different operating segments of the Company and regarding the measures taken by the Company to compete in this competitive market, see Sections 2.1.2, 2.2.2, 2.3.2, 2.4.2, 2.5.2 and 2.6.2 in Chapter A (Description of the Company's Business) of the periodic report.

Chapter B: Directors’ Report

Developments in the Company's macro-economic environment

Resolutions passed in Israel and worldwide to curb the spreading of the coronavirus and reduce morbidity rates significantly had significantly affected product and employment in Israel. The impact on the various sectors of the economy varied.

In February 2022, Russia invaded Ukraine. For additional information on the aforesaid unrest and its impact on the global economic activity, see section 1.3 of the Board of Directors’ Report for the period ended September 30, 2022.

In the reporting period, the Bank of Israel interest rate was raised on several occasions and, as at the reporting date is at 4.25%, with a GDP growth rate of 6.5% in 2022. In addition, according to the aforesaid resolution, the rate of inflation for the past twelve months is 5.4% and the unemployment rate in the working-age population (25-64) reached 3.7%[2] in December 2022.

According to the most recent assessment published by the Bank of Israel[3], GDP is expected to grow by 2.8% and 3.5% in 2023 and 2024, respectively, concurrently with the increase of the unemployment rate in the working-age population (25-64) to 4%. The monetary interest rate is expected to average 4% in the fourth quarter of 2023 and the rate of inflation in 2023 is expected to reach 3%.

The Company invests a considerable part of its investment portfolio in the capital market; therefore, the yields from different investment vehicles in the capital market have a significant effect on Company's profit.

On January 4, 2023, the Minister of Justice presented a plan concerning material changes to the Israeli judicial system, which has provoked a heated public debate, both in support and in protest of the move (“**the Plan**”). The political development in Israel could increase the risk to the economic and financial standing of Israel. For additional information on the reform, see section 4.1 to Part B (Directors Report of Company’s Business) of the periodic report.

[2] According to the resolution of the Bank of Israel’s Monetary Committee from January 2, 2023.
[3]The macroeconomic forecast of the Research Division from January 2, 2023.

The following are data on the changes in the indexes of marketable securities on the stock exchange:

	2022	2021	2020
Government-bond indexes:			
General government bonds	(9.26%)	2.3%	1.2%
Linked government bonds	(9.83%)	7.4%	1.2%
NIS government bonds	(8.84%)	(0.8%)	1.3%
Corporate-bond indexes:			
Tel Bond 60	(8.93%)	7.8%	(0.1%)
Tel Bond NIS	(7.01%)	3.0%	(0.1%)
Share indexes -			
Tel-Aviv 125	(11.82%)	31.1%	(3.0%)
S&P 500	(19.44%)	27.2%	16.3%

For details regarding the composition of the Company's investments, see Notes 10 and 27 to the financial statements.

For details regarding general trends in the insurance sector and their effect on the Company's business, see Section 4.3 in Chapter A (Description of the Company's B) of the periodic report.

3. Financial information regarding the Company's operating segments

The following are principal data on comprehensive income (in thousands of NIS):

	2022	2021	2020
Gross premiums earned	1,312,434	1,176,114	1,136,788
Premiums earned by reinsurers	(211,375)	(190,246)	(179,353)
Premiums earned – retained amount	1,101,059	985,868	957,435
Gains (losses) on investments, net, and financing income	(77,993)	74,039	(15,930)
Income from commissions	54,767	50,378	46,725
Total income	1,077,833	1,110,285	988,230
Payments and changes in liabilities in respect of insurance contracts – gross	(932,241)	(880,135)	(671,169)
Share of reinsurers in increase in insurance liabilities and payments with respect to insurance contracts	44,487	142,655	156,765
Payments and changes in liabilities in respect of insurance contracts – retained amount	(887,754)	(737,480)	(514,404)
Total other expenses	(337,625)	(315,876)	(314,508)
Profit (loss) before taxes on income	**(147,546)**	**56,929**	**159,318**
Taxes on income	49,288	(19,784)	(55,559)
Profit (loss) for the year and total comprehensive income for the year	**(98,258)**	**37,145**	**103,759**

Chapter B: Directors' Report

The following are principal balance-sheet data (in thousands of NIS):

	December 31	
	2022	2021
Other assets	534,724	412,469
Deferred acquisition costs	184,697	172,527
Financial investments and cash	2,052,276	2,156,085
Reinsurance assets	711,756	767,609
Total assets	**3,483,453**	**3,508,690**
Equity	794,868	893,126
Liabilities in respect of insurance contracts	2,261,044	2,151,413
Other liabilities	427,541	464,151
Total equity and liabilities	**3,483,453**	**3,508,690**

Equity and capital requirements

As at December 31, 2022, equity amounted to NIS 794.9 million, as compared to NIS 795.4 million as at December 31, 2021. The change in equity in 2021 is due to a comprehensive loss of NIS 97.7 million for the year.

Solvency-II-based economic solvency regime of an insurance company

In July 2019, the Company made a full transition to an economic solvency ratio regime. For details regarding the regulation applicable to the implementation of a Solvency-II-based economic solvency regime in insurance companies, see section 3 of the Board of Directors' Report attached to the 2020 periodic report.

Presented below are data concerning solvency ratio and MCR:

A. Solvency Ratio (in thousands of NIS)

	June 30,	December 31,
	2022	2021
Equity for the purpose of solvency capital requirement (SCR)	927,336	979,666
Solvency capital requirement	668,972	766,992
Surplus	**258,364**	**212,674**
Economic solvency ratio (percentage)	139%	128%

The Company believes that in the coming year it would not be required to raise sources for compliance with the statutory solvency ratio and with the solvency ratio target set by the Board of Directors of the Company.

Minimum capital requirement (MCR) (in thousands of NIS):

	June 30, 2022	December 31, 2021
MCR	217,730	208,716
Equity for the purpose of MCR	927,336	979,666

Economic solvency ratio, eliminating the implementation of the transitional provisions for the Deployment Period and the equity risk scenario adjustments (NIS thousands):

	June 30, 2022	**December 31, 2021**
Own funds for SCR purposes	927,336	979,666
SCR	789,818	907,544
Surplus	**137,518**	**72,122**
Economic Solvency Ratio (%)	117%	108%
Surplus (deficiency) in relation to the Board's target:		
Target solvency ratio of the Board (%)	130%	130%
Surplus in relation to the target	**(99,427)**	**(200,141)**

The calculation performed by the Company as at June 30, 2022 has not been audited and reviewed by the auditors of the Company.

The calculation performed by the Company as at December 31, 2021 has been audited by the auditors of the Company in accordance with Standard ISAE 3400. For additional information the solvency ratio, see the Company's economic solvency ratio report as at December 31, 2021, which is available on the Company's website: https://www.aig.co.il/about/repayment-ratio.

The information presented in this section above constitutes forward-looking information, as defined in the Securities Law, 1968, that is based, inter alia, on the current state of the Company's operations. Actual results could differ from the above estimates, including materially, as a result of various factors, the principal of which are regulatory changes applicable to the Company.

4. Results of operations

In 2022, the Company continued to increase the volume of gross premiums, which grew by 12.4% over their volume in 2021. The Company's total gross premiums amounted to NIS 1,380 million in 2022, as compared to NIS 1,228 million in 2021. The increase in gross premiums stems mainly from the vehicle property insurance, compulsory vehicle insurance and overseas travel insurance sectors.

The Company's total premiums in retention amounted to NIS 1,160 million in 2022, as compared to NIS 1,023 million in 2021, an increase of 13.4%. The increase in premiums in retention stems mainly from the vehicle property insurance, compulsory vehicle insurance and overseas travel insurance sectors.

The following are principal data regarding premiums by principal operating segments (in thousands of NIS):

	Vehicle property insurance	Compulsory vehicle insurance	Home insurance	Health insurance	Commercial insurance	Life insurance	Total
2022							
Gross premiums	497,661	230,827	145,743	174,710	175,275	156,125	1,380,341
Premiums – retained amount	497,661	227,698	126,980	171,560	11,936	124,215	1,160,050
Total gross as % of total	36.1	16.7	10.6	12.7	12.6	11.3	100.0
Total retained as % of total	42.9	19.6	11.0	14.8	1.0	10.7	100.0
2021							
Gross premiums	421,221	209,874	135,374	143,133	168,162	150,095	1,227,859
Premiums – retained amount	421,221	206,996	121,446	140,416	11,925	120,969	1,022,973
Total gross as % of total	34.3	17.1	11.0	11.7	13.7	12.2	100.0
Total retained as % of total	41.2	20.2	11.9	13.7	1.2	11.8	100.0
2020							
Gross premiums	369,910	190,525	131,446	149,568	137,888	149,845	1,129,182
Premiums – retained amount	369,910	187,916	118,310	146,782	11,491	127,906	962,315
Total gross as % of total	32.8	16.9	11.6	13.2	12.2	13.3	100.0
Total retained as % of total	38.5	19.5	12.	15.3	1.1	13.3	100.0

The following are principal comprehensive income data by principal operating segments (in thousands of NIS):

	2022	2021	2020
Profit (loss) from vehicle property insurance	(151,282)	(18,419)	70,663
Profit (loss) from compulsory vehicle insurance	10,054	(48,246)	(22,250)
Profit from home insurance	2,274	41,244	30,963
Profit from commercial insurance	784	13,591	7,928
Profit from health insurance	24	16,021	37,296
Profit from life insurance	8,872	16,466	46,225
Other – income (loss) not allocated to insurance segments	(18,272)	36,272	(11,507)
Profit (loss) before tax	**(147,546)**	**56,929**	**159,318**
Taxes on income	49,288	(19,784)	(55,559)
Profit (loss) for the year and total comprehensive income (loss) for the year	**(98,258)**	**37,145**	**103,759**

For additional data by main sectors, see Note 4 to the financial statements.

The following are the explanations of the Company's Board of Directors regarding the development of some of the data presented above:

a. The comprehensive loss of the Company totaled NIS 98.3 million in 2022, as compared to income of NIS 37.1 million in 2021. Pre-tax loss amounted to NIS 147.5 million in 2022, as compared to profit of NIS 56.9 million in 2021. The Company’s pre-tax loss in 2022 was due to an underwriting loss and losses on investments, as compared to a combination of investment losses and an underwriting profit in 2021. In 2022, an underwriting loss of NIS 81.3 million was recorded, as compared to an underwriting profit of NIS 19.7 million in 2021. The increase in the underwriting loss in 2022 was due mainly to a substantially higher claims’ ratio in the reported year in the vehicle property insurance sector. This was accompanied by an increase in the claims’ ratios in the personal accidents and life insurance sectors.

b. Net investment losses amounted to NIS 78 million in 2022, as compared to investment gains of NIS 74 million in 2021. These losses derived mainly from sharp drops on the financial markets, in Israel and globally, and in particular in the Israeli bonds market, in both government bonds and corporate bonds. For additional information, see section 2 above.

c. The loss of the Company from vehicle property insurance in 2022 was NIS 151.3 million, as compared to a loss of NIS 18.4 million in 2021. The underwriting loss of the Company from vehicle property insurance in 2022 was NIS 144.4 million, as compared to a loss of NIS 25.5 million in 2021. The substantial underwriting loss in the reporting year was due to a significant increase in the claims’ ratio. This increase resulted from a steep rise in the frequency and severity of car accidents and theft commencing in the second quarter of 2021. The claims’ ratio in the first half of 2021 was still affected by the “Coronavirus

Event". As a result, in the reporting period the Company increased the provision for premium deficiency by NIS 30 million, to NIS 46 million as at the reporting date. The Company is taking the necessary steps, including the raising of tariffs, to reduce the claims' ratio and resume profitability in this sector.

d. The Company's profit from compulsory vehicle insurance amounted to NIS 10.1 million in 2022, as compared to a loss of 48.2 million in 2021. The transition to profit was due mainly to the increase in the interest curve and the ensuing NIS 75 million reduction in insurance liabilities. In opposition, investment gains decreased by NIS 43 million. This effect was partly offset by an increase in the insurance liabilities due to the 5.2% rise in the consumer price index in 2022, as compared to a rise of 2.4% in the consumer price index in 2021. In addition, the aforementioned provision for premium deficiency in an amount of NIS 9.8 million, created in 2021 as a result of the significant decrease in the claims' ratio, was cancelled. Pooling losses in this segment, excluding the effect of the interest curve, amounted to NIS 15.1 million in 2022, as compared to NIS 14.3 million in 2021.

e. The profit of the Company from home insurance in 2022 was NIS 2.3 million, as compared to profit of NIS 41.2 million in 2021. The decrease in profit was due mainly to the reduction in the investment gains and the higher claims' ratio. The underwriting profit of the Company from home insurance totaled NIS 4.3 million in the reporting year, as compared to an underwriting profit of NIS 43.5 million in 2021. The decrease in the underwriting profit was due to a significant rise in the claims' ratio, particularly in relation to plumbing and water damages.

f. The profit of the Company from health insurance in 2022 was NIS 24 thousand, as compared to profit of NIS 16 million in 2021. The decrease in profit was due to the reduction in the underwriting profit and in the investment gains. The underwriting profit from health insurance amounted to NIS 3.1 million in 2022, as compared to a profit of NIS 13.7 million in 2021. The reduction in the underwriting profit in 2022 stemmed mainly from the substantial increase in the claims' ratio in the personal accidents insurance sector.

g. The profit of the Company from life insurance in 2022 was NIS 8.9 million, as compared to profit of NIS 16.5 million in 2021. The decrease in profit was due to a significant rise in the claims' ratio.

h. The profit of the Company from professional liability insurance in 2022 was NIS 0.8 million, as compared to profit of NIS 11.3 million in 2021. The decrease in profit was due to a significant reduction in investment gains.

i. The Company's loss from other property insurance amounted to NIS 0.1 million in 2022, as compared to profit of NIS 2.2 million in 2021. The decrease in profit was due to the reduction in investment gains.

j. The profit of the Company from other liability insurance amounted to NIS 55 thousand in 2022, as compared to profit of NIS 101 thousand in 2021.

The following are the results of operations in the property insurance sectors:

a. **Underwriting profit (in thousands of NIS):**

	2022	2021	2020
Vehicle property	(144,368)	(25,548)	71,329
Home insurance	4,333	37,580	30,692
Other property sectors	414	1,723	(185)

b. **Principal data regarding the claims' ratio[1] (Loss Ratio "LR")[1] and the claims' and expenses' ratio (Combined Ratio "CR"):**

	2022		2021		2020	
	LR%	CR%	LR%	CR%	LR%	CR%
Property vehicle insurance:						
Gross	111%	132%	85%	106%	58%	81%
In retention	111%	132%	85%	106%	58%	81%
Property[2]:						
Gross	52%	81%	33%	63%	52%	81%
In retention	59%	96%	32%	67%	40%	74%

1 As to gross data, the loss ratio and expenses ratio are computed on the basis of gross premiums earned. With regard to retained amounts data, the claims ratio and the expenses ratio are computed on the basis of premiums earned in retention.

2 Home and other property sectors.

5. Cash flow and liquidity

Net cash used in operating activities in 2022 amounted to NIS 1,900 thousand, as compared to NIS 88,953 thousand provided by operating activities in 2020.

Net cash used in investing activities in 2022 amounted to NIS 19,100 thousand, as compared to NIS 19,371 thousand in 2021.

Net cash used in financing activities in the Company in 20222 amounted to NIS 5,503 thousand, as compared to NIS 105,394 thousand in 2021 (including a dividend of NIS 100,000 thousand),.

As a result of the above, the balance of cash and cash equivalents in the reporting period decreased by NIS 25,861 thousand and amounted to NIS 35,721 thousand as at December 31, 2022.

6. Sources of funding

All of the Company's operations are funded with its own resources and equity. The Company does not use external funding sources.

7. The Company's business strategy and its main objectives

For details of the Company's business strategy and its main objectives, see Section 4.14 in Chapter A (Description of the Company's Business) of the periodic report.

8. Material events subsequent to the financial statements date

There were no material events after the date of the financial statements.

Edward Levin Chairman of the Board	Yfat Reiter CEO

March 21, 2023

Declaration

I, Yfat Reiter declare that:

1. I reviewed the interim report of AIG Israel Insurance Company Ltd. (hereafter – "the insurance company") for the year ended December 31, 2022 (hereafter – "the report").

2. Based on my knowledge, the report does not include any misstatement of a material fact or omit to disclose a material fact the presentation of which in the report is necessary for the purpose of ensuring that under the circumstances in which those presentations are included, they will not be misleading regarding the period covered by the report.

3. Based on my knowledge, the quarterly financial statements and other financial information included in the report reflect fairly, in all material respects, the financial position, results of operations, changes in shareholders' equity and cash flows of the insurance company for the date and periods covered by the report.

4. The Company's other certifying officers and I are responsible for establishing and maintaining controls and procedures relating to disclosure[1] and internal controls over financial reporting of the insurance company; and -

   (a) Accordingly, we have designed such disclosure controls and procedures, or have had such disclosure controls and procedures established under our charge, designed to ensure that material information relating to the insurance company is made known to us by others in the insurance company particularly during the period in which the reports were prepared;

   (b) We designed internal controls over financial reporting, or supervised the design of such internal controls designed to provide a reasonable assurance regarding the reliability of the financial reporting and assurance to the effect that the financial statements are drawn up in accordance with International Financial Reporting Standards (IFRS) and in accordance with the directives of the Supervisor of Insurance.

   (c) We assessed the effectiveness of controls and procedures regarding the disclosure of the insurance company and presented our conclusions regarding the effectiveness of disclosure controls and procedures as of the end of the period covered in the report, based on our estimate; and

   (d) We disclosed in the report any change in the insurance company's internal controls over financial reporting which took place in this quarter and had a material effect or is expected to have a material effect on the insurance company's internal controls over financial reporting; and

[1] As defined in the provisions of the Institutional Bodies Circular regarding internal controls over financial reporting – declarations, reports and disclosures.

5. The insurance company's other certifying officers and I have disclosed to the insurance company's auditors, the insurance company's board of directors and its audit committee, based on our most recent evaluation of internal controls over financial reporting, the following:

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the insurance company's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether material or not, that involves management or other employees who have a significant role in the insurance company's internal controls over financial reporting.

There is nothing in the aforesaid to derogate from my responsibility or the responsibility of any other person, pursuant to any law.

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Yfat Reiter - CEO

March 21, 2023

Declaration

I, David Rothstein hereby declare that:

1. I reviewed the interim report of AIG Israel Insurance Company Ltd. (hereafter – "the insurance company") for the year ended December 31, 2022 (hereafter – "the report").

2. Based on my knowledge, the report does not include any misstatement of a material fact or omit to disclose a material fact the presentation of which in the report is necessary for the purpose of ensuring that under the circumstances in which those presentations are included, they will not be misleading regarding the period covered by the report.

3. Based on my knowledge, the quarterly financial statements and other financial information included in the report reflect fairly, in all material respects, the financial position, results of operations, changes in shareholders' equity and cash flows of the insurance company for the date and periods covered by the report.

4. The Company's other certifying officers and I are responsible for establishing and maintaining controls and procedures relating to disclosure[1] and internal controls over financial reporting of the insurance company; and -

   (a) Accordingly, we have designed such disclosure controls and procedures, or have had such disclosure controls and procedures established under our charge, designed to ensure that material information relating to the insurance company is made known to us by others in the insurance company particularly during the period in which the reports were prepared;

   (b) We designed internal controls over financial reporting, or supervised the design of such internal controls designed to provide a reasonable assurance regarding the reliability of the financial reporting and assurance to the effect that the financial statements are drawn up in accordance with International Financial Reporting Standards (IFRS) and in accordance with the directives of the Supervisor of Insurance.

   (c) We assessed the effectiveness of controls and procedures regarding the disclosure of the insurance company and presented our conclusions regarding the effectiveness of disclosure controls and procedures as of the end of the period covered in the report, based on our estimate; and

   (d) We disclosed in the report any change in the insurance company's internal controls over financial reporting which took place in this quarter and had a material effect or is expected to have a material effect on the insurance company's internal controls over financial reporting; and

[1] As defined in the provisions of the Institutional Bodies Circular regarding internal controls over financial reporting – declarations, reports and disclosures.

5. The insurance company's other certifying officers and I have disclosed to the insurance company's auditors, the insurance company's board of directors and its audit committee, based on our most recent evaluation of internal controls over financial reporting, the following:

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the insurance company's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether material or not, that involves management or other employees who have a significant role in the insurance company's internal controls over financial reporting.

There is nothing in the aforesaid to derogate from my responsibility or the responsibility of any other person, pursuant to any law.

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David Rothstein - CFO

March 21, 2023

AIG

Directors and Management's Report Regarding Internal Controls over Financial Reporting

Management, with the supervision of the Board of Directors of AIG Insurance Company Ltd. (hereafter the "the Insurance Company") are responsible for setting and maintaining effective internal control over financial reporting. The internal controls system of the insurance company was planned in order to provide reasonable assurance to management and Board of Directors to the effect that the financial statements are prepared and presented fairly in accordance with International Financial Reporting Standards and in accordance with the directives of the Supervisor of Insurance.
All internal controls have inherent limitations regardless of the quality of planning. Therefore, even if it is determined that these controls are effective they can only provide a reasonable measure of assurance regarding the preparation and presentation of financial statements.

Management, supervised by the Board of Directors, maintains a comprehensive control system designed to ensure that transactions are carried out in accordance with management's authorization, assets are protected, and accounting records are reliable. In addition, management with the Board of Directors' supervision takes measures in order to ensure that the information and communications channels are effective and monitor implementation, including implementation of the internal control procedures.

The Insurance Company's management with the supervision of its Board of Directors evaluates the effectiveness of the internal control of the Insurance Company over financial reporting as at December 31, 2022, based on criteria set in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation management believes that as at December 31, 2022 the internal control of the Insurance Company over financial reporting is effective.

Chairman of the Board: Mr. Edward Levin _______________

Date of approval of financial statements: March 21, 2023

This translation is for convenience purposes only.

AIG ISRAEL INSURANCE COMPANY LTD.

FINANCIAL STATEMENTS FOR 2022

AIG ISRAEL INSURANCE COMPANY LTD.

FINANCIAL STATEMENTS FOR 2022

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AIG ISRAEL INSURANCE COMPANY LTD.

STATEMENTS OF FINANCIAL POSITION

	Note	As at December 31 2022	As at December 31 2021
		NIS in thousands	
Assets			
Intangible assets	5	**26,625**	27,194
Deferred acquisition costs	6	**184,697**	172,527
Property and equipment	7	**23,580**	28,950
Reinsurance assets	13	**711,756**	767,609
Premiums collectible	9	**239,085**	195,749
Current tax assets		**139,712**	76,328
Deferred tax assets	18	**26,942**	-
Other accounts receivable	8	**78,780**	84,248
		1,431,177	1,352,605
Financial investments:	10		
Marketable debt instruments		**1,817,997**	1,903,047
Non-marketable debt instruments		**93,244**	83,086
Other		**105,314**	108,370
TOTAL FINANCIAL INVESTMENTS		**2,016,555**	2,094,503
Cash and cash equivalents	11	**35,721**	61,582
TOTAL ASSETS		**3,483,453**	3,508,690

Edward Levin	**Yfat Reiter**	**David Rothstein**
Chairman of the Board	**C.E.O**	**C.F.O**

Date of approval of financial statements by Board of Directors March 21, 2023.

The accompanying notes are an integral part of the financial statements.

AIG ISRAEL INSURANCE COMPANY LTD.

STATEMENTS OF FINANCIAL POSITION

	Note	As at December 31 2022	As at December 31 2021
		NIS in thousands	
Equity and liabilities			
EQUITY:	12		
Share capital		**6**	6
Share premium		**250,601**	250,601
Other capital reserves		**15,708**	15,708
Retained earnings		**528,553**	626,811
TOTAL EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY		**794,868**	893,126
LIABILITIES:			
Liabilities with respect to non-profit-participating insurance contracts	13	**2,261,044**	2,151,413
Liabilities with respect to deferred taxes, net	18	**-**	16,559
Liabilities with respect to employee benefits, net	29	**3,659**	5,261
Liabilities towards reinsurers	30	**279,493**	305,590
Other accounts payable	19	**144,389**	136,741
TOTAL LIABILITIES		**2,688,585**	2,615,564
TOTAL EQUITY AND LIABILITIES		**3,483,453**	3,508,690

The accompanying notes are an integral part of the financial statements.

AIG ISRAEL INSURANCE COMPANY LTD.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	2022	2021	2020
		Year ended December 31		
		NIS in thousands		
Gross premiums earned	20	1,312,434	1,176,114	1,136,788
Premiums earned by reinsurers	20	(211,375)	(190,246)	(179,353)
Premiums earned in retention	20	1,101,059	985,868	957,435
Gains (losses) on investments, net, and financing income	21	(77,993)	74,039	(15,930)
Commission income	22	54,767	50,378	46,725
TOTAL INCOME		1,077,833	1,110,285	988,230
Payments and changes in liabilities with respect to insurance contracts, gross		(932,241)	(880,135)	(671,169)
Share of reinsurers in increase in insurance liabilities and payments with respect to insurance contracts		44,487	142,655	156,765
Payments and changes in liabilities with respect to insurance contracts, in retention	23	(887,754)	(737,480)	(514,404)
Commissions, marketing expenses and other acquisition costs	24	(263,759)	(239,583)	(231,625)
General and administrative expenses	25	(85,615)	(78,860)	(81,784)
Financing income (expenses)	26	11,749	2,567	(1,099)
TOTAL EXPENSES		(1,225,379)	(1,053,356)	(828,912)
INCOME (LOSS) BEFORE TAXES ON INCOME		(147,546)	56,929	159,318
Taxes on income	18	49,288	(19,784)	(55,559)
PROFIT (LOSS) FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		(98,258)	37,145	103,759
BASIC EARNINGS (LOSS) PER SHARE:				
Basic earnings (loss) per share		(17.15)	6.48	18.11
Number of shares used in computation of basic earnings (loss) per share		5,730	5,730	5,730

The accompanying notes are an integral part of the financial statements.

AIG ISRAEL INSURANCE COMPANY LTD.

STATEMENTS OF CHANGES IN EQUITY

	Share capital	Share premium*	Other reserves*	Retained earnings*	Total
	NIS in thousands				
BALANCE AS AT JANUARY 1, 2022	**6**	**250,601**	**15,708**	**626,811**	**893,126**
Total comprehensive loss for the year				(98,258)	(98,258)
BALANCE AS AT DECEMBER 31, 2022	**6**	**250,601**	**15,708**	**528,553**	**794,868**
BALANCE AS AT JANUARY 1, 2021	6	250,601	15,708	689,666	955,981
Total comprehensive income for the year				37,145	37,145
Dividend (see note 12e)				(100,000)	(100,000)
BALANCE AS AT DECEMBER 31, 2021	6	250,601	15,708	626,811	893,126
BALANCE AS AT JANUARY 1, 2020	6	250,601	15,708	585,907	852,222
Total comprehensive income for the year				103,759	103,759
BALANCE AS AT DECEMBER 31, 2020	6	250,601	15,708	689,666	955,981

The accompanying notes are an integral part of the financial statements.

AIG ISRAEL INSURANCE COMPANY LTD.

STATEMENTS OF CASH FLOWS

	Year ended December 31		
	2022	**2021**	**2020**
	NIS in thousands		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net cash provided by operations (Appendix A)	**5,445**	76,866	88,229
Interest paid	**(287)**	(396)	(502)
Interest received	**43,890**	54,854	55,954
Dividend received	**-**	-	-
Income taxes paid	**(60,676)**	(52,350)	(89,411)
Income taxes received	**9,728**	9,979	8,844
Net cash provided by (used in) operating activities	**(1,900)**	88,953	63,114
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment in property and equipment	**(4,084)**	(4,860)	(5,167)
Investment intangible assets	**(15,016)**	(14,511)	(13,932)
Net cash used in investing activities	**(19,100)**	(19,371)	(19,099)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividend paid to the equity holders of the Company	**-**	(100,000)	-
Repayment of principal of lease liabilities	**(5,503)**	(5,394)	(5,287)
Net cash used in financing activities	**(5,503)**	(105,394)	(5,287)
EFFECT OF FLUCTUATIONS IN EXCHANGE RATE ON CASH AND CASH EQUIVALENTS	**642**	(10)	678
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(25,861)**	(35,822)	39,406
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**61,582**	97,404	57,998
CASH AND CASH EQUIVALENTS AT END OF YEAR	**35,721**	61,582	97,404

The accompanying notes are an integral part of the financial statements.

AIG ISRAEL INSURANCE COMPANY LTD.

STATEMENTS OF CASH FLOWS

	Year ended December 31		
	2022	**2021**	**2020**
APPENDIX A - CASH FLOWS FROM OPERATIONS:			
Profit (loss) for the year	**(98,258)**	37,145	103,759
Adjustments with respect to:			
Items not involving cash flows:			
Change in liability with respect to non-profit participating insurance contracts	**109,631**	224,769	22,438
Change in reinsurance assets	**55,853**	(48,445)	(17,979)
Change in deferred acquisition costs	**(12,170)**	(11,898)	(3,243)
Taxes on income	**(49,288)**	19,784	55,559
Change in liability with respect to employee benefits, net	**(1,602)**	254	(272)
Depreciation of property and equipment	**9,454**	9,239	9,214
Amortization of intangible assets	**15,585**	13,015	19,956
Losses (gains), net, on financial investments:			
Marketable debt instruments	**116,838**	(7,153)	65,028
Non-marketable debt instruments	**(12,292)**	(2,174)	(4,486)
Marketable exchange-traded funds	**3,056**	(14,588)	5,826
Effect of fluctuations in exchange rate on cash and cash equivalents	**(642)**	10	(678)
	234,423	182,813	151,363
Changes in asset and liability items:			
Liabilities towards reinsurers	**(26,097)**	11,529	15,550
Investments in financial assets, net	**(29,652)**	(41,353)	(109,436)
Premiums collectible	**(43,336)**	(25,630)	8,786
Other accounts receivable	**5,468**	(11,885)	(30,933)
Other accounts payable	**13,151**	13,321	5,767
Liabilities for current taxes, net	**(6,651)**	(34,616)	(1,175)
	(87,117)	(88,634)	(111,441)
Adjustments with respect to interest and dividend:			
Interest paid	**287**	396	502
Interest received	**(43,890)**	(54,854)	(55,954)
	(43,603)	(54,458)	(55,452)
Net cash provided by operations	**5,445**	76,866	88,229

Cash flows from operating activities include those stemming from financial investment purchases and sales, net, which relate to operations involving insurance contracts.

The accompanying notes are an integral part of the financial statements.

NOTE 1 - GENERAL

A. Reporting Entity

AIG Israel Insurance Company Ltd (hereinafter: "the Company") was incorporated in Israel on March 27, 1996 as a private, limited liability company. The Company commenced its insurance activity in May 1997. The Company does not hold any subsidiaries or associated companies. The Company has no foreign operations through branches or investees.

The ultimate parent company is American International Group Inc. (hereinafter: “AIG Global Corporation” or “AIG”), which is a leading international insurance and financial concern.

The Company's sole shareholder is AIG Holdings Europe Limited (hereinafter: “AHEL”), which holds all the issued share capital of the Company. AHEL is a subsidiary in the global AIG concern.

The registered office of the Company is 25 Hasivim St., Petach Tikva, Israel.

B. Definitions:

1) The Company – AIG Israel Insurance Company Ltd.

2) The parent company – AHEL

3) The Commissioner - The Commissioner of the Capital Market, Insurance and Savings.

4) The Supervision Law – The Supervision of Financial Services (Insurance) Law, 1981.

5) Reinsurance assets – the reinsurers’ share in the liabilities with respect to insurance contracts and in the contingent claims.

6) CPI - The Consumer Price index published by the Israeli Central Bureau of Statistics.

7) Known CPI - The CPI known at the end of the month.

8) Related parties - as defined in IAS 24, "Related Party Disclosures".

9) Interested party - as defined in the Israeli Securities (Annual Financial Statements) Regulations, 2010.

10) Liabilities with respect of insurance contracts - pending claims and insurance reserves that are calculated in accordance with the guidelines of the Commissioner and in accordance with actuarial principles generally accepted in Israel.

11) Outstanding claims - Known outstanding claims, with the addition of the expected progression of claims that have been incurred but not enough reported (I.B.N.E.R.) plus claims that have been incurred but not reported (I.B.N.R).

NOTE 1 - GENERAL (continued):

B. Definitions (continued)**:**

12) Account Segregation Regulations in Life Insurance - The Supervision of Insurance Regulations (Method of Segregation of Accounts and Assets of an Insurer in Life Insurance), 1984.

13) Exposure to reinsurers - Debit balances with the Company's reinsurers, including the reinsurer's share in the liabilities with respect to insurance contracts, net of the reinsurer's deposits with the Company and the amount of letters of credit given against the liability of a reinsurer.

14) Insurance contract - A contract under which one party (the insurer) takes a significant insurance risk from another party (policy holder), by agreement to indemnify the policy holder if a defined uncertain future event (insurance event) adversely affects the policy holder.

15) Liability for insurance contracts - Insurance reserves and outstanding claims.

16) Premium - Premium including fees and proceeds for auxiliary services.

17) Premiums earned - premiums that relate to the reporting period.

C. Material Events in the Reporting Period

Resolutions passed in Israel and worldwide to curb the spreading of the coronavirus and reduce morbidity rates significantly had significantly affected product and employment in Israel. The impact on the various sectors of the economy varied. In 2021 and in early 2022, more lenient means were employed in place of lockdowns against breakouts, including and most notably, restrictions on entry into Israel, which, as aforementioned, have been lifted.

