Clal Insurance Enterprises Holdings Ltd.

Periodic Report for 2019

March 26, 2020

This report is an unofficial translation from the Hebrew language and is intended for convenience purposes only.

The binding version of the report is in the Hebrew language only

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Part A

Description of the Corporation's Business

Remark Regarding the Implementation of the Provisions of the Securities Regulations (Periodic and Immediate Reports), 1970 (the "Securities Regulations") in this Report

In accordance with Regulation 8c of the Securities Regulations, the provisions of Regulations 8(b), 8a and 8b of the Securities Regulations with respect to the periodic report do not apply to information in the periodic report of a corporation which consolidated or which proportionately consolidated an insurer, or whose associate company is the insurer, insofar as such information applies to the insurer.

Clal Insurance Company Ltd. is an insurer, as defined in the Control of Financial Services (Insurance) Law, 1981, and is the primary material company in Clal Insurance Enterprises Holdings Group Ltd. (the "Group"). The Group also includes Clal Credit Insurance Ltd., a subsidiary of Clal Insurance Company Ltd., which is also an insurer, as well as managing companies which operate in the pension and provident segment, including Clal Pension and Provident Funds Ltd. and Atudot Pension Fund for Salaried Employees and Self-Employed Workers Ltd., which also hold an insurer's license.

This report, with respect to the aforementioned insurance, pension and provident business operations, was prepared in accordance with the Control of Insurance Business Regulations (Particulars of Report), 1998, and in accordance with the provisions specified in the Regulatory Codex of the Capital Market, Insurance and Savings Authority, Volume 5, Part 4, Chapter 1, regarding the description of the corporation's business in the periodic reports of insurance companies, which applied the aforementioned Securities Regulations, with certain adjustments as required for insurance activities, including the specification of details different from those specified in the Securities Regulations.

This report was prepared in consideration of the outline and principles which were published by the Israel Securities Authority on December 12, 2012, in legal position number 105-25, regarding the shortening of reports, according to the most current version, as updated from time to time.

In cases where this chapter in the periodic report also includes forward looking information, as defined in the Securities Law, 1968, this means that the information constitutes uncertain information about the future, which is based on the information that is available to the Group as of the publication date of the report, and includes estimates or intentions of the Group as of the publication date of the report. Actual results may differ significantly from projected results or from the results which are implied based on this information. In certain cases, sections containing forward looking information can be identified by the appearance of words such as "the Company / the Group intends" "it is expected that", etc.; however, such information may also be phrased differently. Unless noted otherwise, according to the Company's estimate, each of the regulatory directives which were published in the last year and which is described in this report, in itself, is not expected to have a significant impact on the Company's financial results.

This chapter includes a general and summary description of the long term savings products (pension, insurance and provident), insurance coverages and investment contracts. The full and binding conditions are the conditions specified in each policy and/or insurance contract and/or regulations, as applicable. The description is provided for the purpose of this report only, does not constitute advice, and may not be used to interpret the policies and/or insurance contracts and/or regulations, as applicable.

The periodic report, including all of its constituent parts, should be read as a single unit.

Part I - The Company's Activity and Description of the Development of its Business Affairs

Part II - Description and Information Regarding the Company's Operating Segments

Part III - Additional Information Regarding Branches which were not Included in the Operating Segments

Part IV - Additional Information on the Level of the Entire Company - Matters Pertaining to the Activities of the Group as a Whole

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Part I - The Company's Activity and Description of the Development of its Business Affairs

1. Introduction

1.1. Description of the Company's business affairs for the year ended December 31, 2019

This Part A provides a description of the Company's business as of December 31, 2019, and the development of its business affairs during 2019 (the "**Reporting Period**"). The report was prepared in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970, and in accordance with the provisions set forth in the Regulatory Codex of the Capital Market, Insurance and Savings Authority, Volume 5, Part 4, Chapter 1, regarding the description of the corporation's business in the periodic report of insurance companies. See the remark on this subject in the introduction to the report (page 4).

For details regarding the holdings of shares of the companies mentioned in this report, the data regarding the holdings of any company also include all of the holdings in that company through wholly-owned subsidiaries of the holding company.

The holding rates are presented in numbers rounded to the nearest whole percentage, unless specified otherwise.

The materiality of the information included in the periodic report, including the description of material transactions, was evaluated from the perspective of the Company, where in some cases, the description was expanded in order to provide a comprehensive picture of the described subject.

1.2. **Index**

For the sake of convenience, in this periodic report, the following terms will have the significance listed alongside them:

1.2.1. General

IDB Development -	IDB Development Corporation Ltd.
Stock Exchange -	The Tel Aviv Stock Exchange Ltd.
Bank Leumi -	Bank Leumi Le-Israel Ltd.
Financial Statements -	The Company's financial statements as of December 31, 2019
HaClal HaRishon -	HaClal HaRishon Ltd. (which was merged into Clal Insurance in May 2019)
The Commissioner -	The Commissioner of the Capital Markets, Insurance and Savings Authority
The Authority -	The Authority of the Capital Markets, Insurance and Savings Authority.
The Corporation or The Company -	Clal Insurance Enterprises Holdings Ltd.
Insurance Law -	The Control of Financial Services (Insurance) Law, 1981
Companies Law -	The Companies Law, 1999
Pension Advice Law -	The Control of Financial Services Law (Pension Advice, Marketing and Clearing System), 2005
Provident Funds Law -	The Control of Financial Services (Provident Funds) Law, 2005

Long Term Savings -	Life insurance, pension, provident and study funds
Clalbit Finance -	Clalbit Finance Ltd.
Clalbit Systems -	Clalbit Systems Ltd.
Clal Insurance -	Clal Insurance Company Ltd.
Clal Credit Insurance -	Clal Credit Insurance Ltd.
Clal Finance -	Clal Credit and Finance Ltd. (which was merged into Clal Insurance in May 2019)
Clal Pension and Provident Funds -	Clal Pension and Provident Funds Ltd. (formerly Meitavit Atudot Pension Fund Management Company Ltd. ("Meitavit Atudot"))
Canaf -	Canaf - Clal Financial Management Ltd.
Economic Solvency Regime -	The provisions of insurance circular 2017-1-9, "Instructions regarding the implementation of the Solvency II-based economic solvency regime for insurance companies", and related directives of the Commissioner regarding the implementation of the economic solvency regime.
Atudot Havatika -	Atudot Pension Fund for Workers & Self-Employed Workers Ltd. (formerly Shevach)
IDB Group -	IDB Development and companies under its control, and controlled by its controlling shareholder.
Clal Group or the Group -	The Company and companies under its direct and/or indirect control
NIS -	New Israeli Shekel
Investment Regulations -	The Control of Financial Services Regulations (Provident Funds) (Investment Rules Applicable to Managing Companies and Insurers), 2012
Securities Regulations -	The Securities Regulations (Periodic and Immediate Reports), 1970

