AIG Israel Insurance Company Ltd

Financial Report for Year Ended 2021

Contents

<u>Chapter A: Description of the Company's Business</u>
For the year ended December 31, 2021

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

March 22, 2022

Description of corporate business for the year ended December 31, 2021

This report constitutes a description of the Company's business as of December 31, 2021 and reviews the Company and the development of its business as occurred in 2021 ("**the reported period**"). The information in this report as updated as of December 31, 2021 ("**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.

Table of Contents:

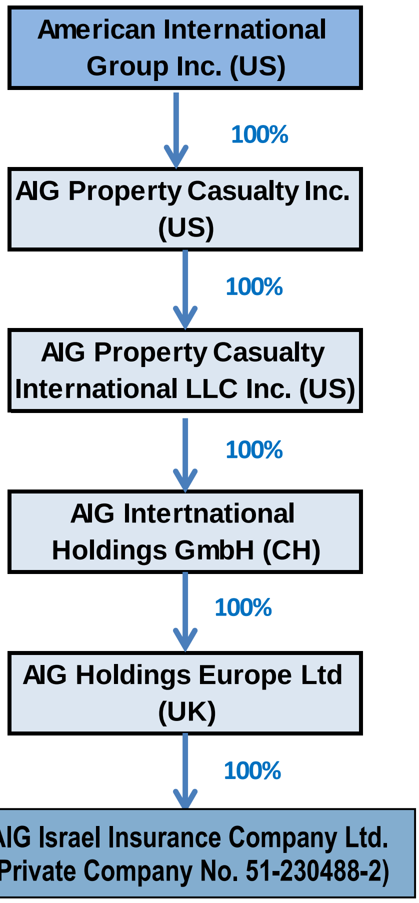
1. Part A: the activity of the Company and the development of its business

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 Standard & Poor's.

The sole shareholder of the Company is AIG Europe Holdings Limited ("**AEHL**"), which holds the entire issued and paid up share capital of the Company. AHEL is a company in the AIG Global 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 prepared by the |Authority ("**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 and 3.52% in 2020 and 3.47 in 2021 (interim)[1].

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) (Amendment), 2003, 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), 2009, an insurer needs to give Karnit 9.4% of premium for each of the policies issued against the transfer of liability to any medical expenses included in the government healthcare funding to health funds. In August 2021, the Compensation of Victims of Road Accidents Order

[1] According the website of the Pool, at: https://pool.org.il/%D7%90%D7%95%D7%93%D7%95%D7%AA-%D7%94%D7%97%D7%91%D7%A8%D7%94/

(Financing the Cost of the Provision of Services), 2021 was published, pursuant to which, commencing in January 2022, this rate will be updated to 12.66%.

<u>Arrangements for distributing the compensation burden among insurance companies</u>

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.

<u>Subrogation claims of the National Insurance Institute of Israel</u>
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) (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%.

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 negative 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 reduction 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 negative interest curve in the reporting period increased the insurance liabilities in the compulsory vehicle insurance segment by NIS 24.4 million.

1.2.3 **<u>General insurance – home insurance</u>**

<u>General</u>

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 **<u>General insurance – commercial insurance</u>**

<u>General</u>

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) <u>Professional liability insurance</u>
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 and the illness and hospitalization 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.

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 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 (hereafter – " Collective Health Insurance Directives"), as well as the directives and guidance issued by the Commissioner from time to time.

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 against the coronavirus as regarding flight cancellation, extended stay overseas, isolation overseas and hospitalization overseas.

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 2020 and 2021, 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 2020 and in the reporting period, 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. There was no adverse effect on the underwriting results of the Company in the reporting year as a result of the Coronavirus Event. 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.

At the end of 2020, the Company launched an innovative 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, 15 insurance companies are active in this segment, and the market is highly competitive. According to the financial statements for the first nine months of 2021, the main competition in this segment, by premium turnover are, the Phoenix Insurance Company Ltd ("**the Phoenix**") (12.9%), Harel Insurance Company Ltd. ("**Harel**") (11.2%) Menorah Insurance

Company Ltd ("**Menorah**") (11.2%), and IDI Insurance Company Ltd ("**Direct Insurance**") (11.2%). The market share of the Company in this segment in total premiums during that period is 4.8%.

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 2020 was published in August 2021 (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. 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):

	2021	**2020**	**2019**
Direct marketing	385,488	337,243	333,361
Through insurance agents	35,733	32,667	35,122
Total	**421,221**	**369,910**	**368,483**

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 2021 in terms of premiums for policies that were in effect in the previous year is 74.5%.

f. The rate of customers who are also insured in compulsory vehicle insurance in 2021 is 91.8%.

g. The following information shows customers in vehicle property insurance in terms of premium in 2021 in percentage terms by years of first engagement:

First year of the first policy with the Company:	**%**
2021	39%
2020	19%
2018	11%
Until 2017	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.

Those claims are characterized by a long claims tail.

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

As indicated above, the vehicle compulsory insurance segment has only one product.
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 2021, the total share of these companies in the total gross premiums in the segment is 61.2% The share of the Company out of the total premiums in this sector was about 3.7%.

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 Ministry of Finance show that the Company is ranked fourth 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):

	2021	2020	2019
Direct marketing	207,385	187,760	176,434
Through insurance agents	2,489	2,765	3,178
Total	**209,874**	**190,525**	**179,612**

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 2021 in terms of premiums for policies that were in effect in the previous year is 75.8%.
f. The rate of customers who are also insured in vehicle property insurance in 2021 is 96.7%.
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:	%
2021	37%
2020	19%
2018	11%
Through 2017	34%
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.

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

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

2.3.2 **Competition**

According to information released, 15 insurance companies are active in this segment, resulting in fierce competition. According to data in the financial statements for the first nine months of 2021, the main competitors in this segment, by premium turnover are Harel (13.6%), the Phoenix (13.3%), Clal (11.7%), Direct Insurance (11.5%) and Migdal Insurance Company Ltd. ("**Migdal**") (10.8%). The share of the Company in the total premium turnover in the reported period is 7.1%.

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 Ministry of Finance show that the Company is ranked first in the 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. Renewals rate in 2021 in terms of premiums for policies that were in effect in the previous year is 90.8%.

d. 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	%
2021	18%
2020	13%
2018	11%
Until 2017	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 (hereinafter: "**the Companies Law**") 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 the reporting year and the preceding year, there was no adverse effect on the underwriting results of the Company as a result of the Coronavirus Event. 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.

In 2021, the Company did not develop new material products in this insurance segment.

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 2020, the main competitors in this segment by premium turnover are Harel (21.5%), Clal (14.6%), the Phoenix (12.5%), Ayalon Insurance Company Ltd. (12.3%), Menorah (11.0%) and Migdal (8.4%). The share of the company in the professional liability and other liability from total premium turnover in the reported period is 2.4%, and the share of the Company in the property and engineering insurance by premium turnover in that period is 1.4%.

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**

The company is not dependent on any single customer.

AIG

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. 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 and the various restrictions that were imposed on outgoing and incoming travelers. 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.

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

2.5.2 Competition

This segment is characterized by intense competition from the leading insurance companies in the segment. According to the financial statements for the first nine months of 2021, the leading insurers in this segment by premium turnover are Harel (37.7%), the Phoenix (19.5%) and Migdal (11.5%). The share of the Company of total segment premium turnover in the reported period is 1.0%.

The share of the Company in personal accident segment of the total premium turnover in the segment in the reported period is 5.6%.

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 Ministry of Finance rank the Company first in the payment of overseas travel insurance claims and personal accidents insurance claims 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):

	2021	**2020**	**2019**
Private customers – personal accidents insurance	106,962	121,391	139,514
Private customers – severe illness insurance	19,936	22,518	24,926
Overseas travel insurance	16,173	5,489	39,605
Collective policies	62	170	171
Total	**143,133**	**149,568**	**204,216**

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. The rate of cancelations in 2021 in health policies that were in effect during the year in terms of premium was 14.0% of gross 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 and the preceding year, there was no material adverse effect on the underwriting results of the Company as a result of the Coronavirus Event. 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.

In 2021, the Company did not develop new material products in this insurance segment.

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 94.8% 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 the life insurance segment out of total premium turnover in the reported period is 0.4%. The share of the Company in insurance policies without a savings component (death risk – individual) is 3.9%.

Since it is possible to compare the life and health insurance fees collected by the various insurance companies through the life insurance rates calculator and the health insurance comparison calculator presented on the Commissioner's website, there is great sensitivity among the customers to the rate of insurance premiums. The Company's competition with the competition is in constant improvement in the provision of customer service, branding and differentiation of the Company's unique advantages and operational efficiency.

According to data published by the Ministry of Finance the Company is ranked fourth in the claim handling index component in life insurance. In the service index, the Company is ranked second in the customer satisfaction in life insurance risk services index component.

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 Ministry of Finance, the Company is ranked first in the Claim Payment Index in medical insurance.

2.6.3 **Customers**

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.

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 governs mainly the relationship between parties to the insurance contract. In December 2020, Amendment No. 10 to the Insurance Contract Law came into effect. The Amendment determines that insurance benefits will be paid by bank transfer, unless otherwise elected by the policyholder or the beneficiary. Additionally, in November 2020 Amendment No. 11 to the Insurance Contract Law, which consolidates two bills concerning the extension of the statute of limitations, was passed by the Knesset and enacted. The Amendment sets the statute of limitations on insurance benefit claims for life insurance, illness and hospitalization insurance and long-term care insurance at five years from the occurrence of the insured event. It also requires the insurer to indicate, clearly and conspicuously, in any related notice to the policyholder or to the beneficiary, the statute of limitations and the fact that its calculation is not halted upon submission of the claim to the insurer.

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:**

- Supervision of Financial Services Regulations (Insurance) (Minimum Capital Required for Insurer Licensing), 2019 (hereinafter: "**the Minimum Capital Regulations**"). The Minimum Capital Regulations provide for the minimum capital required for obtaining an insurer license in Israel.

- 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.

  In June 2021, an amendment to the Institutional Investments Regulations was passed, which aims to adapt the regulations to the changes that took place in the economic environment and in the capital market. The amendment prescribes modifications that are intended to allow a wider range of investments with a relatively low increase in the investment risks, and to remove investment barriers when considering potential investments in infrastructure in Israel.

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

- Supervision of Financial Services Regulations (Insurance) (Qualifications of Appointed Actuary), 2019
  The regulations 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:**

Circulars

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:

- In January 2021, the Commissioner published its position on actions of an officer prior to the Commissioner's approval of the officer's appointment. The position determines that a candidate officer in a public institution will refrain from any action that is included in the description of the intended position and its related duties, pending the Commissioner's approval of his appointment. Additionally, the position specifies several actions that the candidate officer is prohibited to perform prior to the Commissioner's approval and several actions that are allowed for the candidate officer prior to such approval.

- In January 2021, the Commissioner published a clarification concerning identification in the personal zone on the Company's website. In the clarification, the Commissioner clarifies that an insurance company is obligated to enable the obtaining of a password to the personal zone in an appropriate and reasonable manner, making the use of the Company's personal zone available to all policyholders. It is specified that policyholders who do not have an email address or who are unable to receive text messages on their telephone, a password may be sent by a telephone voice message or in other reasonable means.
- In January 2021, the Commissioner published its position on the principles attaching to the implementation of provisions concerning the independence of the auditor of a public institution when an ancillary service is provided, in view of the importance of maintaining the independent and professional conduct of an auditor of a public institution and in order to increase the certainty that the financial statements of the public institutions fairly reflect their financial position and the results of their operations. The position describes several situations where the Commissioner will deem an auditor's duty of independence to have been compromised due to the provision of an ancillary service by the auditor during the audit period or in the preceding year.
- In January 2021, the Commissioner published an amendment to the provisions of the consolidated circular concerning "Personal Accidents Insurance", which came into effect on May 1, 2021. The amendment was issued in order to regulate the personal accidents sector by stipulating provisions concerning the insurance coverage for new policyholders, including a basic layer of insurance that comprises coverage for death, disability, hospitalization, fractures, burns and recovery period, determining a uniform and broad definition of "accident", setting a biannual insurance period and prescribing specific provisions for new personal accidents policyholders as well as a mechanism for the settlement of disability claims under the policy. In April 2021, the Commissioner published an additional amendment to the provisions of the consolidated circular concerning "Personal Accidents Insurance". The amendment cancels the obligation to purchase recuperation days coverage in personal accidents insurance policies, since a daily compensation for recuperation days significantly increases the cost of the premium. Therefore, the insurance product must also be made available without recuperation days coverage.
- In February 2021, the Commissioner published an amendment to the circular concerning "Web-Based Interface for the Location of Insurance Products". The amendment stipulates reporting requirements for additional types of information, in order to improve the services that are provided to policyholders through "Har Habituach" and to introduce new services in relation to health insurance. The amendment requires insurance companies to assign to an insurance policy of a minor policyholder the identification information of at least one adult guardian, in order to enable access to the information included in "Har Habituach" for that minor. In August 2021, the Commissioner published an additional amendment to said circular, which provides guidelines to insurance companies with regard to the functions that may be authorized to view the details of insurance candidates on "Har Habituach" website and to the manner of reporting to the Authority the identity of those functions that have been authorized by the insurance companies to view the details of insurance candidates on "Har Habituach" website.
- In February 2021, the Commissioner published an amendment to the consolidated circular concerning "Renewal of Insurance Contracts". The amendment, which serves as an ad hoc provision on the backdrop of the Coronavirus Event, allows insurers to suspend insurance coverage and allows the insurance companies to extend the renewal period if they are unable to reach the policyholder. The ad hoc provision will be in effect until the expiration of the Special

Powers for Handling the Novel Coronavirus Regulations (Ad Hoc Provision) (Restriction of Activity at Workplaces), 2020 or any other superseding legislation.

- In February 2021, the Commissioner published a circular concerning the collection of statistical information on the settlement of claims, which, among others, requires the insurance companies to collect statistical information and metrics that will serve as an additional tool for potential policyholder in selecting an insurer.
- In March 2021, the Commissioner published an amendment to the Supervision of Financial Services (Insurance) (Terms of Compulsory Motor Vehicle Insurance Contracts) Directives, 2010. The draft proposes, inter alia, to cancel the requirement of a single original insurance certificate and allow policy holders to produce a digital insurance certificate, including cancellation of the policy holder's obligation to return the original certificate to the insurer as a condition for the cancellation of the policy and the refund of the proportionate premiums, to update the standard policy to reflect the cancellation of Regulation 172A of the Transport Regulations, 1961 (failure to renew an expired license), and to issue provisions for notification by the policy holder of the idling of the vehicle for at least 30 consecutive days, which would entitle the policy holder to reduced premiums against the reduction of the insurance coverage.

- In March 2021, the amendment to the consolidated circular concerning "Board of Directors of a Public Institution" was extended until June 30, 2021. The amendment, which serves as an ad hoc provision on the backdrop of the Coronavirus Event, provides, inter alia, for the cancelation of the requirement of a physical convening of the board of directors at least once a quarter and the deferral of the dates for approval of minutes and determines that a public institution will submit to the Commissioner a summary of the resolutions of the board of directors or its committees that were passed at a meeting concerning the Coronavirus Event, this not later than 5 business days from the date of the meeting. Additionally, procedures have been established for the holding of board meetings via remote means of communication and it has been determined that extraordinary transactions other than in the ordinary course of business, which are subject to approval under Section 270 of the Companies Law, will require physical convening, unless there are exceptional circumstances that hinder the physical convening of the board of directors, which will be specified in the minutes of the board's meeting.
- In March 2021, the Commissioner published directives concerning the mapping of cyber insurance risks in the insurance operations. These directives require the insurance companies to perform a survey of cyber risks in insurance operations in order to identify and assess the exposure of the company to cyber risks. Additionally, directives have been prescribed for the method and contents of the survey and the mandatory reporting of its results to the Commissioner. It has further been determined that the identification and assessment of the cyber risks will enable insurance companies to enhance their understanding of this complex area and improve their coping abilities, both with regard to individual cyber claims and in more acute scenarios.

- In May 2021, the Commissioner published an amendment to the provisions of the consolidated circular concerning "Investment Asset Management - Debt Settlements and Rating Companies". The amendment is intended to relieve the regulatory burden on public institutions in the field of debt investment, while maintaining a proper standard of management of the investment assets. The amendment introduces modifications that are intended to streamline the process of investment by the public institutions, on the one hand, and tighten the supervision over debt investment outside Israel, on the other hand. It also determines, inter alia, that the definition of a "debt settlement" will be restricted to apply only to problem debt settlement, and cancels the exclusion of incidental credit in investments outside Israel from the definition of "debt".

- In May 2021, the Commissioner published a second update to the FAQ file concerning the "Implementation and Disclosure of an Economic Solvency Regime in Insurance Companies. The update provides a current response to issues that had been previously raised in the economic solvency regime appendix.

- In June 2021, the Commissioner published an amendment to the Supervision of Financial Services (Terms of Private Vehicle Insurance Contracts), 2021. The amendment updates the directives concerning the insurance of private vehicles, this in view of the extensive changes that the motor vehicle sector has undergone in recent years. The amendment prescribes, inter alia, provisions concerning the content of the insurance details page and with regard to the past insurance report.

- In July 2021, the Commissioner published an amendment to the provisions of the consolidated circular concerning a "Supervising Actuary". The purpose of the amendment is to determine that an actuary that is assigned, for the first time, a position in the insurance sector, will be accompanied by another actuary who is experienced in the related field ("Actuary Guide") during his/her first year in the new position. The amendment requires the Actuary Guide to submit a quarterly report to the Commissioner on the progress of the guidance program. It also determines that, at the end of the guidance period and on the date of submission of the annual financial statements, the Actuary Guide will submit to the Board of Directors of the company and to the Commissioner detailed reports on the extent and scope of the guidance, the professional considerations applied in determining the actuarial assumptions and the tests and controls used by the Actuary Guide in calculating the reserves.

- In July 2021, the Commissioner published an amendment to the provisions of the consolidated circular concerning "Compulsory Vehicle Insurance". The amendment updates the insurance pool tariffs, cancelling the current compulsory insurance tariffs that are applied by the managing corporation of the compulsory insurance pool and aligning the provisions of the circular with the current legal state of affairs.

- In October 2021, the Commissioner published an amendment to the provisions of the consolidated circular concerning the "Reporting of the Approval of an Internal Rating Model". The aforesaid amendment determines that a public institution would be required to report to the Commissioner the approval of an internal rating model by the board of directors of the public institution or by a committee that has been authorized to do so. The amendment requires the public institution to report an internal rating model and updates the provisions concerning reports in an insurance company, instructing the transmission of certain reports via the Otot portal.

- In November 2021, the Commissioner published an amendment to the provisions of the consolidated circular concerning "Transfer of Funds to Reinsurers Outside Israel". The circular prescribes the conditions for the transfer of funds and for the obtaining of collateral from a reinsurer outside Israel for its share in the insurance obligations of the Israeli insurance companies. The amendment now specifies the purposes and conditions in relation to which an insurance company would be permitted to transfer funds to a reinsurer and determines the collaterals that are to be made available to the insurance company.

- In December 2021, the Commissioner published an amendment to the circular concerning "Prohibition of Money Laundering and Funding of Terrorism in Public Institutions". The amendment modifies the definition of a "local public persona", by adding a reference to positions that are deemed as a "senior public position in Israel" for the purposes of the circular, introducing provisions concerning the management of money laundering and terrorism funding risks at branches and extensions of the public institution within and outside Israel, and providing for the implementation of a risk-based policy where the public institution serves as a broker for international transfers. In addition, the provision concerning the "get to know the client" procedure has been updated such that, in the event of suspected money laundering or terrorism funding, the public institution will not allow the beneficiary to withdraw funds from the client's account until the beneficiary undergoes the "get to know the client" procedure and the public institution will implement reasonable measures in order to determine whether the beneficiary is a local or foreign public persona. The amendment also addresses the handling of international transfers.

- In January 2022, the Commissioner published an amendment to the circular concerning the "Review and Settlement of Claims and the Handling of Public Inquiries". The amendment adapts the review and settlement process for disabled individuals and the elderly, so that they can better exercise their rights. The amendment determines, inter alia, that a claim by an elderly individual or a disabled individual will be handled by a single service representative, who will accompany the policyholder throughout the claim and will speak the policyholder's language. It further determines that public institutions be required to allow an elderly claimant and a disabled claimant to file a claim verbally.

- In January 2022, the Commissioner published an amendment to the circular concerning "Regulation of the Conduct of the Supervised Institutions in Reviewing Public Complaints". The amendment shortens the required time of response by the public institution to public inquiries referred to it by the Authority, as well as the required time of response by a public institution to inquiries made by persons with disability.