In February 2022, Russia invaded Ukraine. For additional information on the aforesaid unrest and its impact on the global economic activity, see section 1.3 of the Board of Directors' Report for the period ended September 30, 2022.

In the reporting period, the Bank of Israel interest rate was raised on several occasions and, as at the reporting date, according to a resolution published by the Bank of Israel's Monetary Committee[2], is at 4.25%. In addition, according to the aforesaid resolution, the rate of inflation for the past twelve months is 5.4% and the unemployment rate in the working-age population (25-64) reached 3.5% in December 2022.
According to the most recent assessment published by the Bank of Israel[3], GDP is expected to grow by 2.8% and 3.5% in 2023 and 2024, respectively, concurrently with the increase of the unemployment rate in the working-age population (25-64) to 4%. The monetary interest rate is expected to average 4% in the fourth quarter of 2023 and the rate of inflation in 2023 is expected to reach 3%.
The Company invests a significant portion of its investment portfolio in the capital market; therefore, the capital market yields in the various channels have a material effect on the profit of the Company.

[2] According to the resolution of the Bank of Israel's Monetary Committee from January 2, 2023.
[3] The macroeconomic forecast of the Research Division from January 2, 2023.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

A. Basis of presentation of financial statements

The Company's financial statements as at December 31, 2022 and 2021 and for each of the three years in the period ended December 31, 2022, were drawn up by the Company in accordance with International Financial Reporting Standards (hereinafter: "IFRS"), which are standards and interpretations issued by the International Accounting Standard Board. In addition, the financial statements were prepared in accordance with the disclosure requirements prescribed in the Supervision Law and the regulations enacted thereunder.

As described in section w. below, according to the Roadmap for the Adoption of IFRS No. 17 - Insurance Contracts, from December 2022 (hereinafter: “the Roadmap”), the date of first-time implementation of IFRS 17 by the insurance companies in Israel will be postponed to January 1, 2024 (instead of the first-time implementation date stipulated in the Standard itself - January 1, 2023). Accordingly, commencing on January 1, 2023, the financial statements of the Company will not be in compliance with the IFRSs, but rather will be drawn up in accordance with the directives of the Capital Market Insurance and Savings Authority.

The financial statements have been approved for publication by the Board of Directors of the Company on March 21, 2023.

The Company, which is a financial institution, is not characterized by a clearly identifiable operating cycle. While in most insurance sectors, the operating cycle period is one year, in the compulsory and liability sectors of general insurance that have a long tail, and in the personal accidents sector and the life sector that have long-term engagement periods, the operating cycle period is more than one year.

The Company’s statements of financial position have been presented by order of liquidity, without a breakdown into current and non-current. Management of the Company believes that this presentation, which is in conformity with International Accounting Standard No. 1 (IAS 1) provides a more reliable and relevant information, in view of the aforesaid, and is consistent with the guidelines of the Commissioner.

In connection with the presentation of these financial statements, the following should be indicated:

1) Unless otherwise stated, the significant accounting policies described below have been applied on a consistent basis in relation to all the years presented.

2) The financial statements have been prepared under the historical cost convention, except for the principal assets and liabilities, as follows: insurance liabilities, financial instruments measured at fair value through profit or loss, liabilities for employee retirement obligations and provisions for deferred taxes.

3) The preparation of financial statements under IFRS, and especially the financial statements of an insurance company, requires management to make significant accounting and actuarial estimates. It is also required that management exercise discretion in the process of applying the accounting policies of the Company. The principal assumptions used in the preparation of the Company’s financial statements are based on actuarial estimates. Actual results could differ materially from the estimates and assumptions used by management. For information regarding the material accounting estimates and judgments applied by the Company, see Note 3 below.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

B. Structure of the financial statements

The statements of financial position, which primarily include the Company's assets and liabilities, are presented in accordance with International Accounting Standard No. 1 - Presentation of Financial Statements, and in accordance with the Commissioner's directives.

C. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker in the Company who is responsible for allocating resources to and assessing the performance of the operating segments of the Company. For further details regarding the operating segments, see Note 4.

D. Translation of balances and transactions denominated in foreign currency:

1) Functional currency and presentation currency

Items reflected in the financial statements of the Company are measured in New Israel Shekels, which is the currency of the principal economic environment in which the Company operates (hereinafter: "the functional currency"). The financial statements of the Company are presented in New Israel Shekels, which is also the presentation currency of the Company, and are rounded to the nearest thousand unless stated otherwise.

The table below sets out the changes in the exchange rate of the U.S. dollar ("dollar") and the Consumer Price Index in the reporting periods:

	Exchange rate of the Dollar	**CPI for particular month**
	%	**%**
Year ended December 31, 2022	**13.2**	**5.3**
Year ended December 31, 2021	(3.3)	2.4

As at December 31, 2022, the exchange rate of the U.S. dollar was $1 = NIS 3.519.

2) Transactions and balances

Transactions denominated in currencies other than the functional currency (hereinafter: "foreign currency") are translated into the functional currency by means of the exchange rate prevailing on the date of the transaction. Financial assets and liabilities denominated in foreign currency at the reporting date are translated into the functional currency at the exchange rate prevailing on that date. Exchange rate differentials stemming from the settlement of accounts relating to the above transactions and from the translation of monetary assets and liabilities denominated in a foreign currency are carried to profit or loss at the rates of exchange prevailing at the end of the period.

Translation differences with respect to non-monetary items, such as equity securities (e.g. shares and options) measured at fair value are translated into the functional currency at the exchange rate in effect on the date that fair value is determined and are recognized in the statement of comprehensive income as part of the gain or loss arising on changes in their fair value under "gains on investments, net, and financing income".

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

D. Translation of balances and transactions denominated in foreign currency (continued):

2) Transactions and balances (continued)

Gains or losses arising from exchange rate fluctuations relating to deposits and nonmarketable securities are also recognized in comprehensive income under " gains on investments, net, financing income".

Gains or losses arising from other exchange rate fluctuations are carried to comprehensive income under "financing income".

E. Property and equipment

Property and equipment are initially recognized at the cost of acquisition. Subsequent costs incurred are either added to the carrying value of the asset in question or recognized as a separate asset, as appropriate, only if it may be expected that the future economic benefits attributable to the item will flow to the Company and that the cost of the asset may be reliably measured. If part of the item of property and equipment is replaced, the carrying value of that part is eliminated from the accounts. All other repair costs, as well as maintenance expenses, are charged to profit or loss in the reporting period in which they are incurred.

Property and equipment are presented at cost less accumulated depreciation and impairment losses. The historical cost includes costs that are directly attributable to the purchase of the items.

Depreciation and impairment of property and equipment presented at cost are carried to profit or loss.

Depreciation on assets is calculated on a straight-line basis, which best reflects the anticipation pattern of consumption of the economic benefits that are inherent in the asset, in order to reduce the cost of the assets to their residual value over their estimated useful life, as follows:

	Annual depreciation rate
	%
Computers and communications equipment	20 - 33
Office furniture and equipment	7 - 15

Leasehold improvements are depreciated on a straight-line basis over the shorter of the lease term and the expected life of the improvement.

The useful life, depreciation method and residual value of an asset are reviewed at every balance-sheet date, as necessary.

Gains or losses on the disposal of assets are determined by comparing the carrying amount of the asset and the net consideration received for the asset; these gains and losses are carried to profit or loss under “other income (expenses)”.

As to impairment, see section h. below.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued):

F. Leases

Determining whether an arrangement contains a lease:

On the date of entering a lease, the Company determines whether the arrangement is a lease or contains a lease, and examines whether the arrangement confers a right to control the use of an identified asset over a specific period for consideration. In assessing whether an arrangement confers a right to control the use of an identified asset, the Company examines whether, over the lease period, it has the two following rights:

a. The right to obtain substantially all of the economic rewards from the use of the identified asset.

b. The right to direct the use of the identified asset.

Leased assets and lease liabilities

Contracts that confer upon the Company control of the use of an asset under a lease over a period for consideration are accounted for as leases. Upon initial recognition, the Company recognizes a liability in the amount of the present value of the future lease payments (these payments do not include certain variable lease payments), commensurate with the recognition of a lease usage-right asset in the amount of the liability, adjusted for lease fees paid in advance or accrued, plus direct costs incurred on the lease.

Since the interest rate that is implicit in the lease cannot be readily determined, the lessor's incremental interest rate is used.

Subsequent to initial recognition, the asset is accounted for based on the cost model and depreciated over the lease period or over the useful life of the asset, whichever is shorter.

The Company has opted for the adoption of the practical expedient pursuant to which, for short-term leases of up to one year and/or leases in which the base asset has a low value, the lease fees are carried to profit or loss by the straight-line method, over the lease period, and no asset and/or liability is recognized in the statement of financial position.

Term of the lease

The lease period is defined as the period in which the lease may not be cancelled, together with periods that are covered by an option to extend or to cancel the lease, if it is probable that the lessee will or will not exercise this option, respectively.

Variable lease payments

Variable lease payments that depend on an index or a rate are initially measured using the index or rate as at the lease commencement date and included in the initial measurement of the lease liability. In the event of a change in the cash flow of future lease fees as a result of a change in the index or the rate, the balance of the liability is updated against the usage-right asset. Other variable lease payments that are not included in the measurement of the liability are recognized in profit or loss on the date that the conditions for such payments are fulfilled.

Depreciation of a right-of-use asset

After the inception of a lease, the right-of-use asset is measured at cost, less accumulated depreciation and less accrued impairment losses, and is adjusted for remeasurements of the lease liability. The depreciation is performed on a straight-line basis over the useful life.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued):

G. Intangible assets (software)

Software licenses acquired are capitalized on the basis of the actual costs incurred in the acquisition of the specific software and in the preparation of that software for use. These costs are amortized by the straight-line method over the estimated useful life of the asset (three to five years). The residual values of the assets, their useful lives and their amortization method are reviewed and updated on an individual basis at every balance sheet date.

Costs relating to the development or maintenance of software are expensed as incurred.

Development costs that are directly attributable to the development of identifiable and unique software products controlled by the Company, which meet the conditions for recognition as intangible assets, as specified below, are recognized as intangible assets. Those costs include the wages of the software development employees.

Costs incurred in respect of software development projects (see below) are recognized as intangible assets when the following conditions are met:

- It is technically feasible that the intangible asset will be completed and become available for use;
- Management intends to complete the intangible asset and use or sell it;
- The intangible asset may be used or sold;
- The manner in which the intangible asset will generate probable future economic benefits is demonstrable;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
- The ability of management to reliably measure the expenditure attributable to the intangible asset during its development.

Other software development costs that do not meet the above criteria are expensed as incurred. Software development costs previously expensed are not recognized as an asset in subsequent periods. Capitalized development costs are presented as intangible assets and amortized as from the time that the asset is available for use (i.e., when it is in the location and condition necessary for it to be capable of functioning in the manner intended by management), by the straight-line method, over its useful live (which does not exceed 5 years).

As to impairment, see section h. below.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued):

H. Impairment of non-financial assets

Depreciable assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount is not recoverable. The amount of loss recognized in respect of impairment is the amount by which the carrying value of the asset exceeds its recoverable amount. The recoverable amount of an asset is the higher of the fair value of that asset, less costs to sell, and its value in use. For the purpose of impairment testing, assets are grouped by reference to the lowest possible level at which separate cash flows can be identified (cash-generating units). At each balance sheet date, non-financial assets that have been impaired are tested for the purpose of determining whether or not any previously recognized impairments of value can be reversed.

I. Financial assets

1) Classification

The Company classifies its financial assets as either financial assets at fair value through profit or loss or as loans and receivables. The classification is determined by reference to the purpose for which the assets were acquired. Management of the Company determines the classification of financial assets on the date of their initial recognition.

a) Financial assets at fair value through profit or loss

This category is comprised of two subcategories - financial assets held for trading purposes and financial assets designated to be measured at fair value through profit or loss. A financial asset is placed in this category if it has been acquired principally for the purpose of sale in the short term or if management has specifically placed the asset in the category, if the Company manages such investments and makes purchase and sale decisions in respect thereof based on the fair value, in accordance with the manner in which the Company documented the risk management or investment strategy, or if the purpose is to prevent an accounting mismatch.

Attributable transaction costs are carried to profit or loss as incurred. These financial assets are measured at fair value and the changes therein are recognized in profit or loss.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are initially recognized at fair value with the addition of attributable transaction costs. Subsequently, loans and receivables are measured at depreciated cost by the effective interest method, less impairment losses. The loans and receivables of the Company are included in the balance sheet under “other accounts receivable”, “premiums collectible”, “nonmarketable debt instruments” and “cash and cash equivalents”.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued):

I. Financial assets (continued)

2) Recognition and measurement

Ordinary purchases and sales of financial assets are recorded on the date of settlement of the transaction, this being the date on which the asset is transferred either to or by the Company. The investments are initially recognized at fair value with the addition of transaction costs, for all financial assets that are not presented at fair value through profit or loss. Financial assets that are presented at fair value through profit or loss are initially recognized at fair value, while the transaction costs are carried to profit or loss. Financial assets are derecognized when the rights to the cash flows from the investments have either expired or been transferred, and the Company has, in addition, transferred all the risks and rewards stemming from the ownership of those assets. In subsequent periods, financial assets at fair value through profit or loss are measured at fair value. Loans and receivables are measured at amortized cost, based on the effective interest method.

Gains or losses stemming from changes in the fair value of financial assets at fair value through profit or loss are presented in the statement of profit or loss and other comprehensive income under "gains on investments, net, and financing income in the period in which the gains or losses accrued. Dividend income from financial assets at fair value through profit or loss is recognized in the statement of profit or loss and other comprehensive income under "gains on investments, net, and financing income" insofar as the Company is entitled to this income.

Determination of fair value

The fair value of financial instruments quoted in an active market is based on the current selling price of those instruments. If the financial asset is traded in a market that is not active, or if the instrument is not listed for trading, the Company uses a variety of valuation methods for determining the fair value. These methods include a reliance on recent transactions carried out under market conditions, a reliance on other instruments the principal characteristics of which are similar to those of the instrument being valued, an analysis of discounted cash flows, and the use of option-pricing models that are based primarily on market data and as little as possible on data specific to the Company itself.

The carrying amount of certain financial assets, including cash and cash equivalents, trade receivables, other accounts receivable, other short-term investments and deposits is close or identical to their fair value.

As to the fair value of financial assets measured at fair value, see Note 10 below.

3) Impairment of assets presented at amortized cost

The Company assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets presented at amortized cost is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued):

I. Financial assets (continued)

3) Impairment of assets presented at amortized cost (continued)

Objective evidence of impairment of a financial asset or a group of financial assets may include observable data that were brought to the attention of the Company regarding loss events, including: significant financial difficulties experienced by the issuer or the debtor; breach of contract, such as default or delinquency in interest or principal payments; the probability that the debtor will enter bankruptcy or other financial reorganization; the disappearance of an active market for the financial asset as a result of financial difficulties; or where observable data indicate that there is a measurable decrease in the estimated future cash flows; and other indications.

If objective evidence of impairment exists, the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of the estimated future cash flows from such asset (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate calculated for the asset upon its initial recognition in the financial statements). The carrying amount of the asset is reduced and the amount of the loss is recognized in the statement of profit or loss and other comprehensive income. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value, using an observable market price.

4) Impairment of assets presented at amortized cost (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively attributed to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in profit or loss.

J. Premiums collectible

The balance of collectible premiums relates to amounts receivable from the policy holders of the Company for insurance policies sold in the ordinary course of business.

Premiums collectible are initially recognized at fair value and subsequently measured at amortized cost by the effective interest method, less a provision for doubtful debts. A provision for doubtful debts is created when objective evidence exists to the effect that the Company is unable to collect all the outstanding debts receivable under their original terms. The carrying amount of the debt is reduced by means of a provision account, with the amount of the loss being recognized in profit or loss. When a trade receivable is not collectible, it is written off against the provision doubtful debts. Reversal of previously write offs in subsequent periods is carried to profit or loss. See also section i(3) above.

K. Cash and cash equivalents

Cash and cash equivalents include cash in hand and short-term bank deposits with maturity dates not exceeding three months from the date of the investment that are not restricted as to withdrawal or use.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued):

L. Share capital

Ordinary shares of the company are classified as share capital.

M. Trade payables

Trade payables are obligations of the Company to pay for goods or services acquired from suppliers in the ordinary course of business. Trade payables are recognized at the trade date on which the Company becomes a party to the contractual terms. Trade payables are initially recognized at fair value less any attributable transaction costs.

N. Liabilities towards reinsurers and other accounts payable

Outstanding liabilities towards reinsurers and other accounts payable are initially recognized at fair value and subsequently measured at depreciated cost by the effective interest method. The carrying amount of liabilities towards reinsurers and other accounts payable is close or identical to their fair value.

O. Current and deferred taxes

The tax expense for the period is comprised of current taxes, deferred taxes and taxes relating to prior years. Taxes are recognized in profit or loss. The amount payable or receivable for taxable income for the year, which is recognized as current taxes, is calculated on the basis of the tax laws enacted or substantially enacted at the date of the statement of financial position. Management periodically evaluates the tax positions applied in tax assessments in relation to situations where the applicable tax rules are open for interpretation and, where necessary, creates provisions that reflect the amounts that are expected to be payable to the tax authorities.

The Company offsets current tax assets and liabilities if there is a legally enforceable right to offset current tax liabilities and assets current tax assets and liabilities are intended to be settled on a net basis or the current tax assets and liabilities are realized simultaneously.

The Company recognizes deferred taxes in full, using the liability method, in respect of all timing differences between the amounts of assets and liabilities as presented in the financial statements and the equivalent amounts as computed for tax purposes. The above notwithstanding, deferred taxes are not recognized if the timing differences are created upon initial recognition of an asset or liability that on the date of the transaction do not affect profit or loss, either for accounting purposes or for tax purposes.

Deferred taxes are calculated based on the tax rates and tax loss that have been enacted, or substantially enacted, as at the date of the statement of financial position, and that are expected to apply upon the realization of the deferred tax asset or the settlement of the deferred tax liability.

Deferred tax assets are recognized for deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilized.

Deferred income tax assets and liabilities are offset only if:

- There is a legally enforceable right to offset current tax assets against current tax liabilities; and
- When the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity where there is an intention to settle the balances on a net basis.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued):

P. Employee benefits:

1) Liability for severance pay

In accordance with the provisions of Israel labor laws and agreements, and in accordance with the Company's prevailing practice, the Company is required to make severance payments to employees who are dismissed or who retire from their employment in certain circumstances. The Company's severance-pay liability to most of its employees is handled as a defined benefit plan and, for other employees, as a defined contribution plan.

a) Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. Obligations for contributions to defined contribution pension plans are recognized as an expense in profit or loss in the periods during which related services are rendered by employees.

For employees who are covered by a defined contribution plan, the contributions are recognized as employee benefit expense commensurate with the receipt from employees of the service in respect of which they are entitled to the contributions. Prepaid contributions are recognized as an asset to the extent that a refund of the excess amounts or a reduction in the future payments is available.

b) Defined benefit plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.

In relation to the Company's obligation to those employees covered by a defined benefit plan, the benefits receivable by an employee entitled to severance pay upon retirement are based on the number of years of service and the final salary.

The total liability for employee retirement obligations, net, presented in the statement of financial position is the present value of the defined benefit obligation as at the date of the statement of financial position, less the fair value of the plan assets. The defined benefit obligation is measured annually basis by an actuary, using the projected unit credit method.

This method takes into account the expected dates and amounts of benefit payments, subject to the anticipated rate of salary rise, mortality and employee turnover probabilities, and subject to the Company's policy regarding payment of the benefits, discounted as at the balance sheet date, using a discount rate that is based on the yield as at the reporting date of indexed corporate bonds that are denominated in NIS and with maturity dates approximating that of the Company's obligations.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued):

p. Employee benefits (continued)

1) Liability for severance and pension payments (continued)

b) Defined benefit plan (continued)

The Company recognizes gains or losses on the settlement of a defined benefit plan when the settlement occurs. Such gains or losses are the difference between the portion of the present value of the defined benefit obligation being settled as at the settlement date, and the settlement price, including transferred plan assets.

Remeasurements of the net defined benefit liability comprise actuarial gains and losses, the return on plan assets (excluding interest) as well as any change in the effect of the asset ceiling (if any, excluding interest). Remeasurements are carried to profit or loss and not directly to retained earnings through other comprehensive income, since they are immaterial.

2) Vacation and recreation pay

Every employee is entitled by law to vacation and recreation days, both calculated on an annual basis. The degree of entitlement is based on the length of service. The Company creates a provision for vacation and recreation pay on the basis of the accumulated entitlement of each employee.

The Company expects that the vacation benefit to be fully settled after the end of the reporting period in which the employees provide the related services. Accordingly, the liability in respect of this benefit is measured based on the amount that the Company expects to pay for the unutilized entitlement accrued as at the end of the reporting period.

3) Bonus plans

The Company recognizes a liability and an expense in respect of bonuses in the existence of a contractual obligation or where previous practice has created constructive obligation to make such payments and at least one of the following conditions is met:

(a) The formal terms and conditions of the plan include a formula for determining the amount of the benefit;
(b) The Company sets the amounts payable prior to approving the financial statements for publication; or
(c) A pattern of past activity provides clear evidence for the amount of the Company's constructive obligation.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued):

Q. Provisions

Provisions are recognized when the Company has an existing legal or constructive obligation arising out of past events; it is expected that an outflow of resources will be required to settle the liability; and the amount of the liability can be reliably estimated.

Provisions are measured at the present value of the projected cash flows required to settle the liability. The present value is computed by using a pre-tax discount rate that reflects current market evaluations of both the time value of the money and the specific risks associated with the liability. An increase in the provision that is caused by the passage of time is treated as an interest expense. As to insurance claims, see t. below.

Legal claims

A provision for claims is recognized when the Company has a present legal obligation or a constructive obligation as a result of a past event, and it is more likely than not that an outflow of the Company’s resources will be required to settle the obligation, and the obligation can be reliably estimated. When the effect of the time value is material, the provision is measured at its present value.

R. Revenue recognition:

1) Premiums

Premiums stemming from general insurance operations are recorded as income on the basis of monthly yield reports. Premiums stemming from life insurance operations and long-term health insurance operations are recorded as income as and when they fall due under the terms of the relevant policy.

Revenues from gross premiums and changes in the related unearned premiums are carried to “gross premiums earned”.

Premiums received for policies that commence after balance sheet date are recorded as prepaid premiums under “other accounts payable”.

The income reflected in the financial statements are net of policies cancelled by policy holders and of cancellations and provisions stemming from the default of premiums, subject to the provisions of any law, and include payments for related services (towing, repairs etc.).

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued):

R. Revenue recognition (continued):

Premiums, commissions and claims arising from underwriting pools are recorded on a proportionate basis in accordance with the rate of the Company's participation in the relevant contracts. Compulsory vehicle insurance premiums are recognized upon payment of the premium (which may also be in the form of settlement of the debt and transferring it to a credit card company), since coverage is conditional upon payment of the premium.

2) Income from commissions

Income from commissions received from reinsurers are recognized on the basis of the dates of entitlement to receive the commissions under the agreements, net of change in deferred acquisition costs in respect of reinsurers.

3) Gains (losses) on investments, net, and financing income (expenses)

Gains and losses on investments, net, and financing income include net gains (losses) from the sale of financial assets, interest income in respect of amounts invested, dividend income, changes in the fair value of financial assets at fair value through profit or loss, and gains and losses from exchange differences on assets. Interest income from financial assets classified as loans and receivables is recognized as it accrues, using the effective interest method. Dividend income is recognized when the Company's right to receive payment is established. If a dividend is received in respect of marketable securities, the Company recognizes this income on the Ex dividend day.

Financing expenses include interest expenses, linkage differences and exchange differences on loans received, interest and exchange differences on deposits and on balances of reinsurers, and changes in the time value of provisions. Borrowing costs, which are not capitalized, are recognized in profit or loss using the effective interest method.

In the statements of cash flows, interest received, dividends received and interest paid are presented as part of cash flows from operating activities.

Dividends paid are presented as part of cash flows from financing activities.

S. General and administrative expenses

General and administrative expenses are classified into overhead to settle claims (which are included under "payments and change in liability with respect to insurance contracts, gross"), into acquisition related expenses (included under "commissions, marketing expenses and other acquisition costs"), and into a balance of other general and administrative expenses included in this item.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued):

T. Insurance contracts

International Financial Reporting Standard No.4, 'Insurance Contracts' (hereinafter: "IFRS 4"), which addresses insurance contracts, allows insurers to continue applying the accounting policy applied by them prior to the date of transition to IFRSs regarding insurance contracts that they issue (including related acquisition costs and related intangible assets), as well as reinsurance contracts that they purchase.

The significant accounting policies and methods of computation relating to general insurance operations and life insurance operations used in the preparation of these financial statements were as follows:

1) General insurance:

a) As to revenue recognition, see r. above.

b) The item "payments and changes in liabilities with respect to insurance contracts, gross and in retention" includes, among others, settlement and direct handling costs of claims paid and indirect expenses to settle outstanding claims, as well as an adjustment of the provision recorded in previous years for pending claims, for direct handling costs and for indirect claim settlement expenses.

c) Liabilities for insurance contracts and deferred acquisition costs

Insurance reserves and pending claims included in "liabilities with respect to insurance contracts", and the reinsurers' share in the reserve and in the pending claims included in "reinsurance assets", and deferred acquisition costs in general insurance, are computed in accordance with the Supervision of Financial Services Regulations (Insurance) (Calculation of General Insurance Reserves), 2013 (hereinafter: "the Calculation of Reserves Regulations"), the Commissioner's directives, and standard actuarial methods for computing pending claims, which are applied at the Chief Actuary's discretion.

d) Liabilities for insurance contracts composed of insurance reserves and pending claims, as follows:

1) The unearned premium reserve reflects the insurance premium for the insurance period subsequent to the balance sheet date.

2) A provision for premium deficiency is created if the unearned premium (less deferred acquisition costs) does not cover the anticipated cost for insurance contracts on the basis of actuarial assessment.

3) Insurance reserves and pending claims:

(a) The pending claims reflected in the financial statements are assessed by an the appointed actuary in the general insurance segment, Mr. Shay Elgrably, who declared that he has assessed the pending claims in accordance with the Regulations for the Calculation of Reserves and the directives and guidelines of the Commissioner and with generally accepted actuarial principles, and that, to the best of his knowledge and according to his best assessment, the pending claims are a sufficient provision for the Company's liabilities with respect to the claims pending in the abovementioned sectors, both in total and in each individual sector, as in effect on the date of the financial statements.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

T. Insurance contracts (continued):

1) General insurance (continued):

d) Liabilities for insurance contracts composed of insurance reserves and pending claims, as follows (continued):

3) Insurance reserves and pending claims (continued):

(a) (continued)

The actuary's assessments relate to the gross amounts, to the share of the reinsurers and to the amounts in retention.

(b) The Company's management believes that the outstanding claims are appropriate and their balance includes appropriate provisions, to the extent necessary, for IBNR and IBNER. In sectors and claim types where there is statistical significance, IBNR and IBNER provisions have been computed on various actuarial methods. The use of actuarial methods that rely on the claim development is most suitable when stable and sufficient information is available on claim payments and/or individual estimates of the expected total claim cost. When information available from claim experience is insufficient, the actuary may sometimes use a calculation that weighs a known estimate (of the Company and/or a sector), such as loss ratio, with actual claim development. Greater weight is given to estimations that are based on experience, as time passes and additional claim information is accumulated.

The actuarial assumptions are prepared in accordance with the Commissioner's Position - "Best Practice for Calculation of General Insurance Reserves for Financial Reporting" (hereinafter - "the Best Practice").

The Commissioner's Position includes, among others, explanations to several principles: professionalism, consistency and prudence. The principle of prudence requires from an actuary to determine whether it is fairly likely that the reserve in retention is sufficient to cover the liabilities of the insurer. For compulsory vehicle and liability insurance, the "fairly likely" test will be a probability of at least 75%, see Note 27e(3)(f). In addition, the Commissioner's Position also refers to the discount rate of liability flow, which is primarily based on an risk-free interest rate with the addition of the specified adjustments.

(c) Provision for indirect expenses to settle pending claims - in accordance with the provisions of IFRS 4, the provisions for pending claims also incorporate a provision for indirect claim settlement expenses.

e) That part of the commission and other acquisition expenses that relates to unearned premiums in retention is carried forward to subsequent reporting periods as deferred acquisition costs. These expenses are computed, in accordance with the directives of the Commissioner, for each individual sector, as the lower of the actual expenses incurred or the standard rates, which are determined as a percentage of the unearned premiums.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

T. Insurance contracts (continued):

1) General insurance (continued):

f) The subrogation amounts included in the balance sheet are the amounts that management believes the collection of which is highly probable. The assessment of the subrogation amounts is based on the assessment of the appointed actuary, based on past experience.

2) Life insurance:

a) In accordance with the provisions of the Life Insurance Segregation of Accounts Regulations, the Company's life insurance business and the related assets are managed separately.

b) As to revenue recognition, see r. above.

c) Life insurance reserves, the portion of those reserves attributable to reinsurers, and deferred acquisition costs have been computed by the appointed actuary in the life insurance segment, Mr. Tom Hamo, who has declared that the amounts in question were calculated based on the Company's data (the accuracy and completeness of which he has reviewed) in accordance with accepted actuarial methods and the data utilized by the Company in connection with its insurance plans. As to the actuarial methods used in calculating the insurance liabilities, see also Note 27e(1) below.

d) Deferred acquisition costs:

1) In accordance with the provisions of the Details of Account Regulations, the deferred acquisition costs of new life insurance policies (hereinafter: "DAC") include those general and administrative expenses that relate to the acquisition of new policies. Under these provisions, the DAC are depreciated in equal annual installments over the shorter of 15 years or the term of the policy.

2) The appointed actuary assesses the recoverability of the DAC every year in order to verify that the liabilities for insurance policies, net of the DAC, for policies sold since 1999 is sufficient, and that the policies are expected to generate future income to cover the DAC deduction and the insurance liabilities, operating expenses and commissions in respect of those policies. If necessary, a special reduction is recognized such that the amount of DAC does not exceed the amount coverable by future revenue. According to the appointed actuary's declaration, deferred acquisition expenses for policies that were recognized as an asset in the accounts of the Company, can be covered by future revenue.

The assumptions used in this assessment include assumptions regarding cancellations, operating expenses, mortality and morbidity rates, which are determined by the appointed actuary on an annual basis based on past experience and relevant surveys.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

T. Insurance contracts (continued):

2) Life insurance (continued):

e) Liability adequacy testing for life insurance contracts

The Company tests the adequacy of the liabilities arising from life insurance contracts. If the test indicates that the premiums received are not sufficient to cover the discounted amounts of expected claims, fees and expenses, a special reserve is recorded for the deficiency. The test is performed at the level of each product. The cash flows are discounted at a real risk-free interest rate plus a non-liquidity premium, see Note 27e(3)(f).

The assumptions used in the above-mentioned tests include assumptions regarding cancellations, operating expenses, yield on assets, and mortality and morbidity rates; the assumptions are set by the appointed actuary every year based on tests, past experience and other relevant studies.

3) Health insurance:

a) As to revenue recognition, see r. above.

b) Liabilities in respect of health insurance contracts

In accordance with the directives of the Commissioner, pending claims included in the financial statements in respect of health insurance are evaluated by the appointed actuary in the health insurance segment, Mr. Tom Hamo, who declared that he has evaluated the pending claims in accordance with the Supervision Law, the guidelines and directives issued by the Commissioner and generally accepted actuarial principles. Mr. Segal declared that, to the best of his knowledge and according to his best assessment, the pending claims are a sufficient provision for the Company's liabilities with respect to the claims pending in the abovementioned sectors, both in total and in each individual sector, as in effect on the date of the financial statements. The actuary's assessments relate to the gross amounts and to the amounts in retention.

The provisions for ongoing contingent liabilities in payment process, the ensuing direct and indirect expenses and provisions for claims incurred but not reported (IBNR) were included in the liabilities in respect of insurance contracts in general insurance.

U. Earnings per share

The computation of basic earnings per share is based on the profit distributable to ordinary shareholders, divided by the number of ordinary shares in circulation during the period.

V. Dividend distribution

The distribution of dividends to the Company's shareholders is recognized as a liability in the Company's statement of financial position in the period in which the Company's board of directors approves the distribution of such dividends.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued):

W. New standards and interpretations not yet adopted

1) IFRS 17, Insurance Contracts (hereinafter: "the Standard" or "IFRS 17")

This international Standard was published in May 2017 and its first-time implementation date is January 1, 2023. Nevertheless, as described below, according to an updated roadmap for the implementation of the Standard, which was published by the Capital Market Insurance and Savings Authority, the first-time implementation of the Standard is expected to take place starting in the quarterly and annual periods commencing on January 1, 2024.

The Standard establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts (including reinsurance contracts), superseding the relevant existing provisions. The new Standard may have significant impact on the financial statements of insurance companies and requires significant preparations in the fields of IT and finance.

According to the new Standard, entities will recognize and measure groups of insurance contracts at the risk-adjusted present value of the future cash flows from the contracts that takes into account all of the available for the cash flows in a manner that is consistent with observable market input, less the amount representing the unrealized profit from the group of contracts (the contractual service margin). Income from insurance contracts, for each reporting period, is derived from changes in the liability for future coverage relating to the various components of the consideration that the insurance company demands for the contract (e.g. insurance contract acquisition costs, risk adjustment, allocation of the contractual service margin to the period, anticipated claims and expenses for the period). Nevertheless, a simplified measurement model may be applied to contracts with an insurance coverage period of up to one year or if it is not probable that the liability will materially differ from the liability that would be derived under the general model. Under the simplified model - the amount attributed to remaining services will be measured by allocating the premium over the coverage period.