1.2.2. Terms

Designated Bonds -	CPI-linked government bonds issued by the state to insurance companies (of the "HETZ" type) and to pension funds (of the "Meiron" and "Arad" type), at interest and for a predetermined period.
Managers Insurance -	A commercial name for a life insurance plan for salaried employees, which is approved as a provident fund of the insurance type.
Individual Insurance -	Insurance prepared for individual policyholders - private individuals with whom the insurance company engages on an individual basis.
Investment-Linked Insurance / Investment-Linked Contracts -	An insurance plan according to which the insurance benefits to which the beneficiary is entitled depend on the returns generated by certain investments of the insurer.
Collective Insurance -	Insurance which is prepared by a certain policyholder for a group of people with shared characteristics, such as employees of an employer, members of provident funds, or members of a corporation.
Institutional Entity -	Insurer and managing company.
Insurance Premiums / Premiums -	The amount paid by the policyholder to the insurer with respect to the insurance contract, in consideration of the insurer's undertaking to pay, upon the occurrence of the insurance event, insurance benefits to the beneficiary.
Contributions -	The amount deposited by a member in a pension fund and/or provident fund.
Fees -	The total sum of all amounts which are added to net premiums to cover the insurer's expenses.
Managing Company -	Managing company of pension fund or provident fund.
Underwriting -	The process of evaluating the risk and reaching a decision regarding whether to insure the risk, and if so in which conditions / at what cost, in accordance with the Company's guidelines and past experience.
Financial Margin -	The financial margin in guaranteed return policies is based on actual income from investments in the reporting year, less the guaranteed rate of return for the year times the average reserve for the year in the various insurance funds. The financial margin in investment-linked contracts is the total amount of fixed and variable management fees. The financial margin includes gains (losses) from investments charged to other comprehensive income, and does not include the Company's additional income charged as a percentage of the premium (such as management fees from deposits), and is calculated before deduction of investment management expenses.
Net Premiums -	Insurance premiums minus fees.
Accrual -	The total sum of amounts accrued in a pension fund and/or

	provident fund and/or insurance fund and/or individual insurance policy which are credited to their members / policyholders.
Retention -	The part of the insurance which the direct insurer keeps, and which is not covered by reinsurance.
Insurance Benefits -	Amounts which are required for payment in accordance with an insurance contract, upon the occurrence of an insurance event.
Solvency Ratio -	The ratio between recognized capital (the total capital of an insurance company, less deductions and amortization in accordance with the economic solvency regime) and the solvency capital requirement (the required capital of an insurance company in order to maintain solvency, calculated according to the provisions of the economic solvency regime).

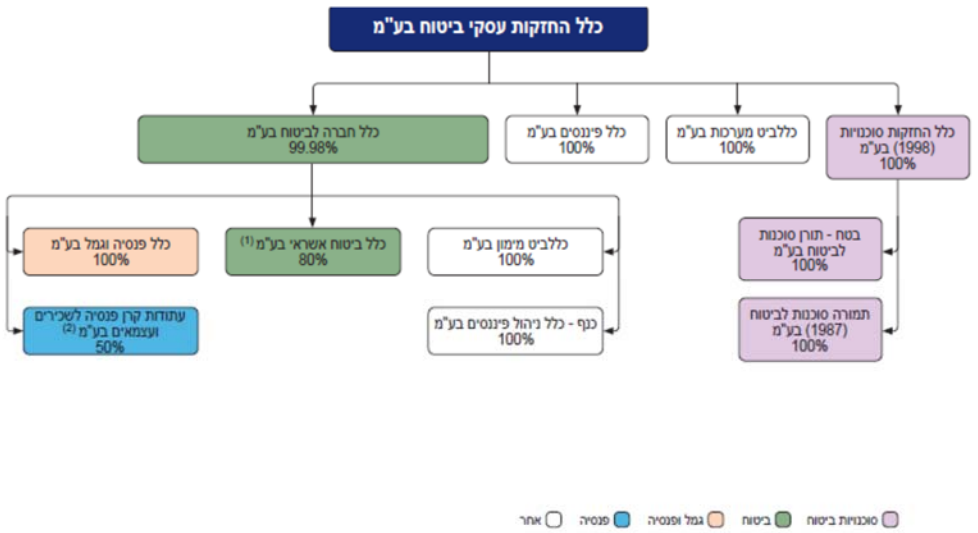
2. The Company's activity and description of the development of its business affairs

2.1. Diagram of holdings

Presented below is a diagram illustrating the structure of the Company's primary holdings[1], as of the publication date of the report:

	Clal Holdings Insurance Enterprises Ltd.				
Clal Insurance Company Ltd. 99.98%			Clal Finance Ltd. 100%	Clalbit Systems Ltd. 100%	Clal Agency Holdings (1998) Ltd. 100%
Clal Pension and Provident Funds Ltd. 100%	Clal Credit Insurance Ltd. 80%	Clalbit Finance Ltd. 100%			Betach – Thorne Insurance Agency Ltd. 100%
Atudot Pension Fund for Workers and Self-Employed Workers Ltd. (2) 50%		Canaf – Clal Financial Management Ltd. 100%			Tmurah Insurance Agency (1987) Ltd. 100%

Purple – Insurance agencies
Green – Insurance
Pink – Pension and provident funds
Blue – Pension
Black – Other



2.2. The Company's year of incorporation and form of incorporation, the Company's controlling shareholders and changes in control

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[1] Part D of the report - Additional Details Regarding the Corporation, section 6, includes details regarding all of the material companies which are held by the Company and its subsidiaries. Inactive companies were not specified.

(1) The balance of shares is held by Atradius Participation Holdings S.L., a third party which is not related to the Company.

(2) The balance of shares is held by Bituach Haklai Central Cooperative Society Ltd., a third party which is not related to the Company.

The Company was incorporated and registered in Israel on November 12, 1987. On February 28, 1988, the Company published its first prospectus, and its shares were listed for trading on the stock exchange.

On December 8, 2019, the Company received a letter from the Commissioner (the "**Commissioner's Letter**"), in which the Commissioner announced, inter alia, that in light of the changes which have occurred in IDB Development's holding rate in the Company, the Commissioner evaluated the issue of the control of the Company. In accordance with the Commissioner's letter, as part of the aforementioned evaluation, the positions of the Ministry of Justice, the Israel Securities Authority and the Competition Authority were received as well. The findings of the aforementioned evaluation, which, according to the Authority's position, are based on the Company's representations, indicated that as of the present date, there is no entity which holds (directly or indirectly) the Company's means of control, in a manner which would create an obligation to obtain a permit for the control of the Company in accordance with section 32(b) of the Insurance Law, and therefore, the Company is required to receive a permit for the control of Clal Insurance from the Commissioner.

Accordingly, IDB Development is no longer considered the Company's controlling shareholder, for the purpose of the provisions of the Companies Law, the provisions of the Securities Law, 1968, and the provisions of the Law to Promote Competition and Reduce Concentration, 2013 (the "**Concentration Law**").