- In January 2022, the Commissioner published an amendment to the circular concerning "Services to Customers of Public Institutions". The amendment updates the adjustment of services to the elderly by public institutions and, inter alia, requires public institutions to appoint an employee in charge of services to the elderly, who will prescribe the Company's policy of services to the elderly and oversee the related training of those who provide the services to the elderly. It should be noted that the amendment stresses that, like other institutions, the public institutions, too, are required to make the accessibility adjustments that are required of service providers in accordance with the Law for Equal Rights of People with Disability (Service Accessibility Adjustments), 2013.

- In January 2022, the Commissioner published an amendment to the provisions of the consolidated circular concerning "Reports to the Commissioner of the Capital Markets - Own Risk and Solvency Assessment of an Insurance Company (ORSA)". The purpose of the amendment is to assist the Authority in reviewing the risk management processes in the insurance company and their adaption to the risks inherent in its business. The amendment determines that insurance companies would be required to report to the Commissioner annually on the own risk and solvency assessment. In addition, in January 2022, the Commissioner published a letter of clarification concerning the principles for the implementation own risk and solvency assessment by an insurance company.

- In January 2022, an amendment to the circular concerning "Acceptance to an Insurance Plan" was published, which amends several aspects of the circular and prescribes additional requisite actions by the accepting function, including: performing an enhanced coordination of needs upon the cancellation of a policy and transfer to another insurance company, also in other property sectors; requiring an active selection by the policyholder, rather than the default option, in relation to material matters; determining that any talk for acceptance purposes must be audio recorded at minimum; and determining that the transfer of information to "Har Habituach" as part of the acceptance process may not be cancelled, other than by submitting a direct and separate request to the insuring company. In addition, in order to ensure that the process of acceptance to an insurance plan of elderly applicants is adapted to their special circumstances, mandatory provisions have been imposed for the acceptance to an insurance plan of elderly applicants.

- In January 2022, the Commissioner published a position paper concerning investment in insuretech corporations and in investment corporations in the fields of innovative financial technology. The purpose of this position paper is to encourage public institutions to consider investments in innovative financial technology firms where the public institution possesses enhanced expertise for analyzing the feasibility of the investment.

- In January 2022, the Commissioner published an update concerning the allocation of costs among the public institutions pursuant to Tender 3-2012 for the setting up and operation of a database of detailed price quotes and interest rates for public institutions. The update clarifies that, for the purpose of determining the allocation of costs among the public institutions under said tender, the volume of assets of each financial institution will include the assets for which the fund's eligibility to yield supplement is reviewed.

- In February 2022, the Commissioner published an updated Excel file for the 2021 report on the collection of statistical information in relation to public inquiries.
- In February 2022, the Commissioner published an amendment to the provisions of the consolidated circular concerning "Measurement of Liabilities - Liquidity Premium". The purpose of the amendment is to prescribe an updated method for estimating the liquidity premium that is to be applied in performing the LAT. The aforesaid amendment was published following the publication of the related draft amendment this February.

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 January 2021, the Commissioner published a draft Q&A document concerning the Outsourcing in Public Institutions circular. The transitional provisions of the aforesaid circular require public institutions to fully implement the provisions by December 31, 2021.
- In April 2021 and following the Supreme Court's ruling that electric bicycles are not a motor vehicle within its definition in the Compensation to Victims of Road Accidents Law, 1975, the Commissioner published a draft amendment to the consolidated circular concerning "Compulsory Vehicle Insurance". The purpose of the amendment is to update the insurance pool tariffs, cancelling the compulsory insurance tariffs for electric scooters, Segways, single-passenger and multi-passenger mobility scooters, electric bicycles and golf carts.
- In May 2021, the Commissioner published a draft amendment to the provisions of the consolidated circular concerning "Compensation". The draft proposes that public institutions be permitted to grant a retention bonus, inter alia, to a key employee who is primarily engaged in investments, in order to make it easier for public institutions to recruit and retain expert investment staff.
- In May 2021, the Commissioner published a draft amendment to the provisions of the consolidated circular concerning "Reports to the Commissioner". The draft proposes an update to the manner of reporting to the Commissioner, in order to improve and update the content of reports on "the lists of assets at the individual asset level", introduce reporting requirements with regard to various issues, including prohibition of money laundering and terrorism funding, internal rating model, economic solvency ratio report by an insurance company and settlement of loss of work capacity claims. In January 2022, the Commissioner published an additional draft amendment to the provisions of the circular concerning the aforesaid matter, among others, for the purpose of addressing the public's comments on the first draft regarding the individual asset for the Mesila Project requirements, for the purpose of the collection by thje Bank of Israel of information on the business credit extended, among others, by the public institutions, and for the purpose of adjusting the provisions of the relevant provisions of the "Reports" chapter to the amendment to the Law for the Supervision of Financial Services (Provident Funds), 2005.
- In May 2021, the Commissioner published a draft of the FAQ file concerning the "Implementation of International Financial Reporting Standard (IFRS) No. 17 in Israel". The draft clarifies the positions of the Authority on complex issues that have been identified and, to the extent possible, creates uniformity among the insurance companies in Israel, to allow comparability for analysis purposes.
- In June 2021, the Commissioner published a draft amendment to the circular concerning "Acceptance to an Insurance Plan". The draft proposes that the circular prescribe additional requisite actions by the accepting function, including: performing an enhanced coordination of needs upon the cancellation of a policy and transfer to another insurance company, also in other property sectors; requiring an active selection by the policyholder, rather than the default option, in relation to material matters; determining that any talk for acceptance purposes must be audio recorded at minimum; and determining that the transfer of information to "Har Habituach" as part of the acceptance process may not be cancelled, other than by submitting a direct and separate request to the insuring company. Additionally, further to the publication of the draft

amendment to the circular concerning the review and settlement of claims and the handling of public inquiries with regard to the elderly population, as described below, it is proposed to prescribe that the acceptance of elderly individuals and disabled individuals be carried out by service representatives that have received appropriate training and that the candidates be offered to have someone on their behalf join the acceptance talk. In November 2021, the Commissioner published an additional draft amendment to the "Acceptance to an Insurance Plan" circular, which proposes to set as an ad hoc provision for one year, an exemption from the provisions of the circular concerning acceptance to a an insurance plan for unsolicited health products that are for a limited period.

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- In June 2021, the Commissioner published a draft amendment to the circular concerning "Service to Customers of Public institutions". The draft proposes the streamlining and adjustment of the service provided by the public institutions to the specific needs of the elderly, in order to ensure that they receive a more courteous, expeditious and efficient service.
- In June 2021, the Commissioner published an amendment to the provisions of the consolidated circular concerning "Investment Assets - Principles of Investment of Insurance Companies' Assets Against Liabilities that Are not Yield Dependent". The draft proposes to add a clause to the Investment Asset Management chapter of the consolidated circular, that contains provisions regarding non-yield dependent liabilities of insurance companies.
- In July 2021, the Commissioner published a draft of the circular concerning the "Reporting of Cyber and Technological Failure Events". The draft prescribes the types of cases in which a public institution is required to report cyber and technological failure events to the Commissioner and introduces additional provisions in relation to those reports, this in order to ensure that the public institution takes the necessary actions to mitigate the ensuing damage, to ascertain the performance of proper recovery and remedial procedures, and to allow the Authority to take supplementary actions where the implications of the event are far-reaching.
- In July 2021, the Commissioner published a draft amendment to the provisions of the consolidated circular concerning "Reporting to the Public - Sample Annual Financial Report of an Insurance Company Pursuant to IFRS 17". The draft prescribes the requisite format of disclosure in the annual financial statements of insurance companies that are published as from the date of implementation of IFRS 17, IFRS 9 and IFRS 7.
- In September 2021, the Commissioner published a fourth draft update to the provisions of the consolidated circular concerning "Measurement - Professional Issues Concerning the Implementation of International Financial Reporting Standard (IFRS) No. 17 in Israel". The fourth draft proposes the updating of professional issues based on the comments that were received on the prior drafts and subsequent talks with the insurance companies and additional functions in the sector.
- In September 2021, the Commissioner published a second draft update to the FAQ file concerning the "Implementation of International Financial Reporting Standard (IFRS) No. 17 in Israel". The purpose of the draft is to assist insurance companies in preparing for the implementation of IFRS 17 and to clarify the positions of the Authority on complex issues that have been identified and, to the extent possible, creates uniformity among the insurance companies in Israel, to allow comparability for analysis purposes.

- In October 2021, the Commissioner published an amendment to the Supervision of Financial Services (Insurance) (Terms of Basic Health Insurance Contracts), 2021. The purpose of the aforesaid directives is to significantly improve the ability of policyholders and candidates to compare between the various insurance companies and enhance the competition in the health insurance sector. The regulations propose the creation of a basic health insurance policy that will provide optimal insurance coverage for the policyholder and that will comprise three uniform policies: a policy for transplants and special treatments overseas, a policy for drugs that are not included in the health basket and a policy for surgical procedures and non-surgical alternative treatments overseas. In February 2022, the Commissioner published an additional draft amendment to the aforesaid directives, which proposes further updates, including to the definitions of the aforesaid uniform insurance policies.
- In October 2021, the Commissioner published a draft amendment to the provisions of the consolidated circular concerning “Formulation of a Health Insurance Plan”. The draft proposes that the definition of a basic health insurance policy will preclude the purchase of additional health insurance products until the purchase of the basic policy and proposes related directives. It should be noted that, in view of the significance of the additional health products and in order to enhance the competition, it is proposed to determine that the sale of the additional products be conditional upon the existence of a basic insurance policy for the policyholder in any insurance company, and not necessarily with the same insurance company from which the policyholder seeks to purchase the additional health products. In February 2022, the Commissioner published an additional draft amendment to the provisions of the aforesaid consolidated circular, in order to simplify the process of adjustment of needs by the marketer and to make it easier for the policyholder to understand and compare the various products. The aforesaid draft proposes provisions concerning the definition of a uniform sector structure, with a basic policy as the foundation on top of which various expansions in a predefined format may be added, the imposition of a disclosure obligation on the marketer as part of the sale of an insurance policy for surgical procedures in Israel, the prohibition of sale of duplicate health products in personal health indemnification products, and the prohibition of short-term discounts and setting of a minimum discount at a fixed rate for a minimum period of ten years.
- In October 2021, the Commissioner published an amendment to the Supervision of Financial Services (Insurance) (Terms of Surgical Procedures and Non-Surgical Alternative Treatments in Israel Insurance Contracts), 2021. The aforesaid draft proposes to determine that an insurer shall be permitted to market an expansion to a surgical procedures’ insurance policy, subject to the approval of the expansion insurance policy pursuant to Section 40 of the Law for the Supervision of Financial Services (Insurance), 1981. In addition, it proposes to determine that the discount that is granted upon the acquisition of an insurance policy will be given at a fixed rate for a minimum period of ten years. The aim is to simplify candidates’ comparison of the insurance policies of different companies. In February 2022, the Commissioner published an additional draft amendment to the aforesaid regulations, which proposes the modification of a number of topics in the standard policy that is prescribed in said regulations and to adjust the related provisions to those set out in the Supervision of Financial Services (Insurance) (Terms of Basic Health Insurance Contracts) Directives, 2022.
- In November 2021, the Commissioner published a draft amendment to the circular concerning “Remote Online Engagement with a Service Recipient”. The draft proposes to update the scope clause of the circular to also apply to service providers for a financial asset, this in view of the publication of the Order for the Prohibition of Money Laundering (Duties of Identification, Reporting and Records Keeping by Providers of Credit Services for the Prevention of Money

Laundering and Terrorism Funding (Amendment), 2021. In addition, it is proposed to amend the wording of the section concerning reporting to the Commissioner, to clarify that the reporting to the Commissioner on the technology that is used for remote identification takes place prior to the use of such technology, and provided that the Commissioner does not express an objection to the use of such technology, and to clarify the details of the report to the Commissioner that apply in the use of remote identification technology, as opposed to video conference technology.

- In January 2022, the Commissioner published a draft update to the roadmap for the adoption of International Financial Reporting 17 - Insurance Contracts. The draft publishes the principal milestones, in order to ensure that insurance companies prepare for the quality implementation of the new standard in an adequate and reliable manner. The draft stresses that the Commissioner considers the proper implementation of the standard to be of utmost importance and that the board of directors of a company, the CEO and the CEO are deemed responsible for the proper, adequate and audited implementation of the standard and for the allocation of the necessary resources by the insurance companies, all this in order to enable the timely implementation of the standard. To ensure the proper implementation of the standard in Israel, its first-time implementation has been postponed and will take place as from in the quarterly and annual periods commencing on January 1, 2024. Accordingly, the transition date will be January 1, 2023. The Commissioner will accept comments on the draft road map by January 31, 2022.
- In January 2022, the Commissioner published a fifth draft update to the provisions of the consolidated circular concerning "Measurement - Professional Issues Concerning the Implementation of International Financial Reporting Standard (IFRS) No. 17 in Israel". The fifth draft proposes guidelines concerning professional issues, in accordance with the roadmap for the adoption of the standard, as aforesaid. The draft proposes a few updates to professional issues and a new guideline, this in response to comments that were received on the prior drafts and subsequent talks with the insurance companies and various other functions in the insurance sector.
- In January 2022, the Commissioner published a draft amendment to the consolidated circular concerning "Management of Investment Assets" - management of investment assets by an insurer implementing IFRS No. 17. The purpose of the aforesaid draft is to adjust the existing provisions of the law concerning the holding of assets and the management of investments by an insurance company to the financial statements after the transition date, particularly as regarding the valuation of the liabilities in respect of the various obligations, this in order to enable continued compliance with the aforesaid provisions of the law after the transition date.
- In January 2022, the Commissioner published a second draft of the sample financial statements of insurance companies in accordance with IFRS No. 17. The draft proposes updates to the main statements, excluding the statement of cash flows, and to the notes that refer to IFRS No. 17, IFRS No. 9 and IFRS No. 7, based on comments that were received on the first draft and subsequent talks with the insurance companies and various other functions in the insurance sector. The draft also includes additional notes that do not relate to the aforesaid standards.
- In January 2022, the Commissioner published a draft amendment to the provisions of the consolidated circular concerning "Public Reporting of the Economic Solvency Ratio Report". The draft updates the "movement in excess capital report" to better reflect the effects on the excess capital. This is based, among others, on related discussions held by a dedicated team of the authority with the insurance companies.

- In February 2022, the Commissioner published a draft update to the provisions of the consolidated circular concerning “Management of Investment Assets”. The draft proposes the setting of an ad hoc provision to enable the transfer of the marketable asset to the guaranteed return investment channel from other institutional investment in the same group of investors, subject to the fulfilment of certain conditions. The draft also proposes, inter alia, to clarify that in addition to institutional investors, investments in a guaranteed return channel may also be managed in investment baskets; to determine that an investment basket for the management of foreign currency investment risks will be deemed as marketable; to clarify that securities may not be loaned within the “cartridge” of 5 percent of the volume of assets of the institutional investors; and to determine that an investment by a public institution or a group of investors in a real estate corporation at a rate of more than 20 percent of any type of means of control and up to 49 percent of a particular type of means of control will only be permitted if the means of control in the real estate corporation are non-marketable.
- In February 2022, the Commissioner published a draft amendment to the circular concerning “Web-Based Interface for the Location of Insurance Products”. The purpose of the draft is to adjust the reporting to the Har-Habituach website to the amendment to the Supervision of Insurance Business (Terms of a Private Car Insurance Contract) Regulations, 2021, to instruct insurance agents as to the function authorized on their behalf to view the information of insurance candidates in Har-Habituach website and to update the report in the compulsory insurance sector, such that an insurance company will be obligated to enable perusal of the existence of a compulsory insurance policy and material details concerning expansions or limitations of the insurance coverage.

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, 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 political and security situation in 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 in this report.

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 2021, except of the Coronavirus Event 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 regulation codex, 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. **<u>American International Overseas Association companies</u>:**

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 2021 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. **<u>Compulsory vehicle insurance</u>**

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 2,878 thousand. No fees are paid under this contract. The Company activated the reinsurance contracts in 2021 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, 2021, the insurance amount covered by proportional reinsurance in relation to earthquakes is NIS 670 thousand, while amounts covered in non-proportional reinsurance amount to NIS 86,919 million. As of the date of this report, the Company acquired reinsurance coverage of NIS 1,065 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:	2021	2020	2019
Proportional	3,180	2,916	2,649
Proportional - earthquake	-	425	1,110
Non-proportional - earthquake	10,748	9,795	7,352
Total	**13,928**	**13,136**	**11,111**

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 12,677 thousand, and fees amount to NIS 1,434 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 2021, the Company entered into an insurance contract of the XOL type from the retention amount of the Company up to an amount of NIS 97 million with the AIOA companies, and the Company renewed the aforementioned engagement in respect of 2022 up to an amount of NIS 80 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 1,269 thousand. Commissions from reinsurance amounted to NIS 200 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 136,679 thousand. The Company received fees on those contracts at a fixed rate of 26% to 37% from the premium.

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	24,712	85%
Partner Re	3,395	12%
Gen Re	545	2%
AIRCO	474	1%
Total	29,126	**100%**

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

	2021	2020	2019
Compulsory vehicle insurance			
Reinsurance premiums	2,878	2,609	2,453
Income / (loss)	(35,247)	(3,131)	(6,285)
Home insurance			
Reinsurance premiums	13,928	13,136	11,111
Income / (loss)	11,868	11,242	8,143
Health insurance			
Reinsurance premiums	2,717	2,786	2,933
Income / (loss)	873	406	1,228
Commercial insurance (*)			
Reinsurance premiums	156,237	123,651	146,482
Income / (loss)	15,077	(37,518)	54,995
Total			
Reinsurance premiums	175,760	142,182	162,979
Income / (loss)	(7,429)	(29,001)	58,081

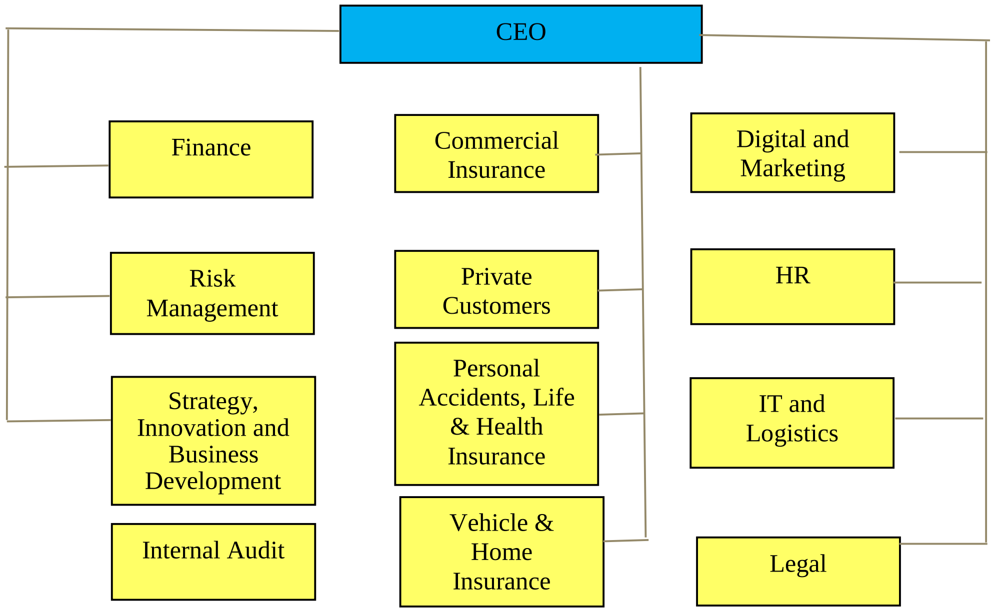
(*) Reinsurance premiums in commercial insurance are proportional contracts only and include earthquake premium of NIS 12,487 thousand in 2021 and NIS 9,521 thousand in 2020.

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

4.6 **Human capital**

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, 2021, the Company had 761 employees, compared with 723 employees at the end of 2020. Some 71% of employees work in the Company's sales centers, compared with 69% in 2020. 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, 2021 and 2020, based on the organizational structure if as follows:

Activity area:	2021	2020
Sales and services centres	489	478
Claims	67	68
Headquarters - business divisions	38	39
IT	39	43
Administrative and general	23	20
HR	14	13
Finance	18	20
Marketing and digital	15	11
Total	**703**	**692**

b. Executives:

- Senior management, including the CEO, comprised 13 executives on the date of issuing this report, unchanged the end of 2020. For more information about management – see Regulation 26A in Chapter D to the report "Additional Information on the Corporation".
- As of December 31, 2021, 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 ("the Compensation Regulations").

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_aig/מדיניות-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 website 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.

For information on an amendment to the circular concerning the process of acceptance to an insurance plan, which obligates insurance agents to disclose to insurance candidates, during the acceptance process, that most of their income is derived from specific insurance companies, see section 4.1.b of the report.

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 15.4% 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 3.4% 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 17.1% of gross premium, in professional liability 16.4% and in property and engineering 11.0%.

f. Life insurance

The Company sells individual insurance policies to customers directly without involvement of insurance agents.