The Standard is to be applied retrospectively. If this is impracticable, one of the two following approaches should be applied:

1. Modified retrospective implementation.
2. Fair value approach.

In 2022, the Capital Market Insurance and Savings Authority published several drafts of the Roadmap, the most recent of which was published in December 2022. According to the Roadmap, the first-time implementation of the Standard by the insurance companies in Israel will take place starting in the quarterly and annual periods commencing on January 1, 2024. Hence, the transition date will be January 1, 2023. In addition, according to the Roadmap, starting in the second quarter of 2023 and thereafter, the insurance companies will be required to include a separate dedicated note concerning the implementation of IFRS 17 and IFRS 9, which will present quantitative and qualitative information, as described below:

- In the quarterly financial statements, commencing in the second quarter of 2023 - the insurance companies may include a quantitative disclosure of the effects of implementation of the aforesaid standards as at the transition date and/or the implementation date, to the extent that such information can be reliably measured.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued):

W. New standards and interpretations not yet adopted (continued)

1) IFRS 17, Insurance Contracts (hereinafter: "the Standard" or "IFRS 17") (continued)

- In the annual financial statements for 2023, the companies will be required to include a proforma disclosure of the financial position only as at January 1, 2023 (opening balances as at the transition date, without comparative figures), which shall be drawn up in accordance with the provisions of IFRS 17 and IFRS 9 in the format stipulated in the Roadmap.
- The insurance companies will be required to include in the aforesaid dedicated note a supplemental qualitative disclosure addressing, inter alia, the topics that are set forth in the Roadmap.

In addition, the Roadmap specifies the preparations and the principal timetables that the Capital Market Insurance and Savings Authority believes to be necessary for ensuring that the Insurance companies in Israel are prepared for the proper and reliable high-quality implementation of the Standard, inter alia, as regarding the adaptation of the IT systems, finalizing the accounting policy and preparing for the various requisite reports (including a report to the Capital Market Insurance and Savings Authority, by August 31, 2023, on the Company's proforma results and financial position pursuant to IFRS 17 and IFRS 9 for the first quarter of 2023 and as at the transition date) and preparation for the audit by the independent auditors.

The Company continues to prepare for the adoption of the Standard on schedule, as above. Such preparations include, inter alia, specification of the interfaces between the information systems that will be used to implement the Standard and the insurance systems of the Company, consideration and mapping of necessary controls and establishing a complete accounting policy for the application of the Standard.

2) IFRS 9, Financial Instruments

This Standard contains updated provisions, primarily with respect to the subsequent classification and measurement of financial assets. For debt instruments, the Standard determines that these will be measured at amortized cost only if the two following cumulative criteria are met:

Pursuant to the contractual terms of the asset, the Company is entitled, on certain dates, to receive cash flows that constitute solely principal payments and interest payments on the balance of the principal.

The asset is held within the framework of a business model that is designated to hold the assets for the purpose of collecting the contractual cash flows deriving from them.

The subsequent measurement of all the remaining debt instruments and other financial assets will be at fair value. The Standard makes a distinction between debt instruments to be measured at fair value through profit or loss and debt instruments to be measured at fair value through other comprehensive income. Financial assets that are equity instruments will be measured at fair value through profit or loss or at fair value through other comprehensive income - as elected by the Company for each individual instrument. Equity instruments that are held for trading will be measured at fair value through profit or loss.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued):

W. New standards and interpretations not yet adopted (continued)

2) IFRS 9, Financial Instruments (continued)

The Standard presents a new model for recognizing expected credit losses in respect of financial debt assets that are not measured at fair value through profit or loss.

IFRS 9 is to be applied retrospectively. However, restatement of the comparative data is not required.

The Standard is expected to have a material effect and requires, inter alia, preparations in the fields of IT and finance.

The date of first-time implementation of the Standard is January 1, 2018. Nevertheless, in accordance with an amendment to IFRS 4, a company that engages in the issue of insurance contracts (based on the specified criteria) may postpone the adoption of IFRS 9 to January 1, 2023, in order to allow the insurance companies to simultaneously implement the full range of changes arising from this Standard and IFRS 17. The Company meets the aforesaid criteria. Notwithstanding the aforesaid, as described below, in view of the publication of the updated Draft Roadmap by the Capital Market Insurance and Savings Authority, the first-time implementation of the Standard is expected to take place on January 1, 2024.

The Company is currently considering the implications of the adoption of the Standard on the financial statements.

3) Amendment to IAS 12, Income Taxes: Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction

The Amendment reduces the scope of the exemption from recognizing deferred taxes in respect of temporary differences that arise on the initial recognition of assets and/or liabilities, which no longer applies to transactions that give rise to equal and offsetting temporary differences.

Consequently, companies will be required to recognize a deferred tax asset or liability in respect on such temporary differences on the date of initial recognition of transactions that give rise to equal and offsetting temporary differences, such as lease transactions and provisions for dismantling and rehabilitation.

The Amendment is to be applied in annual reporting periods commencing on January 1, 2023, by amending the opening balance of the retained earnings or as an adjustment to another equity item in the period of adoption of the Amendment. Early adoption is permitted. The Company is studying the implications of said Amendment on the financial statements and has not opted for early adoption.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued):

W. New standards and interpretations not yet adopted (continued)

4) Amendment to IAS 1, Presentation of Financial Statements: “Disclosure of the Accounting Policies”

The amendment requires companies to provide a disclosure of their material accounting policies, in lieu of the requirement to present their significant accounting policies. According to the amendment, information on the accounting policy is material if, when considered together with another information that is included in the financial statements, it can reasonably be expected to influence decisions that the users of the financial statements make on the basis of those financial statements.

The amendment to IAS 1 also clarifies that information on the accounting policies may be material if, in its absence, the users of the financial statements would be unable to understand other material information included in the financial statements. The amendment also clarifies that it is not necessary to disclose information on an accounting policy that is not material.

The amendment is to be applied in reporting periods commencing on January 1, 2023. Early implementation is permitted.

The Company is considering the implications of the amendment on the financial statements and has not opted for early implementation.

NOTE 3 - SIGNIFICANT ACCOUNTING ESTIMATES AND AREAS OF DISCRETION

Estimates and judgments are constantly tested, and are based on past experience and other factors, including expectations with regard to future events that are deemed to be reasonable in the light of existing circumstances.

Material accounting estimates and assumptions

The Company formulates estimates and assumptions with respect to the future. By their very nature, it is rare for accounting estimates to be identical to actual results. The estimates and assumptions that may give rise to a significant risk of the performance of material adjustments to the carrying amount of assets and liabilities in the following fiscal year are described below.

A. Actuarial estimates with respect to insurance liabilities

The actuarial assessments are based on statistical estimates that contain an element of uncertainty. The statistical estimates are based on various assumptions that may not necessarily be realized. The assumptions employed for the purposes of the actuarial forecasts affect the final level of the provision.

Accordingly, the actual cost of claims may be higher or lower than the statistical estimate. Previous assumptions may change in the light of new information that may be received. In such case, the provisions will change in accordance with the change in assumptions and in the light of actual results, and the differences arising during the reporting year will be included in the insurance business report.

As to the directives published by the Commissioner, updating the calculation of the non-liquidity premium that is added to risk-free interest as part of the adequacy testing of the reserves (including in implementing the “Best Practice”), see Note 27e(3)(f).

NOTE 3 - SIGNIFICANT ACCOUNTING ESTIMATES AND AREAS OF DISCRETION (Continued)

B. Provisions for lawsuits

Several legal claims and petitions to certify claims as class actions are pending against the Company. In evaluating the chances of legal claims that were filed against it, the Company relied on opinions prepared by its legal counsel. These legal opinions are based on the legal counsel's best professional judgment, taking into consideration the stage of the proceedings and the accumulated legal experience with the various issues. Since the outcome of the claims are decided by the courts, they may differ from said assessments. See Note 31 for additional information.

C. Impairment testing of deferred acquisition costs in life insurance

As discussed in Note 2U(2), the Company tests whether the amount of DAC exceeds the amount coverable by estimated future income from existing insurance contracts, and, as necessary, reduces DAC accordingly. This test requires the use of estimates concerning the anticipated amounts of income from existing insurance contracts, including an estimation of the useful life of the existing insurance policy portfolio.

NOTE 4 - OPERATING SEGMENTS

The operating segments were determined on the basis of the information examined by the chief operational decision-maker for the purposes of evaluating performance and deciding upon the allocation of resources.

The Company operates in the following operating segments: general insurance, health insurance and life insurance, as set out below. Activities that are not attributed to the segments include the equity, the non-insurance liabilities and their covering assets.

A. Life insurance segment

The life insurance segment provides cover for life insurance risk only, as well as coverage of other risks such as disability, occupational disability and other health-related services

B. Health insurance segment

All the Company's health insurance operations are concentrated within this segment. The segment provides personal accident cover, severe illness cover and foreign travel cover.

C. General insurance segment

The general insurance segment encompasses the property and liability sectors. In accordance with the directives of the Commissioner, the segment is divided into the following sectors: the compulsory motor vehicle sector, the motor vehicle property sector, the home insurance sector, other property sectors, the professional liability sector and other liability sectors.

- <u>Compulsory motor vehicle sector</u>

  The compulsory motor vehicle sector focuses on the provision of cover, the purchase of which, by the owner or driver of a vehicle, is compulsory by law. This insurance provides cover for bodily injury (to the driver of the vehicle, any passengers therein or pedestrians) as a result of the use of a motor vehicle.

NOTE 4 - OPERATING SEGMENTS (Continued)

C. General insurance segment (continued)

- Motor vehicle property sector

  The motor vehicle property sector focuses on the provision of cover for property damage occasioned to the motor vehicle of the insured and for property damage that the motor vehicle of the insured causes to a third party.

- Home insurance sector

  The home insurance sector focuses on providing coverage for damages caused to homes and includes coverage in respect of damages caused by earthquake.

- Professional liability sector

  The professional liability sector provides cover to practitioners of the various liberal professions for any claims that may be made against them in relation to damage occasioned to a third party as a result of a mistake or professional negligence. Insurance coverage to directors and officers in respect of an unlawful act or oversight by the directors and officers in their professional capacity, for funds misappropriation damages and for cyber events.

- Other property sector

  Property sectors other than motor vehicles and liability, consisting primarily of property insurance, subcontractors and mechanical breakdown insurance.

- Other liability sectors

  Other liability sectors provide cover for the liability of the insured with respect to damage that the insured causes to a third party. These sectors include: third-party liability, employer's liability and product liability.

NOTE 4 - OPERATING SEGMENTS (continued):

	Year ended December 31, 2022				
	Life Insurance	**Health insurance ***	**General insurance**	**Not allocated to operating segments**	**Total**
			NIS in thousands		
Gross premiums earned	**157,173**	**173,216**	**982,045**		**1,312,434**
Premiums earned by reinsurers	**(31,909)**	**(3,150)**	**(176,316)**		**(211,375)**
Premiums earned in retention	**125,264**	**170,066**	**805,729**		**1,101,059**
Gains (losses) on investments, net, and financing income	**17**	**(3,066)**	**(47,311)**	**(27,633)**	**(77,993)**
Commission income	**8,672**	**485**	**45,610**		**54,767**
Total income	**133,953**	**167,485**	**804,028**	**(27,633)**	**1,077,833**
Payments and change in liabilities with respect to insurance contracts, gross	**(88,211)**	**(105,670)**	**(739,360)**		**(932,241)**
Share of reinsurers in increase in insurance liabilities and payments with respect to insurance contracts	**21,187**	**2,126**	**21,174**		**44,487**
Payments and change in liabilities for insurance contracts, in retention	**(67,024)**	**(103,544)**	**(717,186)**		**(887,754)**
Commissions and other acquisition costs	**(40,650)**	**(43,718)**	**(179,391)**		**(263,759)**
General and administrative expenses	**(17,407)**	**(20,199)**	**(48,009)**		**(85,615)**
Financing income	**-**	**-**	**2,388**	**9,361**	**11,749**
Total comprehensive income (loss) before tax	**8,872**	**24**	**(138,170)**	**(18,272)**	**(147,546)**

* The health insurance segment mainly includes the results of the personal accidents sector.

NOTE 4 - OPERATING SEGMENTS (continued):

	Year ended December 31, 2021				
	Life Insurance	Health insurance *	General insurance	Not allocated to operating segments	Total
	NIS in thousands				
Gross premiums earned	149,881	141,832	884,401		1,176,114
Premiums earned by reinsurers	(29,128)	(2,717)	(158,401)		(190,246)
Premiums earned in retention	120,753	139,115	726,000		985,868
Gains on investments, net, and financing income	-	2,363	36,676	35,000	74,039
Commission income	7,337	331	42,710		50,378
Total income	128,090	141,809	805,386	35,000	1,110,285
Payments and change in liabilities with respect to insurance contracts, gross	(73,306)	(76,042)	730,787		(880,135)
Share of reinsurers in increase in insurance liabilities and payments with respect to insurance contracts	17,149	1,512	123,994		142,655
Payments and change in liabilities for insurance contracts, in retention	(56,157)	(74,530)	(606,793)		(737,480)
Commissions and other acquisition costs	(38,368)	(32,569)	(168,646)		(239,583)
General and administrative expenses	(17,099)	(18,689)	(43,072)		(78,860)
Financing income (expenses)	-	-	1,295	1,272	2,567
Total comprehensive income (loss) before tax	16,466	16,021	(11,830)	36,272	56,929

* The health insurance segment mainly includes the results of the personal accidents sector.

NOTE 4 - OPERATING SEGMENTS (continued):

	Year ended December 31, 2020				
	Life Insurance	**Health insurance ***	**General insurance**	**Not allocated to operating segments**	**Total**
			NIS in thousands		
Gross premiums earned	149,767	150,854	836,167		1,136,788
Premiums earned by reinsurers	(21,940)	(2,786)	(154,627)		(179,353)
Premiums earned in retention	127,827	148,068	681,540		957,435
Gains (losses) on investments, net, and financing income	2	(559)	(6,546)	(8,827)	(15,930)
Commission income	7,348	288	39,089		46,725
Total income	135,177	147,797	714,083	(8,827)	988,230
Payments and change in liabilities with respect to insurance contracts, gross	(44,195)	(60,675)	(566,299)		(671,169)
Share of reinsurers in increase in insurance liabilities and payments with respect to insurance contracts	9,731	2,092	144,942		156,765
Payments and change in liabilities for insurance contracts, in retention	(34,464)	(58,583)	(421,357)		(514,404)
Commissions and other acquisition costs	(38,383)	(34,886)	(158,356)		(231,625)
General and administrative expenses	(16,105)	(17,032)	(48,647)		(81,784)
Financing income (expenses)	-	-	1,581	(2,680)	(1,099)
Total comprehensive income (loss) before tax	46,225	37,296	87,304	(11,507)	159,318

* The health insurance segment mainly includes the results of the personal accidents sector.

NOTE 4 - OPERATING SEGMENTS (continued):

	December 31, 2022				
	Life insurance	Health insurance *	General insurance	Not allocated to operating segments	Total
	NIS in thousands				
Assets					
Intangible assets	-	-	-	26,625	26,625
Deferred acquisition costs	97,528	637	86,532	-	184,697
Financial investments:					
Marketable debt instruments	-	90,753	1,115,595	611,649	1,817,997
Non-marketable debt instruments	-	-	92,544	700	93,244
Other	-	-	-	105,314	105,314
Total financial investments	-	90,753	1,208,139	717,663	2,016,555
Cash and cash equivalents	3,969	1,608	3,144	27,000	35,721
Reinsurance assets	18,222	1,751	691,783	-	711,756
Premiums collectible	3,615	8,511	226,959	-	239,085
Other assets	4,279	-	241,155	23,580	269,014
Total assets	127,613	103,260	2,456,394	796,186	3,483,453
Liabilities					
Liabilities for non-profit-participating insurance contracts	80,842	101,754	2,078,448	-	2,261,044
Other liabilities	12,677	614	414,250	-	427,541
Total liabilities	93,519	102,368	2,492,698	-	2,688,585

* The health sector mainly includes the results of the personal accidents sector.

NOTE 4 - OPERATING SEGMENTS (continued):

	December 31, 2021				
	Life insurance	Health insurance *	General insurance	Not allocated to operating segments	Total
			NIS in thousands		
Assets					
Intangible assets	-	-	-	27,194	27,194
Deferred acquisition costs	-	254	78,241	94,032	172,527
Financial investments:					
Marketable debt instruments	-	81,020	1,215,245	606,782	1,903,047
Non-marketable debt instruments	-	-	82,288	798	83,086
Other	-	-	-	108,370	108,370
Total financial investments	-	81,020	1,297,533	715,950	2,094,503
Cash and cash equivalents	2,642	2,382	29,558	27,000	61,582
Reinsurance assets	18,376	1,545	747,688	-	767,609
Premiums collectible	30	15,774	179,945	-	195,749
Other assets	4,173	-	156,403	28,950	189,526
Total assets	25,221	100,975	2,489,368	893,126	3,508,690
Liabilities					
Liabilities for non-profit-participating insurance contracts	72,095	83,221	1,996,097	-	2,151,413
Other liabilities	13,040	394	450,717	-	464,151
Total liabilities	85,135	83,615	2,446,814	-	2,615,564

* The health sector mainly includes the results of the personal accidents sector.

NOTE 4 - OPERATING SEGMENTS (continued):

Additional data for the general insurance segment

	Year ended December 31, 2022						
	Compulsory vehicle insurance	Vehicle property insurance	Home insurance	Professional liability	Other property sectors*	Other liability sectors*	Total
	NIS in thousands						
Gross premiums	230,827	497,661	145,743	103,598	42,742	28,935	1,049,506
Reinsurance premiums	(3,129)	-	(18,763)	(95,159)	(42,648)	(25,532)	(185,231)
Premiums in retention	227,698	497,661	126,980	8,439	94	3,403	864,275
Change in balance of unearned premiums, in retention	(12,010)	(41,363)	(5,056)	158	2	(277)	(58,546)
Premiums earned, in retention	215,688	456,298	121,924	8,597	96	3,126	805,729
Gains (losses) on investments, net, and financing income	(25,053)	(8,184)	(3,155)	(5,980)	(533)	(4,406)	(47,311)
Commission income	-	-	1,041	30,608	8,060	5,901	45,610
Total income	190,635	448,114	119,810	33,225	7,623	4,621	804,028
Payments and change in liabilities with respect to insurance contracts, gross	(124,195)	(505,981)	(72,268)	(23,304)	(19,891)	7,279	(738,360)
Share of reinsurers in increase of insurance liabilities and payments with respect to insurance contracts	(12,812)	-	2,308	19,065	18,255	(5,642)	21,174
Payments and change in liabilities with respect to insurance contracts, in retention	(137,007)	(505,981)	(69,960)	(4,239)	(1,636)	1,637	(717,186)
Commissions, marketing expenses and other acquisition costs	(31,780)	(74,972)	(34,895)	(26,534)	(5,456)	(5,754)	(179,391)
General and administrative expenses	(11,794)	(19,713)	(13,778)	(1,620)	(650)	(454)	(48,009)
Financing income	-	1,270	1,097	16	-	5	2,388
Total expenses	(180,581)	(599,396)	(117,536)	(32,377)	(7,742)	(4,566)	(942,198)
Total comprehensive income (loss) before tax	10,054	(151,282)	2,274	848	(119)	55	(138,170)
Gross liabilities with respect to insurance contracts as at December 31, 2022	916,184	428,059	119,565	301,527	101,945	211,077	2,078,448
Liabilities with respect to insurance contracts in retention as at December 31, 2022	770,291	428,059	114,397	36,529	2,634	34,755	1,386,665

* Other property sectors consist primarily of the results of the property insurance sector, which accounts for 97% of total premiums in said sectors.
Other liability sectors consist primarily of the results of the third-party liability insurance sector, which accounts for 48% of total premiums in said sectors.

NOTE 4 - OPERATING SEGMENTS (continued):

Additional data for the general insurance segment (continued)

	Compulsory vehicle insurance	Vehicle property insurance	Home insurance	Professional liability	Other property sectors*	Other liability sectors*	Total
	Year ended December 31, 2021						
	NIS in thousands						
Gross premiums	209,874	421,221	135,374	103,219	37,953	26,990	934,631
Reinsurance premiums	(2,878)	-	(13,928)	(94,802)	(37,853)	(23,582)	(173,043)
Premiums in retention	206,996	421,221	121,446	8,417	100	3,408	761,588
Change in balance of unearned premiums, in retention	(7,822)	(24,169)	(2,872)	(649)	(13)	(63)	(35,588)
Premiums earned, in retention	199,174	397,052	118,574	7,768	87	3,345	726,000
Gains on investments, net, and financing income	17,931	6,472	3,045	5,328	456	3,444	36,676
Commission income	-	-	1,336	27,964	7,082	6,328	42,710
Total income	217,105	403,524	122,955	41,060	7,625	13,117	805,386
Payments and change in liabilities with respect to insurance contracts, gross	(258,961)	(336,699)	(37,901)	(45,570)	(15,557)	(36,099)	(730,787)
Share of reinsurers in increase of insurance liabilities and payments with respect to insurance contracts	38,125	-	652	40,987	15,090	29,140	123,994
Payments and change in liabilities with respect to insurance contracts, in retention	(220,836)	(336,699)	(37,249)	(4,583)	(467)	(6,959)	(606,793)
Commissions, marketing expenses and other acquisition costs	(32,635)	(68,565)	(32,726)	(24,209)	(4,670)	(5,841)	(168,646)
General and administrative expenses	(11,880)	(17,336)	(12,355)	(972)	(309)	(220)	(43,072)
Financing income	-	657	619	15	-	4	1,295
Total expenses	(265,351)	(421,943)	(81,711)	(29,749)	(5,446)	(13,016)	(817,216)
Total comprehensive income (loss) before tax	(48,246)	(18,419)	41,244	11,311	2,179	101	(11,830)
Gross liabilities with respect to insurance contracts as at December 31, 2021	935,152	310,885	105,762	307,820	93,934	242,544	1,996,097
Liabilities with respect to insurance contracts in retention as at December 31, 2021	757,093	310,885	100,519	36,673	2,032	41,207	1,248,409

* Other property sectors consist primarily of the results of the property insurance sector, which accounts for 99% of total premiums in said sectors.
Other liability sectors consist primarily of the results of the third-party liability insurance sector, which accounts for 45% of total premiums in said sectors.

NOTE 4 - OPERATING SEGMENTS (continued):

Additional data for the general insurance segment (continued)

	Year ended December 31, 2020						
	Compulsory vehicle insurance	Vehicle property insurance	Home insurance	Professional liability	Other property sectors*	Other liability sectors*	Total
	NIS in thousands						
Gross premiums	190,525	369,910	131,446	85,134	25,152	27,602	829,769
Reinsurance premiums	(2,609)	-	(13,136)	(77,689)	(24,827)	(23,881)	(142,142)
Premiums in retention	187,916	369,910	118,310	7,445	325	3,721	687,627
Change in balance of unearned premiums, in retention	(5,924)	211	(827)	(197)	66	584	(6,087)
Premiums earned, in retention	181,992	370,121	117,483	7,248	391	4,305	681,540
Losses on investments, net, and financing income	(3,031)	(1,347)	(595)	(786)	(113)	(674)	(6,546)
Commission income	-	-	1,173	22,388	8,742	6,786	39,089
Total income	178,961	368,774	118,061	28,850	9,020	10,417	714,083
Payments and change in liabilities with respect to insurance contracts, gross	(164,921)	(212,940)	(46,860)	(98,754)	(40,112)	(2,712)	(566,299)
Share of reinsurers in increase of insurance liabilities and payments with respect to insurance contracts	5,740	-	974	97,077	38,597	2,554	144,942
Payments and change in liabilities with respect to insurance contracts, in retention	(159,181)	(212,940)	(45,886)	(1,677)	(1,515)	(158)	(421,357)
Commissions, marketing expenses and other acquisition costs	(28,475)	(63,468)	(30,691)	(20,895)	(7,568)	(7,259)	(158,356)
General and administrative expenses	(13,555)	(22,384)	(11,387)	(828)	(235)	(258)	(48,647)
Financing income	-	681	866	17	-	17	1,581
Total expenses	(201,211)	(298,111)	(87,098)	(23,383)	(9,318)	(7,658)	(626,779)
Total comprehensive income (loss) before tax	(22,250)	70,663	30,963	5,467	(298)	2,759	87,304
Gross liabilities with respect to insurance contracts as at December 31, 2020	797,132	249,726	117,549	314,781	87,944	224,698	1,791,830
Liabilities with respect to insurance contracts in retention as at December 31, 2020	651,275	249,726	111,574	36,750	2,401	37,175	1,088,901

* Other property sectors consist primarily of the results of the property insurance sector, which accounts for 99% of total premiums in said sectors.
Other liability sectors consist primarily of the results of the third-party liability insurance sector, which accounts for 45% of total premiums in said sectors.

NOTE 5 - INTANGIBLE ASSETS:

	Software
	NIS in thousands
Cost:	
Balance as at January 1, 2021	**96,327**
Additions during the year *	14,511
Retirements in during the year	(6,836)
Balance as at December 31, 2021	**104,002**
Additions during the year *	15,016
Retirements in during the year	(49,104)
Balance as at December 31, 2022	**69,914**
Accumulated amortization:	
Balance as at January 1, 2021	**70,629**
Additions during the year	13,015
Retirements during the year	(6,836)
Balance as at December 31, 2021	**76,808**
Additions during the year	15,585
Retirements during the year	(49,104)
Balance as at December 31, 2022	**43,289**
Depreciated balance:	
As at December 31, 2022	**26,625**
As at December 31, 2021	27,194

* Additions in respect of computer software include additions in respect of proprietary development: in 2022 – NIS 12,277 thousand and in 2021 - NIS 13,049 thousand.

In 2022, the Company retired fully amortized intangible assets that are no longer used by the Company in an amount of NIS 49,104 thousand (2021 – NIS 6,836 thousand).

NOTE 6 - DEFERRED ACQUISITION COSTS:

a. Composition

	December 31	
	2022	2021
	NIS in thousands	
Life insurance (see section b.)	**97,528**	94,032
Health insurance (see section b.)	**637**	254
General insurance	**86,532**	78,241
Total	**184,697**	172,527

b. Changes in deferred acquisition costs (life insurance and health insurance):

	Life insurance	Health Insurance	Total
		NIS in thousands	
Balance as at January 1, 2021	90,325	3	90,328
Additions (acquisition costs)	28,342	254	28,596
Current depreciation	(7,848)	(3)	(7,851)
Depreciation relating to cancellations	(16,787)	-	(16,787)
Balance as at December 31, 2021	94,032	254	94,286
Additions (acquisition costs)	30,218	637	30,855
Current depreciation	(8,142)	(254)	(8,396)
Depreciation relating to cancellations	(18,580)	-	(18,580)
Balance as at December 31, 2022	97,528	637	98,165

NOTE 7 - PROPERTY AND EQUIPMENT:

A. Composition of assets and accumulated depreciation thereon, grouped by major classifications, and changes therein in 2022, are as follows:

	Computers and communications equipment	Office furniture and equipment	Right-of-use asset and leasehold improvements	Total
	NIS in thousands			
Cost:				
Balance as at January 1, 2022	23,559	5,702	39,128	68,389
Additions during year	3,834	196	54	4,084
Retirements during year	(8,956)	(82)	-	(9,038)
Balance as at December 31, 2022	18,437	5,816	39,182	63,435
Accumulated depreciation:				
Balance as at January 1, 2022	15,529	2,667	21,243	39,439
Additions to right-of-use assets	-	-	5,452	5,452
Other additions during the year	3,064	472	466	4,002
Retirements during year	(8,956)	(82)	-	(9,038)
Balance as at December 31, 2022	9,637	3,057	27,161	39,855
Depreciated balance as at December 31, 2022	8,800	2,759	12,021	23,580
Carrying amount of right-of-use assets as at December 31, 2022	-	-	10,903	10,903
Carrying amount of all other items of property and equipment as at December 31, 2022	8,800	2,759	1,118	12,677

In 2022, the Company wrote off property and equipment in the amount of NIS 9,038 thousand (2021: NIS 5,469 thousand) that was fully depreciated and is not used by the Company.

B. Composition of assets and accumulated depreciation thereon, grouped by major classifications, and changes therein in 2021, are as follows:

	Computers and communications equipment	Office furniture and equipment	Right-of-use asset and leasehold improvements	Total
	NIS in thousands			
Cost:				
Balance as at January 1, 2021	24,324	5,450	39,224	68,998
Additions during year	4,601	259	-	4,860
Retirements during year	(5,366)	(7)	(96)	(5,469)
Balance as at December 31, 2021	23,559	5,702	39,128	68,389
Accumulated depreciation:				
Balance as at January 1, 2021	18,077	2,215	15,377	35,669
Additions to right-of-use assets	-	-	5,452	5,452
Other additions during the year	2,818	459	510	3,787
Retirements during year	(5,366)	(7)	(96)	(5,469)
Balance as at December 31, 2021	15,529	2,667	21,243	39,439
Depreciated balance as at December 31, 2021	8,030	3,035	17,885	28,950
Carrying amount of right-of-use assets as at December 31, 2021	-	-	16,355	16,355
Carrying amount of all other items of property and equipment as at December 31, 2021	8,030	3,035	1,530	12,595

NOTE 8 - OTHER ACCOUNTS RECEIVABLE:

	December 31	
	2022	2021
	NIS in thousands	
Prepaid expenses	**27,052**	25,877
Employees	**238**	97
Advance payment of subrogation to the National Insurance Institute (*)	**21,434**	31,419
Insurance companies and insurance brokers	**25,792**	20,423
Related parties (see note 28a)	**1,816**	4,788
Other	**2,448**	1,6444
Total other accounts receivable (*)	**78,780**	84,248

(*) In July 2021, the Company entered into a new agreement with the National Insurance Institute, whereby the negotiation and settlement mechanism that existed between the two prior to the publication of the Economic Efficiency Law for 2019 shall apply to past and future incidents relating to the years 2014-2022 ("2014-2022 Incidents"), subject to certain adjustments, such as extension of the statute of limitations by an additional year for claims under Section 328 of the National Insurance Law, in relation to incidents that took place in the years 2014-2016.

Additionally, as part of the aforesaid agreement, the Company has transferred to the National Insurance Institute, at the end of December 2021, an advance of NIS 31.4 million in respect of the 2014-2022 Incidents, this amount representing 4.06% of the amount of premiums collected in the compulsory insurance sector by the Company during the years 2014-2018. In 2022, payments of NIS 9,985 thousand were offset from this advance payment.

(**) As at December 31, 2022 and December 31, 2021, no allowance for doubtful accounts was required in respect of other accounts receivable.

NOTE 9 - PREMIUMS COLLECTIBLE:

a. Composition:

	December 31	
	2022	2021
	NIS in thousands	
Premiums collectible (*)	**244,136**	199,730
Less – allowance for doubtful accounts (see section c.)	**5,051**	(3,981)
Total premiums collectible	**239,085**	195,749
(*) Includes backdated checks, payments by standing order and payments though credit card companies	**217,873**	167,425

As to the linkage terms of the premium collectible, see Note 27c(3).

The Company has no balance of premium collectible from related parties, see note 28a.

NOTE 9 - PREMIUMS COLLECTIBLE (Continued):

b. Aging:

	December 31	
	2022	**2021**
	NIS in thousands	
Unimpaired premiums collectible:		
Not overdue	**236,506**	191,067
Overdue (*):		
Less than 90 days	**709**	483
Between 90 and 180 days	**1,870**	4,199
Total unimpaired premiums collectible	**239,085**	195,749
Impaired premiums collectible	**5,051**	3,981
	244,136	199,730
Less – allowance for doubtful accounts	**(5,051)**	(3,981)
Total premiums collectible	**239,085**	195,749

As at December 31, 2022 and December 31, 2021, the Company had no unimpaired premiums collectible that more than 180 days overdue.

(*) Includes NIS 1 thousand for overdue life insurance receivables as at December 31, 2022 (December 31, 2021 - NIS 7 thousand).

c. Change in allowance for doubtful accounts:

	Year ended December 31	
	2022	**2021**
	NIS in thousands	
Balance as at January 1	**(3,981)**	(4,170)
Change in allowance for the year, net - carried to profit and loss	**(1,070)**	189
Balance as at December 31	**(5,051)**	(3,981)

NOTE 10 - FINANCIAL INVESTMENTS:

Composition of financial investments:

	December 31, 2022		
	At fair value through profit or loss	Loans and receivables	Total
	NIS in thousands		
Marketable debt instruments (a)	**1,817,997**	**-**	**1,817,997**
Non-marketable debt instruments (b)	**-**	**93,244**	**93,244**
Other (d)	**105,314**	**-**	**105,314**
Total	**1,923,311**	**93,244**	**2,016,555**

	December 31, 2021		
	At fair value through profit or loss	Loans and receivables	Total
	NIS in thousands		
Marketable debt instruments (a)	1,903,047	-	1,903,047
Non-marketable debt instruments (b)	-	83,086	83,086
Other (d)	108,370	-	108,370
Total	2,011,417	83,086	2,094,503

A. Composition of marketable debt instruments (designated upon initial recognition at fair value through profit or loss):

	December 31	
	2022	2021
	NIS in thousands	
Government bonds	**559,822**	651,762
Other non-convertible marketable debt instruments	**1,258,175**	1,251,285
Total marketable debt instruments	**1,817,997**	1,903,047

B. Composition of nonmarketable debt instruments (presented as loans and receivables):

	Carrying amount		Fair value	
	2022	2021	2022	2021
	NIS in thousands			
Presented at depreciated cost, excluding bank deposits	**92,544**	82,288	**92,462**	82,686
Bank deposits	**700**	798	**770**	967
Total non-convertible debt instruments	**93,244**	83,086	**93,232**	83,653

As at December 31, 2022 and December 31, 2021, no non-marketable debt instruments are overdue or impaired.