As of the publication date of the report (and following a share issuance which was performed by the Company in December 2019), the Company's main shareholders, to the best of its knowledge, are: IDB Development, which holds, directly and through a trustee, a total of approximately 8.51% of the Company's issued capital (approximately 8.49% fully diluted), including approximately 3.51% through the trustee and approximately 5% directly.

IDB Development also engaged in swap transactions which, as of the publication date of the report, amounted to a rate of approximately 7.1%. Additional material shareholders in the Company who received a permit for holding the Company's means of control are Mr. Moshe Arkin (6.8%), and Phoenix Group (6.38%).

For additional details regarding the changes in the control of the Company, see Notes 1(a) and 1(b) to the financial statements.

2.3. Description of the Company's business affairs and the general development of the Company's business affairs

The Company is a holding company which is primarily engaged in the insurance, pension, provident and finance segments, and in the holding of similar assets and businesses (such as the holding of insurance agencies), and as of the reporting year, the Group is one of the largest insurance and finance groups in Israel. During the reporting year, the Group's activities were focused primarily on three operating segments (see diagram in section 2.1 above): long term savings, non-life insurance and health insurance.

Insurance activity

The Group's activities in the insurance segment are generally performed in Israel. The insurance activities are performed by Clal Insurance, excluding credit insurance business operations, which are performed through Clal Credit Insurance.

Clal Insurance began operating in Israel in 1962, as a government insurance company under the name "Yovel Israel Insurance Company Ltd." (hereinafter: "**Yovel**").

In 1978, Yovel was acquired by Clal (Israel) Ltd., and its name was changed to Clal Insurance Company Ltd. Over the years, Clal Insurance acquired and merged various insurance companies, including Ararat Insurance Company Ltd., Elite Insurance Company Ltd., Eitan Insurance Company Ltd., and Aryeh Israeli Insurance Company Ltd., and also acquired insurance portfolios in Israel. In 1992, Clal Insurance acquired a part of the insurance portfolio of the insurance company "HaSneh", as well as the insurance portfolio of the insurance company "Tzur Shamir". Subsequently, insurance companies which had been acquired by Clal Insurance were merged into it, including Ararat, Elite, Eitan and Aryeh. The aforementioned acquisitions and mergers contributed to Clal Insurance becoming one of the largest insurance groups in Israel.

In 1998, Clal Insurance acquired the Israeli Clal Insurance Company Ltd., whose name was changed to Clal Credit Insurance Ltd. For additional details regarding the shareholders agreement in Clal Credit Insurance, see section 10.17.3 below.

Beginning in 2006, the Group's health insurance and long-term care insurance activity was concentrated in Clal Health Insurance Company Ltd. ("**Clal Health**"). In March 2013, the merger of Clal Health with and into Clal Insurance was completed, in a manner whereby all of the assets and liabilities of Clal Health were transferred to Clal Insurance, and Clal Health was dissolved without liquidation.

Pension and provident funds

In the long term savings segment, in the pension and provident branches, the Group operates through Clal Pension and Provident Funds, and holds a managing company of an old pension fund which manages an old actuarially balanced pension fund, through Atudot Havatika, which is held by Clal Insurance and Bituach Haklai Central Cooperative Society Ltd., in equal parts.

The development of Clal Pension and Provident Funds is described below:

In 2004, Clal Insurance acquired Meitavit Pension Fund Management Company Ltd. (hereinafter: "**Meitavit**"), a company specializing in the management of new pension funds, and in 2006, merged it with Atudot Pension Fund (1996) Ltd., and changed its name to Meitavit Atudot.

In 2007, provident funds of Israel Discount Bank Ltd. and provident funds of Bank Hapoalim Ltd., which were partly held jointly with KGM Central Provident Fund of the Histadrut Employees Ltd., were acquired by the Group.

In 2010, the activity of Clal Provident Funds Ltd. was merged into Meitavit Atudot, whose name was changed, following the merger, to Clal Pension and Provident Funds. Clal Pension and Provident Funds became, following the merger, a managing company of provident funds for annuities and provident funds for savings, as well as capital based provident funds, with respect to amounts which were deposited in them until 2008, study funds, central funds for severance pay and sick pay, provident fund for investment, and central provident fund for participation in budgetary pension.

With respect to Atudot Havatika - in 2007, the management of Atudot Havatika was transferred from S.B.H. Pension Fund Management Ltd. (50% of which was acquired by Clal Insurance in 2005) to Atudot Havatika. Atudot Havatika is currently held by Clal Insurance and Bituach Haklai Central Cooperative Society Ltd., in equal parts. Atudot Havatika received, during the reporting year, investment management services from Canaf.

2.4. Material changes in the Company's macro-economic environment during the reporting year

For details regarding material changes in the Company's macro-economic environment during the reporting year, see Part B of the Report - Board of Directors' Report, section 2.

2.5. Material changes in the Company's business affairs during the reporting year and until the publication date of the report

Presented below is a description of the material changes which occurred in the Company's business affairs during the reporting year and until the publication date of the report, by operating segments:

2.5.1. General

2.5.1.1. Changes in the control of the Company

For details regarding changes in the control of the Company, and its conversion into a company without a control core, see section 2.2 above, and Notes 1(a) and 1(b) to the financial statements.

2.5.1.2. Rating

For details regarding the rating of Clal Insurance and Clalbit Finance, see Note 25(d) to the financial statements.

2.5.1.3. Low interest rate environment and its effects

For details regarding changes in insurance reserves in a low interest rate environment, and its impact of the discount rates in life insurance and in the long-term care branch, see Note 39(e)(e1)(d) to the financial statements. For details regarding the National Insurance Regulations (Discounting), 1978, and their effects, see section 7.1.1.1(d)(2) and Note 39(e)(e2)(4)(f) to the financial statements.

2.5.1.4. Capital regime

In accordance with the Commissioner's directives, during the reporting year, the insurance companies in the Group calculated the economic solvency ratio as of December 31, 2018, and June 30, 2019, and are expected to calculate the economic solvency ratio as of December 31, 2019, and to publish by August 2020.For details regarding the results of the calculations which were published during the reporting year, see Note 16(e)(2) to the financial statements and Part B of the Report - Board of Directors' Report, section 3.2.3.

For details regarding the capital target which was determined by the Board of Directors of Clal Insurance on March 26, 2020, see Note 16(e)(7) to the Company's financial statements.

For details regarding the Commissioner's publications from March 2020, regarding the outline for implementing the provisions of Solvency II in the European framework, and regarding a draft amendment to the consolidated circular concerning the instructions for implementing the Solvency II-based economic solvency regime for insurance companies, see section 10.2.3 below and Note 16(e)(6) to the Company's financial statements.

2.5.1.5. Equity transactions

During the reporting year, the Group performed several material equity transactions, as specified below, which were mostly intended to strengthen the capital of Clal Insurance under the required economic solvency regime, in accordance with the regulatory directives, to allow flexibility in the management of its capital structure, and to finance the Company's operating activities, as determined by the Company from time to time, and in accordance with guidelines issued by the Company's Board of Directors.