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, 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	2021	2020
Comtech Ltd.	1.3	2.3
Dortal Software Systems Ltd.	2.3	2.0

- **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 2021 was the advertising agencies Reuveni Pridan Ltd. 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 2020 and 2021, 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, 2021 was NIS 35.2 million.

4.10 Seasonality

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

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**
2020 Quarter	**1**	**2**	**3**	**4**	**Total**
Vehicle property insurance	112,722	83,139	94,262	79,787	369,910
Compulsory vehicle insurance	54,236	44,012	49,367	42,910	190,525
Home insurance	36,371	31,076	35,406	28,593	131,446
Commercial insurance	48,522	26,527	32,212	30,627	137,888
Health insurance	42,931	36,745	35,585	34,307	149,568
Life insurance	37,074	37,653	37,618	37,500	149,845
Total	**331,856**	**259,152**	**284,450**	**253,724**	**1,129,182**

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

a. AIG® is the registered trademark of the global AIG corporation.

b. The Company has permission to use the nineteen registered trademarks of the AIG – trademarks number, 143544, 148118, 151906, 145854, 154856, 162244, 219565, 249430, 254592, 263398, 315701, 315702, 316556, 316557, 3189222, 148449, 148120, 151905 and 184361.

c. The trademark AIG ISRAEL 1-800-400-400 for communication with the sales centre of the Company is a major brand used by the Company and an intangible asset. This telephone number is protected, among other things, through trademark no. 184361.

d. Trademark 301897, "Safe Life", is a registered trademark of the Company.

e. To the date of the report, AIG is in the process of registering additional trademarks.

f. As of December 31, 2021, the Company owns eight databases – claims, suppliers and agents, employees, job candidates, employee cards, cameras, AIG customers and prospect customers. Those databases store, among other things, information given by customers when buying policies and more information provided in relation to services it provides (such as processing claims). The databases use the Company in the ongoing operation of its business and for marketing insurance policies.

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

4.12 **<u>Risk factors</u>**

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:

Risk type	Risk factors	The degree of influence of the risk factor on the Company		
		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			√
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 and cyber risk	√		
	IT 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 9 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 concern. 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 2021, the internal auditor invested 4,020 hours in his work. In 2022, the scope of employment was set at 3,800 hours.

In addition to the internal audit performed by the internal auditor, periodic audits are performed by various divisions of the AIG concern. 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 2021, the compensation of the internal audit (fees and related expenses) was NIS 1.7 million. Total compensation to the internal auditor in 2020 was NIS 1.6 million. The board believes that the compensation of the internal auditor may not affect his professional judgment.

5.3 Independent auditors

The independent auditors of the Company are KPMG Somekh Chaikin Certified Public Accountant. The partner responsible for the internal audit services is Avraham Fruchtman CPA.

The date of the commencement of service as the Company's auditors is December 2017 and they replaced Kesselman & Kesselman (PwC), whose term as the Company's auditors ended near the end of 2017.

The following is the independent auditors' fee in NIS (excluding VAT) for services provided in 2021 and 2020:

2021	Fee for audit and tax services	Special tax services	Other services	Total
NIS thousand	1,265	69	31	1,474

2020	Fee for audit and tax services	Special tax services	Other services	Total
NIS thousand	1,165	22	7	1,194

5.4 <u>Effectiveness of internal controls and the procedures over financial reporting and disclosure of the Company</u>

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, 2021, 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 <u>based on Solvency II</u>

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. For further details regarding the Commissioner's additional instructions in connection with the provisions of the Solvency Circular published during the reporting period, see section 4.1 above

AIG Israel Insurance Company Ltd

Edward Levin Chairman of the Board	Yfat Reiter CEO

March 22, 2022

<u>**Chapter B: Directors Report of Company's Business**</u>
for the Year Ended December 31, 2021

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

<u>**Table of Contents**</u>

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 in the reporting period, 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 the related actions taken by the Company, see Section 1 of the Board of Directors' Report attached to the Periodic Report for 2020.
In the reporting period and in 2020, there were material adverse effects on the underwriting results of the Company as a result of the Coronavirus Event. In the reporting period, there was no material adverse effect on the premium turnovers of the Company as a result of the Coronavirus Event, with the exception of the overseas travel insurance sector, which was mainly affected by the lockdowns and the imposition of various restrictions on outgoing and incoming travelers.

In the reporting period, the Israeli government continued the nationwide vaccination campaign against the coronavirus, in an attempt to eradicate the pandemic and reduce morbidity rates. According to publications of the Ministry of Health, to the date of the report close to 6.7 million individuals in Israel have received the first dose of the vaccination, of which 6.1 million have also been administered the second dose, 4.4 million of which have been administered a third dose, and of the latter, 700 thousand individuals have been administered a fourth dose[1].
As of the date of publication of the report, activity in the Israeli economy has almost fully resumed. Most of the employees, primarily in the Company's call and service centers, work almost full time from the offices of the Company.

The assessments of the Company regarding the effects of the coronavirus on its business constitute forward-looking information, within its definition in the Securities Law, 1968. This information is based, inter alia, on assessments and estimates by management of the Company as at the publication date of this report, which rely on local and international publications on the topic and on the guidelines of the relevant authorities, the realization of which is uncertain and outside the control of the Company. As this is a global event of unusual proportions, which is outside the control of the Company, actual results may differ from the estimated results, including materially, as a result of various factors, including the continued spreading of the virus globally and, more particularly, in Israel, additional outbreaks of the virus and its different variants, the effectiveness of the coronavirus vaccination campaign declared by the Government, as well as resolutions of the Government of Israel, including additional general lockdowns or the imposition of additional restrictions on the population of the State of Israel under emergency orders in the event of high morbidity rates or the overloading of hospitals in Israel.

[1] According the website of the Israeli Ministry of Health, at: https://datadashboard.health.gov.il/COVID-19/general

Chapter B: Directors' Report

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, 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, 2021, insurance premiums arising from the general insurance business amounted to NIS 19,546 million; the share of the 5 largest insurance companies – Harel, Phoenix, Clal, Menorah and Ayalon – amounted to NIS 11,166 million, which constituted 57% 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.

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 affect product and employment in Israel. Different sectors were affected to varying extents, and some sectors are experiencing a complete shutdown.

To the date of the report and according to the published resolution of the Bank of Israel's Monetary Committee[2], the Bank of Israel's interest rate has remained unchanged at 0.1%, the inflation rate for the last 12 months is 3.1%, the high unemployment rate decreased to 5.6% in January 2022 and the GDP grew by 8.1% in 2021.

According to the most recent assessment published by the Bank of Israel,[3] GDP is expected to grow by 5.5% and 5.0% in 2022 and 2023, respectively, concurrently with the reduction of the overall unemployment rate to 4.8% at the end of 2022 and to 4.4% at the end of 2023. The interest rate is expected to reach 0.1%/0.25% at the end of one year and the inflation is expected to reach 1.6% in 2022 and 2% in 2023. According to the aforesaid forecast of the Bank of Israel, the risks to the forecast in connection with the coronavirus pandemic still apply, particularly on the backdrop of the fifth outbreak. Nevertheless, the high rate of vaccination in Israel has contributed to their abatement since the previous year.

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.

[2] According to the resolution of the Bank of Israel's Monetary Committee from February 21, 2022.
[3] The macroeconomic forecast of the Research Division from January 3, 2022.

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

	2021	2020	2019
Government-bond indexes:			
General government bonds	2.3%	1.2%	9.1%
Linked government bonds	7.4%	1.2%	10.3%
NIS government bonds	(0.8%)	1.3%	8.3%
Corporate-bond indexes:			
Tel Bond 60	7.8%	(0.1%)	7.4%
Tel Bond NIS	3.0%	(0.1%)	8.6%
Share indexes -			
Tel-Aviv 125	31.1%	(3.0%)	21.3%
S&P 500	27.2%	16.3%	28.9%

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):

	2021	2020	2019
Gross premiums earned	1,176,114	1,136,788	1,181,142
Premiums earned by reinsurers	(190,246)	(179,353)	(195,627)
Premiums earned – retained amount	985,868	957,435	985,515
Gains (losses) on investments, net, and financing income	74,039	(15,930)	95,347
Income from commissions	50,378	46,725	52,375
Total income	1,110,285	988,230	1,133,237
Payments and changes in liabilities in respect of insurance contracts – gross	(880,135)	(671,169)	(622,067)
Share of reinsurers in increase in insurance liabilities and payments with respect to insurance contracts	142,655	156,765	80,886
Payments and changes in liabilities in respect of insurance contracts – retained amount	(737,480)	(514,404)	(541,181)
Total other expenses	(315,876)	(314,508)	(323,636)
Profit before taxes on income	**56,929**	**159,318**	**268,420**
Taxes on income	(19,784)	(55,559)	(91,405)
Profit for the year and total comprehensive income for the year	**37,145**	**103,759**	**177,015**

Chapter B: Directors' Report

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

	December 31	
	2021	2020
Other assets	412,469	306,739
Deferred acquisition costs	172,527	160,629
Financial investments and cash	2,156,085	2,126,639
Reinsurance assets	767,609	719,164
Total assets	**3,508,690**	**3,313,171**
Equity	893,126	955,981
Liabilities in respect of insurance contracts	2,151,413	1,926,644
Other liabilities	464,151	430,546
Total equity and liabilities	**3,508,690**	**3,313,171**

Equity and capital requirements

As at December 31, 2021, equity amounted to NIS 893.1 million, as compared to NIS 956.0 million as at December 31, 2020. The change in equity in 2021 is due to a comprehensive income of approximately NIS 37.1 million for the year, less a dividend of NIS 100 million approved on July 20, 2021.

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.

Presented below are data concerning solvency ratio and MCR:

A. Solvency Ratio (in thousands of NIS)

	December 31, 2020	December 31, 2019
Equity for the purpose of solvency capital requirement (SCR)	1,126,734	1,032,523
Solvency capital requirement	530,187	519,055
Surplus	*** 596,547**	**513,468**
Economic solvency ratio (percentage)	* 213%	199%

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.

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

	December 31,2020	December 31,2019
MCR	180,552	180,321
Equity for the purpose of MCR	1,126,734	1,032,523

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

	December 31, 2020	December 31, 2019
Own funds for SCR purposes	1,126,734	1,032,523
SCR	669,527	701,972
Surplus	*** 457,207**	**330,551**
Economic Solvency Ratio (%)	* 168%	147%
Surplus in relation to the Board's target:		
Target solvency ratio of the Board (%)	* 130%	130%
Surplus in relation to the target	*** 256,349**	**119,959**

* As mentioned above, on July 20, 2021, following the publication of the solvency ratio, the Company announced the distribution of a dividend in an amount of NIS 100 million. This distribution reduces the surplus presented above.

The calculations performed by the Company as od December 31, 2020 and December 31, 2019 have 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, 2020, which is available on the Company's website: https://www.aig.co.il/about/repayment-ratio.

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.

The information presented in this section above constitutes forward-looking information 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 2021, the Company continued to increase the volume of gross premiums, which grew by 8.7% over their volume in 2020. The Company's total gross premiums amounted to NIS 1,228 million in 2021, as compared to NIS 1,129 million in 2020. The increase in gross premiums stems mainly from the vehicle property insurance, compulsory vehicle insurance and commercial insurance sectors.

The Company's total premiums in retention amounted to NIS 1,023 million in 2021, as compared to NIS 962 million in 2020, an increase of 6.3%. The increase in premiums in retention stems mainly from the vehicle property insurance and compulsory vehicle 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
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
2019							
Gross premiums	s	179,612	128,123	204,216	158,723	140,351	1,179,508
Premiums – retained amount	368,483	177,159	117,012	201,283	12,241	112,960	989,138
Total gross as % of total	31.2	15.2	10.9	17.3	13.5	11.9	100.0
Total retained as % of total	37.4	17.9	11.8	20.3	1.2	11.4	100.0

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

	2021	2020	2019
Profit (loss) from vehicle property insurance	(18,419)	70,663	74,875
Profit (loss) from compulsory vehicle insurance	(48,246)	(22,250)	29,410
Profit from home insurance	41,244	30,963	13,956
Profit from commercial insurance	13,591	7,928	26,895
Profit from health insurance	16,021	37,296	54,023
Profit from life insurance	16,466	46,225	33,202
Other – income (loss) not allocated to insurance segments	36,272	(11,507)	36,059
Profit before tax	**56,929**	**159,318**	**268,420**
Taxes on income	(19,784)	(55,559)	(91,405)
Profit for the year and total comprehensive income for the year	**37,145**	**103,759**	**177,015**

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 income of the Company in 2021 amounted to NIS 37.1 million, as compared to comprehensive income of NIS 103.8 million in 2020. Pre-tax profit amounted to NIS 56.9 million in 2021, as compared to profit of NIS 159.3 million in 2020. The Company’s pre-tax profit in 2021 derived fully from gains on investments, as compared to losses on investments in 2020 as a result of the Coronavirus Event (see section 1.3 above and section b. below). In 2021, an underwriting loss of NIS 19.7 million was recorded, as compared to an exceptionally high underwriting profit of NIS 176.3 million in 2020. The transition from an underwriting profit in 2020 to an underwriting loss in 2021 is due to a substantially higher claims’ ratio in the reported year in the compulsory vehicle insurance, vehicle property insurance, health insurance and life insurance sectors. These increases in the claims’ ratios exacerbated in the fourth quarter of 2021. Consequently, in said quarter the Company incurred a loss of NIS 34.1 million before tax and NIS 22.2 million after tax.

b. Net investment gains amounted to NIS 74.0 million in 2021, as compared to investment losses of NIS 15.9 million in 2020. The transition from investment losses in 2020 to investment gains in 2021 is due to rises in the prices of corporate bonds and share indices in 2021, as compared to sharp price drops on the Israeli capital market and in global financial markets in 2020 as a result of the Coronavirus Event (see section 2 above).

c. The loss of the Company from vehicle property insurance in 2021 was NIS 18.4 million, as compared to profit of NIS 70.7 million in 2020. The Company’s underwriting loss from vehicle property insurance in 2021 was NIS 25.5 million, as compared to profit of NIS 71.3 million in 2020. The underwriting loss in 2021 is due to the substantial increase in the claims’ ratio. This rise results from the constant erosion of the average premium in the sector due to the intense competition and the significant rise in road accidents and car theft to their levels prior to the Coronavirus Event. Additionally, the claims’ ratio in

2020 was particularly low, due to the lower frequency of accidents as a result of the Coronavirus Event and the ensuing lockdowns. As a result of the significant increase in the claims' ratio in 2021, the Company created a provision of NIS 16.1 million in the reserve for premium deficiency.

d. The Company's loss from compulsory vehicle insurance amounted to NIS 48.2 million in 2021, as compared to a loss of NIS 22.3 million in 2020. The increase in the loss was due to the significant rise in the claims' ratio as a result of the ongoing increase in the insurance liabilities due to the reduction in the negative interest curve and an increase of 2.4% in the consumer price index in 2021, as compared to a 0.6% reduction in the index in 2020. In 2021, the insurance liabilities grew by NIS 24.3 million as a result of the negative interest curve. As a result of the significant increase in the claims' ratio in 2021, the Company created a provision of NIS 9.8 million for premium deficiency. Pooling losses in this segment amounted to NIS 14.3 million in 2021, as compared to NIS 15.2 million in 2020.

e. The profit of the Company from home insurance in 2021 was NIS 41.2 million, as compared to profit of NIS 31.0 million in 2020.The increase in profit was due mainly to the improved underwriting profit as well as the higher gains on investments. The underwriting profit of the Company from home insurance in 2021 was NIS 37.6 million, as compared to profit of NIS 30.7 million in 2020. The increase in the underwriting profit in 2021 was due mainly to the reduced claims' ratio, primarily in the plumbing insurance and natural disaster insurance sectors.

f. The profit of the Company from health insurance in 2021 was NIS 16.0 million, as compared to profit of NIS 37.3 million in 2020. The underwriting profit from health insurance amounted to NIS 13.7 million in 2021, as compared to a profit of NIS 37.9 million in 2020. The reduction in the underwriting profit in 2021 stemmed mainly from the personal accidents insurance sector, due to the decrease in premiums earned and the higher claims' ratio.

g. The profit of the Company from life insurance in 2021 was NIS 16.5 million, as compared to profit of NIS 46.2 million in 2020. The decrease in profit was due to the significant rise in the claims' ratio, in both death risks and disability risks. The Coronavirus Event did not have a material effect on the Company's business in said sectors in terms of the number of claims.

h. The profit of the Company from professional liability insurance in 2021 was NIS 11.3 million, as compared to profit of NIS 5.5 million in 2020. The significant increase in profit was due to the improvement in gains on investments in 2021.

i. The profit of the Company from other property insurance in 2021 was NIS 2.2 million, as compared to a loss of NIS 0.3 million in 2020. The improved results in the reporting period were due to the improvement in gains on investments and in the underwriting profit. The underwriting profit of the Company from other property insurance in 2021 was NIS 1.7 million, as compared to a loss of NIS 0.2 million in 2020. The transition from an underwriting loss in 2020 to an underwriting profit in 2021 was due to the higher output.

j. The profit of the Company from other liability insurance in 2021 was NIS 0.1 million, as compared to profit of NIS 2.8 million in 2020. The decrease in profit is due to the higher claims' ratio. In 2021, the insurance liabilities in this sector grew by NIS 1.5 million as a result of the negative interest curve.

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

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

	2021	2020	2019
Vehicle property	(25,548)	71,329	62,844
Home insurance	37,580	30,692	9,023
Other property sectors	1,723	(185)	4,942

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

	2021		2020		2019	
	LR%	CR%	LR%	CR%	LR%	CR%
Property vehicle insurance:						
Gross	85%	106%	58%	81%	62%	83%
In retention	85%	106%	58%	81%	62%	83%
Property[2]:						
Gross	33%	63%	52%	81%	53%	84%
In retention	32%	67%	40%	74%	54%	88%

5. Cash flow and liquidity

Net cash provided by operating activities in 2021 amounted to NIS 88,953 thousand, as compared to NIS 63,114 thousand provided by operating activities in 2020.

Net cash used in investing activities in 2021 amounted to NIS 19,371 thousand, as compared to NIS 19,099 thousand in 2020.

Net cash used in financing activities in the Company in 2021 amounted to NIS 105,394 thousand (including a dividend of NIS 100,000 thousand), as compared to NIS 5,278 thousand in 2020.

As a result of the above, the balance of cash and cash equivalents in the reporting period decreased by NIS 35,822 thousand and amounted to NIS 61,582 thousand as at December 31, 2021.

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.

[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.

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

For information on the progress of the Coronavirus Event and its impact on the business of the Company after the reporting date, see section 1 above.

Edward Levin Chairman of the Board	Yfat Reiter CEO

March 22, 2022

AIG Israel Insurance Company Ltd

Declarations relating to the Financial Statements

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, 2021 (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.

____

Yfat Reiter - CEO

March 22, 2022

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, 2021 (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 22, 2022

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, 2021, 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, 2021 the internal control of the Insurance Company over financial reporting is effective.

Chairman of the Board: Mr. Edward Levin ________________

CEO: Ms. Yfat Reiter ________________

CFO: Mr. David Rothstein ________________

Date of approval of financial statements: March 22, 2022

This translation is for convenience purposes only.

AIG ISRAEL INSURANCE COMPANY LTD.

FINANCIAL STATEMENTS FOR 2021

AIG ISRAEL INSURANCE COMPANY LTD.

FINANCIAL STATEMENTS FOR 2021

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Somekh Chaikin
KPMG Millenium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv, 6100601
Tel + 972 3 684 8000

Auditors' Report

To the Equity Holders of

AIG ISRAEL INSURANCE COMPANY LTD.

In Accordance with the Directives of the Commissioner of Capital Markets, Insurance and Savings Regarding the Audit of Internal Control over Financial Reporting

We have audited the internal control over financial reporting of AIG Israel Insurance Company Ltd. (hereinafter "the Company") as at December 31, 2021, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's board of directors and management are responsible for maintaining effective internal control over financial reporting and their assessment of the effectiveness of the Company's internal control over financial reporting is included in the Annual report. Our responsibility is to express an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB), as adopted by the Institute of Certified Public Accountants in Israel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating the risk of material weakness, and testing and evaluating the design and operating effectiveness of internal control. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Internal control over the financial reporting of a Company that is an institutional body is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards (IFRS) and in accordance with the disclosure requirements of the Commissioner of Capital Markets, Insurance and Savings under the Control of Financial Services (Insurance) Law, 1981. Internal control over financial reporting of a Company that is an institutional body includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company (including their removal from its possession); (ii) provide reasonable assurance that transactions are recorded as necessary to enable preparation of financial statements in accordance with International Financial Reporting Standards (IFRS) and in accordance with the disclosure requirements of the Commissioner of Capital Markets, Insurance and Savings under the Control of Financial Services (Insurance)

Somekh Chaikin
KPMG Millenium Tower
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Tel Aviv, 6100601
Tel + 972 3 684 8000

Law, 1981 and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or detection of unauthorized acquisition, use, or disposition (including their removal from its possession) of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any current evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as at December 31, 2020, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with generally accepted auditing standards in Israel, the Company's statements of financial position as at December 31, 2021 and 2020, and the statements of comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2021, and our report dated March 22, 2022 expressed an unqualified opinion on those financial statements and also included emphasis of matter regarding the exposure to contingent liabilities detailed in Note 31.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 22, 2022

Somekh Chaikin
KPMG Millenium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv, 6100601
Tel + 972 3 684 8000

Auditors' Report

To the Equity Holders of

AIG ISRAEL INSURANCE COMPANY LTD.