NOTE 10 - FINANCIAL INVESTMENTS (continued):

C. Details regarding interest and linkage in respect of debt instruments:

	Effective interest*	
	2022	**2021**
	Percentage	
Marketable debt instruments:		
Linkage basis:		
Linked to CPI	**2.14%**	2.29%
NIS denominated	**2.58%**	2.86%
Linked to the dollar	**5.78%**	-
Non-marketable debt instruments:		
Linkage basis:		
Linked to CPI	**5.43%**	5.51%
NIS denominated	**4.60%**	2.66%

* Weighted average.

D. Other financial investments:

	December 31	
	2022	**2021**
	NIS in thousands	
Marketable * - designated upon initial recognition at fair value through profit or loss	**105,314**	108,370

* Other financial investments consist primarily of investments in mutual funds.

E. Interest rates used in determining fair value

The fair value of nonmarketable debt instruments at fair value though profit or loss and of nonmarketable financial debt instruments, the data regarding the fair value of which is presented for clarification purposes only, is determined by discounting the estimated future cash flows in respect of these instruments. The discount rates are primarily based on government-bond yields and margins of corporate bonds, as measured in the Tel Aviv Stock Exchange. The quoted prices and the interest rates used in discounting are set by a company that was awarded the Ministry of Finance's tender for the establishment and operation of a database of quoted prices and interest rates for public institutions.

	December 31	
	2022	**2021**
	Percentage	
AA rating or more	**1.58%**	0.74%
A rating	**6.51%**	2.73%

NOTE 10 - FINANCIAL INVESTMENTS (continued):

F. Fair value hierarchy of financial assets

Fair value hierarchy is determined as follows:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – Inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly.
- Level 3 - Inputs for the asset or liability that are not based on observable market data.

Fair value measurements of all of the Company's marketable financial investments (excluding nonmarketable debt instruments) that are measured at fair value through profit or loss constitute Level 1 assets. Fair value measurements of nonmarketable debt instruments of the Company that are measured at depreciated cost and the fair value of which is presented for disclosure purposes only (see b. above), constitute Level 2.

Further to the above, no transfers of fair value measurements of financial assets were made between raising the various levels of the fair value hierarchy.

NOTE 11 - CASH AND CASH EQUIVALENTS:

	December 31	
	2022	2021
	NIS in thousands	
Balances in banks	**24,457**	38,593
Deposits available for withdrawal on demand	**11,264**	22,989
Total cash and cash equivalents	**35,721**	61,582

As at balance sheet date, cash and cash equivalents in banks were bear current interest that is based on the interest rates applicable to daily bank deposits, approximately 2.50%.

NOTE 12 - SHAREHOLDERS' EQUITY AND EQUITY REQUIREMENTS:

A. Composition of share capital:

	Number of shares		NIS in thousands	
	Authorized		Issued and fully paid	
	December 31			
	2022	2021	2022	2021
Ordinary shares of NIS 1 par value	**45,000,100**	45,000,100	**5,730**	5,730

B. Rights attaching to shares

Rights to vote at the general meeting, the right to receive dividends, rights upon the liquidation of the Company, and the right to appoint directors in the Company.

NOTE 12 - SHAREHOLDERS' EQUITY AND EQUITY REQUIREMENTS (Continued):

C. Capital management and requirements:

The policy of the Company is to maintain a strong capital base in order to ensure its solvency and its ability to meet its obligations to policyholders, to preserve the ability of the Company to continue its business activities and to generate yield to its shareholders. The Company is subject to the capital requirements stipulated by the Commissioner. The Board of Directors of the Company has set a target Solvency II-based solvency ratio of 130%.

D. Solvency II-based economic solvency regime:

1. On June 1, 2017, the Commissioner issued a circular on the provisions for implementing a Solvency II-based regime. The provisions of the circular are mostly based on the quantitative tier of the related European directive, adjusted for the Israeli market.

2. On July 7, 2019, the Company received the Commissioner's approval of the audit of the capital ratio report that it had submitted pursuant to the guidelines, and is therefore no longer subject to the old Capital Regulations concerning the "minimum capital required" and now fully follows a Solvency II-based economic solvency ratio regime.

3. The directives of the Commissioner prescribe, inter alia, transitional provisions that allow the gradual deployment of the capital requirements, based on the stipulated principles.

4. In accordance with the guidelines of the Commissioner from October 1, 2017, concerning a dividend distribution, an insurance company that distributes a dividend will deliver all of the following to the Commissioner, within 20 business days from the date of distribution:
    - An annual profit forecast for the two years following the dividend distribution date;
    - An updated debt servicing plan of the insurance company approved by the company's board of directors, as well as an updated debt servicing plan of the holding company that holds the insurance company that was approved by the board of directors of the holding company;
    - An updated capital management plan approved by the board of directors of the insurance company, which also includes extensive reference to meeting the Solvency Ratio target set by the board of directors over time;
    - A copy of the minutes of the discussion by the board of directors of the insurance company in which the distribution of the dividend was approved, together with the background material for the discussion.

5. According to the solvency ratio reports as at June 30, 2022 and December 31, 2021, the Company has surplus capital independent of the transitional provisions. Disclosure of the matter is provided in section 3 (Solvency-II-based economic solvency regime in insurance companies) of the Directors' Report.

   The calculation performed by the Company, as above, as of June 30, 2022 has not been audited and reviewed by the independent auditors of the Company. The calculation performed by the Company, as above, as of December 31, 2021 has been reviewed by the independent auditors of the Company in accordance with ISAE 3400 – The Examination of Prospective Financial Information. This standard applies to the review of the Solvency calculations and is not part of the auditing standards that apply to financial statements.

NOTE 12 - SHAREHOLDERS' EQUITY AND EQUITY REQUIREMENTS (Continued):

D. Solvency II-based economic solvency regime (continued):

5. (continued)

It is hereby stressed that the forecasts and the assumptions, which served as a basis for the drawing up of the economic solvency ratio report, are substantially based on past experience, as reflected in actuarial studies that are performed from time to time. In view of the capital market, insurance and savings reforms and the changes in the economic environment, past data are not necessarily indicative of future results.

E. Dividend:

On July 20, 2021, the Board of Directors of the Company approved the distribution of a dividend in the amount of NIS 100 million, representing approximately NIS 17,452 per share. The dividend was paid on August 10, 2021.

NOTE 13 - LIABILITIES WITH RESPECT TO NON-PROFIT-PARTICIPATING INSURANCE CONTRACTS:

	December 31					
	2022	2021	2022	2021	2022	2021
	Gross		Reinsurance (*)		Retained amount	
	NIS in thousands					
Insurance contracts in the life insurance segment	**80,842**	72,095	**18,222**	18,376	**62,620**	53,719
Insurance contracts in the health insurance segment	**101,754**	83,221	**1,751**	1,545	**100,003**	81,676
Insurance contracts in the general insurance segment	**2,078,448**	1,996,097	**691,783**	747,688	**1,386,665**	1,248,409
Total liabilities with respect to non-profit-participating insurance contracts	**2,261,044**	2,151,413	**711,756**	767,609	**1,549,288**	1,383,804

* Primarily in respect of reinsurers that are related parties, see Note 28a.

NOTE 14 - LIABILITIES WITH RESPECT TO INSURANCE CONTRACTS IN THE GENERAL INSURANCE SEGMENT:

A.1. Liabilities with respect to insurance contracts in the general insurance segment, by category:

	December 31					
	2022	2021	2022	2021	2022	2021
	Gross		Reinsurance		Retained amount	
	NIS in thousands					
Compulsory vehicle insurance and liability sectors:						
Provision for unearned premiums	**170,168**	154,366	**58,291**	54,618	**111,877**	99,748
Pending claims and provision for premium deficiency	**1,258,620**	1,331,150	**528,922**	595,925	**729,698**	735,225
Total liabilities in compulsory vehicle insurance and liability sectors *	**1,428,788**	1,485,516	**587,213**	650,543	**841,575**	834,973
Other property sectors:						
Provision for unearned premiums	**318,743**	267,082	**22,471**	17,227	**296,272**	249,855
Provision for premium deficiency	**45,764**	16,113	**-**	-	**45,764**	16,113
Pending claims	**285,153**	227,386	**82,099**	79,918	**203,054**	147,468
Total liabilities in other property sectors	**649,660**	510,581	**104,570**	97,145	**545,090**	413,436
Total liabilities with respect to insurance contracts in the general insurance segment	**2,078,448**	1,996,097	**691,783**	747,688	**1,386,665**	1,248,409

NOTE 14 - LIABILITIES WITH RESPECT TO INSURANCE CONTRACTS IN THE GENERAL INSURANCE SEGMENT (Continued):

A.1. Insurance liabilities with respect to insurance contracts in the general insurance segment, by category (continued):

	December 31					
	2022	2021	2022	2021	2022	2021
	Gross		Reinsurance		Retained amount	
Deferred acquisition costs:			NIS in thousands			
Compulsory vehicle insurance and liability sectors	**28,519**	26,847	**16,993**	17,047	**11,526**	9,800
Other property sectors	**58,013**	51,394	**5,060**	4,330	**52,953**	47,064
Total	**86,532**	78,241	**22,053**	21,377	**64,479**	56,864
Liabilities with respect to general insurance contracts, net of deferred acquisition costs:						
Compulsory vehicle insurance and liability sectors (see b(1) below)	**1,400,269**	1,458,669	**570,220**	633,496	**830,049**	825,173
Other property sectors (see b(2) below)	**591,647**	459,187	**99,510**	92,815	**492,137**	366,372
Total liabilities with respect to general insurance contracts, net of deferred acquisition costs	**1,991,916**	1,917,856	**669,730**	726,311	**1,322,186**	1,191,545
* Of said amount, liability for compulsory vehicle sector	**916,184**	935,152	**145,893**	178,059	**770,291**	757,093

NOTE 14 - LIABILITIES WITH RESPECT TO INSURANCE CONTRACTS IN THE GENERAL INSURANCE SEGMENT (Continued):

A.2. Insurance liabilities with respect to insurance contracts in the general insurance segment, by method of computation:

	December 31					
	2022	**2021**	**2022**	**2021**	**2022**	**2021**
	Gross		Reinsurance		Retained earnings	
	NIS in thousands					
Total actuarial valuations - Mr. Shay Elgrably	**1,589,537**	1,574,649	**611,021**	675,843	**978,516**	898,806
Provision for unearned premiums	**488,911**	421,448	**80,762**	71,845	**408,149**	349,603
Total insurance liabilities with respect to insurance contracts in the general insurance segment	**2,078,448**	1,996,097	**691,783**	747,688	**1,386,665**	1,248,409

NOTE 14 - LIABILITIES WITH RESPECT TO INSURANCE CONTRACTS IN THE GENERAL INSURANCE SEGMENT (Continued):

B. Changes in liabilities with respect to insurance contracts in the general insurance segment, net of deferred acquisition costs:

B1. Compulsory vehicle insurance and liability sectors:

	December 31					
	2022	**2021**	**2022**	**2021**	**2022**	**2021**
	Gross		**Reinsurance**		**Retained amounts**	
	NIS in thousands					
Balance as at the of beginning of the year (1)	**1,458,669**	1,311,966	**633,496**	596,719	**825,173**	715,247
Ultimate cost of claims for the current underwriting year (2)	**311,942**	333,163	**92,690**	104,297	**219,242**	228,866
Change in balances as at beginning of the year as result of linkage to CPI and investment gains in accordance with the discount assumption inherent in the liabilities	**(23,993)**	3,953	**-**	-	**(23,993)**	3,953
Change in estimate of ultimate cost of claims with respect to previous underwriting years (4)	**(133,597)**	18,537	**(88,356)**	10,302	**(45,241)**	8,235
Total change in ultimate cost of claims	**154,352**	355,653	**4,334**	114,599	**150,018**	241,054
Payments in settlement of claims during the year (3):						
With respect to current underwriting year	**(1,241)**	(1,888)	**(265)**	(722)	**(976)**	(1,166)
With respect to previous underwriting years	**(211,511)**	(207,062)	**(67,345)**	(77,100)	**(144,166)**	(129,962)
Total payments for period	**(212,752)**	(208,950)	**(67,610)**	(77,882)	**(145,142)**	(131,128)
Balance as at the end of the year (1)	**1,400,269**	1,458,669	**570,220**	633,496	**830,049**	825,173

1. The opening and closing balances include pending claims and unearned premium, and are net of deferred acquisition costs.
2. The ultimate cost of claims includes the balance of pending claims, provision for premium deficiency and unearned premium, net of deferred acquisition costs and with the addition of total payments made in respect of claims, including direct and indirect expenses incurred in the settlement of claims.
3. The payment include direct and indirect expenses incurred in the settlement of claims (general and administrative expenses attributable to the claims), allocated between the various underwriting years.

NOTE 14 - LIABILITIES WITH RESPECT TO INSURANCE CONTRACTS IN THE GENERAL INSURANCE SEGMENT (Continued):

B. Changes in liabilities with respect to insurance contracts in the general insurance segment, net of deferred acquisition costs (continued):

B2. Other property sectors:

	December 31					
	2022	2021	2022	2021	2022	2021
	Gross		Reinsurance		Retained amount	
	NIS in thousands					
Balance as at the beginning of the year (1)	**459,187**	409,563	**92,815**	88,266	**366,372**	321,297
Ultimate cost of claims with respect to events in the reporting year (2)	**562,657**	420,896	**23,693**	22,633	**538,964**	398,263
Change in ultimate cost of claims with respect to events in prior years	**5,603**	(46,873)	**(3,130)**	(6,891)	**8,733**	(39,982)
Payments made during the year in settlement of claims (3):						
With respect to events in the reporting year	**(373,373)**	(274,655)	**(3,145)**	(2,311)	**(370,228)**	(272,344)
With respect to events in prior years	**(137,120)**	(93,116)	**(15,237)**	(13,745)	**(121,883)**	(79,371)
Total payments	**(510,493)**	(367,771)	**(18,382)**	(16,056)	**(492,111)**	(351,715)
Change in provision for unearned premium, net of deferred acquisition costs	**45,042**	27,259	**4,514**	4,863	**40,528**	22,396
Change in premium deficiency	**29,651**	16,113	**-**	-	**29,651**	16,113
Balance as at the end of the year (1)	**591,647**	459,187	**99,510**	92,815	**492,137**	366,372

1. The opening and closing balances include pending claims, a provision for premium deficiency and unearned premiums and is net of deferred acquisition costs.
2. The ultimate cost of claims in respect of events in the reporting year includes the balance of pending claims at the end of the reporting year, with the addition of total payments for claims in the reporting period, including direct and indirect expenses incurred in the settlement of claims.
3. Payments to settle claims include direct and indirect expenses incurred in the settlement of claims (general and administrative costs attributable to claims), allocated between the various damage years.

NOTE 14 - LIABILITIES WITH RESPECT TO INSURANCE CONTRACTS IN THE GENERAL INSURANCE SEGMENT (Continued):

C1. Review of development of estimated liabilities in respect of insurance contracts less deferred acquisition costs, gross, in the compulsory vehicle and liability insurance sectors as at December 31, 2022, by underwriting year, in NIS thousands (CPI-adjusted) *:

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
Claims paid (accumulated) at end of year:											
After first year	2,660	2,495	2,244	1,576	2,982	1,931	1,439	28,291	1,988	1,241	
After two years	15,888	13,481	14,348	14,827	16,527	12,365	22,517	71,834	16,382		
After three years	33,208	37,435	40,396	38,959	45,544	40,283	60,188	108,089			
After four years	57,673	70,723	63,964	64,474	73,826	87,605	95,844				
After five years	110,059	92,883	83,085	87,486	97,487	127,562					
After six years	136,424	115,986	100,253	108,398	119,632						
After seven years	145,441	140,107	116,158	129,016							
After eight years	157,640	154,219	139,859								
After nine years	162,011	165,833									
After ten years	164,348										
Assessment of accumulated claims (including payments) at end of year:											
After first year (**)	236,649	257,738	207,554	230,838	269,949	295,696	294,336	381,289	378,916	311,225	
After two years	252,604	169,081	195,811	233,433	246,767	256,689	282,256	363,718	310,391		
After three years	172,037	184,542	226,005	225,759	231,750	269,036	294,183	330,404			
After four years	221,423	218,765	215,087	248,803	240,170	292,657	260,172				
After five years	230,069	232,777	206,074	242,991	226,679	254,704					
After six years	213,235	219,429	194,219	238,002	202,263						
After seven years	204,770	216,285	186,729	219,432							
After eight years	194,111	212,737	179,158								
After nine years	189,711	203,714									
After ten years	203,714										
Excess (deficit) relative to first year, which does not include accumulation (***)	**40,185**	**15,051**	**28,396**	**11,407**	**67,685**	**40,992**					**203,716**
Rate of deviation relative to first year, which does not include accumulation, in percentages	18.1%	6.9%	13.2%	4.6	28.2%	14.0%					19.0%
Cost of accumulated claims as at December 31, 2022	**181,238**	**203,714**	**179,158**	**219,432**	**202,263**	**254,704**	**260,172**	**330,404**	**310,391**	**311,225**	**2,452,702**
Accumulated payments through December 31, 2022	164,348	165,833	139,859	129,016	119,632	127,562	95,844	108,089	16,382	1,241	1,067,806
Balance of pending claims	16,889	37,881	39,229	90,416	82,631	127,142	164,329	222,316	294,010	309,983	1,384,896
Pending claims through underwriting year 2012											**15,374**
Total liabilities in respect of insurance contracts in compulsory vehicle and liability sectors, net of deferred acquisition costs as at December 31, 2022											**1,400,269**

(*) The amounts above are presented in inflation-adjusted values to allow presentation of development based on real values.

(**) Estimated accumulated claims at the end of the first year include the reserve for unearned premium, less deferred acquisition costs.

(***) The difference between estimated accumulated claims in the first year (that does not include accumulation) and estimated accumulated claims as at the reporting date.

NOTE 14 - LIABILITIES WITH RESPECT TO INSURANCE CONTRACTS IN THE GENERAL INSURANCE SEGMENT (Continued):

C2. Review of development of estimated liabilities in respect of insurance contracts less deferred acquisition costs, in self-retention, in the compulsory vehicle and liability insurance sectors as at December 31, 2022, by underwriting year, in NIS thousands (CPI-adjusted) *:

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
Claims paid (accumulated) at end of year:											
After first year	2,276	2,304	1,299	1,244	2,335	1,337	1,209	2,292	1,228	976	
After two years	11,185	10,417	9,015	11,013	10,704	9,288	10,310	11,019	8,892		
After three years	24,494	26,930	28,087	29,846	30,509	32,403	35,583	36,041			
After four years	38,676	50,524	47,325	50,409	54,352	67,959	64,928				
After five years	61,023	67,973	61,009	69,630	74,307	94,094					
After six years	75,498	83,251	73,546	86,229	91,274						
After seven years	81,536	99,425	84,180	98,425							
After eight years	87,809	109,371	99,753								
After nine years	91,130	116,037									
After ten years	92,838										
Assessment of accumulated claims (including payments) at end of year:											
After first year (**)	159,148	171,647	128,713	144,820	170,973	183,289	189,848	206,059	251,296	219,256	
After two years	148,236	104,510	111,409	132,685	144,578	152,327	171,187	194,832	199,795		
After three years	86,536	112,473	124,300	130,070	139,089	165,793	179,247	184,506			
After four years	104,652	130,074	121,393	142,143	147,065	171,235	159,891				
After five years	109,838	139,630	123,874	140,592	143,439	158,687					
After six years	107,416	134,622	119,877	135,325	131,459						
After seven years	105,453	132,427	117,447	129,376							
After eight years	102,686	131,401	116,127								
After nine years	101,325	129,659									
After ten years	98,405										
Excess (deficit) relative to first year, which does not include accumulation (***)	**6,247**	**415**	**12,587**	**15,444**	**39,514**	**24,602**					**98,809**
Rate of deviation relative to first year, which does not include accumulation, in percentages	6.0%	0.3%	10.4%	10.9%	26.9%	14.4%					15.6%
Cost of accumulated claims as at December 31, 2022	**98,405**	**129,659**	**116,127**	**129,376**	**131,459**	**158,687**	**159,891**	**184,506**	**199,795**	**219,256**	**1,527,161**
Accumulated payments through December 31, 2022	92,838	116,037	99,753	98,425	91,274	94,094	64,928	36,041	8,892	976	703,257
Balance of pending claims	5,567	13,623	16,374	30,951	40,185	64,593	94,963	148,465	190,903	218,280	823,904
Pending claims through underwriting year 2012											**6,145**
Total liabilities in respect of insurance contracts in compulsory vehicle and liability sectors, net of deferred acquisition costs as at December 31, 2021											**830,050**

(*) The amounts above are presented in inflation-adjusted values to allow presentation of development based on real values.

(**) Estimated accumulated claims at the end of the first year include the reserve for unearned premium, less deferred acquisition costs.

(***) The difference between estimated accumulated claims in the first year (that does not include accumulation) and estimated accumulated claims as at the reporting date.

NOTE 14 - LIABILITIES WITH RESPECT TO INSURANCE CONTRACTS IN THE GENERAL INSURANCE SEGMENT (Continued):

C3. Review of development of estimated liabilities in respect of insurance contracts less deferred acquisition costs, gross, in the compulsory vehicle insurance sectors as at December 31, 2022, by underwriting year, in NIS thousands (CPI-adjusted) *:

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
Claims paid (accumulated) at end of year:											
After first year	2,020	2,100	1,161	1,275	1,985	1,174	1,166	1,107	1,188	932	
After two years	10,268	9,727	8,237	12,593	9,525	8,663	9,228	8,396	7,978		
After three years	23,306	26,011	25,966	31,111	28,330	30,920	33,302	32,561			
After four years	36,622	46,562	44,202	50,046	51,392	65,875	62,370				
After five years	51,840	62,458	56,711	69,420	70,751	96,381					
After six years	68,458	80,226	69,789	89,269	90,114						
After seven years	75,949	101,856	80,737	105,830							
After eight years	81,797	111,909	97,856								
After nine years	84,915	118,499									
After ten years	86,566										
Assessment of accumulated claims (including payments) at end of year:											
After first year (**)	117,264	164,646	122,136	159,518	173,495	193,676	190,166	208,955	255,116	219,176	
After two years	153,633	109,010	122,271	144,890	156,341	166,919	182,859	209,292	210,200		
After three years	89,206	128,611	126,062	143,337	147,657	180,321	193,456	190,975			
After four years	110,548	136,699	121,131	160,469	161,740	184,592	170,253				
After five years	112,076	143,849	122,578	160,806	158,090	167,254					
After six years	108,500	140,315	116,812	156,103	140,774						
After seven years	104,307	138,662	115,660	148,494							
After eight years	97,023	142,457	112,711								
After nine years	90,056	137,100									
After ten years	91,270										
Excess (deficit) relative to first year, which does not include accumulation (***)	**19,278**	**(401)**	**9,425**	**11,024**	**32,720**	**26,422**					**98,468**
Rate of deviation relative to first year, which does not include accumulation, in percentages	17.4%	-0.3%	7.8%	6.9%	20.2%	14.3%					14.6%
Cost of accumulated claims as at December 31, 2022	**91,270**	**137,100**	**112,711**	**148,494**	**140,774**	**167,254**	**170,253**	**190,975**	**210,200**	**219,176**	**1,588,207**
Accumulated payments through December 31, 2022	86,566	118,499	97,856	105,830	90,114	96,381	62,370	32,561	7,978	932	699,087
Balance of pending claims	4,704	18,601	14,855	42,664	50,661	70,873	107,884	158,413	202,221	218,244	889,120
Pending claims through underwriting year 2012											**11,884**
Total liabilities in respect of insurance contracts in compulsory vehicle sectors, net of deferred acquisition costs as at December 31, 2022											**901,004**

(*) The amounts above are presented in inflation-adjusted values to allow presentation of development based on real values.

(**) Estimated accumulated claims at the end of the first year include the reserve for unearned premium, less deferred acquisition costs.

(***) The difference between estimated accumulated claims in the first year (that does not include accumulation) and estimated accumulated claims as at the reporting date.

NOTE 14 - LIABILITIES WITH RESPECT TO INSURANCE CONTRACTS IN THE GENERAL INSURANCE SEGMENT (Continued):

C4. Review of development of estimated liabilities with respect to insurance contracts less deferred acquisition costs, <u>in self-retention</u>, in the compulsory vehicle insurance sector as at December 31, 2022 by underwriting year, in NIS thousands (CPI-adjusted):

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
Claims paid (accumulated) at end of year:											
After first year	2,020	2,100	1,161	1,275	1,985	1,174	1,166	1,107	1,188	932	
After two years	10,268	9,727	8,237	10,792	9,525	8,663	9,228	8,396	7,978		
After three years	22,824	26,011	25,966	28,473	28,330	30,828	33,302	31,912			
After four years	36,140	46,562	44,202	47,373	51,392	64,570	60,987				
After five years	50,636	62,380	56,479	65,978	70,751	89,284					
After six years	64,725	76,512	68,341	82,403	87,521						
After seven years	70,506	92,090	77,849	93,281							
After eight years	76,354	100,989	92,710								
After nine years	79,472	106,578									
After ten years	81,123										
Assessment of accumulated claims (including payments) at end of year:											
After first year (**)	105,768	151,549	114,978	145,869	161,012	173,222	177,456	195,170	238,634	204,751	
After two years	131,273	94,532	105,186	119,741	132,448	141,058	157,892	180,212	186,722		
After three years	76,893	108,552	109,456	117,653	128,119	153,105	165,613	171,612			
After four years	92,894	114,979	105,655	127,872	136,020	155,155	146,933				
After five years	93,419	121,614	109,549	128,186	133,457	145,672					
After six years	91,177	118,220	105,596	124,028	123,016						
After seven years	89,500	116,606	104,260	118,379							
After eight years	87,051	117,180	103,729								
After nine years	86,231	116,341									
After ten years	84,287										
Excess (deficit) relative to first year, which does not include accumulation (***)	**8,608**	**(1,362)**	**11,249**	**27,491**	**37,996**	**27,550**					**111,532**
Rate of deviation relative to first year, which does not include accumulation, in percentages	9.3%	-1.2%	10.6%	21.5%	27.9%	17.8%					19.6%
Cost of accumulated claims as at December 31, 2022	**84,287**	**116,341**	**103,729**	**118,379**	**123,016**	**145,672**	**146,933**	**171,612**	**186,722**	**204,751**	**1,401,441**
Accumulated payments through December 31, 2022	81,123	106,578	92,710	93,281	87,521	89,284	60,987	31,912	7,978	932	652,306
Balance of pending claims	3,164	9,763	11,018	25,098	35,495	56,388	85,946	139,700	178,744	203,819	749,135
Pending claims through underwriting year 2012											**5,979**
Total liabilities in respect of insurance contracts in compulsory vehicle sectors, net of deferred acquisition costs as at December 31, 2022											**755,113**

(*) The amounts above are presented in inflation-adjusted values to allow presentation of development based on real values.

(**) Estimated accumulated claims at the end of the first year include the reserve for unearned premium, less deferred acquisition costs.

(***) The difference between estimated accumulated claims in the first year (that does not include accumulation) and estimated accumulated claims as at the reporting date.

NOTE 14 - LIABILITIES WITH RESPECT TO INSURANCE CONTRACTS IN THE GENERAL INSURANCE SEGMENT (Continued):

C5. Aggregate data for underwriting years in the compulsory vehicle insurance sector:

For the year ended December 31, 2022:

	Underwriting year						
	2022	2021	2020	2019	2018	2017	2016
	NIS in thousands						
Gross premium	234,740	212,918	192,789	179,734	173,959	159,876	146,100
Retained income/(loss) for underwriting year – accumulated	(20,270)	(46,106)	(20,929)	(4,014)	(2,362)	5,543	(1,567)
Effect of investment gains on accumulated retained income for the underwriting year	(2,532)	1,855	(303)	1,731	4,521	4,840	6,091

C6. Aggregate data for underwriting years in other liability insurance sectors:

For the year ended December 31, 2022:

	Underwriting year						
	2022	2021	2020	2019	2018	2017	2016
	NIS in thousands						
Gross premium	125,723	127,268	109,175	107,379	105,926	98,570	99,580
Retained income/(loss) for underwriting year – accumulated	(2,412)	8	(1,004)	673	(148)	1,450	3,654
Effect of investment gains on accumulated retained income for the underwriting year	(858)	793	(79)	654	1,589	1,918	2,764

NOTE 14 - LIABILITIES WITH RESPECT TO INSURANCE CONTRACTS IN THE GENERAL INSURANCE SEGMENT (Continued):

C7. Composition of income (loss) in retention in the compulsory vehicle insurance sector:

	Income (loss) for current underwriting year	Income (loss) for prior underwriting years	Income (loss) for current underwriting year	Income (loss) for prior underwriting years
	Gross		Retained amount	
	NIS in thousands			
Year ended:				
2022	(31,879)	57,871	(20,270)	30,324
2021	(59,171)	(24,323)	(46,106)	(2,140)
2020	(30,689)	5,307	(20,252)	(1,998)

C8. Composition of income (loss) in retention in the other liability insurance sector:

	Income (loss) for current underwriting year	Income (loss) for prior underwriting years	Income (loss) for current underwriting year	Income (loss) for prior underwriting years
	Gross		Retained amount	
	NIS in thousands			
Year ended:				
2022	(1,691)	69,583	(2,412)	3,315
2021	(8,960)	25,640	6	11,406
2020	(68,097)	48,975	(1,004)	9,230

NOTE 15 - ADDITIONAL DATA CONCERNING THE LIFE INSURANCE SEGMENT:

A. Details of gross liabilities with respect to insurance contracts, by financial and insurance exposure

Data for the year ended December 31, 2022 (NIS in thousands):

	Policies not containing a savings element
	Risk sold as individual policy
	Individual
Insurance reserves	**2,465**
Pending claims	**78,377**
Total	**80,842**

* The Company has no collective policies.

NOTE 15 - ADDITIONAL DATA CONCERNING THE LIFE INSURANCE SEGMENT (Continued):

A. Details of gross liabilities with respect to insurance contracts, by financial and insurance exposure (continued):

Data for the year ended December 31, 2021 (NIS in thousands):

	Policies not containing a savings element
	Risk sold as individual policy
	Individual
Insurance reserves	3,512
Pending claims	68,583
Total	72,095

The Company has no collective policies.

B. Details of results by type of policy

Data for the year ended December 31, 2022 (NIS in thousands):

	Policies not containing a savings element
	Risk sold as individual policy
	Individual
Gross risk premiums	**156,125**
Income from life insurance business	**8,872**
New annualized premium	**30,368**
Payments and change in liabilities for insurance contracts, gross	**88,211**

Data for the year ended December 31, 2021 (NIS in thousands):

	Policies not containing a savings element
	Risk sold as individual policy
	Individual
Gross risk premiums	150,095
Income from life insurance business	16,466
New annualized premium	22,670
Payments and change in liabilities for insurance contracts, gross	73,306

NOTE 15 - ADDITIONAL DATA CONCERNING THE LIFE INSURANCE SEGMENT (Continued):

B. Details of results by type of policy (continued):

Data for the year ended December 31, 2020 (NIS in thousands):

	Policies not containing a savings element
	Risk sold as individual policy
	Individual
Gross risk premiums	149,845
Income from life insurance business	46,225
New annualized premium	31,675
Payments and change in liabilities for insurance contracts, gross	44,195

The Company has no collective policies.

NOTE 16 - BREAKDOWN OF LIABILITIES IN RESPECT OF INSURANCE CONTRACTS IN THE HEALTH INSURANCE SEGMENT:

A. Breakdown of liabilities in respect of insurance contracts, by insurance and financial exposure:

Data for the year ended December 31, 2022 (NIS in thousands):

	Long-term	Short-term	Total
By insurance exposure - insurance			
Reserves	**812**	**3,154**	**3,966**
Pending claims	**88,591**	**9,197**	**97,788**
Total	**89,403**	**12,351**	**101,754**

Personal accidents (individual) is the most significant item in long-term healthcare coverage, and overseas travel insurance is the most significant in the short-term insurance.

There is no difference between the actuarial assessments in the healthcare sectors and the overall amount of the liability in the financial statements.

Data for the year ended December 31, 2021 (NIS in thousands):

	Long-term	Short-term	Total
By insurance exposure - insurance			
Reserves	995	1,477	2,472
Pending claims	74,466	6,283	80,749
Total	75,461	7,760	83,221

Personal accidents (individual) is the most significant item in long-term healthcare coverage, and travel insurance is the most significant in the short-term insurance.

There is no difference between the actuarial assessments in the healthcare sectors and the overall amount of the liability in the financial statements.

NOTE 16 - BREAKDOWN OF LIABILITIES IN RESPECT OF INSURANCE CONTRACTS IN THE HEALTH INSURANCE SEGMENT (Continued):

B. Breakdown of results by type of policy in the healthcare insurance segment

Data for the year ended December 31, 2022 (NIS in thousands):

	Long-term	Short-term	Total
Gross premiums	**127,256**	**47,545**	*** 174,710**
Income from healthcare insurance business	**(8,122)**	**8,146**	**24**
New annualized premium	**12,679**	**-**	**12,679**

* All premiums are individual. There are no collective premiums. The most significant coverage in long-term health insurance is personal accidents (individual), and in short-term insurance overseas travel is the most significant.