Publication of shelf prospectuses

- On August 29, 2019, the Company published a shelf prospectus which allows it, inter alia, to issue ordinary company shares, preferred shares, bonds, bonds convertible into ordinary shares, warrants exercisable into ordinary shares and warrants exercisable into bonds or into bonds exercisable into ordinary shares, and marketable securities.

- On August 29, 2019, Clalbit Finance published a shelf prospectus which allows it, inter alia, to issue bonds, warrants exercisable into bonds, and marketable securities.

Issuance of Company shares

On December 19, 2019, the Company issued 12,066,000 shares with a par value of NIS 1 each, as part of a public offering in accordance with the Company's shelf offering report dated December 15, 2019, which was published by virtue of the shelf prospectus dated August 29, 2019. The gross issuance consideration amounted to a total of approximately NIS 650 million.

For details regarding the Company's use of the issuance consideration, see Part D of the Report - Additional Details Regarding the Corporation, section 5.

Issuance of bonds in Clalbit Finance

On September 24, 2019, Clalbit Finance raised a total of NIS 830 million par value of bonds (Series K), as part of an issuance in accordance with a shelf offering report of Clalbit Finance dated September 19, 2019, which was published by virtue of a shelf prospectus dated August 29, 2019. The issuance consideration was deposited in Clal Insurance and recognized as Tier 2 capital of Clal Insurance, subject to the quantitative regulatory restrictions.

Exchange of bonds in Clalbit Finance

In December 2019, Clalbit Finance acquired, in accordance with a shelf offering report which was published by virtue of the shelf prospectus dated August 29, 2019, which also constitutes a full exchange offer specification, from the bondholders (Series C) of Clalbit Finance, 697,984,637 par value of bonds (Series C), in exchange for the issuance of NIS 806,172,256 par value of bonds (Series K), by way of a series extension, for the purpose of extending the liabilities of Clal Insurance. The terms of the additional bonds which were issued, as stated above, are identical to the terms of the currently outstanding bonds, and are recognized as Tier 2 capital of Clal Insurance, subject to the quantitative regulatory restrictions.

2.5.1.6. Events after the balance sheet date

In accordance with the instructions issued by the regulatory entities, for details regarding reports by corporations concerning the impact of the coronavirus pandemic, see the description of events after the balance sheet date, in Notes 1(d) and 43(k) to the financial statements, and Part B of the Report - Board of Directors' Report, section 3.1.

2.5.2. Regulatory reforms

During the reporting year, the Company continued dealing with the consequences of significant regulatory reforms in the various insurance and savings branches, which have been promoted in recent years, mostly reforms which are intended to directly or indirectly reduce insurance premiums and management fees, or to encourage competition. Worthy of note, inter alia, was the establishment of a default pension fund by the Commissioner as a means of reducing management fees, the intervention in the terms and tariffs of loss of working capacity and life insurance risk products, the significant change to the tariffs of compulsory motor insurance, the changes to the terms and tariffs of health products, through an effective reduction of the maximum limit for approved tariffs and with respect to the coverage part, without determining in advance the update mechanism for tariffs, during the insurance period, changing the claim settlement method and including it in some products. The regulatory intervention is creating in the engagement structure and in the reciprocal relationships between institutional entities, agents, employers and customers, in a manner which affects, and may continue to affect, the ability of institutional entities to link their income to their expenses, impose on them significant operating expenses, and reduce its profitability. The application of some of the reforms continued or began during the reporting period, while others are expected to be applied in the future and/or are in various stages of regulatory process or discussion. At this stage, it is not possible to estimate the full impact of the steps which are being implemented in the insurance and pension market in Israel. The entire set of applied and proposed changes, the intervention in tariffs and in management fees, the sale processes, the operational burden due to the pace, scope and complexity of the regulatory changes, and the need to implement adjustments to the automation systems and work processes, have implications on the business model in the branch, and currently affect and will continue to affect the insurance market in Israel in the coming years, and the profitability thereof, including, inter alia, the value of new business (VNB) which will be sold, the embedded value with respect to the Company's business operations, and the solvency ratio in accordance with the economic solvency regime which was applied during the year preceding the reporting year.

The information presented on all matters associated with the regulatory changes constitutes forward looking information, which is based on assumptions and estimates made by the Group as of the publication date of the report. These changes, and the actual implications thereof, may differ from the forecast, including, inter alia, in light of the uncertainty involving their occurrence, and involving all of their implications, which are dependent, inter alia, on the conduct of distributing entities, distributing entities and policyholders, and on the reciprocal relationship between the various reforms.

2.5.3. Long term savings segment

2.5.3.1. Reforms in the segment

In recent years, the Authority has promoted regulatory reforms in the long-term savings segment. For details regarding the aforementioned reforms, see section 6.2 below. As part of the above, the Company prepared for the implementation, during the reporting year, of significant reforms, including, inter alia, with respect to the clearing house activity and the operational interface between employers and institutional entities on all matters associated with deposits to provident funds (in accordance with the provisions of the circular the provisions of the circular regarding the payment deposit method to provident funds) (see section 6.2.1(d) below); The Company's activity in the long-term savings segment was also affected by reforms that have been implemented in recent years, including the operation of select pension funds (see section 6.2.1(a) below), transferring while joining in pension plans (see section 6.2.1(b) below); changes to the compensation structure of agents following the legislative amendments involving the payment of commissions without linkage to the management fees which are collected from customers (see section 10.8.1.1 below), non-payment of commissions to license holders with respect to pension products regarding which a pension marketing process was not performed (see section 10.8.1.1 below), and the launch of the pension fund umbrella in accordance with the circular "guidelines with respect to loss of working capacity insurance plan" (see section 6.2.1(f)(1) below).

2.5.3.2. Upgrade of automation systems in long term savings

In recent years and during the reporting year, the Company worked on upgrading the automation systems in the long-term savings segment, and particularly on improving and upgrading the core systems in Clal Insurance's life insurance segment. The continued upgrade of the systems involves significant investment, further to the significant investments which the Company has already made in the automation of the long term savings systems in recent years. Among other steps, a feasibility evaluation was conducted during the reporting year, which regarding the conversion of one of the life insurance systems into an automation system which currently serves the health systems in Clal Insurance, while making the required adjustments, in order to reduce redundancies in the segment's core systems. The Company is continuing to evaluate various considerations associated with the commencement of these projects, which will be presented for discussion in the future.

2.5.3.3. New tariffs for life insurance products in case of death (risks)

In February 2019, the Authority approved new tariffs for life insurance products in case of death (risks) of insurance companies in Israel, including a reduction of dozens of percent in the tariffs of risk products which will be sold from that date onwards. The Authority also determined that the insurance companies are required to apply a mechanism for the repayment of commissions by insurance agents, such that the cancellation of the policies in the first years after their purchase will lead to the progressive repayment of commissions which will be paid by insurance companies to agents. This mechanism may lead to increased retention in the risk insurance portfolio. In light of the sale tariffs of risk products (after discounts), according to the standard practice in the market after the approval of new tariffs, as stated above, the competitive conditions in the market, and the differences in tariffs for different age groups, the Company's income from sales of risk products decreased significantly. In light of the preliminary phase of the change, the Company is unable to estimate, at this stage, the full implications of the aforementioned change in tariffs on the sale of risk products, including on the sales volume, the actual tariffs at which they will be sold (after discounts), and the commissions which will be paid for them.