We have audited the accompanying statements of financial position of AIG Israel Insurance Company Ltd. ("the Company") as at December 31, 2021 and 2020 and the statements of comprehensive income, changes in equity and cash flows each of the two years in the period ended December 31, 2019. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audit.

The financial statements of the Company as at December 31, 2016 and for the year ended on that date were audited by other auditors whose report dated March 21, 2017 was unqualified.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditors Regulations (Auditor's Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the board of directors and management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as at December 31, 2021 and 2020 and the results of its operations, changes in equity and cash flows for each of the three years in the period ended December 31, 2021, in conformity with International Financial Reporting Standards (IFRS) and in accordance with the disclosure requirements of the Commissioner of Capital Markets, Insurance and Savings under the Control of Financial Services (Insurance) Law, 1981.

Without qualifying our opinion, we hereby draw attention to Note 30 to the financial statements, regarding the exposure to contingent liabilities.

We have also audited, in accordance with Auditing Standard (Israel) 911 of the Institute of Certified Public Accountants in Israel – "Audit of Components of Internal Control Over Financial Reporting", components of the internal control over financial reporting of the Company as at December 31, 2021, and our report dated March 22, 2022 expressed an unqualified opinion on the effectiveness of internal control over financial reporting in the Company.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 22, 2022

AIG ISRAEL INSURANCE COMPANY LTD.

STATEMENTS OF FINANCIAL POSITION

	Note	December 31 2021	December 31 2020
		NIS in thousands	
Assets			
Intangible assets	5	**27,194**	25,698
Deferred acquisition costs	6	**172,527**	160,629
Property and equipment	7	**28,950**	33,329
Reinsurance assets	13	**767,609**	719,164
Premiums collectible	9	**195,749**	170,119
Current tax assets		**76,328**	5,230
Other accounts receivable	8	**84,248**	72,363
		1,352,605	1,186,532
Financial investments:	10		
Marketable debt instruments		**1,903,047**	1,851,550
Non-marketable debt instruments		**83,086**	83,903
Other		**108,370**	93,782
TOTAL FINANCIAL INVESTMENTS		**2,094,503**	2,029,235
Cash and cash equivalents	11	**61,582**	97,404
TOTAL ASSETS		**3,508,690**	3,313,171

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

Date of approval of financial statements by Board of Directors March 22, 2022.

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

AIG ISRAEL INSURANCE COMPANY LTD.

STATEMENTS OF FINANCIAL POSITION

	Note	December 31 2021	December 31 2020
		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		**626,811**	689,666
TOTAL EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY		**893,126**	955,981
LIABILITIES:			
Liabilities with respect to non-profit-participating insurance contracts	13	**2,151,413**	1,926,644
Liabilities with respect to deferred taxes, net	18	**16,559**	2,664
Liabilities with respect to employee benefits, net	29	**5,261**	5,007
Liabilities towards reinsurers	30	**305,590**	294,061
Other accounts payable	19	**136,741**	128,814
TOTAL LIABILITIES		**2,615,564**	2,357,190
TOTAL EQUITY AND LIABILITIES		**3,508,690**	3,313,171

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	Year ended December 31 2021	2020	2019
		NIS in thousands		
Gross premiums earned	20	1,176,114	1,136,788	1,181,142
Premiums earned by reinsurers	20	(190,246)	(179,353)	(195,627)
Premiums earned in retention	20	985,868	957,435	985,515
Gains (losses) on investments, net, and financing income	21	74,039	(15,930)	95,347
Commission income	22	50,378	46,725	42,375
TOTAL INCOME		1,110,285	988,230	1,133,237
Payments and changes in liabilities with respect to insurance contracts, gross		(880,135)	(671,169)	(622,067)
Share of reinsurers in increase in insurance liabilities and payments with respect to insurance contracts		142,655	156,765	80,886
Payments and changes in liabilities with respect to insurance contracts, in retention	23	(737,480)	(514,404)	(541,181)
Commissions, marketing expenses and other acquisition costs	24	(239,583)	(231,625)	(243,787)
General and administrative expenses	25	(78,860)	(81,784)	(80,305)
Financing income (expenses)	26	2,567	(1,099)	456
TOTAL EXPENSES		(1,053,356)	(828,912)	(864,817)
INCOME BEFORE TAXES ON INCOME		56,929	159,318	268,420
Taxes on income	18	(19,784)	(55,559)	(91,405)
PROFIT FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		37,145	103,759	177,015
BASIC EARNINGS PER SHARE:				
Basic earnings per share		6.48	18.11	30.89
Number of shares used in computation of basic earnings 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, 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
BALANCE AS AT JANUARY 1, 2019	6	250,601	15,708	558,892	825,207
Total comprehensive income for the year				177,015	177,015
Dividend (see note 12e)				(150,000)	(150,000)
BALANCE AS AT DECEMBER 31, 2019	6	250,601	15,708	585,907	852,222

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

AIG ISRAEL INSURANCE COMPANY LTD.

STATEMENTS OF CASH FLOWS

	Year ended December 31		
	2021	**2020**	**2019**
	NIS in thousands		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net cash provided by operations (Appendix A)	**76,866**	88,229	152,654
Interest paid	**(396)**	(502)	(607)
Interest received	**54,854**	55,954	59,133
Dividend received	**-**	-	1,421
Income taxes paid	**(42,350)**	(89,411)	(91,115)
Income taxes received	**9,979**	8,844	18,895
Net cash provided by operating activities	**88,953**	63,114	140,381
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment in property and equipment	**(4,860)**	(5,167)	(2,355)
Investment intangible assets	**(14,511)**	(13,932)	(11,960)
Net cash used in investing activities	**(19,371)**	(19,099)	(14,315)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividend paid to the equity holders of the Company	**(100,000)**	-	(150,000)
Repayment of principal of lease liabilities	**(5,394)**	(5,287)	(5,183)
Net cash used in financing activities	**(105,394)**	(5,287)	(155,183)
EFFECT OF FLUCTUATIONS IN EXCHANGE RATE ON CASH AND CASH EQUIVALENTS	**(10)**	678	(191)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(35,822)**	39,406	(29,308)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**97,404**	57,998	87,306
CASH AND CASH EQUIVALENTS AT END OF YEAR	**61,582**	97,404	57,998

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

AIG ISRAEL INSURANCE COMPANY LTD.

STATEMENTS OF CASH FLOWS

	Year ended December 31		
	2021	**2020**	**2019**
	NIS in thousands		
APPENDIX A - CASH FLOWS FROM OPERATIONS:			
Profit for the year	**37,145**	103,759	177,015
Adjustments with respect to:			
Items not involving cash flows:			
Change in liability with respect to non-profit participating insurance contracts	**224,769**	22,438	18,899
Change in reinsurance assets	**(48,445)**	(17,979)	17,786
Change in deferred acquisition costs	**(11,898)**	(3,243)	243
Taxes on income	**19,784**	55,559	91,405
Change in liability with respect to employee benefits, net	**254**	(272)	2,222
Depreciation of property and equipment	**9,239**	9,214	9,305
Amortization of intangible assets	**13,015**	19,956	15,285
Losses (gains), net, on financial investments:			
Marketable debt instruments	**(7,153)**	65,028	(29,737)
Non-marketable debt instruments	**(2,174)**	(4,486)	(2,743)
Marketable exchange-traded funds	**(14,588)**	5,826	(7,223)
Effect of fluctuations in exchange rate on cash and cash equivalents	**10**	(678)	191
	182,813	151,363	115,633
Changes in asset and liability items:			
Liabilities towards reinsurers	**11,529**	15,550	(19,417)
Investments in financial assets, net	**(41,353)**	(109,436)	(60,334)
Premiums collectible	**(25,630)**	8,786	1,124
Other accounts receivable	**(11,885)**	(30,933)	544
Other accounts payable	**13,321**	5,767	(1,579)
Liabilities for current taxes, net	**(34,616)**	(1,175)	(385)
	(88,634)	(111,441)	(80,047)
Adjustments with respect to interest and dividend:			
Interest paid	**396**	502	607
Interest received	**(54,854)**	(55,954)	(59,133)
Dividend received	**-**	-	(1,421)
	(54,458)	(55,452)	(59,947)
Net cash provided by operations	**76,866**	88,229	152,654

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 related 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 - The Coronavirus Event

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

During said years, the Coronavirus Events did not have a material adverse effect on the underwriting results and the premium turnovers of the Company, with the exception of the overseas travel insurance sector, which was mainly affected by the lockdowns and the imposition of various restrictions on outgoing and incoming travelers.

In the reporting period, the Israeli Government continued the nationwide vaccination campaigns against the coronavirus, in an attempt to eradicate the pandemic and reduce morbidity rates. According to publications of the Ministry of Health, to the date of the report close to 6.7 million individuals in Israel have received the first dose of the vaccination, of which 6.1 million have also been administered the second dose, 4.4 million of which have been administered a third dose, and of the latter, 0.7 million individuals have been administered a fourth dose[1].

As at the end of the reporting year, activity in the Israeli economy has almost fully resumed. Most of the employees, primarily in the Company's call and service centers, work almost full time from the offices of the Company.

[1] According the website of the Israeli Ministry of Health, at: https://datadashboard.health.gov.il/COVID-19/general

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

A. Basis of presentation of financial statements

The Company's financial statements as at December 31, 2021 and 2020 and for each of the three years in the period ended December 31, 2021, 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. The financial statements have been approved for publication by the Company’s Board of Directors on March 22, 2022.

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.

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

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, 2021	**(3.3)**	**2.4**
Year ended December 31, 2020	(7.0)	(0.6)

As at December 31, 2021, the exchange rate of the U.S. dollar was $1 = NIS 3.110.

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".

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".

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued):

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.

F. Leases

Commencing on January 1, 2019, the Company implements IFRS 16, Leases.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued):

F. Leases (continued)

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.

<u>Determination of fair value</u>

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.

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. Ernst Segal, 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

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 draft 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.

On January 5, 2022, the Capital Market Insurance and Savings Authority published a draft "Updated Roadmap for the Adoption of International Financial Reporting Standard No. 17 - Insurance Contracts" (hereinafter: "the Draft Roadmap"), which postpones the first-time implementation of the Standard in Israel to start in the quarterly and annual periods commencing on January 1, 2024. Nevertheless, already in 2023 the companies will be required to report, in a dedicated note within the financial statements, proforma main statements (at minimum - a statement of financial position and a statement of comprehensive income, without comparative figures) drawn up in accordance with the provisions of IFRS 17 and IFRS 9 (see also below), this in the disclosure format that is provided in the appendix to the Draft Roadmap.

In addition, the Draft 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 implementation of the Standard, inter alia, as regarding the adaptation and operation of the IT systems, the management and documentation of the project, the formulation of an accounting policy, the performance of quantitative testing and the requisite public disclosure.

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)

The Company started preparing for the adoption of the Standard on schedule, as above. Such preparations include, inter alia, performance of a gap analysis, selection of suitable systems for the implementation of the Standard and specification of the interfaces between such systems and the insurance systems of the Company, 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.

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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued):

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

2) IFRS 9, Financial Instruments (continued)

An amendment to IFRS 17 published by the IASB in December 2021, concerning the transition provisions of IFRS 17 and IFRS 9, provides for an exemption that allows the Company to measure financial assets that are presented in the comparative figures (figures for 2023 only - assuming that IFRS 17 is implemented as from January 1, 2024) that have not been restated on the first-time implementation of IFRS 9, as if they are subject to the provisions of IFRS 9, this based on the classification that is expected to apply to them on the date of first-time implementation (expected at January 1, 2024). For such assets, the application of the impairment provisions of IFRS 9 to the comparative figures would not be required.

This exemption will allow the mitigation of potential accounting mismatches in the 2023 figures as a result of the measurement of insurance liabilities that are restated in the 2023 figures on the basis of current information, as opposed to the measurement (without the exemption) of certain corresponding financial assets at amortized cost.

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.

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.

Had the actuarial results been higher or lower by 10% compared with the estimates of the Company's actuary, the gross amount of the insurance liabilities would have been higher or lower by app. NIS 159 million.

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).

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.

- <u>Motor vehicle property sector</u>

  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.

- <u>Home insurance sector</u>

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

- <u>Professional liability sector</u>

  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.

- <u>Other property sector</u>

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

- <u>Other liability sectors</u>

  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, 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	-	-	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.

	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):

	Year ended December 31, 2019				
	Life insurance	**Health insurance ***	**General insurance**	**Not allocated to operating segments**	**Total**
			NIS in thousands		
Gross premiums earned	137,810	204,157	839,175		1,181,142
Premiums earned by reinsurers	(27,393)	(2,933)	(165,301)		(195,627)
Premiums earned in retention	110,417	201,224	673,874		985,515
Gains on investments, net, and financing income	5	5,768	52,446	37,128	95,347
Commission income	9,162	279	42,934		52,375
Total income	119,584	207,271	769,254	337,128	1,133,237
Payments and change in liabilities with respect to insurance contracts, gross	(46,903)	(82,101)	(493,063)		(622,067)
Share of reinsurers in increase in insurance liabilities and payments with respect to insurance contracts	13,945	1,426	65,515		80,886
Payments and change in liabilities for insurance contracts, in retention	(32,958)	(80,675)	(427,548)		(541,181)
Commissions and other acquisition costs	(40,379)	(47,003)	(156,405)		(243,787)
General and administrative expenses	(13,045)	(25,570)	(41,690)		(80,305)
Financing income (expenses)	-	-	1,525	(1,069)	456
Total comprehensive income before tax	33,202	54,023	145,136	36,059	268,420

* The health insurance segment 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):

	December 31, 2020				
	Life insurance	Health insurance *	General insurance	Not allocated to operating segments	Total
	NIS in thousands				
Assets					
Intangible assets	-	-	-	25,698	25,698
Deferred acquisition costs	-	3	70,301	90,325	160,629
Financial investments:					
Marketable debt instruments	-	83,750	1,082,862	684,938	1,851,550
Non-marketable debt instruments	-	-	82,994	909	83,903
Other	-	-	-	93,782	93,782
Total financial investments	-	83,750	1,165,856	779,629	2,029,235
Cash and cash equivalents	4,141	4,020	62,423	27,000	97,404
Reinsurance assets	14,163	2,072	702,929	-	719,164
Premiums collectible	44	3,980	166,095	-	170,119
Other assets	4,015	-	73,578	33,329	110,922
Total assets	22,363	93,825	2,241,002	955,981	3,313,171
Liabilities					
Liabilities for non-profit-participating insurance contracts	55,298	79,516	1,791,830	-	1,926,644
Other liabilities	14,014	337	416,195	-	430,546
Total liabilities	69,312	79,853	2,208,025	-	2,357,190

* 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, 2021						
	Compulsory vehicle insurance	Vehicle property insurance	Home insurance	Professional liability	Other property sectors*	Other liability sectors*	Total
	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 4 - OPERATING SEGMENTS (continued):

Additional data for the general insurance segment (continued)

	Year ended December 31, 2019						
	Compulsory vehicle insurance	**Vehicle property insurance**	**Home insurance**	**Professional liability**	**Other property sectors***	**Other liability sectors***	**Total**
	NIS in thousands						
Gross premiums	179,612	368,483	128,123	74,648	48,243	35,832	834,941
Reinsurance premiums	(2,453)	-	(11,111)	(67,988)	(47,751)	(30,743)	(160,046)
Premiums in retention	177,159	368,483	117,012	6,60	492	5,089	674,895
Change in balance of unearned premiums, in retention	(1,113)	3,809	(3,655)	(251)	200	(11)	(1,021)
Premiums earned, in retention	176,046	372,292	113,357	6,409	692	5,078	673,874
Gains on investments, net, and financing income	23,277	11,336	4,135	6,549	1,160	5,989	52,446
Commission income	-	-	1,143	20,774	13,089	7,928	42,934
Total income	199,323	383,628	118,635	33,732	14,941	18,995	769,254
Payments and change in liabilities with respect to insurance contracts, gross	(141,639)	(229,708)	(63,766)	(19,792)	(27,680)	(10,478)	(493,063)
Share of reinsurers in increase of insurance liabilities and payments with respect to insurance contracts	8,738	-	1,750	21,396	28,061	5,570	65,515
Payments and change in liabilities with respect to insurance contracts, in retention	(132,901)	(229,708)	(62,016)	1,604	381	(4,908)	(427,548)
Commissions, marketing expenses and other acquisition costs	(26,745)	(63,984)	(29,663)	(19,467)	(8,722)	(7,824)	(156,405)
General and administrative expenses	(10,267)	(15,756)	(13,798)	(1,068)	(498)	(303)	(41,690)
Financing income	-	695	798	16	-	16	1,525
Total expenses	(169,913)	(308,753)	(104,679)	(18,915)	(8,839)	(13,019)	(624,118)
Total comprehensive income before tax	29,410	74,875	13,956	14,817	6,102	5,976	145,136
Gross liabilities with respect to insurance contracts as at December 31, 2019	738,523	266,120	123,199	258,852	95,846	255,425	1,737,965
Liabilities with respect to insurance contracts in retention as at December 31, 2019	589,271	266,120	116,415	38,470	1,714	41,095	1,053,085

* 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 46% of total premiums in said sectors.

NOTE 5 - INTANGIBLE ASSETS:

	Software
	NIS in thousands
Cost:	
Balance as at January 1, 2020	**107,360**
Additions during the year *	13,932
Retirements in during the year	(24,965)
Balance as at December 31, 2020	**96,327**
Additions during the year *	14,511
Retirements in during the year	(6,836)
Balance as at December 31, 2021	**104,002**
Accumulated amortization:	
Balance as at January 1, 2020	75,638
Additions during the year	19,956
Retirements during the year	(24,965)
Balance as at December 31, 2020	**70,629**
Additions during the year	13,015
Retirements during the year	(6,836)
Balance as at December 31, 2021	**76,808**
Depreciated balance:	
As at December 31, 2021	**27,194**
As at December 31, 2020	25,698

* Additions in respect of computer software include additions in respect of proprietary development: in 2021 - NIS 13,049 thousand and in 2020 - NIS 13,396 thousand.

NOTE 6 - DEFERRED ACQUISITION COSTS:

a. Composition

	December 31	
	2021	2020
	NIS in thousands	
Life insurance (see section b.)	**94,032**	90,325
Health insurance (see section b.)	**254**	3
General insurance	**78,241**	70,301
Total	**172,527**	160,629

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

	Life insurance	Health Insurance	Total
		NIS in thousands	
Balance as at January 1, 2020	87,150	325	87,475
Additions (acquisition costs)	28,638	3	28,641
Current depreciation	(8,385)	(325)	(8,710)
Depreciation relating to cancellations	(17,078)	-	(17,078)
Balance as at December 31, 2020	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

NOTE 7 - PROPERTY AND EQUIPMENT:

A. 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

In 2021, the Group wrote off property and equipment in the amount of NIS 5,469 thousand (2020: NIS 3,700 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 2020, 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, 2020	21,373	6,449	39,709	67,531
Additions during year	5,043	124	-	5,167
Retirements during year	(2,092)	(1,123)	(485)	(3,700)
Balance as at December 31, 2020	24,324	5,450	39,224	68,998
Accumulated depreciation:				
Balance as at January 1, 2020	17,477	2,759	9,919	30,155
Additions to right-of-use assets	-	-	5,452	5,452
Other additions during the year	2,692	579	491	3,762
Retirements during year	(2,092)	(1,123)	(485)	(3,700)
Balance as at December 31, 2020	18,077	2,215	15,377	35,669
Depreciated balance as at December 31, 2020	6,247	3,235	23,847	33,329
Carrying amount of right-of-use assets as at December 31, 2020	-	-	21,806	21,806
Carrying amount of all other items of property and equipment as at December 31, 2020	6,247	3,235	2,041	11,523

NOTE 8 - OTHER ACCOUNTS RECEIVABLE:

	December 31	
	2021	**2020**
	NIS in thousands	
Prepaid expenses	**25,877**	20,916
Employees	**97**	82
Advance payment of subrogation to the National Insurance Institute (*)	**31,419**	-
Insurance companies and insurance brokers	**20,423**	18,698
Related parties (see note 28a)	**4,788**	30,851
Other	**1,6444**	1,816
Total other accounts receivable (*)	**84,248**	72,363

(*) 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.