Data for the year ended December 31, 2021 (NIS in thousands):

	Long-term	Short-term	Total
Gross premiums	126,898	16,235	* 143,133
Income from healthcare insurance business	12,518	3,503	16,021
New annualized premium	9,337	-	9,337

* Of which individual premiums of NIS 143,071 thousand and collective premiums of NIS 62 thousand. The most significant coverage is personal accidents (individual) in long-term healthcare insurance, and travel insurance in short-term insurance.

Data for the year ended December 31, 2020 (NIS in thousands):

	Long-term	Short-term	Total
Gross premiums	143,909	5,659	* 149,568
Income from healthcare insurance business	30,486	6,810	37,296
New annualized premium	10,231	-	10,231

* Of which individual premiums of NIS 149,398 thousand and collective premiums of NIS 170 thousand. The most significant coverage is personal accidents (individual) in long-term healthcare insurance, and overseas travel insurance in short-term insurance.

The reduction in overseas travel insurance premiums is a direct result of the coronavirus crisis (see note 1c).

NOTE 17 - CHANGES IN LIABILITIES WITH RESPECT TO LIFE INSURANCE CONTRACTS AND HEALTH INSURANCE CONTRACTS:

	Life insurance	Health insurance
	NIS in thousands	
Balance as at January 1, 2021	55,298	79,516
Decrease (increase) in premiums accounted for as liabilities	213	921
Changes in pending claims and IBNR	16,584	2,784
Balance as at December 31, 2021	72,095	83,221
Decrease (increase) in premiums accounted for as liabilities	**(1,047)**	**2,219**
Changes in pending claims and IBNR	**9,794**	**16,314**
Balance as at December 31, 2022	**80,842**	**101,754**

NOTE 18 - TAXES ON INCOME:

A. Tax laws applicable to the Company

1) General

The Company is a “financial institution”, as defined in the Value Added Tax Law, 1975. The tax applicable to the income of financial institutions is comprised of corporate tax at a rate of 23% and profit tax at a rate of 17%. The overall tax rate (corporate tax and profit tax) is 34.19%.

2) Special tax arrangements for the insurance industry – agreement with the tax authorities

The Association of Insurance Companies and the tax authorities have entered into an agreement (hereinafter: “the Tax Agreement”) that addresses specific tax issues and is renewed and updated from time to time. As at December 31, 2022, tax agreements have been signed, as above, for tax years up to and including the 2019. The agreement addresses, inter alia, the recognition and depreciation of deferred acquisition costs, taxation of securities, allocation of expenses to preferred income, recognition of a provision for claim settlement overheads and more.

NOTE 18 - TAXES ON INCOME (continued):

B. Composition of income tax expense in the reported years

	Year ended December 31,		
	2022	**2021**	**2020**
	NIS in thousands		
Current taxes:			
For the current year	**6,292**	(5,965)	(57,572)
For previous years	**(505)**	76	(640)
	5,787	(5,889)	(58,212)
Deferred taxes:			
For the current year	**43,501**	(13,895)	2,653
Total income tax (expense) income	**49,288**	(19,784)	(55,559)

C. Tax assessments

Subject to the related provisions of the Income Tax Ordinance, the tax assessments of the Company through tax year 2019 are considered final.

D. Deferred taxes

Deferred tax assets and liabilities are offset when there is an enforceable legal right to offset current tax assets against current tax liabilities and when the deferred taxes relate to taxes on income levied by the same tax authority. The offset amounts are as follows:

Composition:

	Deferred acquisition costs	Vacation and recreation pay	Gain on securities	Allowance for doubtful accounts	Carry-forward losses	Other	Total
	NIS in thousands						
Balance of deferred tax asset (liability) as at January 1, 2021	(6,922)	4,620	(2,970)	1,426		1,182	(2,664)
Changes carried to profit or loss	513	654	(14,174)	(65)		(823)	(13,895)
Balance of deferred tax asset (liability) as at December 31, 2021	(6,409)	5,274	(17,144)	1,361		359	(16,559)
Changes carried to profit or loss	**256**	**(472)**	**33,719**	**366**	**8,512**	**1,120**	**43,501**
Balance of deferred tax asset (liability) as at December 31, 2022	**(6,153)**	**4,802**	**16,575**	**1,727**	**8,512**	**1,479**	**26,942**

The deferred taxes, which were calculated at a 34.19% tax rate, are presented in the balance sheet under deferred tax liabilities.

NOTE 18 - TAXES ON INCOME (continued):

D. Deferred taxes (continued)

Analysis of the deferred tax assets and liabilities:

	December 31	
	2022	2021
	NIS in thousands	
Deferred tax assets	33,924	8,375
Deferred tax liabilities	(6,982)	(24,934)
Deferred tax assets (liabilities), net	**26,942**	**(16,559)**

E. Theoretical tax

Following is a reconciliation of the theoretical tax expense, assuming all income and expenses, profits and losses in the statement of profit or loss are taxed at the statutory tax rate, and the amount of income tax recognized in the statement of profit or loss:

	Year ended December 31		
	2022	2021	2020
	NIS in thousands		
Profit (loss) before taxes on income	**(147,546)**	56,929	159,318
Overall statutory tax rate applicable to financial institutions (see b. above)	**34.19%**	34.19%	34.19%
Taxes computed based on the statutory tax rate	**(50,446)**	19,463	54,468
Increase (decrease) in income tax arising from:			
Expenses not deductible for tax purposes	**652**	411	451
Taxes in respect of previous years	**506**	(76)	640
Other	**-**	(14)	-
Taxes on income	**(49,288)**	19,784	55,559
Average effective tax rate	**33.41%**	34.75%	34.87%

NOTE 19 - OTHER ACCOUNTS PAYABLE:

	December 31	
	2022	2020
	NIS in thousands	
Employees and other payroll related Liabilities	**33,377**	28,762
Trade payables	**49,803**	45,748
Lease liabilities (see note 32)	**11,342**	16,845
Prepaid premiums	**26,665**	24,465
Commissions payable	**10,291**	8,824
Related parties (see note 28a)	**4,844**	5,203
Other	**8,067**	6,894
	144,389	136,741

NOTE 20 - PREMIUMS EARNED IN RETENTION:

	Year ended December 31, 2022		
	Gross	**Reinsurance***	**Retained amount**
	NIS in thousands		
Life insurance premiums	**156,125**	**31,910**	**124,215**
Health insurance premiums	**174,710**	**3,150**	**171,560**
General insurance premiums	**1,049,506**	**185,231**	**864,275**
Total premiums, gross	**1,380,341**	**220,291**	**1,160,050**
Less - change in balance of unearned premium **	**(67,907)**	**(8,916)**	**(58,991)**
Total premiums earned	**1,312,434**	**211,375**	**1,101,059**

	Year ended December 31, 2021		
	Gross	**Reinsurance***	**Retained amount**
	NIS in thousands		
Life insurance premiums	150,095	29,126	120,969
Health insurance premiums	143,333	2,717	140,416
General insurance premiums	934,631	173,043	761,588
Total premiums, gross	1,227,859	204,886	1,022,973
Less - change in balance of unearned premium **	(51,745)	(14,640)	(37,105)
Total premiums earned	1,176,114	190,246	985,868

	Year ended December 31, 2020		
	Gross	**Reinsurance***	**Retained amount**
	NIS in thousands		
Life insurance premiums	149,845	21,939	127,906
Health insurance premiums	149,568	2,786	146,782
General insurance premiums	829,769	142,142	687,627
Total premiums, gross	1,129,182	166,867	962,315
Less - change in balance of unearned premium **	7,606	12,486	(4,880)
Total premiums earned	1,136,788	179,353	957,435

* For information regarding reinsurance premiums with related parties, see note 28b below.
** The change in the unearned premium balance mainly arises from general insurance.

NOTE 21 - GAINS (LOSSES) ON INVESTMENTS, NET, AND FINANCING INCOME:

	Year ended December 31		
	2022	2021	2020
	NIS in thousands		
Gains on assets held against non-profit participating liabilities, equity and other:			
Gains (losses) on financial investments, excluding interest, linkage differences, exchange differences and dividends on assets at fair value through profit or loss	**(125,159)**	19,121	(72,641)
Interest income, linkage differences and exchange differences on financial assets at fair value through profit or loss	**46,828**	54,875	55,798
Interest income on deposits and from cash and nonmarketable securities	**338**	19	303
Income from dividends	**-**	24	610
Total gains (losses) on investments, net, and financing income	**(77,993)**	74,039	(15,930)

NOTE 22 - REVNEUES FROM COMMISSIONS:

	Year ended December 31		
	2022	2021	2020
	NIS in thousands		
Reinsurance commissions, net of change in deferred acquisition costs relating to reinsurance	**54,767**	50,378	46,725

For information regarding commission revenue from related parties, see note 28b below.

NOTE 23 - PAYMENTS AND CHANGES IN LIABILITIES WITH RESPECT TO INSURANCE CONTRACTS, IN RETENTION:

	Year ended December 31		
	2022	2021	2020
	NIS in thousands		
Total payments and changes in liabilities with respect to life insurance contracts:			
Gross	**88,211**	73,306	44,195
Reinsurance (*)	**(21,187)**	(17,149)	(9,731)
Retained amount	**67,024**	56,157	34,464
Total payments and changes in liabilities with respect to general insurance contracts:			
Gross	**738,360**	730,878	566,299
Reinsurance (*)	**(21,174)**	(123,994)	(144,942)
Retained amount	**717,186**	606,793	421,357
Total payments and changes in liabilities with respect to health insurance contracts:			
Gross	**105,670**	76,042	60,675
Reinsurance (*)	**(2,126)**	(1,512)	(2,092)
Retained amount	**103,544**	74,530	58,583
Total payments and changes in liabilities with respect to insurance contracts, in retention	**887,754**	737,480	514,404

* Relates to payments and changes in liabilities in respect of reinsurers’ share of insurance contracts with related parties, see note 28b below.

NOTE 24 - COMMISSIONS, MARKETING EXPENSES AND OTHER ACQUISITION COSTS:

	Year ended December 31		
	2022	2021	2020
	NIS in thousands		
Acquisition commissions	**51,352**	43,249	36,376
Marketing and other expenses (reclassified from general and administrative expenses)	**224,577**	208,231	198,491
Change in acquisition costs	**(12,170)**	(11,897)	(3,242)
Total commissions, marketing expenses and other acquisition costs	**263,759**	239,583	231,625

NOTE 25 - GENERAL AND ADMINISTRATIVE EXPENSES:

	Year ended December 31		
	2022	2021	2020
	NIS in thousands		
Payroll and related expenses	**212,923**	192,287	186,540
Depreciation and amortization	**25,037**	22,252	29,167
Office maintenance and communications	**12,263**	11,482	11,429
Marketing and advertising	**59,884**	56,959	48,680
Legal and professional consulting	**6,870**	6,671	7,435
Information technology expenses	**19,560**	18,632	16,859
Other	**10,068**	9,179	8,596
Total (*)	**346,605**	317,477	309,066
Less:			
Amounts classified to changes in liabilities and payments in respect of insurance contracts	**(36,413)**	(30,389)	(28,791)
Amounts classified to commissions, marketing expenses and other acquisition costs	**(224,577)**	(208,231)	(198,491)
Total general and administrative expenses	**85,615**	78,860	81,784
* General and administrative expenses include expenses relating to automation in the total amount of	**53,088**	51,567	58,622

NOTE 26 - FINANCING INCOME (EXPENSES):

	Year ended December 31		
	2022	2021	2020
	NIS in thousands		
Income (expenses) from income tax interest, net	**6,744**	(424)	338
Interest expenses in respect of lease	**(287)**	(395)	(502)
Income (expenses) in respect of interest and exchange differences	**5,292**	3,386	(935)
Total financing income (expenses)	**11,749**	2,567	(1,099)

NOTE 27 - RISK MANAGEMENT:

General

The Company operates in the following operative segments: general insurance (individual and commercial insurance), health insurance and life insurance risk (including mortgage). The Company's operations expose it to the following risks:

- Insurance risks
- Market risks
- Liquidity risks
- Credit risks
- Operational risks

Other risks beyond those listed above include: fraud and misappropriation, reputation, legal, compliance, information security and cyber and more.

A. Description of risk management procedures and methods

1) The Company manages risk based on the risk management policy approved by the Board of Directors of the Company, which is aligned with rules and guidance of local regulation and the enterprise risk management policies of the AIG global corporation.

2) The risk management policy is designed to support the achievement of the Company’s business objectives and ensure controlled exposure to risks, in tune with changes in the business environment. The monitoring of and reporting on the implementation of the policy, including compliance with restrictions, are performed according to regulatory requirements and a reporting escalation procedure established by the Board of Directors and its committees.

3) The risk management process includes an ongoing process of identifying and mapping exposures in different processes, assessment and measurement of exposures and controls, reporting and assessing the alignment to the Company's risk appetite.

4) Risk management in the Company is based on three protection levels:
   - First line of defense – business units – responsible for risk management in the scope of their activity.
   - Second line of defense – support functions – risk management, compliance and enforcement , control functions etc. The role of those functions is, among others, to ensure that consistent processes are in place to detect, control, monitor and report risks.
   - Third line of defense – internal audit, which is responsible for conducting independent audits of the first and second line of defense.

5) The Company has committees and forums for the management of risks, in addition to forums on various professional issues, led by the CEO and senior management. The risk management committees address: capital management, reserve management, operating risk management, cyber risk management, insurance risk management, and a committee for product development.

The Company applies the principles of Israeli Solvency II, which serve as a basis for assessing the economic capital required for the activity of the Company. In addition, the Board of Directors of the Company approved a risk appetite of 130% of the capital required under Solvency II. Risk appetite is based on an assessment of the Company’s principal risks and scenarios of the risk factors. Risk appetite serves as basis for developing the capital management policy and dividend distribution policy of the Company (see also Note 12 above).

NOTE 27 - RISK MANAGEMENT (Continued):

B. Legal requirements

The Commissioner's guidance on risk management are included, among others, in Circular No. 1-9-2014 (Title 5, Part 1, Chapter 10) (hereinafter: "the Consolidated Circular "), which addresses the duties of the risk manager and his/her relationships with other officers in the Company. According to the Consolidated Circular, the main duties of the risk manager are:

- Ensuring that high-quality processes are in place for the detection of material insurance risks, market risks, liquidity risks and counterparty risks inherent in assets and liabilities that may have impact on the financial stability of the entity.
- Quantifying and assessing the potential impact of material risks identified on the financial stability of the entity and on its liability towards policy holders.

  The exposure will be quantified, inter alia, based on scenarios relating to changes in primary risk factors, in particular, as regarding the extent of their effect and their underlying assumptions of correlations and interrelations between risk factors, including extreme scenarios.
- Assessing the risks inherent in new activities or products.
- Presenting to the Board of Directors and the Investment Committee existing and potential risks in investment assets for the establishment and updating of the investment policy.
- Periodically reporting to the Board of Directors, the Investment Committee and the CEO on exposures to risks and their potential impact on the financial stability of the entity.
- Examining, at least one every quarter and at the discretion of the Investment Committee, the correspondence of actual exposures to the risk management policy set by the Board of Directors and the Investment Committee and presenting relevant risk indicators.
- Periodically testing, at least annually, the adequacy, consistency, reliability and validity of the models implemented by him/her, using generally accepted statistical methods, such as back testing.

The Company is subject to additional regulatory requirements concerning risk management in various areas:

- Provisions for the management of specific exposures on: readiness for disaster recovery, management of exposure to reinsurers, prevention of fraud and misappropriation, management of cyber risks, compliance and enforcement, control over financial reporting (SOX), credit risk management. Solvency II, money laundering, protection of privacy, accessibility and more.
- The implementation of the provisions of the Solvency-II economic solvency regime, on the basis of which the Company assesses the economic capital that is required for its operations. As part of the risk management, the Company pursues the control and assessment of significant business activities from a capital perspective as well, and the inclusion of economic capital considerations in the decision-making processes.

The Company has appointed a VP as a risk manager who works to implement regulatory requirements in this area.

NOTE 27 - RISK MANAGEMENT (Continued):

C. Market risks

The Company's market risks relate to financial assets and liabilities or insurance liabilities. The Company's asset portfolio arises mainly from its insurance activity. Management of proprietary investments is carried out in compliance with the provisions of the law, Company's investment policy, its credit policy and its risk management policy, as set by the Board of Directors and the Investment Committee. Most of the Company's funds are invested in Israel and a small part is invested overseas.

Market risk is the risk that the value or future cash flows of financial assets, financial liabilities, or insurance liabilities will change as a result of unanticipated changes in market prices. Market risks includes, inter alia, risks arising from changes in interest rates, credit spreads, share prices, the CPI, and foreign currencies.

The bond portfolio is managed by two external investment managers. The stock portfolio is invested in passive share instruments. The Company receives investment consulting from a related company.

1) Market risk sensitivity analyses

Following is a sensitivity analysis in relation to the impact of change in those factors on profit for the year and comprehensive income (equity). The sensitivity analysis refers to financial assets, financial liabilities and liabilities for insurance contracts as at each reporting date, assuming that all other factors remain constant. Thus, for example, the change in interest rate assumes that all other variables remain unchanged. In addition, it is assumed that said changes do not reflect permanent impairment of assets that are presented at depreciated cost or available-for-sale assets, and consequently, the above sensitivity analysis does not include impairment losses for those assets.

The sensitivity analysis reflects direct impacts only, without secondary impacts. It is further noted that sensitivity is not necessarily linear, and that the impact of larger or smaller changes or larger changes than those described below may not necessarily be derived through a simple extrapolation.

NOTE 27 - RISK MANAGEMENT (Continued):

C. Market risks (continued)

1) Market risk sensitivity analyses (continued):

Data as at December 31, 2022:

	Rate of interest (1)		Investments in equity instruments (2)		Rate of change in the CPI		Rate of change in foreign currency exchange rate	
	+1%	-1%	+10%	-10%	+1%	-1%	+10%	-10%
	NIS in thousands							
Profit (loss) (3)	(14,119)	14,185	6,931	(6,931)	1,022	(1,022)	6,421	(6,421)
Comprehensive income (equity) (4)	(14,119)	14,185	6,931	(6,931)	1,022	(1,022)	6,421	(6,421)

Data as at December 31, 2021:

	Rate of interest (1)		Investments in equity instruments (2)		Rate of change in the CPI		Rate of change in foreign currency exchange rate	
	+1%	-1%	+10%	-10%	+1%	-1%	+10%	-10%
	NIS in thousands							
Profit (loss) (3)	(27,830)	27,727	7,132	(7,132)	1,249	(1,249)	6,442	(6,442)
Comprehensive income (equity) (4)	(27,830)	27,727	7,132	(7,132)	1,249	(1,249)	6,442	(6,442)

(1) The sensitivity analysis of the change in interest relates to both fixed-rate instruments and variable-rate instruments. For fixed-rate instruments, the exposure relates to the carrying amount of the instrument; for variable-rate instruments, the exposure relates to the cash flow arising from the financial instrument. The calculation of the sensitivity analysis considers interest changes since the beginning of the year also for assets acquired during the year.

The impact of 1% increase/decrease in interest rate on comprehensive income for the insurance liability in the sensitivity analysis is estimated at NIS 9,387 / (9,550) thousand (2021- NIS 9,793 / (9,895) thousand).

The sensitivity analysis is based on the carrying amount and not the economic value. This sensitivity analysis includes asset and liability items with direct interest risk, as discussed in Note 27c(2).

Note that the portion of liabilities included the sensitivity analysis out of total liabilities for non-profit-participating insurance contracts is 59.6%.

2) Investments in instruments that do not have a fixed cash flow or, alternatively, of the cash flow of which the Company does not have data.

3) The sensitivity analyses are presented net of the tax effect, in accordance with the tax rate applicable in the reported year.

4) The sensitivity analyses regarding the comprehensive income also reflect the effect on the profit (loss) for the reported period.

NOTE 27 - RISK MANAGEMENT (Continued):

C. Market risks (continued)

2) Direct interest risk

The direct interest risk is the risk that a change in the market interest rate will affect the value of or the cash flow from the asset or liability. This risk relates to assets that are settled in cash. The addition of the word "direct" underscores the fact that the change in the interest rate can also affect other types of assets, but not directly, such as the impact of a change in the interest rate on share prices.

Presented below is a breakdown of the assets and liabilities by exposure to interest risks:

	Non-profit-participating assets and liabilities as at December 31	
	2022	**2021**
	NIS in thousands	
Assets with direct interest risk:		
Marketable debt instruments	**1,817,997**	1,903,047
Non-marketable debt instruments:		
Non-marketable bonds	**2,556**	4,422
Other	**700**	798
Reinsurance asset	**639,938**	672,107
Cash and cash equivalents	**35,721**	61,582
Total assets with direct interest risk	**2,496,912**	2,641,956
Assets without direct interest risk	**986,541**	866,734
Total assets	**3,483,453**	3,508,690
Liabilities with direct interest risk:		
Liabilities in respect of non-profit-participating insurance contracts	**1,348,045**	1,368,757
Liabilities for employee retirement obligations	**3,659**	5,261
Liabilities in respect of reinsurers	**250,593**	266,008
Total liabilities with direct interest risk	**1,602,297**	1,640,026
Liabilities without direct interest risk	**1,086,288**	975,538
Equity	**794,868**	893,126
Total equity and liabilities	**3,483,453**	3,508,690
Total assets, net of liabilities	**794,868**	893,126

NOTE 27 - RISK MANAGEMENT (Continued):

C. Market risks (continued)

2) Direct interest risk (continued)

Assets without direct interest risk include shares, property and equipment, deferred acquisition costs and other assets as well as groups of balance sheet financial assets with a relatively low interest risk (collectible premiums, current balances of insurance companies and other accounts receivable).

Liabilities without a direct interest risk include liabilities in respect of non-profit-participating insurance contracts, liabilities in respect of deferred taxes, net, liabilities in respect of current taxes and other accounts payable.

3) Breakdown of assets and liabilities of the Company by linkage bases:

	December 31, 2022				
	In NIS - unlinked	In NIS - linked to the CPI	In foreign currency or linked thereto	Non-financial items and other	Total
	NIS in thousands				
Intangible assets	-	-	-	26,625	26,625
Deferred acquisition costs	-	-	-	184,697	184,697
Property and equipment	-	-	-	23,580	23,580
Reinsurance assets	27,888	630,985	52,883	-	711,756
Current tax assets	-	139,712	-	-	139,712
Deferred tax assets	-	-	-	26,942	26,942
Premiums collectible	112,064	112,374	14,647	-	239,085
Other accounts receivable	27,230	21,633	2,864	27,053	78,780
Other financial investments:					
Marketable debt instruments	872,887	944,222	888	-	1,817,997
Non-marketable debt instruments	91,231	2,013	-	-	93,244
Other	-	-	105,314	-	105,314
Total other financial investments	964,118	946,235	106,202	-	2,016,555
Other cash and cash equivalents	36,589	-	(868)	-	35,721
Total assets	1,167,889	1,850,939	175,728	288,897	3,483,453
Total equity				794,868	794,868
Liabilities:					
Liabilities for non-profit-participating insurance contracts	489,054	1,704,200	67,790	-	2,261,044
Retirement benefit obligations	3,659	-	-	-	3,659
Liabilities to reinsurers	250,593	-	6,844	22,056	279,493
Other accounts payable	140,585	-	3,531	-	144,389
Total liabilities	884,164	1,704,200	78,165	22,056	2,688,585
Total liabilities and equity	884,164	1,704,200	78,165	816,924	3,483,453
Total balance sheet exposure	283,725	146,739	97,563	(528,027)	

NOTE 27 - RISK MANAGEMENT (Continued):

C. Market risks (continued)

3) Breakdown of assets and liabilities of the Company by linkage bases (continued):

	December 31, 2021				
	In NIS - unlinked	In NIS - linked to the CPI	In foreign currency or linked thereto	Non-financial items and other	Total
	NIS in thousands				
Intangible assets	-	-	-	27,194	27,194
Deferred acquisition costs	-	-	-	172,527	172,527
Property and equipment	-	-	-	28,950	28,950
Reinsurance assets	22,509	695,756	49,344	-	767,609
Current tax assets	-	76,328	-	-	76,328
Premiums collectible	95,334	84,525	15,890	-	195,749
Other accounts receivable	21,921	31,481	4,969	25,877	84,248
Other financial investments:					
Marketable debt instruments	931,134	71,913	-	-	1,903,047
Non-marketable debt instruments	81,049	2,037	-	-	83,086
Other	-	-	108,370	-	108,370
Total other financial investments	1,012,183	973,950	108,370	-	2,094,503
Other cash and cash equivalents	62,191	-	(609)	-	61,582
Total assets	1,214,138	1,862,040	177,964	254,548	3,508,690
Total equity				893,126	893,126
Liabilities:					
Liabilities for non-profit-participating insurance contracts	422,273	1,670,231	58,909	-	2,151,413
Deferred tax liabilities	-	-	-	16,559	16,559
Retirement benefit obligations	5,261	-	-	-	5,261
Liabilities to reinsurers	266,008	-	18,205	21,377	305,590
Other accounts payable	133,775	-	2,966	-	136,741
Total liabilities	827,317	1,670,231	80,080	37,936	2,615,564
Total liabilities and equity	827,317	1,670,231	80,080	931,062	3,508,690
Total balance sheet exposure	386,821	191,809	97,884	(676,514)	

NOTE 27 - RISK MANAGEMENT (Continued):

D. Liquidity risk

The Company is exposed to risks stemming from the uncertainty as to the dates in which it would be required to pay claims to policy holders the amounts their claims in proportion to the scope of funds that will be available for that purpose on that date. A potential need to recruit funds unexpectedly and within a short time frame may require disposal of assets over a short-term period and the sale thereof at prices that would not necessarily reflect their market prices. Liquid assets are maintained at the rate set out in Company's related policy.

Management of assets and liabilities

The Company manages its assets and liabilities in accordance with the requirements of regulatory provisions and based on the approved ALM (Asset Liability Management) policy that is based on the reconciliation of assets and liabilities. Based on the risk appetite of the Company, the Investment Committee has set a target for the difference in the average of assets and liabilities, which is regularly monitors.

The tables below present the estimated maturity dates of the amounts of the undiscounted insurance liabilities of the Company.

The estimated maturity dates of the liabilities in respect of general insurance contracts were included in the table as follows:

Insurance liabilities estimated by the Company's actuary - on the basis of an actuarial estimate.

Insurance liabilities in sectors that are not assessed by the actuary.

The estimated maturity dates of the liabilities in respect of life and health insurance contracts were included in the tables on the basis of an actuarial estimate.

Liabilities in respect of life insurance contracts and health insurance contracts

	Up to one year	Between 1 and 5 years	Between 5 and 10 years	Between 10 and 15 years	More than 15 years	No fixed maturity date	Total
	NIS in thousands						
December 31, 2022	**104,713**	**69,044**	**1,468**	**9**	**7,362**	**-**	**182,596**
December 31, 2021	**91,621**	**55,302**	**713**	**-**	**7,680**	**-**	**155,316**

Liabilities in respect of general insurance contracts

	Up to one year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years	No fixed maturity date	Total
	NIS in thousands					
December 31, 2022	**973,289**	**465,156**	**283,176**	**331,304**	**25,523**	**2,078,448**
December 31, 2021	**837,496**	**459,087**	**307,028**	**373,725**	**18,761**	**1,996,097**

NOTE 27 - RISK MANAGEMENT (Continued):

E. Insurance risks

The business managers of the various insurance segments manage the insurance risks subject to the risk management policy approved by the Board of Directors, among others, by issuing guidelines for underwriting, acceptance of business and authorization hierarchies, as well as by transferring risks to reinsurers under contracts or by way of facultative insurance policies, in accordance with the retention policy approved by the Board of Directors.

As part of the development of new products and before engaging in material transactions, a comprehensive process is performed for identifying and evaluating the risks associated with the product or the transaction, and methods are established for their management and control. In the event of a suspected deterioration in the underwriting results that does not originate in random fluctuations, in-depth tests are conducted, inter alia, to assess the inherent risk, and if necessary, the assessment of insurance liabilities is adjusted and the underwriting policy is reviewed.

Additionally, in order to reduce the exposure to risks, the Company implements a stringent evaluation policy for claims, including ongoing evaluation of claim handling processes and investigations for the detection of fraud. The Group also employs an active policy for the current management of claims, in order to reduce the exposure to unexpected developments that may adversely affect it.

The Company's policy is to limit the exposure to catastrophes by stipulating maximum coverage amounts and by acquiring adequate reinsurance coverage. One of the objectives of the underwriting reinsurance policy is to limit the exposure to catastrophes to a predetermined estimated maximum loss, with reference to a given probability, based on models and/or studies, and in accordance with the risk appetite of the Company, as determined by the Board of Directors. The overall quantitative assessment of the exposure to insurance risks is performed based on the provisions of the economic solvency regime, which includes an evaluation of extreme scenarios for various risk categories and an evaluation of overall risk, in consideration of the correlations between them.

The actuary units conduct studies, exposure analyses and periodic evaluations of risk factors, such as: profitability tests for the operating segments, mortality and morbidity studies, premium deficiency reserves and exposure to earthquakes. These analyses serve both as a basis for risk assessment, using statistical indicators and sensitivity tests, in collaboration with the risk management unit, and as a part of the system of control over insurance activities.

The Company assesses its exposure to earthquake risk in Israel, which is the primary catastrophic event to which it is exposed, using international models, and acquires protection against this risk based on this assessment.

The insurance risks include, inter alia, the following:

Underwriting risks: The risk that erroneous pricing would be used as a result of deficiencies in the underwriting process and of the differences between the risk at the time of pricing and determining the premium and actual events, so that the premiums that are collected are not sufficient to cover future claims and expenses. The differences may arise from incidental changes in the business results and from changes in the cost of the average claim and/or the frequency of the claims due to various factors.

NOTE 27 - RISK MANAGEMENT (Continued):

e. Insurance risks (continued):

Reserve risks: The risk of an erroneous estimation of the insurance liabilities that could entail actuarial reserves that are insufficient to cover all the liabilities and claims. The actuarial models that the Company uses, inter alia, in assessing its insurance liabilities are based on the assumption that the pattern of behavior and claims in the past is indicative of future events. The Company's exposure is composed of the following risks:

- Model Risk – the risk of electing an erroneous model of pricing and/or for the assessment of the insurance liabilities.
- Parameter risk – the risk of use of erroneous parameters, including the risk that the amount payable for settlement of the insurance liabilities of the Company or the date of the settlement of the insurance liabilities would differ from the expected amount or date.
- Systemic risk: the risk of an unexpected future change in profitability trend in a calendar year.

Catastrophe risk: Exposure to the risk that a single event of extensive effect (a catastrophe) such as natural catastrophe, war, terrorism, fire or outbreak, would cause an accumulation of damages of extensive scope. The material catastrophic event to which the Company is exposed in Israel is an earthquake.

The amount of the loss expected in the general insurance business as a result of the exposure to a single extensive damage or accumulation of damages due to a large-scale event at a maximum possible loss (MPL) probability of 0.34% is NIS 419 million (gross) and NIS 46 million (self-retention). This rate is computed in accordance with Company's internal models

The maximum expected rate of damage used in calculating catastrophe risk in general insurance as part of the Company’s economic solvency regime (Solvency II) computation is 1.75%. The expected loss in the general insurance business from exposure to an extensive single damage or accumulation of damages for a large-scale event at a maximum possible loss (MPL) probability of 1.75% is NIS 2,103 million (gross) and NIS 458 million (self-retention).

As to data regarding the various insurance products in respect of which the insurer is exposed to an insurance risk, see the breakdown of the insurance liabilities by insurance risk in Note 4 - Additional Data for the General Insurance Segment, and the breakdown of assets and liabilities in respect of life insurance contracts by insurance exposure, and in Note 16 - Breakdown of Liabilities in respect of Insurance Contracts in the Health Insurance Segment.

NOTE 27 - RISK MANAGEMENT (Continued):

E. Insurance risks (continued):

1. Insurance risk inherent in life insurance contracts

General

Presented below is a description of the various insurance products and the assumptions used in computing the liabilities related to those products, by type of product. In general, in accordance with the Commissioner’s instructions, the insurance liabilities are computed by an actuary, based on generally accepted actuarial methods. The liabilities are computed in accordance with the relevant coverage data, such as age and sex of the policy holder, the period of insurance, the date of commencement of the insurance, the type of the insurance, periodic premium and the amount of insurance.

Actuarial methods used in computing the insurance liabilities

- The "individual personal accidents" plans include pure-risk products (death, severe illness, disability as a result of an accident, death as a result of an accident, permanent disability) that are sold as independent policies or attached to independent policies. For those plans, the liability is computed on an actuarial basis. The computation is based on the "Gross Premium Reserve" method that includes in the expected proceeds all premium components and discounts the anticipated expenses and commissions, standardized with prudence.
- The liability in respect of pending claims in life insurance mainly include provisions for pending claims for risks of death and disability, and a provision for IBNR.
- The computation is made on a gross basis. The share of reinsurers is computed based on the agreements.

Main assumptions used in computing insurance liabilities

1) Discount rate

In the life insurance segment, which comprises pure risk products with fixed premium, the discount rate used is of 0.64%.

2) Mortality and morbidity rates

a) The mortality rates used to compute the insurance liabilities under life insurance policies in respect of mortality of policy holders were determined on the basis of studies conducted by reinsurers in combination with the mortality history studies performed by the Company.

b) The morbidity rates refer to the frequency of claims in respect of permanent disability on the basis of studies conducted by reinsurers.