Within the framework of the approval of risk tariffs and as of the publication date of the report, tariffs were not approved for the Company (and, to the best of its knowledge, nor for other companies) for the sale of risk coverages in managers' insurance policies. Due to the above, the insurance companies discontinued marketing risk coverages as part of managers' insurance policies. The absence of approved tariffs for the sale of risk coverages in managers' insurance policies resulted in a significant decline in the sale of managers' insurance, and as a result, also resulted in a decline in sales of loss of working capacity coverage sold through managers insurance, and resulted in a certain increase in the sales of other pension products, mostly pension products, including pension funds managed by Clal Pension and Provident Funds, albeit at a scope which does not constitute a decline in the sales volume of the managers' insurance products of Clal Insurance. As of the present date, the Company does not know if and when approval will be given for tariffs with respect to the sale of risk coverages within the framework of managers' insurance policies, whether any such tariffs apply, and accordingly, it is unable to estimate the implications of those tariffs, if and insofar as they will be approved.

For additional details, see section 6.1.4.1 below.

2.5.3.4. Update to mortality tables

In November 2019, the Authority published a circular entitled "amendment to the provisions of the consolidated circular: update to the series of demographic assumptions in life insurance, and update to the mortality improvement model for insurance companies and pension funds", to which an position paper on the subject was attached, which updated the demographic assumptions underlying the estimates regarding annuity factors on the date of retirement in life insurance policies and in pension funds, including mortality tables which are based, inter alia, on data regarding retirees which were collected by the Authority from the insurance companies, and which also includes recommendations regarding the forecasting of future rates of improvement in mortality. The circular addresses different population groups separately, and predicts, for some groups, an extension of life expectancy. For details regarding the consequences of the mortality tables circular, see Note 39(e)(e1)(d)(2) to the financial statements. For details regarding the Company's sensitivity to changes in mortality rates, see Note 39(e)(e1)(c) to the financial statements.

2.5.4. Non-life insurance segment

2.5.4.1. Reforms in the individual insurance segment

The reporting year featured significant competition in the individual insurance segment (motor and apartment), which resulted in segment-wide price declines. For additional details, see section 7.2.3 below.

2.5.4.2. Reforms in the motor insurance segment

During the years preceding the reporting year, the Authority promoted several significant reforms in the non-life insurance segment. In the compulsory motor insurance branch, a reform was implemented in which the compulsory motor insurance tariffs were updated, the effects of which began in 2016, and continued during the reporting year as well. For additional details, see section 7.1.1.1(c)(1) below.

Additionally, according to a legislative amendment from March 2018, changes were made to the mechanism for settling accounts between the National Insurance Institute and the insurance companies, regarding the method for settling accounts between the insurance companies and the National Insurance Institute, and regarding the National Insurance Institute's subrogation rights towards the insurance companies, in claims by virtue of compulsory motor policies; however, it was determined that the foregoing legislative amendment will enter into effect only after the publication of regulations on the subject, which have not yet been published. For additional details, see section 7.1.1.1(d)(1) below.

2.5.4.3. Discount rate for tort claims

Further to the **Amendment to the National Insurance Regulations (Discounting), 1978**, which regulate, inter alia, the discount rate used to calculate subrogation claims submitted by National Insurance towards third parties, according to which, beginning in October 2017, the interest rate for the purpose of annual discounting of annuities will be 2%, instead of 3%, as specified in the Regulations prior to the amendment, and further to the Court's rulings, which addressed the indirect effects of the aforementioned amendment on the discount interest rate which should be used to calculate compensation with respect to future losses, even if not within the framework of subrogation claims of the National Insurance Institute, in compulsory and liabilities insurance, in June 2019, a report of the Inter-Ministerial Committee for Evaluation of the Discount Rate (hereinafter: "**Committee's Report**") was filed with the Supreme Court (as part of a specific case being heard by the Court), in which it was proposed to establish one average interest rate for the entire compensation period, at a rate of 3%, reflecting a low risk investment. It is also proposed to establish a "mobility band" around that interest rate, where any deviations therefrom are expected to activate an update mechanism. In August 2019, the Supreme Court accepted the committee's recommendations in a ruling. The Court also determined that during the interim period, until the amendment to the Discounting Regulations, in accordance with the committee's recommendations, the insurers' consent to deduct National Insurance Institute compensation from insurance benefits for policyholders, according to a discount rate of 3%, will remain in effect. However, it was determined that in light of the harm caused to the injuring parties, it is presumed that, until the amendment to the Discounting Regulations, National Insurance will also have recourse to the injuring party, through a demand according to a discount rate of 3%. A motion to conduct an additional hearing, which has not yet taken place, was filed with respect to the ruling in September 2019.

For the impact of the ruling on the Company's financial results during the reporting year, see Note 39(e)(e2)(4)(f) to the financial statements. At this stage, before the Supreme Court has determined regarding the motion for an additional hearing on the subject of the discount rate for tort damages, and before the legislator has decided regarding the Discounting Regulations, in light of the gap which was created, as stated above, and in light of the update mechanism and the uncertainty regarding the possible methods for evaluating the deviation from the mobility band, which will affect the Company's liabilities, and in consideration of the developments in the interest rate environment after the balance sheet date, as specified in Note 43(a) to the financial statements, it is not possible to predict the impact of insurance liabilities on the insurance tariffs. For additional details, see section 7.1.1.1.(d)(2) below.

2.5.5. Health insurance segment

Reforms in the segment

During the reporting year, regulatory changes entered into effect regarding claim settlement in long-term care insurance, including, inter alia, restrictions in cases where the policyholder can be referred for the performance of functional assessment, and in cases where investigations can be conducted, as well as the method for conducting them. For additional details, see section 8.1.2.2 below.

Additionally, further to that stated in section 8.1.3.2 below, regarding Clal Insurance's decision to reduce the sales of individual long-term care insurance, in order to reduce the exposure to that segment, which is exposed to significant risks, including exposure to regulatory changes, significant gaps between the terms of insurance coverage and the expectations of policyholders, and complex claim settlement processes, Clal Insurance decided, in October 2019, to discontinue the marketing of the individual long-term care policies in Clal Insurance to new customers, inter alia, in light of the announcement of reinsurers regarding the discontinuation of their activity in the in the field segment in Israel. In light of the foregoing, as of the reporting date, due to the combination of regulatory directives from recent years, market conditions, and business considerations, Clal Insurance discontinued its marketing of long-term care policies, including collective long-term care policies, among them collective long-term care policies for health fund members. For additional details, see section 8.1.2.2 below.