(**) As at December 31, 2021 and December 31, 2020, no allowance for doubtful accounts was required in respect of other accounts receivable.

NOTE 9 - PREMIUMS COLLECTIBLE:

a. Composition:

	December 31	
	2021	**2020**
	NIS in thousands	
Premiums collectible (*)	**199,730**	174,289
Less – allowance for doubtful accounts (see section c.)	**(3,981)**	(4,170)
Total premiums collectible	**195,749**	170,119
(*) Includes backdated checks, payments by standing order and payments though credit card companies	**167,425**	153,596

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	
	2021	**2020**
	NIS in thousands	
Unimpaired premiums collectible:		
Not overdue	**191,067**	168,390
Overdue (*):		
Less than 90 days	**483**	348
Between 90 and 180 days	**4,199**	1,381
Total unimpaired premiums collectible	**195,749**	170,119
Impaired premiums collectible	**3,981**	4,170
	199,730	174,289
Less – allowance for doubtful accounts	**(3,981)**	(4,170)
Total premiums collectible	**195,749**	170,119

As at December 31, 2021 and December 31, 2020, the Company had no unimpaired premiums collectible that more than 180 days overdue.

(*) Includes NIS 7 thousand for overdue life insurance receivables as at December 31, 2021 (December 31, 2020 - NIS 7 thousand).

c. Change in allowance for doubtful accounts:

	Year ended December 31	
	2021	**2020**
	NIS in thousands	
Balance as at January 1	**(4,170)**	(6,180)
Change in allowance for the year, net - carried to profit and loss	**189**	2,010
Balance as at December 31	**(3,981)**	(4,170)

NOTE 10 - FINANCIAL INVESTMENTS:

Composition of financial investments:

	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**

	December 31, 2020		
	At fair value through profit or loss	Loans and receivables	Total
	NIS in thousands		
Marketable debt instruments (a)	1,851,550	-	1,851,550
Non-marketable debt instruments (b)	-	83,903	83,903
Other (d)	93,782	-	93,782
Total	1,945,332	83,903	2,029,235

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

	December 31	
	2021	2020
	NIS in thousands	
Government bonds	**651,762**	712,493
Other non-convertible marketable debt instruments	**1,251,285**	1,139,057
Total marketable debt instruments	**1,903,047**	1,851,550

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

	Carrying amount		Fair value	
	2021	2020	2021	2020
	NIS in thousands			
Presented at depreciated cost, excluding bank deposits	**82,288**	82,994	**82,686**	83,268
Bank deposits	**798**	909	**967**	1,093
Total non-convertible debt instruments	**83,086**	83,903	**83,653**	84,361

As at December 31, 2021 and December 31, 2020, 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*	
	2021	**2020**
	Percentage	
Marketable debt instruments:		
Linkage basis:		
Linked to CPI	**2.29%**	2.76%
NIS denominated	**2.86%**	3.42%
Non-marketable debt instruments:		
Linkage basis:		
Linked to CPI	**5.51%**	5.56%
NIS denominated	**2.66%**	2.02%

* Weighted average.

D. Other financial investments:

	December 31	
	2021	**2020**
	NIS in thousands	
Marketable * - designated upon initial recognition at fair value through profit or loss	**108,370**	93,782

* 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	
	2021	**2020**
	Percentage	
AA rating or more	**0.74%**	0.36%
A rating	**2.73%**	3.56%

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	
	2021	**2020**
	NIS in thousands	
Balances in banks	**38,593**	61,797
Deposits available for withdrawal on demand	**22,989**	35,607
Total cash and cash equivalents	**61,582**	97,404

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 (0.00%-0.02%).

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			
	2021	**2020**	**2021**	**2020**
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. In May 2021, the Company published the economic solvency ratio report for the December 31, 2020 data. According to the report, the Company has a capital surplus, regardless of the transition provisions. The calculation performed by the Company for the December 31, 2020 data has been reviewed in accordance with International Standard on Assurance Engagements, ISAE 3400 - The Examination of Prospective Financial Information. This standard applies to the audit of the Solvency calculation and is not part of the auditing standards that apply to financial statements. The special report of the auditors stressed that the forecasts and the assumptions are substantially based on past experience, as reflected in actuarial studies that are performed from time to time.

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

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

5. (continued)

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. The information is occasionally based on assumptions regarding future events and actions by management that may not necessarily be realized or that may be realized in a manner other than the assumption that served as a basis for the information. Additionally, actual results could materially differ from the information, since the realization of the combined scenarios of events may materially differ from the assumptions of the information. The special report of the auditors draws attention to the stated in the economic solvency ratio report regarding the uncertainty resulting from regulatory changes and the exposure to contingencies the effect of which on the economic solvency ratio cannot be estimated.

The economic solvency ratio report as of December 31, 2020 was published on May 25, 2021 and reviewed in accordance with ISAE 3400.

The Company reports the economic solvency ratio in the Directors' Report (Solvency II-based Economic Solvency Regime of an Insurance Company).

E. Dividend:

1. 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.

2. On November 26, 2019, the Board of Directors of the Company approved the distribution of a dividend in the amount of NIS 50 million, representing approximately NIS 8,726 per share. The dividend was paid on November 28, 2019. On August 27, 2019, 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 28, 2019.

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

	December 31					
	2021	2020	2021	2020	2021	2020
	Gross		Reinsurance (*)		Retained amount	
	NIS in thousands					
Insurance contracts in the life insurance segment	**72,095**	55,298	**18,376**	14,163	**53,719**	41,135
Insurance contracts in the health insurance segment	**83,221**	79,516	**1,545**	2,072	**81,676**	77,444
Insurance contracts in the general insurance segment	**1,996,097**	1,791,830	**747,688**	702,929	**1,248,409**	1,088,901
Total liabilities with respect to non-profit-participating insurance contracts	**2,151,413**	1,926,644	**767,609**	719,164	**1,383,804**	1,207,480

* 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					
	2021	2020	2021	2020	2021	2020
	Gross		Reinsurance		Retained amount	
	NIS in thousands					
<u>Compulsory vehicle insurance and liability sectors:</u>						
Provision for unearned premiums	**154,366**	137,135	**54,618**	45,918	**99,748**	91,217
Pending claims and provision for premium deficiency	**1,331,150**	1,199,476	**595,925**	565,493	**735,225**	633,983
Total liabilities in compulsory vehicle insurance and liability sectors *	**1,485,516**	1,336,611	**650,543**	611,411	**834,973**	725,200
<u>Other property sectors</u>:						
Provision for unearned premiums	**267,082**	234,085	**17,227**	11,286	**249,855**	222,799
Provision for premium deficiency	**16,113**	-	**-**	-	**16,113**	-
Pending claims	**227,386**	221,134	**79,918**	80,232	**147,468**	140,902
Total liabilities in other property sectors	**510,581**	455,219	**97,145**	91,518	**413,436**	363,701
Total liabilities with respect to insurance contracts in the general insurance segment	**1,996**	1,791,830	**747,688**	702,929	**1,248,409**	1,088,901

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					
	2021	**2020**	**2021**	**2020**	**2021**	**2020**
	Gross		**Reinsurance**		**Retained amount**	
Deferred acquisition costs:			**NIS in thousands**			
Compulsory vehicle insurance and liability sectors	**26,847**	24,645	**17,047**	14,692	**9,800**	9,953
Other property sectors	**51,394**	45,656	**4,330**	3,252	**47,064**	42,404
Total	**78,241**	70,301	**21,377**	17,944	**56,864**	52,357
Liabilities with respect to general insurance contracts, net of deferred acquisition costs:						
Compulsory vehicle insurance and liability sectors (see b(1) below)	**1,458,669**	1,311,966	**633,496**	596,719	**825,173**	715,247
Other property sectors (see b(2) below)	**459,187**	409,563	**92,815**	88,266	**366,372**	321,297
Total liabilities with respect to general insurance contracts, net of deferred acquisition costs	**1,917,856**	1,721,529	**726,311**	684,985	**1,191,545**	1,036,544
* Of said amount, liability for compulsory vehicle sector	**935,152**	797,132	**178,059**	145,857	**757,093**	651,275

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					
	2021	**2020**	**2021**	**2020**	**2021**	**2020**
	Gross		**Reinsurance**		**Retained earnings**	
	NIS in thousands					
Total actuarial valuations - Mr. Ernst Segal	**1,574,649**	1,420,610	**675,843**	645,725	**898,806**	774,885
Provision for unearned premiums	**421,448**	371,220	**71,845**	57,204	**349,603**	314,016
Total insurance liabilities with respect to insurance contracts in the general insurance segment	**1,996,097**	1,791,830	**747,688**	702,929	**1,248,409**	1,088,901

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					
	2021	**2020**	**2021**	**2020**	**2021**	**2020**
	Gross		**Reinsurance**		**Retained amounts**	
	NIS in thousands					
Balance as at the of beginning of the year (1)	**1,311,966**	1,229,099	**596,719**	571,160	**715,247**	657,939
Ultimate cost of claims for the current underwriting year (2)	**333,163**	328,479	**104,297**	148,001	**228,866**	180,478
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	**3,953**	(4,076)	**-**	-	**3,953**	(4,076)
Change in estimate of ultimate cost of claims with respect to previous underwriting years (4)	**18,537**	(53,323)	**10,302**	(44,413)	**8,235**	(8,910)
Total change in ultimate cost of claims	**355,653**	271,080	**114,599**	103,588	**241,054**	167,492
Payments in settlement of claims during the year (3):						
With respect to current underwriting year	**(1,888)**	(26,240)	**(722)**	(24,116)	**(1,166)**	(2,124)
With respect to previous underwriting years	**(207,062)**	(161,973)	**(77,100)**	(53,913)	**(129,962)**	(108,060)
Total payments for period	**(208,950)**	(188,213)	**(77,882)**	(78,029)	**(131,128)**	(110,184)
Balance as at the end of the year (1)	**1,458,669**	1,311,966	**633,496**	596,719	**825,173**	715,247

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.
4. In 2020, the changes in the estimate of the ultimate cost of claims in the compulsory vehicle insurance and liability insurance sectors were affected by the implications of the amendment to the National Insurance Institute's Discounting Regulations. For details, see Note 27e(3).

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					
	2021	2020	2021	2020	2021	2020
	Gross		Reinsurance		Retained amount	
	NIS in thousands					
Balance as at the beginning of the year (1)	**409,563**	438,955	**88,266**	95,286	**321,297**	343,669
Ultimate cost of claims with respect to events in the reporting year (2)	**420,896**	364,181	**22,633**	57,455	**398,263**	306,726
Change in ultimate cost of claims with respect to events in prior years	**(46,873)**	(64,267)	**(6,891)**	(17,884)	**(39,982)**	(46,383)
Payments made during the year in settlement of claims (3):						
With respect to events in the reporting year	**(274,655)**	(232,059)	**(2,311)**	(27,278)	**(272,344)**	(204,781)
With respect to events in prior years	**(93,116)**	(85,762)	**(13,745)**	(9,102)	**(79,371)**	(76,660)
Total payments	**(367,771)**	(317,821)	**(16,056)**	(36,380)	**(351,715)**	(281,441)
Change in provision for unearned premium, net of deferred acquisition costs	**27,259**	(11,485)	**4,863**	(10,211)	**22,396**	(1,274)
Change in premium deficiency	**16,113**	-	**-**	-	16,113	-
Balance as at the end of the year (1)	**459,187**	409,563	**92,815**	88,266	**366,372**	321,297

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, 2021, by underwriting year, in NIS thousands (CPI-adjusted) *:

	2012	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**Total**
Claims paid (accumulated) at end of year:											
After first year	3,041	2,527	2,370	2,244	1,576	2,833	1,835	1,367	26,872	1,888	
After two years	11,570	15,092	13,355	14,348	14,163	15,698	11,745	21,388	68,231		
After three years	29,245	32,412	37,309	39,090	37,085	43,260	38,263	57,169			
After four years	46,366	56,876	68,929	61,476	61,320	70,125	83,212				
After five years	60,209	106,636	89,978	79,639	83,178	92,599					
After six years	87,612	131,679	111,923	95,946	103,042						
After seven years	97,980	140,244	134,834	111,053							
After eight years	122.822	151,831	148,238								
After nine years	131,399	155,983									
After ten years	133,811										
Assessment of accumulated claims (including payments) at end of year:											
After first year (**)	220,479	224,784	244,815	207,554	230,838	256,414	280,870	279,579	362,172	333,070	
After two years	228,552	239,938	168,956	195,811	221,808	234,395	243,819	268,104	345,480		
After three years	230,712	171,240	184,417	215,393	214,519	220,131	255,547	279,432			
After four years	163,406	220,626	209,549	205,022	236,407	228,128	277,983				
After five years	157,708	220,629	222,858	196,461	230,886	215,314					
After six years	159,236	204,639	210,179	185,201	226,147						
After seven years	177,538	196,598	207,192	178,085							
After eight years	163,948	186,473	203,822								
After nine years	156,240	182,294									
After ten years	150,073										
Excess (deficit) relative to first year, which does not include accumulation (***)	**13,333**	**38,332**	**5,726**	**26,937**	**10,260**	**12,815**	**(22,436)**	**(11,328)**	**16,692**		**90,330**
Rate of deviation relative to first year, which does not include accumulation, in percentages	8.2%	17.4%	2.7%	13.1%	4.3%	5.6%					10.8%
Cost of accumulated claims as at December 31, 2021	**150,073**	**182,294**	**203,822**	**178,085**	**226,147**	**215,314**	**277,983**	**279,432**	**345,480**	**333,070**	**2,391,701**
Accumulated payments through December 31, 2021	133,811	155,983	148,238	111,053	103,042	92,599	83,212	57,169	68,231	1,888	955,225
Balance of pending claims	16,263	26,311	55,585	67,032	123,105	122,715	194,771	222,263	277,249	331,182	1,436,475
Pending claims through underwriting year 2011											**22,191**
Total liabilities in respect of insurance contracts in compulsory vehicle and liability sectors, net of deferred acquisition costs as at December 31, 2020											**1,458,667**

(*) 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, 2020, by underwriting year, in NIS thousands (CPI-adjusted) *:

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
Claims paid (accumulated) at end of year:											
After first year	2,187	2,162	2,188	1,299	1,244	2,218	1,270	1,149	2,177	1,166	
After two years	8,414	10,624	10,302	9,015	10,523	10,167	8,823	9,793	10,465		
After three years	24,432	23,933	24,814	27,131	28,411	28,979	30,778	33,798			
After four years	36,454	38,115	49,225	45,404	47,944	51,627	64,550				
After five years	46,644	59,342	65,800	58,403	66,201	70,581					
After six years	56,686	73,091	80,312	70,311	81,968						
After seven years	64,019	78,826	95,675	80,411							
After eight years	73,585	84,785	105,122								
After nine years	75,516	87,940									
After ten years	76,686										
Assessment of accumulated claims (including payments) at end of year:											
After first year (**)	135,850	151,168	163,041	128,713	144,820	162,401	174,099	180,329	195,728	228,896	
After two years	130,538	140,804	104,394	111,409	126,095	137,329	144,689	162,604	185,062		
After three years	131,876	85,975	112,357	118,519	123,611	132,115	157,480	170,259			
After four years	83,863	104,091	124,787	115,758	135,079	139,691	162,649				
After five years	82,674	105,710	133,864	118,115	133,605	136,247					
After six years	80,736	103,409	129,107	114,318	128,602						
After seven years	87,999	101,544	127,021	112,010							
After eight years	85,189	98,916	126,047								
After nine years	84,253	97,623									
After ten years											
Excess (deficit) relative to first year, which does not include accumulation (***)	**907**	**6,468**	**(1,260)**	**3,748**	**6,476**	**3,444**	**(5,174)**	**(7,655)**	**10,666**		**17,261**
Rate of deviation relative to first year, which does not include accumulation, percentages	1.1%	6.2%	-1.0%	3.2%	4.8%	2.5%					3.5%
Cost of accumulated claims as at December 31, 2021	**82,956**	**97,623**	**126,047**	**112,010**	**128,602**	**136,247**	**162,649**	**170,259**	**185,062**	**228,896**	**1,430,351**
Accumulated payments through December 31, 2021	76,686	87,940	105,122	80,411	81,968	70,581	64,550	33,798	10,465	1,166	612,686
Balance of pending claims	6,270	9,683	20,926	31,599	46,635	65,666	98,098	136,461	174,597	227,730	817,665
Pending claims through underwriting year 2011											**7,503**
Total liabilities in respect of insurance contracts in compulsory vehicle and liability sector, net of deferred acquisition costs as at December 31, 2021											**825,168**

(*) 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, 2021, by underwriting year, in NIS thousands (CPI-adjusted) *:

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
Claims paid (accumulated) at end of year:											
After first year	1,830	1,919	1,995	1,161	1,211	1,885	1,115	1,108	1,051	1,129	
After two years	7,253	9,753	9,622	7,882	11,961	9,048	8,229	8,765	7,975		
After three years	21,285	22,791	25,089	24,723	29,552	26,910	29,370	31,632			
After four years	33,592	35,440	44,610	42,044	47,537	48,816	62,572				
After five years	42,852	49,895	59,709	53,926	65,939	67,204					
After six years	52,190	65,679	76,586	66,348	84,793						
After seven years	59,480	72,795	97,132	76,747							
After eight years	63,706	78,349	106,680								
After nine years	65,443	81,311									
After ten years	66,292										
Assessment of accumulated claims (including payments) at end of year:											
After first year (**)	117,074	143,490	156,391	122,136	151,520	164,796	183,965	180,631	198,478	228,042	
After two years	128,367	145,930	108,905	116,198	137,625	148,503	158,549	173,690	198,799		
After three years	129,848	88,692	122,545	119,800	136,150	140,254	171,280	183,757			
After four years	79,242	105,659	130,227	115,116	152,424	153,630	175,336				
After five years	78,455	107,110	137,019	116,491	152,744	150,164					
After six years	80,109	103,713	133,663	111,013	148,276						
After seven years	81,409	99,731	132,092	109,919							
After eight years	79,426	92,812	135,696								
After nine years	75,329	90,944									
After ten years	73,581										
Excess (deficit) relative to first year, which does not include accumulation (***)	**5,662**	**14,715**	**(5,469)**	**5,197**	**4,148**	**3,466**	**(4,056)**	**(10,066)**	**(320)**		**13,277**
Rate of deviation relative to first year, which does not include accumulation, in percentages	7.1%	13.9%	-4.2%	4.5%	2.7%	2.3%					4.8%
Cost of accumulated claims as at December 31, 2021	**73,581**	**90,944**	**135,696**	**109,919**	**148,276**	**150,164**	**175,336**	**183,757**	**198,799**	**228,042**	**1,494,513**
Accumulated payments through December 31, 2021	66,292	81,311	106,680	76,747	84,793	67,204	62,572	31,632	7,975	1,129	586,334
Balance of pending claims	7,289	9,633	29,016	33,172	63,482	82,960	112,764	152,124	190,824	226,913	908,179
Pending claims through underwriting year 2011											**12,687**
Total liabilities in respect of insurance contracts in compulsory vehicle sectors, net of deferred acquisition costs as at December 31, 2021											**920,867**

(*) 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, in self-retention, in the compulsory vehicle insurance sector as at December 31, 2021 by underwriting year, in NIS thousands (CPI-adjusted):

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
Claims paid (accumulated) at end of year:											
After first year	1,830	1,919	1,995	1,161	1,211	1,885	1,115	1,108	1,051	1,129	
After two years	7,253	9,753	9,622	7,882	10,251	9,048	8,229	8,765	7,975		
After three years	21,285	22,309	25,089	24,723	27,045	26,910	29,282	31,632			
After four years	33,592	34,958	44,610	42,044	44,998	48,816	61,332				
After five years	42,852	48,726	59,634	53,705	62,670	67,204					
After six years	52,190	62,109	73,058	64,973	78,271						
After seven years	59,159	67,601	87,855	74,004							
After eight years	63,386	73,155	96,308								
After nine years	65,122	76,116									
After ten years	65,971										
Assessment of accumulated claims (including payments) at end of year:											
After first year (**)	105,578	131,898	143,950	114,978	138,556	152,939	164,537	168,559	185,384	212,387	
After two years	107,995	124,691	94,427	99,970	113,737	125,807	133,986	149,976	171,176		
After three years	110,718	76,379	103,492	104,026	111,754	121,695	145,428	157,309			
After four years	69,857	88,866	109,596	100,416	121,460	129,200	147,376				
After five years	68,623	89,365	115,899	104,115	121,759	126,766					
After six years	70,575	87,235	112,675	100,360	117,809						
After seven years	72,237	85,642	111,142	99,090							
After eight years	71,597	83,315	111,687								
After nine years	71,172	82,537									
After ten years	70,759										
Excess (deficit) relative to first year, which does not include accumulation (***)	**(902)**	**6,329**	**(2,090)**	**1,326**	**3,651**	**2,435**	**(1,947)**	**(7,333)**	**14,208**		**15,675**
Rate of deviation relative to first year, which does not include accumulation, in percentages	-1.3%	7.1%	-1.9%	1.3%	3.0%	1.9%					2.2%
Cost of accumulated claims as at December 31, 2021	**70,759**	**82,537**	**111,687**	**99,090**	**117,809**	**126,766**	**147,376**	**157,309**	**171,176**	**212,387**	**1,296,896**
Accumulated payments through December 31, 2021	65,971	76,116	96,308	74,004	78,271	67,204	61,332	31,632	7,975	1,129	559,943
Balance of pending claims	4,788	6,421	15,378	25,086	39,538	59,562	86,043	125,677	163,201	211,258	736,953
Pending claims through underwriting year 2011											**5,854**
Total liabilities in respect of insurance contracts in compulsory vehicle sectors, net of deferred acquisition costs as at December 31, 2021											**742,806**

(*) 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, 2021:

	Underwriting year						
	2021	2020	2019	2018	2017	2016	2015
	NIS in thousands						
Gross premium	212,918	192,789	179,734	173,959	159,876	146,100	146,608
Retained income/(loss) for underwriting year – accumulated	(46,106)	(20,929)	(4,014)	(2,362)	5,543	(1,567)	17,376
Effect of investment gains on accumulated retained income for the underwriting year	1,855	(303)	1,731	4,521	4,840	6,091	5,374

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

For the year ended December 31, 2021:

	Underwriting year						
	2021	2020	2019	2018	2017	2016	2015
	NIS in thousands						
Gross premium	127,268	109,175	107,379	105,926	98,570	99,580	102,521
Retained income/(loss) for underwriting year – accumulated	8	(1,004)	673	(148)	1,450	3,654	13
Effect of investment gains on accumulated retained income for the underwriting year	793	(79)	654	1,589	1,918	2,764	3,171

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:				
2021	(59,171)	(24,323)	(46,106)	(2,140)
2020	(30,689)	5,307	(20,252)	(1,998)
2019	(18,240)	41,365	(7,977)	37,387

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:				
2021	(8,960)	25,640	6	11,406
2020	(68,097)	48,975	(1,004)	9,230
2019	(8,394)	76,958	(105)	20,897

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, 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.