Sensitivity analyses in life insurance as at December 31, 2022 (NIS in thousands):

	Morbidity and mortality rate	
	+10%	**-10%**
Profit (loss)	**(2,129)**	**1,515**

NOTE 27 - RISK MANAGEMENT (Continued):

E. Insurance risks (continued):

2. Insurance risk inherent in health personal accident contracts

General

Set forth below is the description of the various insurance contracts and the assumptions used for computation of the liabilities related to those products, based on the type of the product. In general, based on the supervisor's instructions, the insurance liabilities are computed by an actuary, based on accepted actuarial methods and consistently with previous year. The liabilities are computed in accordance with the relevant coverage data, such as age and sex of the insured person, the period of insurance, the date of commencement of the insurance, the type of the insurance, periodic premium and the amount of insurance.

Actuarial methods used in computing the insurance liabilities

- The "individual personal accidents" plan includes pure-risk products (death as a result of an accident, disability as a result of accident) that are sold as independent policies. For this plan, the liability is computed on an actuarial basis. The computation is based on the "Gross Premium Reserve" method, which includes in the expected proceeds all the premium components and discounts the expected expenses and commissions.
- The liability in respect of pending claims relating to health and personal accidents mainly include provisions for pending claims for risks of death as a result of an accident, severe illnesses and disability as a result of an accident and a provision for IBNR. For the personal accidents sectors - both individual and collective – “Link Ratio” models were set up on the basis of the accumulated cost of the claims (payments of the claims with the addition of specific assessments and the average cost per claim. The models are settled annually upon the development of quarterly damages. Cost drivers were calculated to optimize the estimation.
- This estimate includes a conservativism factor to bring the provision in the account to a prudence level of 75%.
- The computation is made on a gross basis. The share of reinsurers is computed based on the agreements.

Main assumptions used for the calculation of insurance liabilities:

- In January 2015, the Commissioner published a position – "Best Practice for Calculation of General Insurance Reserves for Financial Reporting". The Commissioner’s position includes, among others, explanations for the principles: professionalism, consistency, and prudence, which have not been previously defined in General Insurance Actuarial Assessment Circular 2015-1-1. The principle of prudence requires an actuary to verify that assessments in liability sectors are tuned to a probability of at least 75%. In addition, the Commissioner’s opinion also addresses liability cash flow discount rates for optimal assessments.
- According to the position of the Commissioner, for purposes of pending claims in compulsory and liability sectors and the “reasonable probability” that reserves will be sufficient to cover the insurer’s liabilities will aim for an estimated probability of at least 75%.
- The Company implements the Reserve/Premium Risk Statistical Model (hereinafter: "the RPS model"), which is implemented by the AIG Group worldwide, in order to determine stochastically the 75th percentile estimate.

NOTE 27 - RISK MANAGEMENT (Continued):

E. Insurance risks (continued):

2. Insurance risk inherent in health personal accident contracts (continued)

Main assumptions used for the calculation of insurance liabilities (continued)

1) Discount rate

In the "personal accidents – individual" sector, the gross premium reserve is computed on the basis of a risk-free interest rate.

2) Morbidity and mortality rates

Morbidity rates refer to the frequency of claims relating to morbidity resulting from disability and accidents and to accidental death. These rates were determined based on the Company's past experience. The higher the assumption regarding the morbidity rate, the higher the insurance liability for morbidity resulting from disability and accidents and for accidental death.

3) Cancellation rates

The rate of cancellations affects the insurance liabilities in respect of certain types of health insurance. Insurance contracts can be cancelled by the Company due to unpaid premiums or at the request of the owner of the policy. The assumptions as to the rates of cancellation are based on the Company's past experience based on the type of the product, the estimated useful life of the product and sales trends. A 10% increase or decrease in the cancellations assumption has no material effect on the profit, since the gross premium reserve is relatively small.

Sensitivity analysis for health insurance and personal accidents insurance as at December 31, 2022 (NIS in thousands):

	Cancellation rate (withdrawals, settlements and reductions)		Morbidity and mortality rate	
	+10%	-10%	+10%	-10%
Profit (loss)	64	(481)	(4,472)	2,436

3. Insurance risk in general insurance contracts

Summary of the main insurance sectors in which the Company operates

The Company writes insurance contracts in the field of general insurance, mainly in the vehicle property insurance, compulsory vehicle insurance, home insurance, liability insurance and property insurance sectors.

Compulsory vehicle insurance covers the policy holder and the driver for any liability they may arise a result of the provisions of the Road-Accident Victims' Compensation Law, 1975, for personal injury caused as a result of the use of a motor vehicle to the driver, the passengers or pedestrians hit by the vehicle. Compulsory vehicle insurance claims are characterized by a long tail, i.e., sometimes a long period of time elapses from the occurrence of the event to the final settlement of the claim.

NOTE 27 - RISK MANAGEMENT (Continued):

E. Insurance risks (continued):

3. Insurance risk in general insurance contracts (continued)

Summary of the main insurance sectors in which the Company operates (continued)

Liability insurance policies are designed to cover the liability of a policy holder for any damage that he may cause to a third party. The main types of insurance are: liability to a third party, liability of employers, other liability insurances such as professional liability, product liability and directors' and officers' liability. The timing of the filing of the claims and the settlement thereof is affected by several factors, such as the type of coverage, the terms of the policy, and legislation and legal precedents. Normally, the claims in the liability sector are characterized by a long tail. i.e., sometimes a long period of time elapses from the occurrence of the event to the final settlement of the claim.

Vehicle damage insurance and-third party vehicle property insurance grant the policy holder coverage for property damage. The coverage is usually limited to the value of the damaged vehicle. The tariff for vehicle damage insurance, and the policy as a whole, are subject to approval by the Commissioner. The tariff is an actuarial tariff and partially differential (varies between policy holders and adjusted for the risk). The tariff is based on several parameters, relating both to the vehicle insured under the policy (e.g. type of vehicle, year of manufacture etc.) and to the attributes of the policy holder (age of the driver, claims history etc.). The underwriting procedure is partly performed through the tariff itself and partly based on a system of procedures that are designed to examine the claims history of the policy holder, including the presentation of a no-claim certificate from a previous insurer (for the three preceding years), presentation of an up-to-date certificate of protection etc. These procedures are automatically included in the policy issuance process. Vehicle damage insurance policies are generally issued for a one-year period. Also, in most cases, claims in respect of these policies are resolved close to the occurrence of the insurance event.

Property insurance policies are designated to provide the policy holder coverage against physical damage to his property and loss of profits due to the damage caused to his property. The main risks covered by property insurance policies are fire, explosion, burglary, earthquake and natural catastrophe. The property insurance policies may include coverage for loss of profits originating in physical damage to property. Property insurance constitutes an important part of home insurance, business insurance, engineering insurances, freight in transit (marine, land, air) etc. Claims regarding those policies are generally resolved close to the occurrence of the insurance event.

Principles of computation of the actuarial assessment in general insurance

a) The liabilities in respect of general insurance contracts include the following components:
   - Optimized estimation of pending claims
   - Conservativism addition to the 75% percentile
   - Provision for unearned premium
   - Provision for indirect expenses

NOTE 27 - RISK MANAGEMENT (Continued):

E. Insurance risks (continued):

3. Insurance risk in general insurance contracts (continued)

Principles of computation of the actuarial assessment in general insurance (continued)

b) In January 2015, Insurance Circular "Actuarial Assessment in General Insurance" was published. The provisions of this circular are designated to improve the quality of assessment liabilities in respect of general insurance contracts (hereinafter: “Insurance Reserves”), which are pivotal to the assessment of the liabilities of the insurer, and regulate the inclusion in the financial statements of a professional opinion by an appointed actuary (hereinafter: “Actuary”) in relation to the assessment of those insurance liabilities. This circular states the scope of actuarial assessment that the general insurance Actuary needs to perform, the actuarial report required of the Actuary and a declaration that the Actuary is required to sign, which is to be attached to the financial statements.

c) In January 2015, the Commissioner published a position, "Best Practice for Calculation of General Insurance Reserves for Financial Reporting" (hereinafter: "the Commissioner’s Opinion"). The Commissioner’s Opinion includes, among others, clarifications of the principles: professionalism, consistency, and prudence, which have not been previously defined in General Insurance Actuarial Assessment Circular 2015-1-1. The principle of prudence requires an actuary to verify that assessments in liability sectors are tuned to a probability of at least 75%. In addition, the Commissioner’s Opinion also addresses liability cash flow discount rates for optimal assessments.

d) In accordance with the guidelines of the Commissioner, pending claims are computed by an actuary based on generally accepted actuarial methods, initially according to the optimal assessment and thereafter with the requisite addition for reaching the 75th percentile. The election of the actuarial method appropriate for each insurance sector and for each year of event/underwriting is made using discretion as to the extent of the method’s suitability to the sector and, occasionally, using a combination of the various methods. The assessments are primarily based on past experience of the development of payments for claims and/or developments in the amount of payments and specific assessments. The assessments include assumptions regarding the cost of an average claim or the loss ratio. Further assumptions may relate to changes in rates of interest, exchange rates and the timing of payments. The payments of the claims include direct and indirect expenses for settlement of claims, net of subrogation and deductibles.

e) The use of actuarial methods that are based on the development of claims is mainly appropriate when there is stable and satisfactory information regarding payments of claims and/or specific assessments to assess the total anticipated cost of claims. Where the information available for actual claim experience is insufficient, the actuary may use a computation weighting a known estimate (in the Company and/or the sector), such as loss ratio, and the development of actual claims. Greater weight is given to the assessment that is based on experience as time elapses and further data is accumulated regarding the claims.

NOTE 27 - RISK MANAGEMENT (Continued):

E. Insurance risks (continued):

3. Insurance risk in general insurance contracts (continued)

Principles of computation of the actuarial assessment in general insurance (continued)

f) Also included are qualitative assessments and discretion as to the extent that past trends would not continue in the future. For example, due to a non-recurring event, internal changes, such as a change in the mix of the portfolio, the underwriting policy and procedures, as well as due to the effects of external factors such as legal rulings, legislation, etc. When changes as above are not fully reflected in the past experience, the actuary updates the models and/or makes specific provisions based on statistical and/or legal assessments, as appropriate.

g) For large claims of a non-statistical nature, the provision is determined (gross and retained) based on an opinion issued by Company's experts and in accordance with the recommendations of its legal advisors.

h) The share of the reinsurers in the pending claims is estimated taking into account the type of the agreement (proportionate/disproportionate), actual claim experience and the premium transferred to reinsurers.

i) The assessment of the pending claims in respect of the Company's share in the pool was based on a computation performed by the pool.

k) An examination is performed of the recoverability of the deferred acquisition costs and the cost of future claims, including other expenses related to the handling of the policy and claims.

Breakdown of actuarial methods in the principal insurance sectors

a) Vehicle property insurance

In the vehicle property sector, liabilities are computed based on the development of the claim payments and the development in payment amounts and the specific assessments, with reference to the types of coverage, such as comprehensive/third-party coverage, and the types of damages such as self-damage/third-party/theft/total loss. For the last months of damage, in respect of which there is insufficient data, the average method is also used to determine the cost of claim per policy.

b) Compulsory vehicle insurance

In the compulsory vehicle sector, liabilities are computed based on the development of payments, and the development in payments and pending claims in respect of smaller claims (up to the excess point in the reinsurance contract). Liabilities above the excess point are computed using actuarial models that are based on development of frequency, multiplied by severity. The share of the reinsurer in the excess of loss claims is calculated using a model for larger claims and based on actual larger claims.

NOTE 27 - RISK MANAGEMENT (Continued):

E. Insurance risks (continued):

3. Insurance risk in general insurance contracts (continued)

Breakdown of actuarial methods in the principal insurance sectors (continued)

c) Liability insurance

In the liability sector, liabilities are computed based on the development of identified claims. For periods in respect of which there is insufficient data, the cost of claims is computed using the loss ratio method. For large claims, the specific assessments of the claims department are also taken into account.

d) Other property insurance

In the other property sectors, liabilities are computed based on the development of the claim payments and/or the development in the payments and pending claims, with the exception of coverage of water damage (pursuant to the Plumbers Circular) in home insurance, for which assessments were based on frequency and severity due to lack of data.

e) Assessment of indirect claim handling expenses

The indirect expense element in paid claims is calculated by the Finance Division. Those expenses include all costs of the Claims Department and an allocation of indirect expenses of the Company that are attributable to the settlement of claims (these include IT expenses, HR, depreciation and finance).

The unallocated loss adjustment expense (ULAE) factor is based on the historical ratio of payments not allocated to claims to claims paid in recent calendar years. The ULAE reserve was computed assuming one half the cost of settling a claim is incurred upon opening a file and the remainder upon closing it.

In view of the different scale and nature of the claims in the commercial sectors and the private insurance sectors, a separate calculation of the ULAE reserve is performed for those segments.

The ULAE reserve was allocated by accident-year proportional to the unpaid indemnity reserves held, by accident-year.

f) Principal assumptions taken into account in the actuarial assessment

- According to the Commissioner’s position, as published in a circular on January 15, 2015, as from the end of 2015, for pending claims in compulsory and liability sectors, the test as to whether it is fairly likely that reserves will be sufficient to cover the liabilities of the insurer will ai, for a probability estimate of at least 75%
- The conservativism margin was obtained using stochastic models that estimate the volatility in claim experience. Those models also estimate random and systemic risks.

NOTE 27 - RISK MANAGEMENT (Continued):

E. Insurance risks (continued):

3. Insurance risk in general insurance contracts (continued)

f) Principal assumptions taken into account in the actuarial assessment (continued)

- The Company implements the Reserve/Premium Risk Statistical Model ("the RPS model"), which is implemented by the AIG Group worldwide, in order to determine stochastically the 75th percentile estimate.
- Due to a negative risk-free curve, the discounted best estimate provisions are greater than the undiscounted best estimate provisions. In accordance with best practices in the compulsory vehicle insurance and in the liability insurance sectors, the best estimate provisions incorporate the discounted amounts.
- Provisions of Insurance Circular 2022-1-4 concerning the evaluation of the non-liquidity premium that is added to the risk-free interest rate in the measurement of liabilities. This circular, published on February 17, 2022, is applicable commencing in the financial statements as at December 31, 2021. The effect on the liabilities of the Company is as follows:

  Compulsory vehicle insurance:

  - The total discount effect on the gross reserve, after implementing the provisions of Circular 2022-1-4, is NIS 53.5 million (NIS 40.6 million in retention).

  Commercial liability

  The effect of the change in the liability sector following the implementation of the Circular in 2022 is NIS 4.1 million in retention.

g) Discount interest rate applicable to annuities

In 2019, the Kaminitz Committee (an inter-ministerial committee established for the purpose of reviewing the discount interest rate applicable to compensation for personal injury under damages) published its final report. Among others, the report reexamines the National Insurance Regulations (Discounting) (Amendment), 2016, which had reduced the discount interest rate to 2%. As part of the aforesaid final report, the Committee recommended, inter alia, the reinstatement of the discount interest rate to 3%. In the same year, the Supreme Court also issued a ruling (Appeal 3751/17 The Israeli Vehicle Insurance Pool vs. Anonymous), which determines inter alia that, pending a legislation amendment, the updating mechanism provided for by the Kaminitz Committee should be adopted, and that the discount rate will remain at 3%.

NOTE 27 - RISK MANAGEMENT (Continued):

E. Insurance risks (continued):

3. Insurance risk in general insurance contracts (continued)

g) Discount interest rate applicable to annuities (continued)

On October 10, 2020, the court rejected a motion for an additional discussion (ACD 6370/19) of the ruling concerning the discount rate for compensation in respect of personal injury under damages applicable to the National Insurance Institute in subrogation claims, thereby preserving the existing discount rate of 3%.

Consequently, the Company estimated the effect of the aforesaid ruling and reduced the provisions in the compulsory vehicle insurance segment in 2020 by approximately NIS 9.1 million in retention before tax, this in respect of subrogation claims of the National Insurance Institute against the Company, and increased the pre-tax profit in the segment by the same amount.

h) Reserve for premium deficiency

As a result of the adverse development in the experience with claims in vehicle insurance, the Company created a reserve for premium deficiency of NIS 45.8 million for compulsory vehicle insurance. In addition, the Company created a reserve for premium deficiency of NIS 0.2 million for employers' liability insurance and NIS 0.4 million for property loss insurance.

F. Credit risk data:

Credit risk arises from exposure to decrease in the quality of credit or default of borrowers as a result of deterioration of their financial strength. Investments in bonds, capital notes and deposits of companies are mainly rated A or above, representing a relatively low credit risk.

Acquisition of bonds is performed after thorough analysis of the investment based on the criteria and credit policy approved by the Investments Committee. Debts are regularly monitored, with special attention to problem debts. Once a quarter, the Company holds a problem debt forum, which is tasked with assessing the status of debt. The purpose of the forum is to discuss sensitive/problem debt, including in cases of rating downgrades.

The decision on the means to be taken to handle such debt is made by the functions who are authorized to decide on the handling of problem debts. A periodic report on this matter is submitted to the Investments Committee of the Company.

1) Details of debt instruments by location

As of December 31, 2021 and 2020, the Company has no marketable and non-marketable debt instruments abroad, see note 10.

NOTE 27 - RISK MANAGEMENT (Continued):

F. Credit risk data (continued):

2) Breakdown of assets by ratings:

a. Debt instruments (excluding cash and cash equivalents, premiums collectible and other receivables)

	Domestic rating			
	December 31, 2022			
	AA- and above	BBB through A+	Not rated	Total
	NIS in thousands			
Debt instruments in Israel				
Marketable debt instruments:				
Government bonds	**559,822**	**-**	**-**	**559,822**
Corporate bonds	**941,627**	**316,548**	**-**	**1,258,175**
Total marketable debt instruments in Israel	**1,501,449**	**316,548**	**-**	**1,817,997**
Non-marketable debt instruments:				
Corporate bonds	**1,313**	**1,297**	**-**	**2,610**
Loans and receivables, excluding bank deposits	**89,934**	**-**	**-**	**89,934**
Deposits with banks and financial institutions	**700**	**-**	**-**	**700**
Total non-marketable debt instruments in Israel	**91,947**	**1,297**	**-**	**93,244**
Total domestic debt instruments	**1,593,395**	**317,845**	**-**	**1,911,241**

Debt instruments abroad

As at December 31, 2022, the Company has no debt instruments overseas.

	Domestic rating			
	December 31, 2021			
	AA- and above	BBB through A+	Not rated	Total
	NIS in thousands			
Debt instruments in Israel				
Marketable debt instruments:				
Government bonds	651,762	-	-	651,762
Corporate bonds	913,287	337,998	-	1,251,285
Total marketable debt instruments in Israel	1,565,049	337,998	-	1,903,047
Non-marketable debt instruments:				
Corporate bonds	3,022	1,400	-	4,422
Loans and receivables, excluding bank deposits	77,866	-	-	77,866
Deposits with banks and financial institutions	798	-	-	798
Total non-marketable debt instruments in Israel	81,686	1,400	-	83,086
Total domestic debt instruments	1,646,735	339,398	-	1,986,133

Debt instruments abroad

As at December 31, 2021, the Company has no debt instruments overseas.

NOTE 27 - RISK MANAGEMENT (Continued):

F. Credit risk data (continued):

2) Breakdown of assets by ratings (continued):

b. Credit risk in respect of other financial assets (in Israel)

	Domestic rating		
	December 31, 2022		
	A and above	Not rated	Total
	NIS in thousands		
Accounts receivable - excluding balances of reinsurers	**-**	**291,195**	**291,195**
Cash and cash equivalents	**35,721**	**-**	**35,721**
	35,721	**291,195**	**326,916**

	Domestic rating		
	December 31, 2021		
	A and above	Not rated	Total
	NIS in thousands		
Accounts receivable - excluding balances of reinsurers	-	250,179	250,179
Cash and cash equivalents	61,582	-	61,582
	61,582	250,179	311,761

3) Additional data regarding credit risks:

a. Different scales are used for the rating of debt instruments in Israel and abroad. It should be noted that, in accordance with Capital Market Circular 2008-6-1, regarding the publication of a mechanism for conversion of the Israeli rating scale to the international rating scale, the Commissioner instructed that, through January 1, 2009, the rating companies that have been authorized by the Commissioner of Capital Market, Insurance and Savings to operate as a rating company pursuant to Capital Market Circular 2004/1 are to publish a mechanism for the conversion of the Israeli rating into the international rating.

b. As to balances with reinsurers amounting to NIS 767,609 thousand, see Note 13. See also Note 27f(5)(3).

NOTE 27 - RISK MANAGEMENT (Continued):

F. Credit risk data (continued):

4) Breakdown of exposure to investments in marketable and nonmarketable financial debt instruments, by industry:

	December 31, 2022	
	Balance sheet credit risk	
	Amount	% of total
	NIS in thousands	
Industry		
Construction and real estate	**416,596**	**21.8**
Defense	**8,846**	**0.5**
Banking	**274,152**	**14.3**
Investments and holdings	**58,742**	**3.1**
Communications	**92,301**	**4.8**
Commerce	**69,495**	**3.6**
High-tech	**19,874**	**1.0**
Production industry	**70,713**	**3.7**
Insurance and financial services	**59,569**	**3.1**
Other business services	**70,834**	**3.7**
Energy	**117,103**	**6.1**
Hospitality and tourism	**3,260**	**0.2**
	1,261,485	**66.0**
Loans to individuals	**89,933**	**4.7**
Government bonds	**559,822**	**29.3**
Total	**1,911,240**	**100.0**

	December 31, 2021	
	Balance sheet credit risk	
	Amount	% of total
	NIS in thousands	
Industry		
Construction and real estate	409,512	20.6
Defense	6,618	0.3
Banking	262,922	13.2
Investments and holdings	50,837	2.6
Communications	100,921	5.1
Commerce	50,440	2.6
High-tech	42,089	2.1
Production industry	66,313	3.3
Insurance and financial services	66,707	3.4
Other business services	69,812	3.5
Energy	129,039	6.5
Hospitality and tourism	1,295	0.1
	1,256,505	63.3
Loans to individuals	77,866	3.9
Government bonds	651,762	32.8
Total	1,986,133	100.0

NOTE 27 - RISK MANAGEMENT (Continued):

F. Credit risk data (continued):

5) Reinsurance

The Company’s insures some of its businesses by means of reinsurance (mostly with global AIG Corporation companies, which are related parties of the Company). However, the reinsurance does not relieve the direct insurers of their obligations towards their policy holders under the insurance policies.

The Company is exposed to risks arising from uncertainty as to the ability of the reinsurers to pay their share in the liability in respect of insurance contracts (the reinsurance assets) and their obligations in respect of claims paid. This exposure is managed by currently monitoring the reinsurer's position in the global market as well as the reinsurer’s the fulfillment of its financial obligations.

Pursuant to the guidelines set by the Commissioner, annual reports are submitted to the Board of Directors as to the maximum levels of exposure to the reinsurers with which the Company has entered (or will enter) into reinsurance agreements; such levels are based on the reinsurers' international rating. Those exposures are managed by individual assessment of reinsurers the exposure with respect to which is significant, including monitoring and development of risk-level indicators for all reinsurers with which the Company engages. Additionally, the exposure of the Company is primarily to reinsurers with high international ratings.

NOTE 27 - RISK MANAGEMENT (Continued):

F. Credit risk data (continued):

5) Reinsurance (continued):

1. In 2021 and 2022, most of the Company's general insurance contracts were with the following insurance companies, as follows:

- ("NHIC") New Hampshire Insurance Company
- ("NUFIC") National Union Fire Insurance Company of Pittsburgh, PA
- ("AHAC") American Home Assurance Company

The above-mentioned companies are global AIG Corporation companies and are related parties of the Company. For further details on balances and transactions with related parties, see Note 28. The said companies have been granted an A+ rating by S&P.

2. Until 2019, most of the Company's life insurance contracts were with the following insurance companies:

- Swiss Re, rated AA- by S&P.
- Partner Re, rated A+ by S&P.

2. Since 2019, most of the Company's life insurance contracts were with Swiss Re.

NOTE 27 - RISK MANAGEMENT (Continued):

F. Credit risk data (continued):

5) Reinsurance (continued):

3. Information regarding the exposure to credit risks

As at December 31, 2022:

Rating group	Total premiums to reinsurers	Net debit (credit) balances	Reinsurance assets: Life insurance	Reinsurance assets: Property insurance **	Reinsurance assets: Liability insurance	Deposits by reinsurers	Total exposure	Debts overdue: 0.5-1 year	Debts overdue: More than 1 year
AA- or above									
GEN RE	616	(160)	220		-	(186)	(126)	-	-
SWISS RE	36,753	(1,904)	14,930	269	-	(11,832)	1,463	-	-
Other	4,783	(1,303)		429			(874)		
	42,152	(3,367)	15,150	698	-	(12,018)	463	-	-
A									
Partner Reinsurance Co. Ltd.	2,833	295	3,486	-	-	(1,132)	2,652	-	-
AHAC *	16,237	(269)	-	8,814	58,721	(23,744)	43,522	-	-
NUFIC *	126,989	(2,159)	-	68,751	458,024	(185,206)	339,410	-	-
NHIC *	19,484	(322)	-	10,576	70,466	(28,493)	52,227	-	-
Other companies in the AIG global corporation*	12,545	1,001	-	17,071	-	-	18,072	-	-
Other	52	(57)	-	-	-	-	-	-	
	178,140	(1,454)	3,489	105,212	587,211	(238,575)	455,883	-	-
Total	**220,292**	**(4,821)**	**18,639**	**105,910**	**587,211**	**(250,593)**	**456,346**	**-**	**-**

* Global AIG Corporation companies that are related parties of the Company.

** Also includes reinsurance assets of the health insurance sector in the amount of NIS 1,545 thousand (see Note 13).

NOTE 27 - RISK MANAGEMENT (Continued):

F. Credit risk data (continued):

5) Reinsurance (continued):

3. Information regarding the exposure to credit risks

As at December 31, 2021

Rating group	Total premiums to reinsurers	Net debit (credit) balances	Reinsurance assets: Life insurance	Reinsurance assets: Property insurance **	Reinsurance assets: Liability insurance	Deposits by reinsurers	Total exposure	Debts overdue: 0.5-1 year	Debts overdue: More than 1 year
<u>AA- or above</u>									
GEN RE	545	(116)	601		-	(218)	267	-	-
SWISS RE	28,527	(1,450)	13,881	34	-	(10,463)	2,002	-	-
Other	1,421	(202)		23			(179)		
	30,493	(1,768)	14,482	57	-	(10,681)	2,090	-	-
<u>A</u>									
Partner Reinsurance Co. Ltd.	3,395	155	3,893	-	-	(1,358)	2,690	-	-
AHAC *	15,916	(1,606)	-	8,555	65,055	(25,397)	46,607	-	-
NUFIC *	124,561	(12,577)	-	66,734	507,425	(198,097)	363,485	-	-
NHIC *	19,099	(1,927)	-	10,266	78,065	(30,476)	55,928	-	-
Other companies in the AIG global corporation*	10,903	3,515	-	13,078	-	-	16,593	-	-
Other	519	(57)	-	-	-	-	(57)	-	
	174,393	(12,497)	3,893	98,633	650,545	(255,328)	485,246	-	-
Total	**204,886**	**(14,265)**	**18,375**	**98,690**	**650,545**	**(266,009)**	**487,336**	**-**	**-**

* Global AIG Corporation companies that are related parties of the Company.

** Also includes reinsurance assets of the health insurance sector in the amount of NIS 2,072 thousand (see Note 13).

NOTE 27 - RISK MANAGEMENT (Continued):

G. Operating risks

Operating risks could result in financial losses, damage to reputation, regulatory breaches, reduced operating efficiency, failure to achieve targets etc. The exposures could stem from deficiencies in or inadequacy of internal processes, human error, IT-system malfunction, regulatory non-compliance, or as a result of external events. In order to reduce the exposure to operating risks, the Company works to minimize the material risks mapped for the organization and performs risk assessments of specific processes in the business units.

The mechanism for the management of operating risks in the Company includes the appointment of "risk-management champions" in the various business units, who report risk events. The risk events and key risk indicators are reported in accordance with the reporting structure and hierarchy. The Company has also established an Operating Risk Management Committee, whose members include the managers of the various departments. The internal auditor is invited to take part in the Committee's meetings.

The Committee convenes every quarter and discusses risk management in various processes, the handling of risk events, etc. The Operational Risks Committee also serves as the Compliance Forum.

In 2022, risk management routines were implemented for the current detection, handling, monitoring and reporting of exposures in the organizational operating processes. In addition, regular training was given to employees on detection and reporting of operating risk events.

As part of the overall risk management vision of the organization, the Company maintains an independent control unit. The control unit constitutes a second line of defense, implementing controls in addition to those of the first line of defense. The Control Unit performs controls over the quality of sales in the Company.

The Company applies controls to the reports that are included in the financial statements, in accordance with the SOX controls array.

As part of the operating risk management, the Company designed a disaster recovery plan (DRP) and a business continuity plan (BCP) to recover in an instance of damage to operating infrastructure.

Information security and cyber – The Company manages its information security risk based on the related policy that it had approved, and has established a Cyber Committee for this purpose. The Chief Information Officer is preparing for the implementation of the regulatory requirements published on cyber security, this in addition to professional guidance of the international AIG Corporation. Additionally, the Company is insured under the cyber defense umbrella of the global AIG corporation.

The Company maintains an internal audit function that performs periodic audits according to an annual and multi-annual work plan. This plan reflects the requirements of the law and the various directives.

NOTE 27 - RISK MANAGEMENT (Continued):

H. Geographical risks:

	December 31, 2022				
	Government bonds	Corporate bonds	Index funds	Other investments	Total balance-sheet exposure
	NIS in thousands				
Israel	559,822	1,224,680	-	126,354	1,910,856
United States	-	6,410	-	-	6,410
Other	-	29,696	105,314	-	135,010
Total	559,822	1,260,786	105,314	126,354	2,052,276

	December 31, 2021				
	Government bonds	Corporate bonds	Index funds	Other investments	Total balance-sheet exposure
	NIS in thousands				
Israel	651,762	1,195,388	-	140,245	1,987,395
United States	-	13,041	-	-	13,041
Other	-	42,278	108,370	-	155,648
Total	651,762	1,255,707	108,370	140,245	2,156,084

The geographical exposure reported in the table for the different asset classes is based on the ultimate location of exposure, by country or region, as applicable. Where the location of ultimate exposure cannot be identified, the exposure is reported based on the location of issue or trading of the asset.

NOTE 28 – BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES

"Interested parties" – as defined in the Israeli Securities Regulations (Preparation of Annual Financial Statements), 2010.

"Related parties" - as defined in IAS 24 - "Related Party Disclosures".

The Company's key management personnel (which are included together with others in the definition of "related parties" under IAS 24) include members of the Board of Directors and members of senior management (hereinafter: "key management personnel").

A. Balances with interested and related parties:

		December 31			
		2022		2021	
	Note	Global AIG corporation companies	Key management personnel	Global AIG corporation companies	Key management personnel
		NIS in thousands			
Reinsurance assets	13, 27f(3)(5)	**692,420**	-	749,178	-
Accounts receivable	8	**1,816**	-	4,788	-
Accounts payable	19	-	**4,844**	-	5,203
Liabilities to reinsurers	29, 27f5(3)	**240,193**	-	270,295	-

B. Transactions with interested and related parties

		December 31		
	Note	2022	2021	2020
		NIS in thousands		
Premiums – gross (**)	20	**67**	86	80
Reinsurance premiums (***)	20	**(175,255)**	(170,479)	(142,626)
Income from commissions (***)	22	**43,944**	42,965	38,658
Payments and change in liabilities in respect of insurance contracts (***)	23	**21,534**	124,509	145,519
	25, 28c	**(14,817)**	(13,835)	(*) (11,702)
General and administrative expenses (***)	25	**(722)**	(1,717)	(922)
Financing expenses		**1,757**	-	-

* Reclassified.

** Transactions with key management personnel. Officers of the Company may purchase, from time to time, insurance contracts that were issued by the Company, at market conditions and in the ordinary course of business.

*** Transactions with Global AIG Corporation companies.

C. Compensation and benefits to key management personnel:

	Year ended December 31					
	2022		2021		2020	
	No. of people	Amount (NIS in thousands)	No. of people	Amount (NIS in thousands)	No. of people	Amount (NIS in thousands)
Current benefits (28e2)	**13**	**12,716**	13	11,918	13	10,083
Post-employment benefits	**13**	**2,101**	13	11,917	13	1,619
		14,817		13,835		11,702

NOTE 28 – BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Continued)

D. Compensation and benefits:

	Year ended December 31					
	2022		2021		2020	
	No. of people	Amount (NIS in thousands)	No. of people	Amount (NIS in thousands)	No. of people	Amount (NIS in thousands)
Fees to directors	**3**	**549**	3	452	3	452
	3	**549**	3	452	3	452

E. Income and expenses from related parties and interested parties

1) Transactions with global AIG Corporation companies that are related parties of the Company

Most of the Company's transactions with reinsurers are carried out with global AIG Corporation companies that are related parties of the Company. As to the amounts of such transactions, see a. and b. above and Note 27(f)(5)(3).

2) Bonuses to key management personnel

Current benefits include bonuses to key management personnel, amounting to NIS 3,493 thousand (2021 – NIS 3,055 thousand; 2020 – NIS 3,150 thousand).

F. Approval of terms of employment of the Company CEO

The salary of the Company CEO – Yfat Reiter, was set at NIS 95,000 per month, plus a bonus as set out in the bonus plan for officers in the Company and customary social benefits, as well as a company car, cellular telephone and reimbursement of expenses. See Regulation 21 of Part D (Additional Information on the Entity) for further information on the compensation of interested parties and senior officers.

NOTE 29 - ASSETS AND LIABILITIES FOR EMPLOYEE BENEFITS

Employee benefits include post-employment benefits as well as short-term benefits.
As to the benefits to key management personnel, see Note 28c.