2.5.6. Additional regulatory changes in the Company's operating segments

For details regarding additional material regulatory changes which affected the Company's business affairs during the reporting year, see the operating segments and section 10.2 below.

3. Operating segments

The Group has three main operating segments, as specified below:

3.1. Long term savings segment (see section 6 below)

This segment includes the Group's activities in the life insurance branch, the pension funds branch and the provident funds branch.

The issue of pension security in Israel is comprised of three main layers: **Compulsory layer managed by the state** - National Insurance; **Compulsory layer managed by the institutional entities** - Beginning in 2008, within the framework of the compulsory pension for salaried employees with respect to compensation and severance pay, which are deposited with institutional entities (and beginning in 2017, also compulsory pension for the self-employed (see section 6.1.4 below)); **And the optional layer** - pension savings beyond the compulsory later, which is managed by institutional entities, as well as individual savings channels.

The products in the segment primarily provide savings products for the retirement period (the "**Savings**"). Additionally, most of the products in the segment combine, or can combine, insurance coverages for various risks, including insurance coverage for cases of death, disability, loss of working capacity and critical illness (the "**Risk**"). (See section 6.1 below.)

The activities in the life insurance branch were performed during the reporting year through Clal Insurance. The activities in the pension and provident branches were performed during the reporting year through the holdings of Clal Insurance in the following companies:

Clal Pension and Provident Funds - a wholly owned subsidiary (100%) of Clal Insurance which operates, inter alia, as a managing company of provident funds for annuities (formerly annuity paying provident funds) - new pension funds (comprehensive and general) and provident funds for savings (formerly non annuity paying provident funds), and capital based provident funds, with respect to amounts which were deposited in them until 2008, study funds, central funds for severance pay and sick pay, provident fund for investment, and a central provident fund for participation in budgetary pension.

Atudot Havatika - A subsidiary of Clal Insurance, which is owned 50%, which manages an old balanced pension fund (Atudot pension fund).

3.2. **Non-life insurance segment (see section 7 below).**

This segment includes the Company's activities in the non-life insurance branches and in the personal accidents insurance branch (up to one year), which are recorded under non-life insurance business operations.

Non-life insurance is divided into the property insurance branches, the liabilities insurance branches, accident, illness and disability insurance, and other branches, which include insurance policies of various types.

Property insurance - Including coverage with respect to loss or physical damage which was caused to the policyholder's property, as a result of the materialization of the risks specified in the policy, within the framework of the "specific risks" specified in the policy, or within the framework of "all risks" (coverage against any sudden accidental and unexpected loss or damage, excluding damage or loss which has been expressly excluded).

Liability insurance - Including coverage with respect to the policyholder's legal financial liability towards a third party which is not the policyholder, up to the liability limit specified in the policy.

Accident, illness and disability insurance - In which compensation is given to the policyholder with respect to injury caused to a person - death or permanent, full or partial disability, as a result of an accident and/or injury involving temporary loss of working capacity as a result of an accident or illness, as well as reimbursement of medical expenses due to the foregoing. The insurance activities in this branch include short term personal accidents insurance.

The Company's activities in this segment include the compulsory motor insurance segment, the motor property insurance branch, liabilities insurance branches and other property and others insurance branches.

The activities in the credit and foreign trade risks insurance branch were performed during the reporting year through Clal Credit Insurance, a subsidiary controlled 80% by Clal Insurance.

3.3. **Health insurance segment (see section 8 below).**

This segment includes the Group's activities in health insurance, in the illness and hospitalization branch (which includes, inter alia, illness and hospitalization, and international travel insurance), and the long-term care branch. This segment includes insurance plans designed for individual policyholders, and insurance plans designed for collectives.

Most of the Group's activities in this segment are concentrated in the health division of Clal Insurance. Additional health coverages (riders) were sold at a limited scope during the reporting year within the framework of the life insurance division, and were included under the long term savings segment - see section 6 below, and as short term personal accidents policies under the non-life insurance segment - see section 7 below.

4. **Investments in the Company's capital and shares**

4.1. Investments in the Company's capital which were performed during the last two years and until the publication date of the report

During the reporting year, an issuance of 12,066,000 Company shares with a par value of NIS 1 each was performed, as part of a public offering - for details, see section 2.5.1.5 above.

Except for the aforementioned issuance, during the last two years, until the publication date of the report, no investments were made in the Company's capital, excluding exercise of options.

4.2. Details of material over the counter transactions which were performed by interested parties in the Company with respect to the Company's shares in the last two years[2]

For details regarding the sale of the Company's control shares which were held by the trustee, which took place in 2018, 2019 and 2020, until the publication date of the report, in accordance with the Commissioner's demand sell the Company's shares in accordance with the outline for the sale of the control of the Company, including within the framework of swap transactions which were performed by IDB Development, and the release thereof, see Note 1(b) to the financial statements.

To the best of the Company's knowledge, on May 2, 2019, IDB Development engaged in agreements with two third parties which are unrelated to IDB Development (the "Buyers"), according to which each of the buyers will acquire Company shares in the Company 4.99% of its issued capital. One of the buyers was also given the option to acquire additional shares which constitute approximately 3% of the Company's issued capital. Additionally, IDB Development engaged in an agreement with a third buyer, which is unrelated to IDB Development, and which will acquire the shares through a special purpose company, according to which it will receive from IDB Development an option to acquire shares which constitute up to approximately 4.99% of the Company's issued capital. To the best of the Company's knowledge, all of the transactions have been closed, and as of the present date, one of the buyers (Moshe Arkin) has become an interested party in the Company.

It is noted that, during the reporting year, an issuance of 12,066,000 Company shares with a par value of NIS 1 each. IN the public offering, shares of the Company were purchased, inter alia, by its interested parties.

5. Dividend distribution

_______In the last two years, until the publication date of the Company's report, the Company did not distribute any dividends.

Dividend distributions in the Company are significantly affected the ability of investees to distribute dividends, including in light of the capital requirements which apply to them.

For details regarding restrictions on dividend distributions by virtue of the regulatory capital requirements which apply to member companies in the Group, and by virtue of the Commissioner's directives and the Company's fulfillment thereof, see Note 16 to the financial statements.

As of the reporting date, the balance of distributable earnings, as defined in section 302 of the Companies Law, amounted to a total of approximately NIS 2.6 million. It is hereby clarified that the aforementioned balance does not constitute an indication of the Company's ability to distribute earnings in the future

For additional details regarding the management of the Company's capital requirements, regarding the capital target which was determined by Clal Insurance, and regarding the Commissioner's publications from March 2020, on the subject of the outline for implementing the provisions of Solvency II according to the European framework, and regarding the draft amendment to the consolidated circular with respect to the instructions for implementing the Solvency II-based economic solvency regime for insurance companies, see Note 16 to the Company's financial statements.

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[2] For details regarding sales and acquisitions on the stock exchange which involved the Company's shares by interested parties, see the Company's current reports on the matter.