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, 2020 (NIS in thousands):

	Policies not containing a savings element
	Risk sold as individual policy
	Individual
Insurance reserves	3,298
Pending claims	52,000
Total	55,298

The Company has no collective policies.

B. Details of results by type of policy

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**

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**

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, 2019 (NIS in thousands):

	Policies not containing a savings element
	Risk sold as individual policy
	Individual
Gross risk premiums	140,351
Income from life insurance business	33,202
New annualized premium	37,754
Payments and change in liabilities for insurance contracts, gross	46,903

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, 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.

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

	Long-term	Short-term	Total
By insurance exposure - insurance Reserves	**995**	**176**	**1,171**
Pending claims	**73,826**	**4,519**	**78,345**
Total	**74,821**	**4,695**	**79,516**

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, 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.
The reduction in overseas travel insurance premiums is a direct result of the coronavirus crisis (see note 1c).

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 travel insurance in short-term insurance.
The reduction in overseas travel insurance premiums is a direct result of the coronavirus crisis (see note 1c).

Data for the year ended December 31, 2019 (NIS in thousands):

	Long-term	Short-term	Total
Gross premiums	164,440	39,776	* 204,216
Income from healthcare insurance business	32,608	21,415	54,023
New annualized premium	17,538	-	17,538

* Of which individual premiums of NIS 204,045 thousand and collective premiums of NIS 171 thousand. The most significant coverage is personal accidents (individual) in long-term healthcare insurance, and travel insurance in short-term insurance.

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, 2020	59,135	107,106
Decrease (increase) in premiums accounted for as liabilities	78	(3,356)
Changes in pending claims and IBNR	(3,915)	(24,234)
Balance as at December 31, 2020	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**

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, 2021, 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, 2021	2020	2019
	NIS in thousands		
Current taxes:			
For the current year	5,965	57,572	74,726
For previous years	(76)	640	(1,044)
	5,889	**58,212**	**73,682**
Deferred taxes:			
For the current year	**13,895**	**(2,653)**	**17,723**
Total income tax expense	**19,784**	**55,559**	**91,405**

C. Tax assessments

Subject to the related provisions of the Income Tax Ordinance, the tax assessments of the Company through tax year 2018 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	Other	Total
	NIS in thousands					
Balance of deferred tax asset (liability) as at January 1, 2020	(8,245)	3,979	(5,651)	2,113	2,487	(5,317)
Changes carried to profit or loss	1,323	641	2,681	(687)	(1,305)	2,653
Balance of deferred tax asset (liability) as at December 31, 2020	(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)**

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	
	2021	**2020**
	NIS in thousands	
Deferred tax assets	8,375	7,228
Deferred tax liabilities	(24,934)	(9,892)
Deferred tax liabilities, net	**(16,559)**	**(2,664)**

NOTE 18 - TAXES ON INCOME (Continued):

C. 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		
	2021	**2020**	**2019**
	NIS in thousands		
Profit before taxes on income	**56,929**	159,318	268,420
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		54,468	91,766
Increase (decrease) in income tax arising from:			
Expenses not deductible for tax purposes	**411**	451	668
Taxes in respect of previous years	**(76)**	640	(1,044)
Other	**(14)**	-	15
Taxes on income	**19,784**	55,559	91,405
Average effective tax rate	**34.75%**	34.87%	34.05%

NOTE 19 - OTHER ACCOUNTS PAYABLE:

	December 31	
	2019	**2018**
	NIS in thousands	
Employees and other payroll related Liabilities	**28,762**	26,666
Trade payables	**45,748**	33,478
Lease liabilities (see note 32)	**16,845**	22,239
Prepaid premiums	**24,465**	24,259
Commissions payable	**8,824**	8,751
Related parties (see note 28a)	**5,203**	6,529
Other	**6,894**	6,892
	136,741	128,814

NOTE 20 - PREMIUMS EARNED IN RETENTION:

	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

	Year ended December 31, 2019		
	Gross	Reinsurance*	Retained amount
	NIS in thousands		
Life insurance premiums	140,351	27,391	112,960
Health insurance premiums	204,2016	2,933	201,283
General insurance premiums	834,941	160,046	674,895
Total premiums, gross	1,179,508	190,370	989,138
Less - change in balance of unearned premium **	1,634	5,257	(3,623)
Total premiums earned	1,181,142	195,627	985,515

* 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 ON INVESTMENTS, NET, AND FINANCING INCOME:

	Year ended December 31		
	2021	**2020**	**2019**
	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	**19,121**	(72,641)	34,863
Interest income, linkage differences and exchange differences on financial assets at fair value through profit or loss	**54,875**	55,798	58,650
Interest income on deposits and from cash and nonmarketable securities	**19**	303	414
Income from dividends	**24**	610	1,420
Total gains (losses) on investments, net, and financing income	**74,039**	(15,930)	95,347

NOTE 22 - REVNEUES FROM COMMISSIONS:

	Year ended December 31		
	2021	**2020**	**2019**
	NIS in thousands		
Reinsurance commissions, net of change in deferred acquisition costs relating to reinsurance	**50,378**	46,725	52,375

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		
	2021	**2020**	**2019**
	NIS in thousands		
Total payments and changes in liabilities with respect to life insurance contracts:			
Gross	**73,306**	44,195	46,903
Reinsurance (*)	**(17,149)**	(9,731)	(13,945)
Retained amount	**56,157**	34,464	32,958
Total payments and changes in liabilities with respect to general insurance contracts:			
Gross	**730,878**	566,299	493,063
Reinsurance (*)	**(123,994)**	(144,942)	(65,515)
Retained amount	**606,793**	421,357	427,548
Total payments and changes in liabilities with respect to health insurance contracts:			
Gross	**76,042**	60,675	82,101
Reinsurance (*)	**(1,512)**	(2,092)	(1,426)
Retained amount	**74,530**	58,583	80,675
Total payments and changes in liabilities with respect to insurance contracts, in retention	**737,480**	514,404	541,181

* 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		
	2021	**2020**	**2019**
	NIS in thousands		
Acquisition commissions	**43,249**	36,376	38,347
Marketing and other expenses (reclassified from general and administrative expenses)	**208,231**	198,491	205,198
Change in acquisition costs	**(11,897)**	(3,242)	242
Total commissions, marketing expenses and other acquisition costs	**239,583**	231,625	243,787

NOTE 25 - GENERAL AND ADMINISTRATIVE EXPENSES:

	Year ended December 31		
	2021	**2020**	**2019**
	NIS in thousands		
Payroll and related expenses	**192,287**	186,540	198,815
Depreciation and amortization	**22,252**	29,167	24,576
Office maintenance and communications	**11,482**	11,429	11,842
Marketing and advertising	**56,959**	48,680	49,638
Legal and professional consulting	**6,671**	7,435	6,506
Information technology expenses	**18,632**	16,859	16,032
Other	**9,179**	8,596	9,653
Total (*)	**317,477**	309,066	317,062
Less:			
Amounts classified to changes in liabilities and payments in respect of insurance contracts	**(30,389)**	(28,791)	(31,559)
Amounts classified to commissions, marketing expenses and other acquisition costs	**(208,231)**	(198,491)	(205,198)
Total general and administrative expenses	**78,860**	81,784	80,305
* General and administrative expenses include expenses relating to automation in the total amount of	**51,567**	58,622	53,694

NOTE 26 - FINANCING INCOME (EXPENSES):

	Year ended December 31		
	2021	**2020**	**2019**
	NIS in thousands		
Income (expenses) from income tax interest, net	**(424)**	338	476
Interest expenses in respect of lease	**(395)**	(502)	(607)
Income (expenses) in respect of interest and exchange differences	**3,386**	(935)	587
Total financing income (expenses)	**2,567**	(1,099)	456

NOTE 27 - RISK MANAGEMENT:

General

The Company operates in the following operative segments: general 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, 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)**

Data as at December 31, 2020:

	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)	**(32,988)**	**32,685**	**6,172**	**(6,172)**	**701**	**(701)**	**9,873**	**(9,873)**
Comprehensive income (equity) (4)	**(32,998)**	**32,685**	**6,172**	**(6,172)**	**701**	**(701)**	**9,873**	**(9,873)**

(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 9,793 / (9,895) thousand (2020 - NIS 8,794 / (9,074) 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 63.6%.

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	
	2021	**2020**
	NIS in thousands	
Assets with direct interest risk:		
Marketable debt instruments	**1,903,047**	1,851,550
Non-marketable debt instruments:		
Non-marketable bonds	**4,422**	7,236
Other	**798**	909
Reinsurance asset	**672,107**	630,754
Cash and cash equivalents	**61,582**	97,404
Total assets with direct interest risk	**2,641,956**	2,587,853
Assets without direct interest risk	**866,734**	725,318
Total assets	**3,508,690**	3,313,171
Liabilities with direct interest risk:		
Liabilities in respect of non-profit-participating insurance contracts	**1,368,757**	1,233,335
Liabilities for employee retirement obligations	**5,261**	5,007
Liabilities in respect of reinsurers	**266,008**	272,983
Total liabilities with direct interest risk	**1,640,026**	1,511,325
Liabilities without direct interest risk	**975,538**	845,865
Equity	**893,126**	955,981
Total equity and liabilities	**3,508,690**	3,313,171
Total assets, net of liabilities	**893,126**	955,981

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, 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):

C. Market risks (continued)

3) Breakdown of assets and liabilities of the Company by linkage bases (continued):

	December 31, 2020				
	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	-	-	-	25,698	25,698
Deferred acquisition costs	-	-	-	160,629	160,629
Property and equipment	-	-	-	33,329	33,329
Reinsurance assets	18,918	661,951	38,295	-	719,164
Current tax assets	-	5,230	-	-	5,230
Premiums collectible	82,852	73,458	13,809	-	170,119
Other accounts receivable	19,738	34	31,675	20,916	72,363
Other financial investments:					
Marketable debt instruments	987,326	864,224	-	-	1,851,550
Non-marketable debt instruments	81,736	2,167	-	-	83,903
Other	-	-	93,782	-	93,782
Total other financial investments	1,069,062	866,391	93,782	-	2,029,235
Other cash and cash equivalents	76,511	-	20,893	-	97,404
Total assets	1,267,081	1,607,064	198,454	240,572	3,313,171
Total equity				955,981	955,981
Liabilities:					
Liabilities for non-profit-participating insurance contracts	383,276	1,500,473	42,895	-	1,926,644
Deferred tax assets	-	-	-	2,664	2,664
Retirement benefit obligations	5,007	-	-	-	5,007
Liabilities to reinsurers	272,983	-	3,133	17,945	294,061
Other accounts payable	126,413	-	2,401	-	128,814
Total liabilities	787,679	1,500,473	48,429	20,609	2,357,190
Total liabilities and equity	787,679	1,500,473	48,429	976,590	3,313,171
Total balance sheet exposure	479,402	106,591	150,025	(736,018)	

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, 2021	**91,621**	**55,302**	**713**	**-**	**7,680**	**-**	**155,316**
December 31, 2020	71,497	53,672	1,798	-	7,847	-	34,814

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, 2021	**837,496**	**459,087**	**307,028**	**373,725**	**18,761**	**1,996,097**
December 31, 2020	690,989	410,358	290,607	382,520	17,356	1,791,830

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, 2021 (NIS in thousands):

	Morbidity and mortality rate	
	+10%	**-10%**
Profit (loss)	**(2,464)**	**3,154**

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, 2021 (NIS in thousands):

	Cancellation rate (withdrawals, settlements and reductions)		Morbidity and mortality rate	
	+10%	-10%	+10%	-10%
Profit (loss)	**146**	**(537)**	**(4,921)**	**2,667**

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)

<u>Principles of computation of the actuarial assessment in general insurance (continued)</u>

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.

<u>Breakdown of actuarial methods in the principal insurance sectors</u>

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. Following the issue of directives, the amount of the liabilities changed (as a result of the change in the interest curve) in compulsory vehicle insurance (primarily) and in commercial liability. As follows:

<u>Compulsory vehicle insurance:</u>

- The total discount effect on the gross reserve, after implementing the provisions of Circular 2022-1-4, is NIS 46.1 million (NIS 34.7 million in retention).
- The total change in the gross reserve, after implementing the provisions of Circular 2022-1-4, is NIS 8.7 million (NIS 6.2 million in retention), with an additional change of NIS 2.1 million in the reserve for premium deficiency.

<u>Commercial liability</u>

The effect of the change in the liability sector following the implementation of the Circular is NIS 0.8 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 16.1 million for vehicle property insurance and NIS 9.8 million for compulsory vehicle insurance. In addition, the Company created a reserve for premium deficiency of NIS 0.3 million for employers’ liability 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, 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.

	Domestic rating			
	December 31, 2020			
	AA- and above	BBB through A+	Not rated	Total
	NIS in thousands			
Debt instruments in Israel				
Marketable debt instruments:				
Government bonds	712,493	-	-	712,493
Corporate bonds	836,336	301,236	1,485	1,139,057
Total marketable debt instruments in Israel	1,548,829	301,236	1,485	1,851,550
Non-marketable debt instruments:				
Corporate bonds	5,716	1,520	-	7,236
Loans and receivables, excluding bank deposits	75,758	-	-	75,758
Deposits with banks and financial institutions	909	-	-	909
Total non-marketable debt instruments in Israel	82,383	1,520	-	83,903
Total domestic debt instruments	1,631,212	302,756	1,485	1,935,453

Debt instruments abroad

As at December 31, 2020 , 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, 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**

	Domestic rating		
	December 31, 2020		
	A and above	Not rated	Total
	NIS in thousands		
Accounts receivable - excluding balances of reinsurers	-	211,626	211,626
Cash and cash equivalents	97,404	-	97,404
	97,404	211,626	309,030

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, 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**

	December 31, 2020	
	Balance sheet credit risk	
	Amount	% of total
	NIS in thousands	
Industry		
Construction and real estate	**363,319**	**18.8**
Defense	**13,411**	**0.7**
Banking	**255,989**	**13.2**
Investments and holdings	**43,288**	**2.2**
Communications	**92,434**	**4.8**
Commerce	**38,730**	**2.0**
High-tech	**39,938**	**2.1**
Production industry	**51,855**	**2.7**
Insurance and financial services	**74,519**	**3.9**
Other business services	**58,283**	**3.0**
Electricity and water	**113,942**	**5.9**
Hospitality and tourism	**1,494**	**0.1**
	1,147,202	**59.3**
Loans to individuals	**75,758**	**3.9**
Government bonds	**712,493**	**36.8**
Total	**1,935,453**	**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 2019 and 2020, 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, 2021:

Rating group	Total premiums to reinsurers	Net debit (credit) balances	Reinsurance assets			Deposits by reinsurers	Total exposure	Debts overdue	
			Life insurance	Property insurance **	Liability insurance			0.5-1 year	More than 1 year
AA- or above									
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	-	-
A									
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 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, 2020:

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	50	406	253	25	-	(261)	423	-	-
SWISS RE	20,742	(2,831)	10,852	-	-	(10,003)	(1,982)	-	-
Other	377								
	21,169	(2,425)	11,105	25	-	(10,264)	(1,559)	-	-
A									
Partner Reinsurance Co. Ltd.	2,789	320	3,058	-	-	(1,668)	1,710	-	-
AHAC *	13,367	2,844	-	6,822	61,115	(26,105)	44,676	-	-
NUFIC *	104,723	22,173	-	53,214	476,695	(203,620)	348,462	-	-
NHIC *	16,041	3,414	-	8,187	73,337	(31,326)	53,612	-	-
Other companies in the AIG global corporation*	8,495	1,424	-	25,342	264	-	27,030	-	-
Other	284	(28)	-	-	-	-	(28)	-	
	145,699	30,147	3,058	93,565	611,411	(262,719)	475,462	-	-
Total	**166,868**	**27,722**	**14,163**	**93,590**	**611,411**	**(272,983)**	**473,903**	**-**	**-**

* 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 2021, 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.

In 2021, pursuant to a regulatory requirement, the Company performed a comprehensive survey for the purpose of mapping cyber exposures in the insurance operations. Accordingly, the Company believes that the exposure to such risks is low. The survey was presented to the Board of Directors of the Company and approved in August 2021 and reported to the Supervision on schedule.

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, 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**

	December 31, 2020				
	Government bonds	Corporate bonds	Index funds	Other investments	Total balance-sheet exposure
	NIS in thousands				
Israel	712,493	1,068,464	-	174,072	1,955,029
United States	-	21,763	-	-	21,763
Other	-	56,065	93,782	-	149,847
Total	712,493	1,146,292	93,782	174,072	2,126,639

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			
		2021		2020	
	Note	Global AIG corporation companies	Key management personnel	Global AIG corporation companies	Key management personnel
		NIS in thousands			
Reinsurance assets	13, 27f(3)(5)	**749,178**	-	704,976	-
Accounts receivable	8	**4,788**	-	30,851	-
Accounts payable	19	-	**5,203**	-	6,529
Liabilities to reinsurers	29, 27f5(3)	**270,295**	-	261,253	-

B. Transactions with interested and related parties

		December 31		
	Note	2021	2020	2019
		NIS in thousands		
Premiums – gross (**)	20	**86**	80	91
Reinsurance premiums (***)	20	**(170,479)**	(142,626)	(159,897)
Income from commissions (***)	22	**42,965**	38,658	42,496
Payments and change in liabilities in respect of insurance contracts (***)	23	**124,509**	145,519	65,798
General and administrative expenses (**)	25, 28c	**(13,835)**	(*) (11,702)	(*) (15,484)
General and administrative expenses (***)	25	**(1,717)**	(922)	(852)

* 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					
	2021		2020		2019	
	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**	**11,918**	13	10,083	13	12,591
Post-employment benefits	**13**	**11,917**	13	1,619	13	2,893
		13,835		11,702		15,484

NOTE 28 – BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Continued)

D. Compensation and benefits:

	Year ended December 31					
	2021		2020		2019	
	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**	**452**	3	549	3	458
	3	**452**	3	549	3	458

E. Income and expenses from related parties and interested parties

1) <u>Transactions with global AIG Corporation companies that are related parties of the Company</u>

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 3,055 thousand (2020 – NIS 3,150 thousand; 2019 – NIS 3,399 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	
	2021	2020
	NIS in thousands	
<u>Presented under other accounts payable</u>:		
Short-term employee benefits	**8,683**	10,509
<u>Presented under liabilities for employee benefits, net</u>:		
Liability for defined benefit plan for employees	**20,477**	19,286
Plan assets	**(15,216)**	(14,279)
	5,261	5,007

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:

Defined contribution plans

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 2021 and 2020, the expenses in respect of the defined contribution plans amounted to NIS 2,863 thousand and NIS 2,887 thousand, respectively, and were included under “payroll and related expenses”.