A. Composition of the liabilities for employee benefits, net

	December 31	
	2022	2021
	NIS in thousands	
Presented under other accounts payable:		
Short-term employee benefits	**8,135**	8,683
Presented under liabilities for employee benefits, net:		
Liability for defined benefit plan for employees	**18,520**	20,477
Plan assets	**(14,861)**	(15,216)
	3,659	5,261

NOTE 29 - ASSETS AND LIABILITIES FOR EMPLOYEE BENEFITS (Continued):

B. Post-employment benefit plans – defined benefit plans

According to the labor laws and Severance Pay Law in Israel, the Company is required to pay compensation to an employee upon dismissal or retirement or to make current contributions in defined contribution plans pursuant to section 14 to the Severance Pay Law, as specified below. The Company’s liability is accounted for as a post-employment benefit.

The computation of the Company’s employee benefit liability is made according to the current employment contract based on the employee’s salary which, in management’s opinion, creates entitlement to receive the compensation.

The post-employment employee benefits are normally financed by contributions classified as defined benefit plan or as defined contribution plan, as detailed below:

<u>Defined contribution plans</u>

Section 14 to the Severance Pay Law, 1963 applies to part of the severance payments, pursuant to which the fixed contributions paid by the Company into pension funds and/or policies of insurance companies release the Company from any additional liability to employees for whom said contributions were made. These contributions and contributions for benefits represent defined contribution plans. The amounts funded as above are carried directly to profit or loss as an expense and are not included in the balance sheet. In 2022 and 2021, the expenses in respect of the defined contribution plans amounted to NIS 2,999 thousand and NIS 2,863 thousand, respectively, and were included under “payroll and related expenses”.

<u>Defined benefit plan</u>

The Company accounts for that part of the payment of severance pay that is not covered by contributions in defined contribution plans, as above, as a defined benefit plan for which an employee benefit liability is recognized and for which the Company deposits amounts in qualifying insurance policies.

NOTE 29 - ASSETS AND LIABILITIES FOR EMPLOYEE BENEFITS (Continued):

B. Post-employment benefit plans – defined benefit plans (continued):

1. Movement in the present value of the liability and in the fair value of the assets in respect of defined benefit plans, NIS in thousands

	Liability for defined benefit plan		Fair value of plan assets		Total liability (asset), net recognized in respect of defined benefit plan	
	2022	2021	2022	2021	2022	2021
Balance as at January 1	20,477	19,286	15,216	14,279	5,261	5,007
Cost of interest	541	439	421	329	120	110
Current servicing cost	1,527	1,484	-	-	1,527	1,484
Actuarial gain as a result of changes in financial assumptions	(1,895)	(272)	-	-	(1,895)	(272)
Other actuarial loss	1,372	1,721	-	-	1,372	1,721
Actual return, less interest income	-	-	579	819	(579)	(819)
Benefits paid	(3,502)	(2,181)	(2,457)	(1,203)	(1,045)	(978)
Employer's contributions to the plan	-	-	1,102	992	(1,102)	(992)
Balance as at December 31	18,520	20,477	14,861	15,216	3,659	5,261

2. Reasonably possible changes at the end of the reporting period in each actuarial assumption assuming that all other actuarial assumptions remain constant, affect the defined benefit obligation as follows (NIS in thousands):

	December 31, 2022		December 31, 2021	
	1% increase	1% decrease	1% increase	1% decrease
Rate of future salary increases	546	(401)	969	(747)
Discount rate	(363)	489	(710)	927

The assumptions concerning the future mortality rate are based on statistical data published and on widely accepted life tables, as presented in the mortality rates report – Standard Mortality Table: P1b included in the demographic assumptions appendix of Ministry Circular 2017-3-6. Future reductions in mortality rates – as per the table presented in Circular 2019-1-10.

NOTE 29 - ASSETS AND LIABILITIES FOR EMPLOYEE BENEFITS (Continued):

B. Post-employment benefit plans – defined benefit plans (continued):

3. Additional data

- The actual return on the plan assets in 2021 is approximately 3.9% (2020 – approximately 5.8%, 2019 – approximately 11.4%)
- The Group estimates the anticipated contributions into a funded defined benefit plan in 2022 at approximately NIS 1,087 thousand.
- As at the reporting date, the Group estimates the term of plan at 7.9 years (2021 – 8.3 years).

NOTE 30 - LIABILITIES TO REINSURERS:

	December 31	
	2022	2021
	NIS in thousands	
Deposits of reinsurers (1) ,(2)	**250,594**	266,009
Deferred acquisition costs in respect of reinsurance	**22,053**	21,377
Related parties (1) ,(2)	**2,749**	16,326
Other	**4,097**	1,878
	279,493	305,590

(1) For details of the deposits and balances of reinsurers, the vast majority of which are related parties – see Note 27(f)(5)(3).

(2) See also Note 28a.

NOTE 31 - CONTINGENT LIABILITES:

There is a general exposure, which cannot be assessed or quantified, that stems, inter alia, from the complexity of the services that the Company provides to its policy holders and the frequent changes in regulation. The complexity of such arrangements entails, among others, potential claims concerning a wide range of commercial and regulatory conditions. The types of claims and interpretations that may be raised in this field and the exposure arising from such and other claims cannot be anticipated in advance. Additionally, a general exposure arises from complaints against the Company that are filed from time to time with various authorities, such as Supervision, in relation to the rights of policy holders under insurance policies and/or the law. Such complaints are currently handled by public relations functions in the Company. The rulings of the authorities in such complaints, to the extent issued, are often given across the board. Occasionally, the complaining parties may threat the initiation of legal proceedings in relation to their complaint, including in the form of a motion to certify a class action. At such preliminary stages, the development of such proceedings cannot be assessed, and at any rate the potential exposure in their respect or the actual initiation of such proceedings cannot be estimated. Accordingly, no provision was created for said exposure.

Based on the opinion of its legal counsel concerning the chances of said proceedings, management of the Company believes that, where required, provisions have been included in the financial statements that are sufficient to cover any damages that may arise as a result of such claims. No provision was included in the financial statements for proceedings in preliminary stages, the chances of which cannot be estimated. Where the Company is willing to reach a compromise in any such proceeding, a provision is included in the amount of compromise that is acceptable to the Company. The total provision included in the financial statements is immaterial.

NOTE 31 - CONTINGENT LIABILITES (Continued):

A. Motions to certify class actions:

1) On June 9, 2016, a motion for certification of a class action was filed against the Company, alleging that the Company failed to pay salary and social benefits as required by law. The motion estimates the total amount of the class action at NIS 9,769 thousand.

On January 1, 2017, the Company filed its response to the motion to certify the claim as a class action. The petitioners filed their response to the Company's response on June 1, 2017. At the same time, the petitioners filed a motion for discovery of documents. On October 1, 2017, the Company filed its response to the motion for discovery of documents.

On February 12, 2018, the first pretrial hearing was held in the case. On July 15, 2018, the court ruled on the stay of proceedings pending a ruling on an appeal that was filed with the High Court of Justice regarding a ruling by the National Court in another case HCJ 5148/18, Or Shacham et al. - National Labor Court and Castro Model Ltd., hereafter: “Castro HCJ”), on the issue of overtime.

On November 25, 2020, a hearing of Castro HCJ was held. On July 11, 2022, a ruling was issued in Castro HCJ, pursuant to which it is permissible to certify a class action for the payment of overtime on commissions or incentives. The ruling further determined that the matter of the existence of a substantial right would be deliberated within the framework of the class action. This ruling overturns the ruling of the National Labor Court in the same matter, in practice ratifying the ruling of the Regional Labor Court that partially certified the class action. The two other components claimed in the class action (selection of a day off and/or delay in the payment of wages) were not included in the Castro SC Case.

On March 7, 2023, the petitioners submitted an update notice to the court, stating that, in view of the ruling in Castro matter, the proceedings in the case should have been renewed. Nevertheless, the petitioners requested to maintain the stay of proceedings, in anticipation of a ruling in another proceeding that is pending in the National Labor Court against I.D.I Insurance Company.

On March 13, 2023, by virtue of a court decision, the proceeding was transferred to a different panel at the District Labor Court. On the same day, a ruling was given, requiring the Company to respond to the motion for the stay of proceedings by April 25, 2023.

In the assessment of the Company's management, which is based on the opinion of its legal counsel, the petition to certify the claim as a class action is more likely to be rejected than accepted.

2) On January 8, 2017, a motion to certify a class action was filed against the Company and another insurance company (“the respondents”).

The motion alleges overcharging of the policyholders and breach the increased obligations of the insurance companies towards their policyholders, as reflected in the ability to update the age and/or years of driving experience when moving into another age and/or driving experience bracket, which entitle the policy holders to discounted insurance rates.

The amount of the claim for all members of the class in relation to the respondent is estimated at NIS 12,250 thousand. The personal damage claimed of the Company is negligible.

On July 18, 2019, the court accepted the parties’ joint motion for a procedural arrangement. Evidentiary hearings were held during October-November 2020. Additional Evidentiary hearings took place in the period from March 2021 to May 2021.

NOTE 31 - CONTINGENT LIABILITES (Continued):

A. Motions to certify class actions (continued):

2) (continued)

On June 28, 2021, the petitioners filed a motion for the amendment of the minutes of the evidentiary hearings held on April 22, 2021 and May 19, 2021. On July 11, 2021, the court accepted the motion.

On February 9, 2022, another evidentiary hearing was held in the case, in which the declarants on behalf of Menora Mivtachim Ltd. testified.

On March 3, 2022, petitioners 1-12 submitted an update notice to the court, pursuant to which, in February 2022 a ruling was issued in PC 48191-07-14 Litvinov vs. Clal (hereinafter: “the Litvinov Matter”), rejecting the motion to certify a class action. The notice also stated that the named plaintiff in the Litvinov Matter is planning to appeal the ruling to the Supreme Court. In addition, the notice states that the representative of the petitioners believes that it would be appropriate to suspend the proceedings here in the evidentiary hearing stage, pending a ruling by the Supreme Court on the expected appeal in the Litvinov Matter.

On March 10, 2022, the respondents submitted their response to the petitioners’ notice.

On March 16, 2022, the court ruled that the evidentiary hearing that was scheduled for March 20, 2022 will be converted into a pre-trial hearing in which the issue of the suspension of proceedings will be discussed.

A hearing concerning the suspension of proceedings was held on March 20, 2022. The court issued a ruling, suspending the proceedings in the case pending the issue of a ruling on the appeal in the case of Litvinov. The court ruled that these are not similar or identical matters, but noted that. at this stage, the ruling on the appeal that would be submitted has bearing on the proceedings and could have substantial implications on the furtherance of proceedings. Should the proceedings be renewed following the issue of a ruling by the Supreme Court and subject to such ruling, they would pick up from the point on which they were suspended, prior to the testimonies of the defense on behalf of the respondents and subject to necessary changes in light of the Supreme Court’s ruling.

On April 26, 2022, the respondents submitted a notification, pursuant to which, on April 25, 2022, an appeal was filed with the Supreme Court regarding the Central District Court’s ruling in the matter of Litvinov.

On September 7, 2022, the petitioners submitted an update notice, pursuant to which a Supreme Court hearing of the appeal in the matter of Litvinov has been scheduled for April 19, 2023. Consequently, the Court has been requested and has instructed accordingly to schedule a reminder for May 1, 2023, by which an appropriate update notice on the case is to be submitted.

In the opinion of the Company's management, which is based on the opinion of its legal counsel, the motion to certify the claim as a class action is more likely to be rejected than accepted.

3) On January 16, 2020, a petition to certify a class action was filed against the Company and 3 other companies (hereinafter: “the respondents”). The petition alleges that the Company does not provide original windowpanes with Israeli accreditation to policyholders as stipulated in the terms of service concerning windowpanes.

On March 23, 2020, the court accepted the petitioners’ motion to amend the certification petition.

NOTE 31 - CONTINGENT LIABILITES (Continued):

A. Motions to certify class actions (continued):

3) (continued)

On October 27, 2020, the Company submitted a statement of response to the certification petition.

On December 16, 2020, the petitioners submitted their response to the respondents' response to the certification petition.

A court hearing was held on March 18, 2021. In the hearing it has been determined that the parties will consider, within 45 days, a possible amendment to the relevant clause in the service appendices towards the advancement understandings that will facilitate a consensual termination of the claim.

On July 13, 2021, the petitioners submitted an update notification, pursuant to which the discussions between the parties have not been successful. On October 4, 2021, a hearing was held to examine the reason for the parties' inability to reach understandings.

On November 2, 2021, the parties submitted an additional notice, informing the court that the discussions between the parties did not evolve into an understanding and, accordingly, requesting that the court rule on the motions concerning the discovery of documents and questionnaires and a motion to subpoena a witness for the presentation of documents.

On December 10, 2021, the court issued a ruling, rejecting substantially all of the motions. The Company was required by the court to answer two questions only and to attach the full agreement with Ilan Car Glass, with the commercial data redacted.

On September 7, 2022, a pretrial hearing was held, in which dates have been set for the submission of summations by the parties.

On September 14, 2022, the respondents submitted their answers to the questionnaire that they had been requested to fill out.

The petitioner submitted his summations on November 15, 2022; the respondent is to submit its summations by March 29, 2023.

In the opinion of the Company's management, which is based on the opinion of its legal counsel, the motion is more likely to be rejected than accepted.

4) On April 19, 2020, a petition to certify a class action was filed against the Company and 11 other companies. The petition alleges that the insurance companies continue to charge full payments and/or fail to refund monies to policy holders in vehicle insurance (compulsory, comprehensive and third party), while many vehicle owners are unable to use their vehicles as a result of the coronavirus crisis. The total amount claimed for all class members in relation to the Company is estimated at NIS 47,000 thousand.

On April 20, 2020, a ruling was given, pursuant to which perusal of the petition suggests that it does not address the personal insurance agreement between each of the class members and the respective insurance company, but rather relates to the general agreement between the entire Israeli population and all insurance companies. Accordingly, the court ordered the petitioners to clarify whether the petition relates to the personal insurance agreements between the class members and their respective insurance companies, or to an alleged general insurance agreement between all policy holders and all 12 insurance companies.

On April 26, 2020, the petitioners notified the court that they have become aware of the filing of two additional claims with two other courts, in connection with the same issues of fact and law. Accordingly, negotiations were held between the representatives of the parties in all three claims for the purpose of transferring the claims to a single court.

NOTE 31 - CONTINGENT LIABILITES (Continued):

A. Motions to certify class actions (continued):

4) (continued)

On May 20, 2020, the petitioners filed a motion for a change of venue. On June 4, 2020, the court accepted the motion, transferring the case to the Tel Aviv Court. A hearing was scheduled for January 21, 2021. According to a motion for clarifications submitted on the topics that are to be discussed at the hearing, on October 12, 2020, the court responded that on the date of the scheduled hearing, the petition will be discussed in accordance with Section 7(B) of the Class Actions Law, 2006. The court also determined that responses to the certification petition are to be submitted by all the respondents within 90 days of a ruling on the petition in accordance with Section 7(B).

On January 11, 2021, in view of the increase in morbidity and the guidelines of the Courts Administration to avoid hearings with multiple participants, the court cancelled the hearing scheduled for January 21, 2021 and determined that a ruling will be issued in accordance with Section 7 of the Law - without a hearing.

On February 22, 2021, a ruling was issued by virtue of Section 7(B) of the Law, pursuant to which the petitioners in this claim and in claim 5 below will be jointly deliberate the claim against all of the defendants that they have named and that were also named in CA 17072-04-20 Manirav et. Al. vs. Hareal (hereinafter: "the Manirav Matter") concerning vehicle insurance policies.

On August 30, 2021, a consensual motion was filed in CA 3510-04-20, Segal et al vs. Agricultural Insurance - Central Cooperative Society et al (hereinafter: "the Segal Matter") for the suspension of hearings until the issue of a peremptory ruling in CA 25472-04-20, CamaMia Textile Ltd. et al vs. Migdal Insurance Company Ltd. et al (hereinafter: "the CamaMia Matter") that is being deliberated at the Haifa District Court, which addresses similar issues to those of the aforesaid proceeding or, to the extent that the ruling is appealed to the Supreme Court - until a ruling is given in the appeal.

On October 5, 2021, the petitioners submitted their position on the motion to postpone the hearing.

On October 19, 2021, the court ruled on the motion, ordering the suspension of proceedings in the case.

On November 5, 2021, the court issued a ruling, cancelling the hearing that had been scheduled for February 28, 2022, and determining that by said date the parties will submit a notice concerning the outcome of the parallel proceeding (concerning CamaMia).

On December 6, 2021, the petitioners in the aforesaid proceeding (Nir petition) and in proceeding PC 19832-04-20 (Nachum petition) submitted a notice, informing the court that the representatives of the petitioners, who are also the petitioners in the CamaMia petition, have decided not to appeal the ruling in the CamaMia petition, which eliminates the need for the stay of proceedings in the Nir and Nachum petitions.

Accordingly, the parties submitted a procedural arrangement concerning the dates for the submission of the respondents' response and the petitioners' response to the responses as well as agreed dates for a pretrial hearing.

On April 8, 2022, the respondent submitted its response to the certification petition.

On December 1, 2022, the petitioners submitted their response to the Respondents' response to the petition to certify the class action.

NOTE 31 - CONTINGENT LIABILITES (Continued):

A. Motions to certify class actions (continued):

4) (continued)

A pretrial hearing in all cases was held on January 3, 2023. In the hearing, it has been ruled that the parties will refer to mediation and will update the Court on the status of their discussions by February 12, 2023.

It was also ruled that the matter of Manirav will be deliberated and conducted separately from the proceeding.

On February 12, 2023, the respondents submitted an update notice, pursuant to which they believe that there is no room for mediation in this case and that the court should issue a ruling on the certification motion based on the materials that are available in the case. The parties are required to update the court by March 20, 2023 whether the case may proceed to summations.

In the opinion of the Company's management, which is based on the opinion of its legal counsel, the petition is more likely to be rejected than accepted.

5) On April 20, 2020, a claim and a petition to certify it as a class action were filed against the Company and 7 other companies. These allege that the insurance companies continue to charge full payments and/or fail to refund monies to policy holders in vehicle insurance (compulsory, comprehensive and third party), while many vehicle owners were unable to use their vehicles as a result of the coronavirus crisis.

The remedy requested is to order the respondents to refund to the class members the premiums overpaid by them to the respondents, and to order the respondents to refund to the class members the proportion of premiums that would be overpaid by them in relation to the actual insurance risk that will apply after the filing of the petition through to the issue of a final ruling. The total amount claimed for all class members in relation to the Company is estimated at NIS 37,285 thousand.

On May 20, 2020, the petitioners filed a motion for the change of venue in accordance with the provisions of Section 7(A) of the Class Actions Law, 2006. The court ruled on the same day, requiring the respondents to respond by June 3, 2020. On June 3, 2020, the respondents submitted their response to the motion. On June 4, 2020, the court accepted the motion, transferring the case to the Tel Aviv Court.

According to a motion for clarifications filed by the respondents on the topics that are to be discussed at the hearing scheduled for January 21, 2021. On October 12, 2020, the court responded that on the date of the scheduled hearing, the petition will be discussed in accordance with Section 7(B) of the Class Actions Law, 2006. The court also determined that responses to the certification petition are to be submitted by all the respondents within 90 days of a ruling on the petition in accordance with Section 7(B).

On January 11, 2021, in view of the increase in morbidity and the guidelines of the Courts Administration to avoid hearings with multiple participants, the court cancelled the hearing scheduled for January 21, 2021.

On February 22, 2021, a ruling was issued by virtue of Section 7(B) of the Law, pursuant to which proceeding 4 above and this proceeding will be deliberated jointly against all of the defendants that they have named and that were also named in the matter of Manirav concerning vehicle insurance policies.

NOTE 31 - CONTINGENT LIABILITES (Continued):

A. Motions to certify class actions (continued):

5) (continued)

On August 30, 2021, the respondents filed a consensual motion for the suspension of hearings until the issue of a peremptory ruling in the CamaMia Matter that is being deliberated at the Haifa District Court, which addresses similar issues to those of the aforesaid proceeding or, to the extent that the ruling is appealed to the Supreme Court - until a ruling is given in the appeal.

On October 19, 2021, the court ruled on the motion, ordering the suspension of proceedings in the case.

On November 5, 2021, the court issued a ruling, cancelling the hearing that had been scheduled for February 28, 2022, and determining that by said date the parties will submit a notice concerning the outcome of the parallel proceeding (concerning CamaMia).

On December 6, 2021, the petitioners in the aforesaid proceeding (Nachum petition) and in proceeding PC 16971-04-20 (Nir petition) submitted a notice, informing the court that the representatives of the petitioners, who are also the petitioners in the CamaMia petition, have decided not to appeal the ruling in the CamaMia petition, which eliminates the need for the stay of proceedings in the Nir and Nachum petitions.

On April 7, 2022, the respondent submitted its response to the certification petition.

On December 1, 2022, the petitioners submitted their response to the Respondents' response to the petition to certify the class action.

A pretrial hearing in all cases was held on January 3, 2023. In the hearing, it was ruled that the parties will refer to mediation and will update the Court on the status of their discussions by February 12, 2023.

It was also ruled that the matter of Manirav will be deliberated and conducted separately from the proceeding.

On February 12, 2023, the respondents submitted an update notice, pursuant to which they believe that there is no room for mediation in this case. The parties are required to update the court by March 20, 2023 whether the case may proceed to summations.

In the opinion of the Company's management, which is based on the opinion of its legal counsel, the motion is more likely to be rejected than accepted.

6) On January 17, 2021, a petition to certify a class action was filed against the Company.

The petition alleges that the Company, as an insurance company that markets, inter alia, structural home insurance, automatically renews the home insurance policies of policy holders without obtaining their consent to the increased insurance premium.

In the petition, the petitioner estimates his personal damage at NIS 1,890 and the amount of the class action against the Company for all class members at more than NIS 2.5 million.

The petitioner is requesting a mandatory injunction for the Company to desist from unilaterally issuing insurance policies that contain a change compared to the previous policy that has been approved by the policy holder and/or where the policy holder has not approved the automatic renewal of the policy, ordering the Company to reimburse to its customers the amounts paid in excess as a result of the unilateral premium and/or deductible rises, unless they have received the policy holder's consent to the change in the policy.

NOTE 31 - CONTINGENT LIABILITES (Continued):

A. Motions to certify class actions (continued):

6) (continued)

The petitioner also requests that the Company be ordered to compensate the class members by an amount equal to its enrichment from the changes made to the policies of the class members and that the amount of enrichment will reflect the profits derived by the Company, less the reimbursement of amounts collected in excess, and would be linearly distributed among the class members.

On June 15, 2021, the respondent submitted its response to the certification petition. On July 19, 2021, a statement of response was submitted to the response on the certification petition.

On August 2, 2021, the respondent filed a motion, requesting that the court order the petitioner to amend (shorten) his response to the respondent's response in accordance with Regulation 2(G) of the Class Actions Law, 2010. On September 13, 2021, the petitioner submitted an amended statement of response.

In a hearing held on October 18, 2021 it was determined that, in the event that the parties are unable to reach understandings within 60 days, the petitioner's representative would be permitted to file a discovery motion within another 30 days.

After several motions to extend, on March 8, 2022 the parties submitted an update notification, pursuant to which they are holding discussions in an attempt to conclude the proceeding outside the court.

On May 12, 2022, the petitioner submitted a list of requests. On June 23, 2022, the respondent submitted a response to the list of requests.

On January 5, 2023, a pretrial hearing was held in the case, in which it was ruled that the respondent will submit its response to the discovery motion and to the questionnaires submitted by the petitioner, by January 15, 2023.

On January 13, 2023, the respondent submitted a notice and a motion, informing the Court that it has delivered to the petitioner a list of all of the documents and questionnaires that it has consented to furnish. However, according to the respondent, at the conclusion of the discussions between the parties, there are still disagreements between the parties concerning the discovery of documents and the completion of the questionnaires, which will be addressed at a later date.

On January 15, 2023, the Court issued a ruling that requires the parties to submit an update notice on the status of their discussions and the conclusion of the preliminary proceedings between them, this by February 20, 2023.

On February 20, 2023 and March 13, 2023, the petitioner submitted notices concerning the preliminary proceedings and the continuation of the proceeding. An additional update notice will be submitted by March 30, 2023.

In the opinion of the Company's management, which is based on the opinion of its legal counsel, at this stage the motion is more likely to be rejected than accepted.

7) On August 5, 2021, a claim and a motion to certify the claim as a class action have been filed against the Company.

The petitioner is a vehicle third party, whose car has been damaged by a vehicle that is insured by the Company. The claim alleges that, in instances where the damage is not actually repaired by the third party, the Company does not indemnify the third party for the full amount of the damage, as specified in the third party's appraiser's report.

The alleged personal damages amount is NIS 662.1, to which the petitioner requested to add the cost of wasted time, trouble etc. The petitioner estimates the total class damages at more than NIS 2.5 million (district court jurisdiction).

NOTE 31 - CONTINGENT LIABILITES (Continued):

A. Motions to certify class actions (continued):

7) (continued)

The parties have agreed to perform a sample in order to assess the potential scope of the class. Within this framework, an external auditor was appointed to audit the data that would be presented by the Company in the sample.

In the opinion of management of the Company, which is based on the opinion of its legal counsel, the scope of cases, if any, is negligible. Therefore, subject to the confirmation of the findings by the expert appointed by the parties, the assessment is that an arrangement can be reached for compensated withdrawal in a monetary amount that is immaterial to the Company.

8) On January 16, 2018, a motion to certify a class action was filed against the Company and other insurance companies, alleging that the insurers refrain from paying their policyholders and/or third parties the VAT component that applies to the cost of the damages where the claimed damages have not been repaired in practice. The plaintiff estimates the compensation due to members of the class for each year in respect of the Company at NIS 5,744,484. Following the evidentiary hearings and the submission of summations by the parties, a ruling was issued that rejects the motion to certify a class action and requires the petitioner to pay the expenses.

On April 11, 2022, a civil appeal was filed regarding the District Court's ruling. The appeal argues that the court was wrong to determine that the existence of a phenomenon of non-payment of VAT has not been proven; that the court was wrong in not giving weight to the respondents', including the Company, failure to respond with regard to vehicle insurance; that the court was wrong to determine that it is difficult to deliberate the arguments in a class action proceeding; that the court was wrong to determine that the appellant is not suitable as a named plaintiff; and that the court was wrong with regard to the period of limitations, where, according to the appellant, the relevant period is from the date of issue of the Supreme Court's ruling in Civil Appeal 17229/99 Zlucin vs. Diur La'Ole Ltd., issued on June 4, 2001, which determined that, even if no repairs were performed, the respondent (the injurer in that matter) is required to bear the VAT payment.

In accordance with the court's ruling, the case is scheduled to be heard by the Supreme Court on September 27, 2023.

In the opinion of the Company's management, which is based on the opinion of its legal counsel, the appeal is more likely to be rejected than accepted.

9) On November 30, 2022, a motion to certify a class action was filed against the Company, alleging wrongful collection by the Company in overseas travel insurance policies.

The motion alleges that in instances where the policyholder purchases an overseas travel insurance policy and cuts short his stay overseas or cancels his trip, the Company does not reimburse to the policyholder the full amount of insurance premiums to which he is entitled for the expansions that he had purchased and that the Company retroactively raises the insurance premiums without notifying the policyholder and obtaining his consent.

The petitioner claims an amount of NIS 970; and the overall damages attributed to the Company are in excess of NIS 2.5 million.

The Company is required to submit its response to the certification motion by April 6, 2023.

At this early stage, the chances of the motion and the claim cannot be estimated.

NOTE 31 - CONTINGENT LIABILITES (Continued):

A. Motions to certify class actions (continued):

10) On January 12, 2023, a motion to certify a class action was filed against the Company concerning personal accidents insurance.

    The motion alleges that the Company does not compensate its policyholder for days of hospitalization at a rehabilitation facility (in the case of the petitioner - Loewenstein Hospital), since a rehabilitation facility is excluded in the insurance policy from the definition of "hospital" and therefore does not create entitlement to compensation. The motion further alleges that the definition of "hospital", as presented in the policy, does not coincide with the increased disclosure requirement that applies to insurers, pursuant to which the Company is obligated to provide greater clarity and disclosure in formulating the insurance contract.

    The personal damage of the petitioner against the respondent is NIS 800 per day of hospitalization over a duration of 100 days, totaling a nominal NIS 80,000. The cumulative class damage is estimated NIS 2.5 million, but cannot be accurately assessed at the certification motion stage.

    On January 16, 2023, the Court issued a ruling that, among others, requires the respondent to submit its response to the certification motion by May 1, 2023 and the petitioner to submit its response to the respondents' response to the certification motion by May 31, 2023.

    A pretrial hearing in the case has been scheduled for June 19, 2023.

    At this early stage, the chances of the motion and the claim cannot be estimated.

11) On January 16, 2023, a motion to certify a class action was filed against the Company, alleging the violation by the Company of the provisions of Section 30A of the Telecommunications Law (Bezeq and Broadcasting), 1982 by sending prohibited advertising without obtaining the explicit consent of the recipients.

    The petitioner claims an amount of NIS 350; and the overall damages attributed to the Company are at least NIS 3.5 million.

    The Company is required to submit its response to the certification motion by April 27, 2023.

    A pretrial hearing in the case has been scheduled for June 25, 2023.

    At this early stage, the chances of the motion and the claim cannot be estimated.

	Number of claims	The amount claimed - NIS thousands
Pending motions to certify claims as class actions:		
Amount of claim specified	6	112,198
Amount of claim not specified	5	-
Total	11	112,198

NOTE 31 - CONTINGENT LIABILITES (Continued):

B. Claims resolved during the reported period:

1) On September 14, 2017, a motion to certify a claim as a class action was filed against 13 insurance companies, including the Company (hereinafter: “the Respondents").

The petitioners' argue that the Respondents refrain from adding linkage differentials and/or interest to amounts ruled by a judicial authority, thereby violating Section 5(b) of the Adjudication of Interest and Linkage Law, 1961 ("the Law"). They claim that in cases where the debtor does not pay his debt on time, the law requires the addition of linkage differentials, the regular interest rate and the interest on arrears, starting from the date on which the debt was due by the debtor to the date of actual payment.

The personal damage of the plaintiff against the Company is negligible. The petitioners, in the absence of precise data regarding the total damage relating to the Company, estimated it at tens of millions of shekels.

On October 10, 2018, the petitioners submitted their response to the Respondents’ response to the motion to certify the claim as a class action.

On March 13, 2019, some of the respondents submitted their response, expressing their consent to the court’s suggestion to refer the case to mediation. Several mediation sessions took place, of which the first was held on June 26, 2019.

On August 4, 2020, the parties submitted an update, informing the court that they have reached understandings concerning the remaining point of contention with respect the arrangement and requesting it to grant the parties a stay to formulate and submit the arrangement, which has been extended from time to time.

In a hearing held on March 7, 2021, the parties have been required to submit their position on several matters that were raised in the hearing.

On May 5, 2021, the parties submitted a notification concerning the amendment of the compromise arrangement. On the same day, the court ordered the parties to publish the notice on the submission of the motion to approve the compromise arrangement in three widely distributed newspapers and to deliver the notice to the Commissioner of the Capital Market, Insurance and Savings and to the Attorney General.

On May 11, 2021, notification was given of the filing of a affidavits by the respondents in support of the arrangement. On May 20, 2021, the court accepted the motion to approve the format of the notification concerning the approval of the compromise arrangement. On July 20, 2021, the parties submitted a notification to the court concerning the publication of the notice regarding the filing of the motion to approve a compromise arrangement in three newspapers.

On December 27, 2021, a hearing was held in a motion to approve a compromise arrangement, in which the court requested supplementary amendments to be made to the compromise arrangement, in the spirit of other amendments that had previously been requested. On January 6, 2022, the parties submitted a notice on the submission of an amended compromise arrangement. After several rounds of amendments and corrections to the proposed compromise arrangement, on February 6, 2022, a ruling was issued in approval of the compromise arrangement.

NOTE 31 - CONTINGENT LIABILITES (Continued):

B. Claims resolved during the reported period (continued):

1) (continued)

The compromise requires the respondents to take the following actions:

(1) Amend the wording of the settlement notes to include a provision concerning the date of payment not exceeding 30 days;

(2) Accept lawyers' confirmations as a substitute for transferring the original signed settlement note - i.e., the combination of a clear and legible scanned copy of the signed settlement note + a lawyer's confirmation on the settlement deed + the power of attorney signed by the injured party will serve as a substitute for an original copy of the settlement note.

In addition, as prescribed by the court in the ruling, the definition of the class will be amended such that it will exclude anyone to whom monetary amounts have been adjudicated by a judicial authority based on a judicial ruling on the merits of the claim.

As regarding the compensation of the named plaintiff and its representatives, the Company will pay a total amount of NIS 47 thousand, of which NIS 4 thousand as compensation to claimant 13 and NIS 43 thousand as fees to the claimant's representatives.

In accordance with the ruling, the parties had an ad published in the newspapers concerning the approval of the compromise arrangement and on July 6, 2022 the respondent submitted a notification concerning the execution of the compromise arrangement.

This claim did not have a material effect on the financial statements of the Company.

2) On December 31, 2019, a petition to certify it as a class action was filed against the Company and IMA.

The plaintiff, who had purchased an AIG Travel insurance policy from the Company and was injured during a ski vacation in France, alleges that the Company is in breach of its disclosure duties to the customers, by failing to disclose that the policy does not include coverage for follow-up treatment in Israel; the petitioner argues that this is not specified in the policy (as an exclusion) and was also not disclosed to him verbally in his conversations with the IMA emergency call center operating on behalf of the Company. It is also alleged that the Company does not deliver the complete terms of the insurance policy to its policyholders.