Part II - Description and Information Regarding the Company's Operating Segments

6. Long term savings segment

6.1. Products and services

6.1.1. Description of the operating segments and insurance coverages

The products in the segment mostly constitute savings products for salaried employees and the self-employed, private savings products, coverage in case of death, coverage in case of disability, coverage in case of loss of income due to loss of working capacity, and coverage in case of illness or accident which results in the policyholder losing their working capacity.

Life insurance products

Life insurance products constitute contractual commitments between the insurer and the policyholder, and include insurance plans which allow the accrual of savings, for different time periods, and insurance plans and/or combinations in insurance plans which allow insurance coverages for death, loss of working capacity, disability and long life (old age annuity).

A policyholder who has reached the end of the insurance period is entitled to insurance benefits (generally, the amounts which have accrued in the savings component of the policy), in accordance with the policy terms. The policyholder may choose to receive these amounts, subject to the provisions of the legislative arrangement, in a one-time amount ("**Capital Payment**"), in lifetime payout installments ("**Annuity**"), or as a combination of the two. In some annuity products, the policyholder benefits from an annuity factor which is protected against extended life expectancy, and which is determined on the acquisition date of the policy, or on the commencement date of the payment of the annuity to the policyholder, or which can be acquired once the policyholder reaches at least age 60.

Pension funds

Pension funds constitute a mutual insurance fund, and operate in accordance with regulations which may change from time to time. A pension fund member is entitled to receive, beginning on the retirement date, lifetime annuity payments, which are based on annuity factors which do not guarantee life expectancy, and the annuity may change from time to time, in accordance with the actuarial balance of the fund.

Since 1995, new members are able to join two types of new pension funds: (a) comprehensive pension funds, which allow pension savings for old age annuity purposes, as well as death and disability insurance coverages. The comprehensive pension funds partially benefit from designated bonds, and deposits can be made to them up to the maximum limit set forth in law (see details in section 6.1.1.1 below); and (b) general (supplementary) pension funds, which do not benefit from designated bonds, and which are not subject to a maximum deposit limit. The general pension funds allow pension savings for the purpose of the old age annuity, and also allow the purchase of death and disability insurance coverage.

Provident funds

Provident funds provide savings solutions for the long term (such as provident funds for compensation and severance pay, and provident funds for savings), medium term (study funds) and savings for individual funds with independent status, which may continue as a one-time payment or as an annuity (provident funds for investment). Such funds do not generally have insurance coverage. A member is entitled to withdraw the amounts which have accrued in their favor in the provident funds for compensation and severance pay, and in provident funds for savings, as a one-time amount or as an annuity, in accordance with the period during which they deposited them. Monies which have accrued in favor of a member in study funds are withdrawn in a one-time payment. For additional details, see section 6.1.1.1 below.

Monies held in a provident fund for investment may be withdrawn as a one-time amount at any time, without tax benefits in the deposit, while paying capital gains tax only. Amounts which will be deposited in a provident fund for investment and withdrawn as an annuity during the retirement period (according to the rules for recognized annuities) will be exempt from capital gains tax and from income tax. The total payments which a member will be entitled to deposit in a provident fund for investment will not exceed NIS 70,000 per year.[3]

The provident fund branch also includes central provident funds, in which the member is the employer, where the deposited funds are intended to ensure the rights of its eligible employees. [4] Beginning in 2011, it is no longer possible to deposit funds in central provident funds for severance pay; however, funds may be transferred between central funds for severance pay. The income tax circular regarding "accrued balances in central funds for severance pay" (from June 2017) includes provisions regarding the transfer of funds which have accrued in central funds to the employer, to the severance pay component in personal provident funds of all of the employer's employees, and provisions which are intended to incentivize the transfer of funds into personal funds, as stated above.

The provisions of the circular regarding accrued balances in central severance pay funds resulted in increased withdrawals from central severance pay funds. For details regarding the scope of managed assets in central provident funds which are managed by the Group, see Part B of the Report - Board of Directors' Report, section 3.2.1. The total management fees which are collected by Clal Pension and Provident Funds from the central funds for severance pay are of a scope which is immaterial for the Company.

6.1.1.1. Presented below are the main distinctions between the current main products:[5]

	Life insurance	New comprehensive pension funds	Provident funds
Engagement type	A **contractual undertaking** between the insurer and the policyholder. The undertaking cannot be changed other than in accordance with the provisions the policy.	The member is a member of a fund, which are operated and managed by the managing companies, in accordance with the provisions of **their regulations**. The regulations may change from time to time, and in general, the member's rights and obligations are determined according to the regulations which are in effect as of the eligibility date.	
Insurance coverage[6]	The insurance coverage can be adjusted to the customer's needs. [7]	The insurance coverage is included in the provisions of the regulations, and can be adjusted as part of the options set forth therein, and additionally, supplementary insurance coverage can be acquired from the insurer.	The basic version does not include insurance coverage; however, the acquisition of insurance coverage from the insurer is possible.[8]
Annuity factor[9]	In all annuity-based policies which include a guaranteed	The annuity factor is not protected against changes in life	No underlying factor

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[3] Linked to the known CPI on July 1, 2016.

[4] The central provident funds are primarily central provident funds for severance pay.

[5] In provident funds and pension funds, a complete separation is applied between the assets of the managing company and its liabilities, and the assets of members which have accrued in the provident funds and pension funds, and the assets of members which are not included in the financial statements of the managing company.

[6] Under the Control of Financial Services Regulations (Provident Funds) (insurance coverages in provident funds), 2012, it is currently possible to acquire from an insurer, within the framework of and out of the pension deposits, insurance coverage to cover risks of death, risks of disability, and insurance coverage for release from the payment of premiums in case of disability, to members of pension funds, provident funds and insurance.

[7] For details regarding the absence of approved tariffs for the sale of insurance coverage in case of death (risk) in managers' insurance policies, see section 6.1.4.1 below.

[8] As of the reporting date, Clal Pension and Provident Funds does not market to active members of provident funds which are managed by it, the aforementioned insurance coverages.

[9] In new pension funds and annuity-based policies in life insurance, upon the withdrawal of funds by the member through an annuity, the savings amount is converted into a monthly annuity through division by a factor reflecting life expectancy (hereinafter: the "**Annuity Factor**"). In the pension funds and in collective life insurance policies which

	Life insurance	New comprehensive pension funds	Provident funds
	annuity factor, the annuity factor is protected against changes in life expectancy. Beginning in 2013, it is no longer possible sell policies with annuity factors which include a life expectancy guarantee (hereinafter: "**Guaranteed Annuity Factors**"), except to policyholders aged 60 or older.	expectancy, and may change until the retirement date. After retirement, the annuity factor does not change; however, the annuity may change from time to time, in accordance with the actuarial balance of the principal.	
Mutual insurance	None	A mutual insurance fund. The members' rights are affected, inter alia, by demographic data of all members in the fund, such as health condition and life expectancy. The actuarial assumptions are evaluated from time to time and affect the rights of all members and annuity recipients in the pension fund, which may change accordingly.	None
Designated bonds	For details regarding HETZ bonds in guaranteed return policies which were issued by the end of 1990 only, see section 6.1.1.2 below.	Designated bonds at a rate of 30% of the total assets in the fund, which are associated, at various rates, to annuity recipients and to members of different ages. See details in section 6.1.1.2 below.	None[10]
Management fees[11]	The rate of accrual and of the deposits[12], for details regarding the scope of collected management fees, see Note 30 to the financial statements.	Rate of accrual and of deposits[13], see details in section 6.1.2.2 below.	
Beneficiaries[14]	Beneficiaries who are defined by the policyholder, in his discretion.	As specified in the regulations - mostly survivors.	Beneficiaries who are defined by the member, in his discretion.
Regulatory restriction on the deposit amount[15]	No restriction.	Up to 20.5% of twice the average salary in the economy.	No restriction.