Defined benefit plan

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	
	2021	2020	2021	2020	2021	2020
Balance as at January 1	19,286	20,210	14,279	14,931	5,007	5,279
Cost of interest	439	415	329	306	110	109
Current servicing cost	1,484	1,625	-	-	1,484	1,625
Actuarial loss (gain) as a result of changes in financial assumptions	(272)	(156)	-	-	(272)	(156)
Other actuarial gain	1,721	714	-	-	1,721	714
Actual return, less interest income	-	-	819	521	(819)	(521)
Benefits paid	(2,181)	(3,522)	(1,203)	(2,401)	(978)	(1,121)
Employer's contributions to the plan	-	-	992	922	(992)	(922)
Balance as at December 31	20,477	19,286	15,216	14,279	5,261	(5,007)

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, 2021		December 31, 2020	
	1% increase	1% decrease	1% increase	1% decrease
Rate of future salary increases	969	(747)	1,048	(805)
Discount rate	(710)	927	(758)	995

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 5.4% (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 1,070 thousand.
- As at the reporting date, the Group estimates the term of plan at 8.3 years (2020 – 8.3 years).

NOTE 30 - LIABILITIES TO REINSURERS:

	December 31	
	2021	**2020**
	NIS in thousands	
Deposits of reinsurers (1) ,(2)	**266,009**	272,983
Deferred acquisition costs in respect of reinsurance	**21,377**	17,944
Related parties (1) ,(2)	**16,326**	202
Other	**1,878**	2,932
	305,590	294,061

(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. According to the claim, 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.

Recently, the petitioners filed a motion, with the consent of the Company, for 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 on the issue of overtime. On July 15, 2018, the court approved the stay of proceedings pending the ruling by the High Court of Justice, which has yet to be issued.

In the opinion of the Company, in view of the aforementioned ruling by the National Court, the chances of the motion being certified are low.

2) On January 8, 2017, a motion to certify a class action was filed against the Company and another insurance company ("the respondents").

The petitioners allege 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.

This legal proceeding commenced on June 18, 2017.

On July 10, 2019, the respondents submitted their response to the court's question on the matter. 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.

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, an evidentiary hearing was held in the case, in which the declarants on behalf of Menora Mivtachim Ltd. testified. Another evidentiary hearing has been scheduled for March 20, 2022.

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, rejecting the motion to certify a class action. The notice also stated that the named plaintiff in the Litvinov vs. Clal case 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 vs. Clal case.

NOTE 31 - CONTINGENT LIABILITES (Continued):

A. Motions to certify class actions (continued):

2) (continued)

On March 10, 2022, the respondents submitted their response to the petitioners' notice. In their response, the respondents suggest that the upcoming evidentiary hearing will be converted into a pre-trial hearing, in which the update notice of petitioners 1-12 and the derivative issues will be discussed.

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.

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.

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.

On January 31, 2021, the petitioners requested the court to order the disclosure and perusal of documents and an order for response to questionnaires. In March 2021, the respondents submitted their response.

A hearing in the case 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 April 12, 2021, a response was submitted to the respondents' arguments concerning the disclosure of documents, questionnaires and the summoning of the Commissioner of Capital Markets on behalf of the petitioners.

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. During the hearing, the parties held discussions outside the courtroom.

On November 2, 2021, the parties submitted a 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.

NOTE 31 - CONTINGENT LIABILITES (Continued):

A. Motions to certify class actions (continued):

3) (continued)

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 March 14, 2022, the court accepted the parties' motion to postpone the hearing, postponing it to May, 24, 2022. Within this framework, the court ordered that the preliminary proceedings must be concluded by April 7, 2022.

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, by April 26, 2020,

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. Additionally, the court was requested to suspend its ruling from April 20, 2020 as above. On the same day, the Court rejected the motion to suspend its ruling. On April 27, 2020, the petitioners provided additional information, in conformity with the court's ruling from April 20, 2020.

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.

On October 6, 2020, the respondents submitted a motion for clarifications 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 a response to the certification petition is 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, the petitioners in this claim and in claim 11 above submitted a request for instructions in relation to the hearing scheduled for January 21, 2021. 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. A ruling will be issued in accordance with Section 7 of the Law - without a hearing.

NOTE 31 - CONTINGENT LIABILITES (Continued):

A. Motions to certify class actions (continued):

4) (continued)

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 6 below will be deliberated jointly against all of the defendants that they have named and that were also named in claim 5 below concerning vehicle insurance policies. Additionally, claim 5 below, 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 this claim and in claim 6 below.

Additionally, it has been determined that the plaintiff in claim 5 below may continue to pursue his claim concerning home contents insurance against all of the defendants that are named in his statement of claim.

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 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 March 15, 2022, a motion was filed to extend the date for the submission of the respondents’ responses until March 31, 2022. Within the framework of the motion, the court was requested to extend the date for the submission of the responses to the aforesaid responses until June 30, 2022. A ruling has not yet been given.

A pretrial hearing in all cases has been scheduled for July 18, 2022.

In the opinion of the Company's management, which is based on the opinion of its legal counsel, at this stage, pending the submission of a response, the motion is more likely to be rejected than accepted.

NOTE 31 - CONTINGENT LIABILITES (Continued):

A. Motions to certify class actions (continued):

5) 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, 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 submitted their response to the motions of the petitioners in claim no. 4 above and in claim no. 6 below. On July 21, 2020, the petitioners in claim no. 4 above and in claim no. 6 below filed a motion for the setting of a single date for the submission of a response to the responses to the motion, which will not be later than August 5, 2020. On the same day, the court ruled and made a note to this effect.

   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 6, 2020, the respondents submitted a motion for clarifications 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 a response to the certification petition is to be submitted by all the respondents within 90 days of a ruling on the petition in accordance with Section 7(B).

NOTE 31 - CONTINGENT LIABILITES (Continued):

A. Motions to certify class actions (continued):

5) (continued)

On January 11, 2021, the petitioners in claim 9 above and in this claim submitted a request for instructions in relation to the hearing scheduled for January 21, 2021. 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. 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 claim 4 above and claim 6 below will be deliberated jointly against all of the defendants that they have named and that were also named in the claim by the plaintiff of this claim 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 claim 4 above and claim 6 below. Additionally, it has been determined that the plaintiff in this claim may continue to pursue his claim concerning home contents insurance against all of the defendants that are named in his statement of claim.

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 39,000.

A pretrial hearing has been scheduled for February 28, 2022.

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 September 15, 2021, a consensual motion was filed by the parties for a suspension of proceedings.

On October 19, 2021, the court ruled on the motion, ordering the suspension of proceedings in the case.

On March 15, 2022, a motion was filed to extend the date for the submission of the respondents’ responses until April 6, 2022. Within the framework of the motion, the court was requested to extend the date for the submission of the responses to the aforesaid responses until July 11, 2022. A ruling has not yet been given.

A pretrial hearing in all cases has been scheduled for July 18, 2022.

In the opinion of the Company's management, which is based on the opinion of its legal counsel, at this stage, pending the submission of a response, the motion is more likely to be rejected than accepted.

NOTE 31 - CONTINGENT LIABILITES (Continued):

A. Motions to certify class actions (continued):

6) 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 are 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.

A hearing was scheduled for January 21, 2021.

On October 6, 2020, the respondents submitted a motion for clarifications 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 a response to the certification petition is 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, the petitioners in claim 9 above and in this claim submitted a request for instructions in relation to the hearing scheduled for January 21, 2021. 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 claim 4 above and this claim will be deliberated jointly against all of the defendants that they have named and that were also named in claim 5 above concerning vehicle insurance policies. Additionally, claim 5 above, 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 claim 4 above and in this claim. Additionally, it has been determined that the plaintiff in claim 5 above may continue to pursue his claim concerning home contents insurance against all of the defendants that are named in his statement of claim.

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.

NOTE 31 - CONTINGENT LIABILITES (Continued):

A. Motions to certify class actions (continued):

6) (continued)

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 March 15, 2022, a motion was filed to extend the date for the submission of the respondents' responses until March 31, 2022. Within the framework of the motion, the court was requested to extend the date for the submission of the responses to the aforesaid responses until June 30, 2022. A ruling has not yet been given.

A pretrial hearing in all cases has been scheduled for July 18, 2022.

In the opinion of the Company's management, which is based on the opinion of its legal counsel, at this stage, pending the submission of a response, the motion is more likely to be rejected than accepted.

7) On January 17, 2021, a petition to certify a class action was filed against the Company. 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 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.

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.

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 August 3, 2021, the court ruled on the motion, ordering the petitioner to submit an amended statement of response by September 12, 2021. On September 13, 2021, the petitioner submitted an amended statement of response.

NOTE 31 - CONTINGENT LIABILITES (Continued):

A. Motions to certify class actions (continued):

7) (continued)

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, i.e. by December 19, 2021, the petitioner’s representative would be permitted to file a discovery motion within another 30 days.

On December 16, 2021, the parties filed a joint request for an extension.

After two additional motions to extend, on March 3, 2022 the parties requested an extension for the submission of their update until April 3, 2022. The court accepted the motion.

On January 18, 2022, the parties requested the extension of the submission of their update until February 3, 2022. On January 19, 2022, the court accepted the motion.

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.

8) 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 should be added the cost of wasted time, trouble etc. The petitioner estimates the total class damages at more than NIS 2.5 million (district court jurisdiction).

At this stage, the Company is studying the arguments and data. Additional data has recently been received from the company. At this stage, the risk cannot be estimated.

	Number of claims	The amount claimed - NIS thousands
Pending motions to certify claims as class actions:		
Amount of claim specified	5	141,498
Amount of claim not specified	3	-
Total	8	141,498

NOTE 31 - CONTINGENT LIABILITES (Continued):

B. Claims resolved during the reported period:

1) On April 27, 2017, a motion to certify a claim as a class action was filed against the Company and two additional insurance companies. The plaintiffs claim that the insurance companies overcharged credit fees of policyholders who paid the premium in installments, exceeding the interest rates permitted by law and/or the interest rates presented in the policies. It is alleged that the Company caused an estimated damage in the amount of NIS 20,879 thousand over 7 years.

   The date for submission of a response to the certification motion was extended until March 12, 2018, to allow consideration of a possible settlement in the case. As part of the understandings, an auditor was appointed on behalf of the plaintiffs, who has examined and confirmed the volumes of exposure declared by the Company. The parties are currently negotiating a settlement on the basis of the declared volumes of exposure.

   The parties reached a compromise that was submitted to the court for approval. According to the arrangement, no compensation will be payable to former policy holders, but rather the amount will be paid by way of a future discount on credit fees that will be granted by the Company. This amount also includes fees and remuneration to the plaintiff and its representative. A similar compromise with Shirbit was also submitted to the court for approval.

   The court has ordered the issue of notifications on the compromise agreements. Following the issue of the notifications, the members of the class in the claim against Shirbit filed an objection, including as regarding the compromise arrangement with the Company. The court has requested and received from the Company data as to the amount of benefit for each member of the class.

   The compromise is based on compromises previously approved by the court in relation to similar motions against other insurance companies.

   On November 23, 2020, a ruling was issued in approval of the compromise arrangement and the Company worked towards its execution.

   As of July 31, 2021, the Company has used the full amount of discount to holders of personal insurance policies and granted a discount in an immaterial amount in other insurance.

   At the request of the Company, the court approved the reduction of the overall discount to be provided in other insurance to NIS 21,000, this in view of the surplus discount already provided to holders of personal insurance policies in the amount of the reduction. During the quarter, the Company completed all payments under the compromise arrangement.

2) 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, estimate it at tens of millions of shekels.

NOTE 31 - CONTINGENT LIABILITES (Continued):

B. Claims resolved during the reported period (continued):

2) (continued)

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.

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.

NOTE 31 - CONTINGENT LIABILITES (Continued):

B. Claims resolved during the reported period (continued):

2) (continued)

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 4,000 as compensation to claimant 13 and NIS 43,000 as fees to the claimant's representatives. The ruling requires the respondents to submit, by July 6, 2022, a report supported by a manager's affidavit concerning the fulfillment of the obligation under the compromise arrangement. In addition, the parties are required to publish, within 14 days, an ad in the newspapers concerning the approval of the compromise arrangement.

This claim did not have a material effect on the financial statements of the Company.

3) On January 16, 2018, a motion to certify it as a class action was filed against the Company and 5 other insurance companies in the matter of refraining from paying the VAT component that applies to the cost of the damages in cases in which the alleged damages were not actually repaired to their policyholders and/or to third parties. The plaintiff estimates the compensation due to members of the class for each year in respect of the Company at NIS 5,744 thousand.

The Company, together with the other insurance companies included in the claim, submitted to the court a motion for the striking in limine of the certification petition, on the principal grounds that the matter is not appropriate for the filing of claim by an organization. The motion was rejected by the Court.

The company submitted its response to the motion to certify a class action and the petitioner submitted its response to the response of the respondents. Shortly before the hearing, the respondents jointly filed a motion to strike the response of the petitioner in light of new arguments and new documents presented. The court rejected the motion

On November 13, 2018, a pre-trial hearing was held in the case, in which the court suggested that the class be limited to policyholders only and the withdrawal of all arguments pertaining to third parties. The court also noted that the relevant period for policyholders is 3 years back from January 1, 2018 in view of the statute of limitations, and for third parties – 7 years. Several evidentiary hearings were held in the case in the period from November 2019 to June 2020.

After summations have been submitted by the parties, a ruling was issued that rejects the motion to certify a class action and requires the petitioner to pay the expenses.

The plaintiffs have a right to appeal until April 4, 2022.

4) On June 17, 2019, a petition to certify it as a class action were filed against the Company, alleging the unlawful charging of linkage differences from the policy holders by the respondent and the breach of its duties to policy holders under home insurance premium payments as regarding linkage differences. The total amount claimed for all class members in relation to the respondent is estimated at NIS 2,500 thousand.

NOTE 31 - CONTINGENT LIABILITES (Continued):

B. Claims resolved during the reported period (continued):

4) (continued)

The negotiations resulted in an agreed plan for withdrawal of the certification petition and postponement of the personal claim, this in accordance with the understandings reached. On March 29, 2020 a joint petition for withdrawal was filed. On the same date, the court ordered the respondent to furnish a document backed by an affidavit. On April 6, 2020, the respondent the aforementioned document. The pre-trial hearing scheduled for April 22, 2020 has been postponed due to the activation of the Courts and Execution Offices Regulations (Procedures in a Special Emergency Situation), 1991.

On May 14, 2020, the court ruled against the motion for withdrawal, this in view of a number of reservations, and determined that the matter will be discussed at the pre-trial hearing. The court also suggested that the parties should try and formulate a new agreement. In a hearing held on March 3, 2021, it has been determined that the respondent is to submit, within 30 days, a clarification regarding the data on the extent of the alleged (and denied) damage. On April 28, 2021, the respondent submitted to the Court a clarification regarding the data on the extent of the damage and on May 3, 2021, the petitioner submitted its position on the respondent’s notice.

On June 15, 2021, the respondent submitted its response to the petitioner’s response that addressed the clarification notice from April 28, 2021. On September 19, 2021, the petitioner notified the court that the parties have completed all requisite notices and clarifications. Accordingly, further instructions were requested from the court.

On December 25, 2021, the court issued a ruling in approval of the withdrawal arrangement reached between the parties. A ruling approved the compensation and the fees that had been agreed upon between the parties as part of the motion in an amount of NIS 23,000 to the petitioner and fees to the representatives of the petitioner, in an amount of NIS 20,000, including VAT.

NOTE 31 - CONTINGENT LIABILITES (Continued):

B. Claims resolved during the reported period (continued):

5) On December 31, 2019, a petition to certify it as a class action was filed against the Company and IMA. The holder of an overseas travel insurance policy alleges the breach of a duty of disclosure in an overseas travel insurance policy and negligence.

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 duties to the customers, by failing to disclose that there is no coverage for follow-up treatment in Israel; he 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 plaintiff estimates his personal damage at NIS 35,000 and the damage for all class members (based on an estimated 20 cases per year, over seven years) at NIS 4,900,000 (alternatively, compensation of NIS 5 per day for each of the policyholders – NIS 8,750,000). He further demands that the Company be required to provide proper disclosure regarding this coverage and to deliver the complete insurance policy to policyholders.

A pre-trial hearing was held on June 22, 2020. The court encouraged the plaintiff to withdraw the claim at this stage, without adjudication of costs. The plaintiff chose to continue the proceeding. In another pre-trial hearing held on October 19, 2020, despite the court's repeated recommendation, the plaintiff announced that it intends to pursue the proceeding.

On November 18, 2020, the court approved a consensual procedural arrangement between the parties. Pursuant to the arrangement, the plaintiff 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 plaintiff's response. Within this framework, the parties also agreed to schedule a brief one-hour examination of each of the declarants. The examinations hearing was scheduled for November 3, 2021. The representative of the plaintiff was given an option to waive the examinations and move directly to summations. The offer was rejected and the scheduled hearing stands.

Shortly before 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 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	
	2021	**2020**
	NIS in thousands	
Up to one year	5,394	5,394
1-5 years	11,451	16,845
Total	**16,845**	**22,239**

Supplementary information on leases

	December 31	
	2021	**2020**
	NIS in thousands	
Interest expense on lease liability	395	502
Expenses relating to variable lease payments that were not included in the measurement of the lease liability	5,452	5,452
Total	**5,847**	**5,945**

Chapter D - Additional Information on the Entity

Regulation 25A

Company name:	**AIG Israel Insurance Company Ltd.**
Company no. with Registrar:	51-230488-2
Address:	#25 Hasivim St., Kiryat Matalon, Petach Tikva
Telephone no:	03-9272333
Facsimile:	03-9272366
Company website:	www.aig.co.il
Balance-sheet date:	December 31, 2021
Date of report:	March 22, 2022

Chapter D - Additional Information on the Entity

Table of Contents

Regulation 11: List of Investments in Subsidiaries and Associated Companies as of the Date of the Report
None.

Regulation 12: Changes in Investments in Subsidiaries and Associated Companies in the Reported Period
None.

Regulation 13: Profits or Losses of Subsidiaries and Associated Companies in the Balance Sheet for the Year Ended December 31, 2021
None.

Regulation 14: List of Groups of Balances of Loans Granted to the Date of the Report
None. The granting of loans is not the principal activity of the Company.

Regulation 20: Trading on the Stock Exchange
None. To the date of the report, no securities issued by the Company are listed for trade on the Stock Exchange.

Regulation 21: Remuneration of Interested Parties and Senior Officers
Presented below are details of the payments made by the Company and the payment liabilities assumed by the Company in the reported year to each of the five recipients of the highest salaries from among its officers, whether granted by the Company or by another (the amounts are denominated in NIS thousands, excluding payroll tax).

Details of the remunerated officer				Remuneration for services*		
Name	**Position**	**Appointment percentage**	**Percentage holding in the Company's equity**	**Salary****	**Bonus**	**Total**
Yfat Reiter	CEO	100%	0%	1,547	649	2,196
Nurit Kantor	Senior VP	100%	0%	1,116	490	1,606
Yael Nadav	VP	100%	0%	879	336	1,215
David Rothstein	VP	100%	0%	828	335	1,163
Olivia Zohar	VP	100%	0%	811	254	1,065

* Compensation amounts in terms of cost to the entity.

** The above salary component includes, inter alia, the following components: gross monthly salary, social provisions, including provisions for employee termination obligations (advanced study fund and failure of work capacity, as customary, car value, various expenses, e.g. subsistence, mobile telephone, sick days and recreation, and any income carried to the salary due to a component granted to the employee).

Compensation to CEO
The monthly salary of CEO was set to NIS 95,000 plus a bonus that is determined according to the bonus plan for officers in the Company (see paragraph 4.6c in Chapter A (Description of the Company's Business) in the periodic report) and customary social benefits (a Company car, mobile phone and expense reimbursement).

Directors' remuneration
Salary paid to outside directors - NIS 452 thousand, including VAT.

Regulation 21a: Company's controlling shareholders
To the date of the report, the controlling shareholder in the Company is AIG Holdings Europe Limited ("**AEHL**"), which holds 100% of the ordinary shares of the Company. AEHL is a member of American International Group Inc. ("**AIG**"). AIG holds the ultimate control permit of the Company.

Regulation 22: Transactions with controlling shareholders or transactions in the approval of which the controlling shareholder has personal interest, entered into by the Company in the reported year or subsequent to the end of the reported year through the date of the publication of this report or which still in effect at the date of publication of the report

Extraordinary transactions and engagements for obtaining services
See para. 4.5 (reinsurance) in Chapter A – Description of the Company's Business, and Note 29 (balances and transactions with interested and related parties) to the financial statements.

Negligible transactions
There were no negligible transactions with the controlling shareholder or transactions in the approval of which the controlling shareholder had personal interest.