The petitioner estimates his personal damage at NIS 35 thousand and the damage for all class members (based on an estimated 20 cases per year, over seven years) at NIS 4,900 thousand (alternatively, compensation of NIS 5 per day overseas for each of the policyholders - NIS 8,750 thousand). It was further demanded that the Company be required to provide proper disclosure concerning this coverage and to furnish the complete policy to the policyholders.

On November 18, 2020, the court approved a consensual procedural arrangement between the parties, under which the petitioner was permitted to add several documents to his claim and on December 15, 2020 the insurer submitted a supplementary response that addresses several of the claims raised in the petitioner's response. Within this framework, the parties also agreed to schedule a brief one-hour examination of each of the declarants.

In November 2021, prior to the evidentiary stage, an agreement has been reached, pursuant to which the petitioner withdraws the motion to certify a class action, with no adjudication of costs. On January 6, 2022, the court approved the withdrawal.

NOTE 31 - CONTINGENT LIABILITES (Continued):

B. Claims resolved during the reported period (continued):

3) On April 19, 2020, a petition to certify a class action was filed against the Company and 12 other companies (hereinafter: "the respondents").

The petition alleges that the insurance companies continue to charge full payments and/or fail to refund monies to policy holders in vehicle insurance (compulsory, comprehensive and third party) and in home contents insurance, despite the reduced risk in each of said policies as a result of the global coronavirus crisis. The remedies requested are: requiring the respondents to refund the premiums that they had charged due to the reduction in risk; and ordering the respondents to provide to the petitioners all the data and information that they hold, for the purpose of calculating the exact damage and obtaining appropriate compensation accordingly. The total amount claimed for all class members in relation to the Company is estimated at NIS 35,194 thousand.

On April 26, 2020, it was ruled that, prima facie, there is no justification for the filing of a single action against all defendants, even where the cause of claim is identical and/or similar. Accordingly, the petitioners are required to explain, by May 11, 2020, their reasons for not filing separate claims against each of the defendants. On May 7, 2020, the petitioners submitted their response to the court's question concerning the filing of separate certification petitions against each of the respondents. On May 12, 2020, the court ruled that the matter will be discussed at the pre-trial hearing.

On May 20, 2020, the petitioners in claim no. 4 above and in claim no. 6 below filed a motion for the change of venue in accordance with the provisions of Section 7(A) of the Class Actions Law, 2006. On June 3, 2020, the respondents submitted their response to the motion. On June 4, 2020, the court accepted the motion for the change of venue, transferring the case to the Tel Aviv Court, where this petition is now deliberated.

On June 22, 2020, the petitioners in claim no. 4 above and in claim no. 6 below filed a motion to withdraw. On July 21, 2020, the petitioners submitted a notification of their consent to a mediation proceeding.

On July 26, 2020, the respondents in claim no. 4 above and in claim no. 6 below submitted their response to the petitioners' motions.

On August 3, 2020, the respondents informed the court of their objection to the mediation proceeding.

On August 12, 2020, the petitioners in claim no. 4 above and in claim no. 6 below submitted their response to the responses to the motion.

On October 12, 2020, the court ruled on the respondents' motion to clarify, determining that, on the date of the scheduled hearing, the petition will be discussed in accordance with Section 7(B) of the Class Actions Law, 2006. The court also determined that responses to the certification petition are to be submitted by all the respondents within 90 days of a ruling on the petition in accordance with Section 7(B). On January 11, 2021, in view of the increase in morbidity and the guidelines of the Courts Administration to avoid hearings with multiple participants, the court cancelled the hearing scheduled for January 21, 2021 and determined that a ruling will be issued in accordance with Section 7 of the Law - without a hearing.

NOTE 31 - CONTINGENT LIABILITES (Continued):

B. Claims resolved during the reported period (continued):

3) (continued)

On February 22, 2021, a ruling was issued by virtue of Section 7(B) of the Law, pursuant to which proceeding 4 above and proceeding 6 below will be deliberated jointly against all of the defendants that they have named in those proceedings and that were also named in this proceeding concerning vehicle insurance policies. Additionally, the claim of the plaintiff in this claim, together with the accompanying motion to certify, is dismissed in relation to the vehicle insurance policies, other than in relation to defendant 13 - Libra Insurance Company Ltd. (which has not been named in proceeding 4 above and proceeding 6 below). Additionally, it has been determined that the petitioner in this proceeding may continue to pursue the proceeding concerning home contents insurance against all of the defendants that are named in the certification petition.

On April 6, 2021, a joint motion was filed for the certification of the claim as a class action. In April 2021, the respondents submitted their responses to the amendment of the motion to certify the class action.

On April 28, 2021, the petitioners submitted their response to the respondents' responses to the motion for permission to amend the motion to certify the class action.

On June 8, 2021, the court rejected the motion to amend the certification petition and determined that the petitioners will bear the respondents' expenses in a total amount of NIS 39 thousand.

On August 30, 2021, the respondents in proceeding 3510-04-20 filed a consensual motion for the suspension of hearings until the issue of a peremptory ruling in proceeding 25472-04-20 that is being deliberated at the Haifa District Court, which addresses similar issues to those of the aforesaid proceeding or, to the extent that the ruling is appealed to the Supreme Court - until a ruling is given in the appeal.

On October 19, 2021, the court ruled on the motion, ordering the suspension of proceedings in the case.

On April 5, 2022, a consensual notification was submitted, pursuant to which, since the certification petition does not include a petitioner that had purchased a home contents insurance from the Company, the arguments in said proceeding concerning home contents insurance are not addressed at the Company and therefore it is not obligated to submit a response to the certification petition.

On December 1, 2022, the petitioners submitted their response to the Respondents' response to the petition to certify the class action.

A pretrial hearing in all cases was held on January 3, 2023. In the hearing it was determined that the Company and respondent 10 will be removed from the statement of claim.

On February 27, 2023, a ruling was issued, approving the petitioners' motion to withdraw, without adjudication of compensation and fees and without ordering the location of an alternative plaintiff.

NOTE 32 - LEASES:

Information on material leases

The Company leases offices on #25 Hasivim St. in Petach Tikva. The contractual term of the aforesaid leases ends on December 31, 2024. The lease liability and right-of-use asset initially recognized in the statement of financial position as of December 31, 2020 in respect of the lease of offices amount to NIS 22,239 thousand (see Note 19) and NIS 21,806 thousand (see Note 7), respectively.

Right-of-use assets

The balance of right-of-use assets is presented in the note on property and equipment - see Note 7 above.

Lease liability

The balance of the lease liability is presented in the note on other accounts payable - see Note 19 above.

Analysis of maturity dates of lease liabilities of the Company

	December 31	
	2022	2021
	NIS in thousands	
Up to one year	5,503	5,394
1-5 years	5,839	11,451
Total	**11,342**	**16,845**

Supplementary information on leases

	December 31	
	2022	2020
	NIS in thousands	
Interest expense on lease liability	286	395
Expenses relating to variable lease payments that were not included in the measurement of the lease liability	5,452	5,452
Total	**5,738**	**5,847**

GENERAL INSURANCE SECTORS – ACTUARY STATEMENT

AS OF DECEMBER 31, 2022

AIG ISRAEL INSURANCE CO. LTD.

Chapter A: Statement of the Actuary in the General Insurance Sectors

Chapter A - Identity of the actuary

I was requested by AIG Israel Insurance Co. Ltd. to evaluate the provisions listed in Chapter B hereafter in the general insurance sectors for the financial statements ("the provisions") of the insurer AIG Israel Insurance Co. Ltd. at December 31, 2022, as detailed below.

I am a salaried employee of the insurer. I am not an interested party in the insurer nor am I a relative of an interested party of the insurer.

I was appointed to this position on January 1, 2022.

Chapter B - Scope of the actuarial opinion

1. Wording of scope of the actuarial opinion section

1.1 For the purpose of calculating the insurer's provisions, I relied on data that I received from the insurer. My requests for information and data were satisfied adequately for the purpose of evaluating the provisions for financial statements purposes. I reviewed the reasonability and adequacy of the data, including comparing the said data with the data for the year to which the statement refers and the data for previous years.

1.2 Where necessary, my evaluation also relied on data received from other reliable sources. I reviewed the consistency and adequacy of the data and their relevance.

1.3 The actuarial assumptions that I used in my work, as well as the methods for evaluating the provisions specified in section 2 below were determined by me, to the best of my professional judgment, and subject to the instructions, directives and principles specified in section 1 to Chapter C, below.

1.4 To calculate the retention, I asked the entities responsible for the insurer's reinsurance for information concerning the insurer's reinsurance arrangements, the ability to collect claims, and problems with the reinsurers' payment policy. Based on the information that I received, I reviewed the effect and implications of the reinsurance arrangements on the provisions.

1.5 The following matters were also taken into account in my opinion:

- The provision that was calculated for the Company's share of the "Pool" (Israel Motor Insurance Pool) was based on an assessment conducted by the Pool's actuary.
- The claims' experience, which was affected by the coronavirus pandemic and reflected in the data, the working assumptions that are entered into the actuarial models and the final results.
- The interest environment and the anticipated inflation in the local market, as part of the discount of the reserves.

1.6 No reserve was taken for the absence of a correlation between the different sectors for the purpose of writing down the total provision for all the sectors included in my evaluation.

2. Data included in the section on the scope of the actuarial opinion

As of December 31, 2020

2.1 Pending Claims

2.1.1 Non-aggregated sectors:

	Gross	Retention
	NIS in thousands	
Vehicle property	120,773	120,773
Comprehensive home	48,394	44,914
Loss of property	40,262	226
Engineering insurance	38,689	107
Vehicle compulsory	782,934	637,043
Employers' liability	46,675	7,153
Third-party liability	106,262	12,815
Product liability	39,149	7,830
Professional liability	240,899	25,799
Other	4,264	621
Total non-aggregated sectors	1,468,301	857,280
Total aggregated sectors	-	-
2.1.2 Total aggregated and non-aggregated sectors	**1,468,301**	**857,280**
2.2 Indirect expenses for all sectors	49,289	49,289
2.3 Premium deficiency:	46,425	46,425
Total pending claims, indirect expenses, premium deficiency reserve computed in accordance with actuarial valuation:	**1,564,015**	**952,994**

Chapter C – the Opinion

I hereby declare and confirm that in the following sectors: comprehensive home, motor vehicle insurance – property (self and third party), motor vehicles (New Version), 1970:

1. I evaluated the insurer's provisions listed in Chapter B in accordance with the instructions, directives and principles set forth below, and all in effect as of the date of the financial statements:

    a. The provisions of the Control of Financial Services (Insurance) Law, 1981, and regulations promulgated thereunder.
    b. Instructions and directives issued by the Commissioner of Insurance;
    c. Commissioner's position regarding calculation of general insurance reserves
    d. Acceptable actuarial principles.

2. After reviewing the data mentioned in Chapter B, I concluded that the data are reasonable and adequate, and that they can be relied on for the purpose of my evaluation.

3. I determined the assumptions and methods used to assess the provisions, to the best of my professional judgment, and in accordance with the instructions, directives and principles specified above.

4. To the best of my knowledge, the provisions specified in Chapter B, section 2.1.1 in respect of the non-aggregated sectors comprehensive flats, property loss, engineering, compulsory motor, employers liability, third party liability, product liability, professional liability and other form an adequate reserve for covering the insurer's commitments in respect of the pending claims, defined above, for each statistical sector listed separately, in effect as of the date of the financial statements.

5. To the best of my knowledge, the total provisions listed in Chapter B, section 2.1.2, form an adequate reserve for covering the insurer's commitments in respect of pending claims in the aggregated and non-aggregated sectors together, in effect as of the date of the financial statements.

6. To the best of my knowledge, the provision specified in Chapter B, section 2.2 forms an adequate reserve for covering the insurer's commitments in respect of indirect expenses to settle the claims in effect as of the date of the financial statements.

7. To the best of my knowledge, the provisions listed in Chapter B, section 2.3, form an adequate reserve for covering the insurer's commitment in respect of a deficit premium at retention level (inasmuch as such deficit premium exists) in the sectors listed, in effect as of the date of the financial statements.

Chapter D – Comments and Clarifications

1. **Comments, clarifications and explanations in connection with the actuary opinion I rendered, to the best of my professional judgment.**

   a. In January 2015 a new Insurance Circular was published - "Actuarial Assessment in General Insurance" - which is designed to enhance the quality of assessment of the reserves for an insurer's liability due to general insurance contracts (hereafter – "insurance reserves), which are an important element in the assessment of an insurer's liability, and to regulate the attachment of the professional opinion of an appointed actuary (hereafter – "the actuary") on these provisions to the financial statements. The circular establishes the scope of the actuarial assessment which the actuary is required to perform, the actuarial report he/she is required to prepare and the statement he/she is required to sign, which must be attached to the financial statements.

   b. In January 2015 the Commissioner published a position paper on "Best Practice for Calculation of Insurance Reserves in General Insurance for Financial Reporting" (hereafter – "the position paper"). The Commissioner's position paper includes, inter alia, explanations of the principles of professionalism, consistency and caution which have not been previously defined in circular 2015-1-1 on Actuarial Valuation in General Insurance. The principle of caution will require the actuary to verify that the valuations made in the liability sectors aim for a probability estimate of 75% at the very least. The Commissioner's position paper also refers to the issue of the discount rate applied to liabilities for best estimate purposes.

   c. In January 2015 a circular was published – "Calculation of Reserves in General Insurance – Update"; in accordance with this circular, commencing in the financial statements as of December 31, 2015, the reserve in respect of the excess of income over expenses shall not be calculated for the liability insurance sectors and the compulsory vehicle insurance sector.

d. In January 2018, a Government resolution was published, concerning the modification of the accounting mechanism between the National Insurance Institute ("NII") and the insurance companies ("the New Subrogation Arrangement"). The modification is designed, inter alia, to improve the efficiency of the existing accounting arrangements between NII and the insurance companies as regarding the payment of compensation pursuant to the Compensation Law, with limited involvement of court proceedings. The modification amends the arrangement that is provided for in Section 328(A) of the National Insurance Law with regard to the settling of accounts between NII and the insurance companies in respect of the payment of compensation on the annuity paid or payable by the NII to victims of road accidents pursuant to the Compensation Law, and determines that the insurance companies will transfer a fixed annual amount to cover their liability.

The Economic Efficiency Law (Legislation Amendments for Obtaining the Budgetary Targets for Budget Years 2021 and 2022), 2021, which contains, among others, an amendment to the Economic Efficiency Law for 2019 determines that every insurance company will be required to transfer to Karnit a percentage of the insurance premiums (as defined) that it had collected in the preceding month, which will subsequently be transferred from Karnit to the National Insurance Institute. The aforesaid Law determines that, in the years 2023-2024, an amount equal to 10% of the insurance premiums collected by the insurance company will be transferred to the National Insurance Institute, and commencing in 2025 and thereafter an amount equal to 10.95% of said insurance premiums will be transferred.

Against the contribution fees that would be transferred to the National Insurance Institute, commencing on January 1, 2023 no subrogation claims will be filed by NII in respect of damage events.

e. Liability Discount

1. Compulsory and liability sectors: The Company discounts said sectors based on a risk-free interest curve, with the addition of 80% of the illiquidity premium in accordance with Insurance Circular 2022-1-4 ("Amendment of the Provisions of the Consolidated Circular Concerning the Measurement of Liabilities - Illiquidity Premium") and in accordance with the best practice principles of the compulsory vehicle insurance sector and the liability insurance sectors (see Chapter D, section 3).

2. Property sectors - The Company does not discount these sectors.

Effect of risk-free interest on discounting/non- discounting of provisions for pending claims - gross

Sectors	Best estimate provision before discounting	Best estimate provision after discounting	Actual provision in books	Increment (%)
	NIS in thousands			
Compulsory vehicle	781,413	731,420	782,934	70.4%
Vehicle property	115,131	113,620	120,773	6.30%
Comprehensive home insurance	44,934	43,773	48,394	10.56%
Engineering insurance	33,468	32,229	38,689	20.04%
Property	34,829	34,272	40,262	17.48%
Employers' liability	45,586	42,509	46,675	9.80%
Other	4,039	3,711	4,264	14.90%
Product liability	36,036	33,518	39,149	16.80%
Professional liability	226,728	209,659	240,899	14.90%
Third-party liability	104,377	97,309	106,262	9.20%
Total	**1,426,542**	**1,342,021**	**1,468,301**	**9.41%**

Effect of risk-free interest on discounting/non- discounting of provisions for pending claims – retention				
Sectors	Best estimate provision before discounting	Best estimate provision after discounting	Actual provision in books	Increment (%)
	NIS in thousands			
Compulsory vehicle	634,927	596,834	637,043	6.74%
Vehicle property	115,131	113,620	120,773	6.30%
Comprehensive home insurance	41,703	40,649	44,914	10.49%
Engineering insurance	92	88	107	21.03%
Property	195	193	226	17.20%
Employers' liability	6,988	6,515	7,153	9.80%
Other	588	540	621	14.90%
Product liability	7,207	6,704	7,830	16.80%
Professional liability	24,243	22,453	25,799	14.90%
Third-party liability	12,575	11,735	12,815	9.20%
Total	**843,650**	**799,331**	**857,280**	**7.25%**

f. The process of assessing the various actuarial provisions involves statistical uncertainty. These assessments are based on certain assumptions which best reflect the information currently available to us. There may be future changes, which will have an effect on these assumptions in terms of legislation, legal rulings and economic and social environments. It is impossible to predict these factors and they may affect the final cost of the claims thus affecting actuarial estimate of the provisions.

2. **Material changes in actuarial assumptions and methods compared with last year's actuarial assessment**

Whereas in the previous year the risk-free interest curve was negative, changes in the interest environment and in market conditions resulted in a positive curve, with an ensuing discount benefit for the best estimate provisions after the discount. Pursuant to best practices in the compulsory vehicle insurance sector and in the liability insurance sectors, the best estimate provisions include the discounted amounts.

3. **Material changes to provisions described in Chapter B compared to provisions described for the previous reporting period and the reasons for those changes, by sectors**

Below is information about provisions by insurance segment as of the 2021 and 2022 year-end and changes in provisions.

Vehicle property

During the year, the claims' experience took a significant turn for the worse, both in terms of the frequency of the claims and their severity. In addition, the occurrence of theft increased significantly, substantially burdening the results of the Company. Consequently, pending claims increased by NIS 37.9 million.

Compulsory vehicle

Gross: a decrease of NIS 22.3 million in pending claims due to the effect of the discount (on top of the effect of the positive interest environment). Nevertheless, it should be noted that, excluding the effect of the discount, the underwriting results were adversely affected by the anticipated increase in the development of claims in respect of prior underwriting years, an increase in the reserves originating in the "pool" and changes in the consumer price index (linkage of the claims).

In retention: an increase of NIS 9.9 million in pending claims. A substantial part of the adverse effect on the experience in respect of prior underwriting years, as described above, was attributed to the retention layer.

Home Insurance - Several large claims were received during the year, burdening the results of the Company. In addition, there was an adverse development in water damage claims under the Plumbers Circular. Consequently, gross pending claims increased by NIS 8.4 million (NIS 8.6 million in retention).

Commercial - product liability and third-party liability: a decrease in the provision, gross and in retention, as a result of the release of provisions for historical underwriting years and a positive development in claims that ensued from the current updating of the status and development of the claims by the Claims' Department.

Commercial - professional liability: decrease in the provision, gross and in retention, as a result of the release of provisions for historical underwriting years and a positive development in claims that ensued from substantial efforts dedicated by the Claims' Department to the current updating of the status and development of the claims. In addition, the Company has implemented significant underwriting processes that are designed to reduce the exposure to and the losses from cyber claims.

Comparison of annual actuarial estimate compared with previous year's actuarial estimate – gross

Sectors	Addition as of 31.12.2021	Addition as of 31.12.2022	Change in reserve
Compulsory vehicle	805,236	782,934	-22,301
Vehicle property	82,921	120,773	37,852
Comprehensive home	39,968	48,394	8,426
Engineering insurance	43,636	38,689	-4,948
Property	32,832	40,262	7,430
Employers' liability	57,605	46,675	-10,930
Other	3,256	4,264	1,009
Product liability	45,394	39,149	-6,245
Professional liability	249,727	240,899	-8,828
Third-party liability	123,440	106,262	-17,178
Total	**1,484,013**	**1,468,301**	**-15,712**

Comparison of annual actuarial estimate compared with previous year's actuarial estimate – retention			
Sectors	**Addition as of 31.12.2021**	**Addition as of 31.12.2022**	**Change in reserve**
Compulsory vehicle	627,175	637,043	9,868
Vehicle property	82,921	120,773	37,852
Comprehensive home	36,231	44,914	8,683
Engineering insurance	114	107	-7
Property	175	226	51
Employers' liability	9,227	7,153	-2,073
Other	465	621	155
Product liability	9,010	7,830	-1,180
Professional liability	26,698	25,799	-899
Third-party liability	16,154	12,815	-3,339
Total	**808,170**	**857,280**	**49,111**

March 21, 2023	**General Insurance Actuary Director**	**Shay Elgrably**	
Date	Position	Name of Actuary	Signature

LIFE INSURANCE SECTOR – ACTUARY STATEMENT

As of December 31, 2022

AIG INSURANCE CO. LTD.

<u>Section A.1 - Identity of the actuary</u>

I am a salaried employee of AIG Israel Insurance Co. Ltd. I am a full member of the Israel Association of Actuaries (F.IL.A.A) since 2017. On January 2019 I was appointed by the Company to serve as supervising actuary in life insurance.

I am not an interested party in the insurer nor am a relative of an interested party.

I was requested by AIG Israel Insurance Co. to evaluate the provisions listed in Chapter B below in the life insurance sector for the financial statements ("the provisions") of the insurer AIG Israel Insurance Co. Ltd. at December 31, 2022, as detailed below.

<u>Section A.2 - Scope of the actuarial opinion</u>

1. The actuarial opinion

1.1 For the purpose of calculating the insurer's provisions, I relied on data that I received from the insurer. My requests for information and data were satisfied adequately for the purpose of evaluating the provisions for financial statements purposes. I reviewed the reasonability and adequacy of the data, including comparing the said data with the data for the year to which the statement refers and the data for previous years.

1.2 Where necessary, my evaluation also relied on data received from other reliable sources. I reviewed the consistency and adequacy of the data and their relevance.

1.3 The actuarial assumptions that I used in my work, as well as the methods for evaluating the provisions specified below were determined by me, to the best of my professional judgment, and subject to the instructions, directives and principles specified in section A.3 below.

1.4 To calculate the retention, I asked the entities responsible for the insurer's reinsurance for information concerning the insurer's reinsurance arrangements, the ability to collect claims, and problems with the reinsurers' payment policy. Based on the information that I received, I reviewed the effect and implications of the reinsurance arrangements on the provisions.

1.5 The following matters were also taken into account in my opinion:

1) The provision calculated in respect of incoming businesses was calculated by the actuary (in that regard "incoming businesses" as defined in Insurance Business Supervision Regulations (Methods of Calculating Provisions for Future Claims in General Insurance), 1984.

2) As of the date of this report, in segments relevant to this opinion, no joint insurance policies exist where the Company is the leading insurer.

2. Amounts of provisions

1) Provisions for pending claims (claims which have taken place buy have not yet been fully paid, whether approved or not) as well as the direct and indirect expenses arising there from (including provision for claims which have not yet been reported to the insurer):

a) Sectors in which an actuarial provision for pending claims was calculated:

Sector	Gross provision (NIS thousands)	Provision in retention (NIS thousands)	% retention
Life insurance	39,257	31,908	81%
Permanent disability	21,227	14,194	67%
Disability from accident	9,807	7,513	77%
Unemployment	38	19	50%
Severe illness	4,322	3,529	82%
Medical expenses	2,106	1,380	66%
Total life - individual	**76,757**	**58,544**	**76%**
Life – collective	0	0	0

b) Provision for indirect expenses for claim settlement

Sector	Gross provision (NIS thousands)	Provision in retention (NIS thousands)
Life insurance – individual	1,619	1,619

2. Provision (reserve) arising from terms of a separate life insurance contract:

a. The Company does not have plans on accrual basis.
b. The Company does not have claims that are paid as allowances/annuities
c. The Company does not have policies that provide profit sharing.
d. Complementary amount arising from testing reserve appropriateness – no need was identified for such complementary amount.
e. The company has insurance policies where some of the premium collected in the early years of the contract is designed to provide coverage at a later date – set forth below are the provisions in respect of fixed premium:

Sector	Gross provision (thousands of NIS)	Provision in retention (thousands of NIS)
Life insurance - individual	2,415	2,415

f. Additional provisions for policies with non-monthly premium install installments, for which unearned premium reserve is calculated:

Sector	Gross provision (thousands of NIS)	Provision in retention (thousands of NIS)
Life insurance – individual	49	40

3. Details on changes in provisions

Below is the amount of changes in provisions (in thousands of NIS) at both gross and retention levels, as follows:

1) For policies that came into effect after the end of the reported period of the last financial statements – the adjustment amount of the provisions – arising from the difference between the premium basic assumptions and the provision basic assumptions – no such adjustment was required.

2) For policies which came into effect before the end of the reported period of the last financial statements – the adjustment amount of the provisions – arising from changes in premiums, methods or the level of premium that is expected to be collected and other adjustments – no such adjustments were required.

Section A.3 – the Opinion

I hereby declare and confirm that in the life insurance sector:

1. I evaluated the insurer's provisions listed in Section A.2 above in accordance with the instructions, directives and principles set forth below, and in effect as of the date of the financial statements:

    a. The provisions of the Control of Financial Services (Insurance) Law, -1981, and regulations promulgated thereunder.
    b. Instructions and directives issued by the Commissioner of Insurance;
    c. Acceptable actuarial principles.

2. After reviewing the data mentioned in Chapter A.2, I concluded that the data are reasonable and adequate, and that they can be relied on for the purpose of my evaluation.

3. I determined the assumptions and methods used to assess the provisions, to the best of my professional judgment, and in accordance with the instructions, directives and principles specified above.

4. To the best of my knowledge, the provisions specified in Section A.2 form an adequate reserve for covering the insurer's commitments in respect of its liability arising from life insurance contracts, in effect as of the date of the financial statements.

Section A.4 – Comments and Clarifications

a. The types of coverage included in this report

1) Coverage for the event of death (risk, mortgage risk)
2) Coverage for total and permanent disability
3) Coverage for accident-caused disability
4) Coverage for accident-caused death
5) Coverage for unemployment
5) Coverage for serious illness
5) Coverage for medical expenses

Coverage for serious illness and health services not covered by basic government services are included in the actuarial report for the general segment.

b. Types of reserves and assumptions

The insurance portfolio comprises life insurance and health insurance coverage. All payments to policyholders are compensation in respect of an insurance event. The insurance amounts are paid as a one-off payment except for unemployment allowance insurance under which an allowance is paid for a period of up to a year. However, payments under health insurance coverage constitute indemnification withion the liability limit set out in the policy.

IBNR provisions in life insurance for insurance events outstanding in the Company, as is generally the custom in insurance companies, is based on the "triangles methods", which are methods that follow up the development of claims over time and which make it possible to estimate pending and unreported claims in accordance with past rates of paid claims or known claims (paid+pending).

c. Statistical and actuarial uncertainty

There is statistical uncertainty in the process of estimating the various actuarial reserves. These estimates are based on certain assumptions and these assumptions best reflect the things that are currently known to us. There may be future changes in the legal, judicial, social and economic environment that will have an effect on these assumptions. These changes may have an unpredictable effect on the total future actuarial reserves.

d. Exposure to future developments and changes

Changes and developments may occur in conditions in the Israeli life insurance market, following regulatory changes, court rulings, technological developments and changes in social and environmental conditions. Those factors may not be predicted in advance, and may have impact on final cost of claims, as well as the actuarial estimate for provisions.

e. Reconciliation of appendix data to the financial statements

The tables in the above appendices were prepared according to the guidelines of the Commissioner, and the composition of the data therein may not necessarily correspond to the information in the Company's financial statements and notes.

March 21, 2023	**Life Insurance Actuary Director**	**Tom Hamo, F.IL.A.A**	
Date	Position	Name of Actuary	Signature

HEALTH INSURANCE SECTOR – ACTUARY STATEMENT

AS OF DECEMBER 31, 2022

AIG ISRAEL INSURANCE CO. LTD.

Chapter A – Statement of the Actuary in Health Insurance

Chapter A - Identity of the actuary

I am a salaried employee of AIG Israel Insurance Co. Ltd. I am a full member of the Israel Association of Actuaries (F.IL.A.A) since 2017. In January 2019, I was appointed by the Company to serve as supervising actuary in health insurance.

I am not an interested party in the insurer nor am I a relative of an interested party in the insurer.

I was requested by AIG Israel Insurance Co. Ltd. to evaluate the provisions listed in Chapter B hereafter in the health insurance sector for the financial statements ("the provisions") of the insurer AIG Israel Insurance Co. Ltd. at December 31, 2022, as detailed below.

Chapter B - Scope of the actuarial opinion

1. Scope of the actuarial opinion section

1.1 For the purpose of calculating the insurer's provisions, I relied on data that I received from the insurer. My requests for information and data were satisfied adequately for the purpose of evaluating the provisions for financial statements purposes. I reviewed the reasonability and adequacy of the data, including comparing the said data with the data for the year to which the statement refers and the data for previous years.

1.2 Where necessary, my evaluation also relied on data received from other reliable sources. I reviewed the consistency and adequacy of the data and their relevance.

1.3 The actuarial assumptions that I used in my work, as well as the methods for evaluating the provisions specified in section 2 below were determined by me, to the best of my professional judgment, and subject to the instructions, directives and principles specified in section 1 to Chapter C, below.

1.4 To calculate the retention, I asked the entities responsible for the insurer's reinsurance for information concerning the insurer's reinsurance arrangements, the ability to collect claims, and problems with the reinsurers' payment policy. Based on the information that I received, I reviewed the effect and implications of the reinsurance arrangements on the provisions.

1.5 The following matters were also taken into account in my opinion:

1.5.1 The provision calculated in respect of incoming businesses (in that regard "incoming businesses" as defined in Insurance Business Supervision Regulations (Methods of Calculating Provisions for Future Claims in General Insurance), 1984): an estimate was not calculated since the company does not have business of this type.

1.5.2 The provision that was calculated for co-insurance where the company is not the leading insurer: the company does not have business of this type.

2. Data included in the section on the scope of the actuarial opinion

2.1 Provision for pending Claims

2.1.1 Sectors for which an actuary provision for pending claims was calculated:

Sub-sector- general insurance	Gross provision	Provision in Retention
	NIS in thousands	
Personal accidents – individual	73,934	73,136
Personal accidents – collective	257	257
Overseas travel– individual	8,658	8,658
Overseas travel – collective	0	0
Severe illness – individual	6,490	5,537
Total reported in general insurance	**89,338**	**87,587**

Provision for indirect expenses for settlement of claims

Provision for indirect expenses for settlement of claims (gross and retention)	
NIS in thousands	
Type of activity	**Health insurance**
Individual	3,543
Collective	13
Total	**3,556**

Provision deriving from conditions of insurance contracts (contract reserve)

In some of the products available in the personal accidents – individual sub-sector, we found that a provision needs to be made which arises from the conditions of the insurance contract.

Sub-sector	Gross provision	Provision in retention
	NIS in thousands	
Personal accidents – individual	4,895	4,895

Provision in respect of profit sharing:

No provision was calculated since the company does not have business of this type.

2.1.2 The figures presented above do not include a provision for unearned premium.

Chapter C – the Opinion

"I hereby declare and confirm that in the following subsectors of health insurance, personal accidents individual and group, critical illness, travel abroad individual and group and medical expenses:

1. I evaluated the insurer's provisions listed in Chapter B in accordance with the instructions, directives and principles set forth below, and in effect as of the date of the financial statements:

   1.1 The provisions of the Control of Financial Services (Insurance) Law, -1981, and regulations promulgated thereunder.
   1.2 Instructions and directives issued by the Commissioner of Insurance;
   1.3 Acceptable actuarial principles.

2. After reviewing the data mentioned in Chapter B, I concluded that the data are reasonable and adequate, and that they can be relied on for the purpose of my evaluation.

3. I determined the assumptions and methods used to assess the provisions, to the best of my professional judgment, and in accordance with the instructions, directives and principles specified above.

4. To the best of my knowledge, the provisions specified in Chapter B form an adequate reserve for covering the insurer's commitments in respect of its liability arising from health insurance contracts included in the health insurance subsectors listed above, in effect as of the date of the financial statements."

Chapter D – Comments and Clarifications

1. Position of the Commissioner – As per the circular issued by the Commissioner, dated January 15, 2015, beginning on the 2015 year-end, testing that it is fairly likely that, based on a probability estimate of at least 75%, the reserves in the compulsory and liability sectors will be sufficient to cover insurer liabilities.

   The position of the Commissioner does not specifically refer to health insurance segments, but we believe that it should be also applied to those segments.

2. Discount interest rate was used only for calculating provisions arising from the terms of the insurance contract. Discount interest was only used to compute the provision deriving from the insurance contract. The interest rate is the NIS risk-free interest (linked to the CPI) which was published at the end of December 2022.

3. The risk-free, fixed-interest discount rate was set in light of the fact that a considerable portion of the Company's investments are made in high-rated government bonds and/or corporate bonds.

4. The process of assessing the various actuarial provisions involves statistical uncertainty. These assessments are based on certain assumptions which reflect the information currently available to us. There may be future changes, which will have an effect on these assumptions in terms of legislation, legal rulings and economic and social environments. It is impossible to predict these factors and they may affect the final cost of the claims thus affecting actuarial estimate of the provisions.

March 21, 2023	**Health Insurance Actuary Director**	**Tom Hamo, F.IL.A.A**	
Date	Position	Name of Actuary	Signature