Regulation 24: Shares and Convertible Securities Held by an Interested Party in the Company as of date of the Report

				Percentage holding		
Interested party	**Company no. with Companies Registrar**	**Name of security**	**Par value on Dec. 31, 2020**	**In equity**	**In voting rights**	**In right to appoint directors**
AIG Holdings Europe Limited	Foreign company	Ordinary shares	5,730	100%	100%	100%

Regulation 24a: Authorized share capital, issued share capital and convertible securities
The Company's authorized share capital is NIS 45,000,100, comprised of 45,000,100 ordinary shares of NIS 1 par value each. The Company's issued and paid share capital is NIS 5,730, comprised of 5,730 ordinary shares of NIS 1 par value each.

Regulation24b: Company's shareholder register
For details regarding the sole shareholder of the Company, see Regulation 21a to this chapter.

Regulation 26: Directors of the Company

1. **Name:** Edward Levin - Chairman of the Board of Directors
 Passport no.: 566587471
 Date of birth: March 13, 1961
 Address for the service of process: 2 Parkfields, London, SW15, England
 Citizenship: United States
 Member of Board committees: No
 Independent/outside director: No
 The director is an employee of the Company, a subsidiary, a related company or an interested party: Yes,
 Division Head – Global Accident & Health, AIG
 Date of commencement of service as director December 22, 2021
 Education: BA in Economics, Harvard University; MBA, Columbia University
 Main occupation during the past 5 years as well as other companies in which he serves as a director: Business Officer, Division President A&H - Chubb Group Senior VP - Digital
 Relation to another interested party in the Company: No

2. **Name:** Thomas Lillelund
 Passport no.: 209123429
 Date of birth: June 13, 1972
 Address for the service of process: 35D Avenue J. F. Kennedy, 1855 Luxembourg
 Citizenship: Danish
 Member of Board committees: No
 Independent/outside director: No
 The director is an employee of the Company, a subsidiary, a related company or an interested party: Yes,
 Chief Executive Office - AIG Europe, Middle East & Africa
 Date of commencement of service as director: April 22, 2020
 Education: BA in Economics, William & Mary University; MBA, Western University
 Main occupation during the past 5 years as well as other companies in which he serves as a director: CEO AIG Europe, CEO Aspen Re
 Relation to another interested party in the Company: No

3. **Name:** Neil Minnich
 Passport no.: 642957790
 Date of birth: December 25, 1960
 Address for the service of process: 701 Brickell Ave suite 19 Miami, FL USA 33131
 Citizenship: United States
 Member of Board committees: No
 Independent/outside director: No
 The director is an employee of the Company, a subsidiary, a related company or an interested party: Yes,
 Senior VP & Head of International Personal Auto & Property, AIG General Insurance
 Date of commencement of service as director: December 10, 2015
 Education: Academic education, MBA Corporate Finance – The University of Hartford;
 Main occupation during the past 5 years as well as other companies in which he serves as a director: VP and Head of Personal Lines UK, AEL.
 Relation to another interested party in the Company: No

4. **Name: Arie Nachmias**
I.D. No.: 051604205
Date of birth: August 3, 1952
Address for the service of process: 1 Hohit St., Giva'at Hasla'im Rosh-HaAyin.
Citizenship: Israeli
Member of Board committees: Yes. Audit Committee, Investments Committee, Nominating Committee and Compensation Committee.
Independent/outside director: Yes. Possesses accounting and financial skills. Possesses insurance skills.
The director is an employee of the Company, a subsidiary, a related company or an interested party: No
Date of commencement of service as director: January 19, 2016
Education BA in Economics, Tel Aviv University; M.Sc. in Economics & Management, Hebrew University of Jerusalem; PhD in Management, University of Wisconsin–Milwaukee.
Main occupation during the past 5 years as well as other companies in which he serves as a director: Head of Master's Degree Program in Business Administration, Open University (stepped down in 2021; outside director in Harel Finance Investment Management Ltd.
Relation to another interested party in the Company: No

5. **Name:** Dorit Hanegbi
I.D. no.: 055884126
Date of birth: June 7, 1959
Address for the service of process: 14B Ben Gurion St., Kfar Saba
Citizenship: Israeli
Member of Board committees: Yes. Audit Committee, Compensation Committee.
Independent/outside director: Yes, possesses insurance skills and technological skills
The director is an employee of the Company, a subsidiary, a related company or an interested party: No
Date of commencement of service as director: April 1, 2020
Education: BA in Economics (primary) and Computer Sciences (secondary).
Main occupation during the past 5 years as well as other companies in which she serves as a director: “Pool” Head of Technology.
Relation to another interested party in the Company: No

6. **Name:** Jules Polak
I.D. No.: 026059444
Date of birth: July 8, 1946
Address for the service of process: 6 Amos St., Ramat Gan
Citizenship: Israeli
Member of Board committees: Yes. Audit Committee, Investments Committee, Nominating Committee and Compensation Committee.
Independent/outside director: Yes. Possesses accounting and financial skills. Possesses insurance skills.
The director is an employee of the Company, a subsidiary, a related company or an interested party: No
Date of commencement of service as director: March 1, 2017
Education: BA in Accounting, Tel Aviv University; MBA, Hebrew University of Jerusalem; CPA.
Main occupation during the past 5 years as well as other companies in which he serves as a director: CEO of Jules Polak Business Management Ltd. Director at IBI Mutual Fund Management (1978) Ltd.
Relation to another interested party in the Company: No

7. **Name:** Roberto Nard
Passport No.: YA4512137
Date of birth: September 3, 1962
Address for the service of process: Springhill Oast, Standen Street, Benenden TN17, UK
Citizenship: Italian
Member of Board committees: No
Independent/outside director: No
The director is an employee of the Company, a subsidiary, a related company or an interested party: Yes. Chief Financial Officer AIG EMEA
Date of commencement of service as director: February 1, 2021
Education: BA in Accounting, University of Milan
Main occupation during the past 5 years as well as other companies in which he serves as a director: CFO Europe AIG, CFO EMEA AIG
Relation to another interested party in the Company: No

Regulation 26a: Senior Officers of the Company

1. **Name:** Yfat Reiter
I.D. No.: 029480548
Date of birth: July 18, 1972
Position in the Company: CEO
Interested party or relative of another officer or of an interested party in the Company? No
Education and main occupation during the past 5 years: Academic education. BA in Economics and Finance, MBA. VP Private Insurance in the Company. VP Personal Accidents, Life and Health Insurance.
Date of commencement of service: September 11, 2019

2. **Name:** Nurit Kantor
I.D. No.: 031817356
Date of birth: November 5, 1974
Position in the Company: Senior VP Private Customers
Interested party or relative of another officer or of an interested party in the Company? No
Education and main occupation during the past 5 years: Academic education. BA and MA in Business Administration.
Date of commencement of service: July 22, 2012

3. **Name:** David Rothstein
I.D. No.: 017016973
Date of birth: April 28, 1958
Position in the Company: CFO
Interested party or relative of another officer or of an interested party in the Company? No
Education and main occupation during the past 5 years: CPA, Academic education.
Date of commencement of service: March 1, 2001

4. **Name:** Alon Kor
I.D. No.: 025346412
Date of birth: June 28, 1973
Position in the Company: Chief Information Officer
Interested party or relative of another officer or of an interested party in the Company? No
Education and main occupation during the past 5 years: Academic education. BA in Management and Philosophy. Senior instructor at computer academies (SV College, John Bryce); Head of CTO Division at Bank Leumi; Director of Infrastructure and Strategy at Bank Leumi.
Date of commencement of service: August 16, 2020

5. **Name:** Yael Nadav
I.D. No.: 028731131
Date of birth: June 26, 1971
Position in the Company: VP Human Resources
Interested party or relative of another officer or of an interested party in the Company? No
Education and main occupation during the past 5 years: Academic education. MA in Occupational Psychology, Senior HR manager at Teva.
Date of commencement of service: September 22, 2016

6. **Name:** Olivia Zohar
I.D. No.: 011179322
Date of birth: July 16, 1970
Position in the Company: VP Risk Management and Compliance
Interested party or relative of another officer or of an interested party in the Company? No
Education and main occupation during the past 5 years: Academic education. CPA, MBA.
Date of commencement of service: October 1, 2013

7. **Name:** Gil Sagiv
I.D. No.: 025469248
Date of birth: November 12, 1973
Position in the Company: VP Marketing and Digital, serves as the Company's Spokesperson.
Interested party or relative of another officer or of an interested party in the Company? No
Education and main occupation during the past 5 years: Academic education. BSc. Engineering (Technion), MBA Business Administration (Tel Aviv University).
Date of commencement of service: September 1, 2014

8. **Name:** Thomas Lowe
I.D. No.: 327077798
Date of birth: May 10, 1976
Position in the Company: VP, Internal Audit
Interested party or relative of another officer or of an interested party in the Company? No
Education and main occupation during the past 5 years: Academic education. CPA (South African licensee), Certified IT Systems Auditor, Senior Manager Internal Audit, Controller, Financial Project Manager.
Date of commencement of service: September 1, 2013

9. **Name:** Orna Karni
I.D. No.: 025164567
Date of birth: April 12, 1973
Position in the Company: VP Strategy, Innovation and Business Development
Interested party or relative of another officer or of an interested party in the Company? No
Education and main occupation during the past 5 years: Academic education. B.A in Management, MBA, LL.B. VP Life and Health Insurance in the Company.
Date of commencement of service: March 4, 2014

10. **Name:** Assaf Michaeli
I.D. No.: 034486225
Date of birth: December 12, 1977
Position in the Company: VP Personal Accidents, Life and Health Insurance
Interested party or relative of another officer or of an interested party in the Company? No
Education and main occupation during the past 5 years: Academic education. BA in Economics and Management, Accounting (single major); LL.M. Head of Insurance Division at the Capital Markets Authority and Senior Deputy Commissioner of Capital Markets, Insurance and Savings.
Date of commencement of service: October 1, 2021.

11. **Name:** Orit Yanko
I.D. No.: 028571131
Date of birth: August 1, 1971
Position in the Company: VP Vehicle and Home Insurance
Interested party or relative of another officer or of an interested party in the Company? No
Education and main occupation during the past 5 years: Academic education, LL.B. UMI Insurance Agency – CEO.
Date of commencement of service: December 12, 2021.

12. **Name:** Roy Dvorin
I.D. No.: 016654600
Date of birth: April 1, 1976
Position in the Company: VP, Chief Legal Counsel and Company Secretary.
Interested party or relative of another officer or of an interested party in the Company? No
Education and main occupation during the past 5 years: Academic education, LL.B. and Certified Lawyer in Israel. VP, Legal Counsel, Company Secretary and Compliance Officer at Hachshara Insurance Company Ltd.
Date of commencement of service: October 24, 2021.

13. **Name:** Erez Chaim
I.D. No.: 034996504
Date of birth: March 12, 1979
Position in the Company: VP Commercial Insurance
Interested party or relative of another officer or of an interested party in the Company? No
Education and main occupation during the past 5 years: Academic education. LL.B. and BBA, Adv. Independent insurance advisor, Director of Large Businesses and Business Development at Migdal Insurance Company.
Date of commencement of service: November 15, 2021.

Regulation 26B: Number of Independent Authorized Signatories as determined by the Entity
None.

Regulation 27: Auditors of the Company
Somekh Chaikin KPMG CPAs, 17 Ha'arba'a St. Tel Aviv.

To the best of the Company's knowledge, the auditors, including Mr. Abraham Fruchtman, CPA, who is the engagement partner in the said firm, are not interested parties and/or related to any senior officers or interested parties in the Company.

Regulation 28: Changes in the Articles of Association and Memorandum of the Company in 2021
None.

Regulation 29: Resolutions and Recommendations of the Board of Directors

a. Set forth below are the recommendations of the Board of Directors to the General Meeting and the resolutions of the Board of Directors that do not require the approval of a General Meeting:
    1. Payment of dividend (or distribution), as defined in the Companies Law, in any other way, or distribution of bonus shares: See details in note 12 to the financial statements.
    2. Changes to the authorized or issued capital of the Company: None
    3. Changes to the Memorandum or Articles of Association of the Company: None.
    4. Redemption of shares: None.
    5. Early redemption of debentures: None.

6. Non-arm's-length transaction between the Company and an interested party thereof, except for a transaction between the Company and a subsidiary thereof: See Regulation 22 above.

b. General Meeting resolutions that were passed other than as recommended by the Board of Directors: None.

c. Resolutions of Special General Meeting:

1. On February 1, 2021, the General Meeting of the Company passed the following resolutions (pursuant to the approval by the Company's Audit Committee and Board of Directors): renewal of the officers and directors' liability insurance policy for the officers and directors of the Company; appointment of Mr. Roberto Nard as a director in the Company.

2. On December 1, 2021, the General Meeting of the Company passed the following resolution (pursuant to the approval by the Company's Audit Committee and Board of Directors): renewal of the appointment of Somekh Chaikin as auditors of the Company and authorizing management of the Company to negotiate their fees.

Regulation 29a: Resolutions of the Company

a. Approval of acts under Section 255 of the Companies Law: None.
b. An act in accordance with Section 254(a) of the Companies Law, which has not been approved: None.
c. Transactions that require special approval in accordance with Section 270(1) to the Companies Law, provided that the transaction is an extraordinary transaction as defined in the Companies Law: See Regulation 22 above.
d. Exemption, insurance or liability to indemnify an officer as defined in the Companies Law, as in effect on the date of the report:

Insurance
The Company entered into an officers' liability insurance policy for the period from March 1, 2021 through February 28, 2022. The liability limit is US$ 25 million with a deductible of US$ 35,000 per claim and for the whole insurance period, including reasonable litigation expenses, as agreed with the insurer.

Indemnification
The Company has undertaken to indemnify in advance the officers in the Company in accordance with the wording of the indemnity letters it has provided to them. According to the indemnity letters, the Company has undertaken, to the extent allowed by law, to indemnify its officers for any liability or expense imposed upon them and/or incurred by them in consequence of an act performed by them by virtue of holding office in the Company. The aggregate amount of indemnity for all officers in respect of one or more than one of the events set by the Board of Directors shall not exceed 25% of the Company's equity. The Company has also undertaken to indemnify its officers for payment which was levied on them as part of payment to a victim of breach; the Company has also undertaken to indemnify its officers for expenses they incurred as part of a procedure for levying financial sanctions on those officers, including reasonable litigation expenses.

Exemption

The Company has exempted its officers from liability in the event of the breach of the duty of care in good faith. The exemption will not apply to a breach of fiduciary duty, intentional breach or reckless breach (unless exclusively due to negligence), breach with intent of unlawful enrichment, and to a fine or forfeit imposed on the officer.

AIG Israel Insurance Company Ltd.

Date: March 22, 2022

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

Chapter E: Actuary Reports

AIG Israel Insurance Company Ltd

GENERAL INSURANCE SECTORS – ACTUARY STATEMENT

AS OF DECEMBER 31, 2021

AIG ISRAEL INSURANCE CO. LTD.

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, 2021, 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 31.12.2015.

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	82,921	82,921
Comprehensive home	39,968	36,231
Loss of property	32,832	175
Engineering insurance	43,636	114
Vehicle compulsory	805,236	627,175
Employers' liability	57,605	9,227
Third-party liability	123,440	16,154
Product liability	45,394	9,010
Professional liability	249,727	26,698
Other	3,256	465
Total non-aggregated sectors	1,484,013	808,170
Total aggregated sectors	-	-
2.1.2 Total aggregated and non-aggregated sectors	**1,484,013**	**808,170**
2.2 Indirect expenses for all sectors	45,645	45,645
2.3 Premium deficiency:	26,229	26,229
Total pending claims, indirect expenses, premium deficiency reserve computed in accordance with actuarial valuation:	**1,555,887**	**880,043**

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 the 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. 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%.

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. See Note 27e(3)(g) to the financial statements.

e. 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.

f. Compulsory and liability – discounted based on a risk-free interest curve, with the addition of 80% of the illiquidity premium, in accordance with Insurance Circular 2022-1-4 (see section 2 below).

g. Property – these sectors are not discounted.

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	702,018	744,650	805,236	8.14%
Vehicle property	77,641	79,323	82,921	4.54%
Comprehensive home insurance	36,836	38,210	39,968	4.60%
Engineering insurance	37,781	39,798	43,636	9.65%
Property	28,426	29,291	32,832	12.09%
Employers' liability	43,306	52,464	57,605	9.80%
Other	2,658	2,834	3,256	14.90%
Product liability	36,335	38,865	45,394	16.80%
Professional liability	204,286	217,343	249,727	14.90%
Third-party liability	105,805	113,040	123,440	9.20%
Total	**1,281,091**	**1,355,816**	**1,484,013**	**9.46%**

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	550,044	582,334	627,175	7.70%
Vehicle property	77,641	79,323	82,921	4.54%
Comprehensive home insurance	33,392	34,975	36,231	3.59%
Engineering insurance	98	104	114	9.49%
Property	151	156	175	12.35%
Employers' liability	7,900	8,403	9,227	9.80%
Other	380	405	465	14.90%
Product liability	7,212	7,714	9,010	16.80%
Professional liability	21,860	23,236	26,698	14.90%
Third-party liability	13,845	14,793	16,154	9.20%
Total	**712,524**	**751,444**	**808,170**	**7.55%**

h. 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**

As a result of a negative risk-free interest curve, the best estimate provisions after discounting are greater than the best estimate provisions before discounting. Pursuant to best practices in the compulsory vehicle insurance sector and in the liability insurance sectors, the best estimate provisions include the discounted amounts. Consequently, the provisions increased by NIS 35.6 million in retention.

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 2019 and 2020 year-end and changes in provisions.

Compulsory vehicle – The total change in pending claims rose by NIS 119.2 million, gross, and NIS 87.0 million, in retention.

The rise is due to the expansion of the portfolio, the anticipated increase in the development of claims in respect of prior underwriting years, an increase in the reserves received from the pool, changes in the Consumer Price Index (linkage of the claims) and the effect of discounting resulting from the negative risk-free interest curve (see section 2 above).

Home – A positive development in claims regarding water damages pursuant to the Plumbers Circular.

Professional liability – A positive development of claims that was received as part of the Claims Department's update on the status and development of the claims.

Product and third-party liability - increase in the reserve, gross and in retention, for third-party liability, as part of the adverse development in the claims' experience. In addition, a large claim originating in underwriting year 2018 was received during the year.

Comparison of annual actuarial estimate compared with previous year's actuarial estimate – gross

Sectors	Reserve as of 31.12.2020	Addition as of 31.12.2021	Change in reserve
Compulsory vehicle	686,039	805,236	119,197
Vehicle property	63,951	82,921	18,970
Comprehensive home	53,969	39,968	-14,002
Engineering insurance	42,308	43,636	1,329
Property	33,743	32,832	-912
Employers' liability	56,529	57,605	1,077
Other	2,908	3,256	348
Product liability	43,683	45,394	1,711
Professional liability	265,653	249,727	-15,926
Third-party liability	108,888	123,440	14,552
Total	**1,357,670**	**1,484,013**	**126,343**

Comparison of annual actuarial estimate compared with previous year's actuarial estimate – retention

Sectors	Reserve as of 31.12.2020	Addition as of 31.12.2021	Change in reserve
Compulsory vehicle	540,181	627,175	86,994
Vehicle property	63,951	82,921	18,970
Comprehensive home	49,428	36,231	-13,197
Engineering insurance	121	114	-7
Property	238	175	-64
Employers' liability	8,471	9,227	755
Other	433	465	32
Product liability	8,736	9,010	274
Professional liability	27,172	26,698	-474
Third-party liability	13,211	16,154	2,943
Total	**711,944**	**808,170**	**96,226**

March 22, 2022	**General Insurance Actuary Director**	**Ernest Segal**	
Date	Position	Name of Actuary	Signature

LIFE INSURANCE SECTOR – ACTUARY STATEMENT

As of December 31, 2021

AIG INSURANCE CO. LTD.

Section A.1 - 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. 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, 2021, as detailed below.

Section A.2 - Scope of the actuarial opinion

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	31,771	25,898	82%
Permanent disability	19,742	11,368	58%
Disability from accident	10,958	7,823	74%
Unemployment	59	29	50%
Severe illness	2,996	2,416	81%
Medical expenses	2,041	1,306	64%
Total life - individual	**51,352**	**37,198**	**73%**
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	1,378	1,378

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	3,463	3,463

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 22, 2022	**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, 2021

AIG ISRAEL INSURANCE CO. LTD.

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, 2021, 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	58,200	58,096
Personal accidents – collective	1,145	1,145
Overseas travel– individual	4,909	4,909
Overseas travel – collective	0	0
Severe illness – individual	9,136	7,695
Total reported in general insurance	**73,391**	**71,846**

2.1.2 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	3,129
Collective	60
Total	**3,189**

2.1.3 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	4,169	4,169

2.1.4 Provision in respect of profit sharing

No provision was calculated since the company does not have business of this type.

2.1.5 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 insurance contracts. 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 2021.

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 22, 2022	**Health Insurance Actuary Director**	**Tom Hamo, F.IL.A.A**	
Date	Position	Name of Actuary	Signature