For a description of the products in the segment, see section 6.1.2 below.

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do not include a life expectancy guaranteed annuity factor, the annuity factor is determined proximate to the date when the annuity begins to be received.

[10] Excluding a limited number of guaranteed return provident funds backed by Accountant General deposits.

[11] The above includes the possible regulatory management fees in currently sold products, and does not include management fees and expenses of various kinds which are collected in all or some of the products, for example, with respect to variable management fees, investment management expenses, policy factor or collection factor, etc.

[12] In traditional guaranteed-return policies, there are no management fees, and the Company's revenues come from the financial margin. In traditional policies and in policies of the "Preferred" (Meitav) type, there are no management fees as a rate of the deposits.

[13] Study funds do not include management fees as a rate of deposits.

[14] Subject to the provisions of the law, survivors' rights are possible with respect to the severance pay component in the policy.

[15] Does not include reference to restrictions according to the terms of the products. Additionally, all of the pension products include a tax benefit up to the maximum limit set forth in the Income Tax Ordinance.

6.1.1.2. Pension savings products differ from one another also in the way in which savings funds are invested.

Some of the savings funds are invested in the free market, while others are backed by government bonds, in accordance with legislation, as specified below:

- **Life insurance**

In policies which were sold until the end of 1990, returns for policyholders in life insurance policies with a savings component were determined as a guaranteed rate or represented in a guaranteed insurance amount ("**Guaranteed Return Policies**"). The guaranteed returns changed according to the policy type and the policy issuance date. The commitment to guaranteed returns is mostly backed by designated bonds. The balance of assets is invested in accordance with the Investment Regulations (the "**Free Assets**").

As of December 31, 2019, the holding of the designated bonds constitutes approximately 75% of total assets held against liabilities with respect to guaranteed return policies. Over the years, the Group has redeemed some of the designated bonds, with the aim of achieving surplus returns, and it cannot repurchase designated bonds with respect to the part of the reserves which it redeemed. As a result, the Group's exposure in free investments has increased. In accordance with the mechanism for settling of accounts which was determined vis-à-vis the Ministry of Finance, the holding of designated bonds will be decreased over the period of the guaranteed return policies up to a rate of 50% of total assets held against liabilities with respect to guaranteed return policies.

Policies which were issued since the early 1990's primarily include investment-linked policies in which the savings funds are invested by the insurance companies in free investments, primarily in the capital market, wherein returns less expenses are applied in favor of the policyholder, in accordance with the results of the investment portfolio, and less management fees, as specified below.[16]

For details regarding the balance of insurance reserves with respect to insurance plans of the profit sharing and guaranteed return types, see Note 20 to the financial statements.

- **Pension funds**

At present, the old and new comprehensive pension funds enjoy guaranteed returns on some of the assets of the fund which are backed by designated bonds, which bear real interest at an annual rate of 4.86%[17], up to a maximum rate of 30% of the total assets. However, the rate of designated bonds relative to members in the new pension funds which, prior to January 1, 2004, were already eligible for a pension, will amount to 70% of total assets.

Additionally, the State of Israel provides "compensation" to the old balanced pension funds, with respect to the reduction of the issuance of designated bonds, which was performed over the years, by guaranteeing the difference between the interest on the old bonds (5.57%) and 4% (1.57%) with respect to the assets which are not designated bonds, and are invested in the free market, and by guaranteeing the difference between the interest on the old designated bonds of the "Meiron" type (5.57%) and the interest on the new designated bonds of the "Arad" type (4.86%), with respect to the part of the assets which are invested in new designated bonds.

_______The Ministry of Finance also designates a security cushion for the old funds, in order to protect the members and retirees of those funds against volatility in returns.

For details regarding the method for investment of free assets, see section 10.5 below.

<u>Crediting of Returns in New Comprehensive Pension Funds</u>

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[16] With respect to profit sharing policies, the annuity is linked to the investment index, after deducting management fees and nominal interest.

[17] It is noted that designated bonds which were issued until December 1, 2003 bear interest of 5.05%, CPI-linked.

In accordance with the Control of Financial Services Regulations (Provident Funds) (Crediting of Returns in New Comprehensive Pension Funds), 2016 (hereinafter: the "**Crediting of Returns Regulations**"), the method for crediting returns to members and retirees in new comprehensive pension funds (the "Designated Bond Returns"), is performed in a manner whereby designated bond returns are credited to annuity recipients according to the ratio between 60% of the total assets of annuity recipients and the total principal assets which were invested in designated bonds; whereas, for members who are not annuity recipients, the crediting of designated bond returns is done according to the balance of returns in the fund due to the investment in designated bonds, after the returns have been credited to the annuity recipients.**[18]**

The Commissioner is entitled to increase the rate of crediting designated bond returns to annuity recipients in a certain fund, if he has found that the rate of crediting designated bond returns to members who are not annuity recipients, exceeds half a percent relative to another fund, and that the aforementioned difference may disrupt the actuarial balance in the fund.

In May 2017, amendments were published to the **circular including provisions regarding the management of new funds**, to the **circular including provisions regarding the management of new general funds**, and to the **circular including provisions regarding financial reporting for new pension funds**. As part of the aforementioned amendments, changes were made, inter alia, to the mechanism for the calculation and updating of annuities which are paid from new pension funds to annuity recipients, beginning in January 2018, such that the annuities will be updated, including in accordance with the deviations between the returns which will be achieved in practice on the free investments, and an annual rate of 3.36%, in a manner whereby the deficit with respect to members who leave will not be imposed on all of the fund's members. In light of the aforementioned change to the mechanism for the calculation and updating of annuities, the Company adjusted, in 2017, the investment policy for the various groups of annuity recipients.

The Crediting of Returns Regulations, and the allocation of the designated bonds by age groups, created variability in the method for allocating designated bonds between members which belong to the same age group in the various pension funds. These regulations may also create a preference for pension funds over other pension products, particularly beginning from the stage near retirement age, and may also create a preference for joining or transferring to certain pension funds, according to the mix of ages of the fund's members.

The impact of the aforementioned provisions is expected to intensify, including in combination with the provisions of the circular regarding the discount on management fees for annuity recipients, and the provisions regarding the reduced rate of management fees for annuity recipients. In default funds (see sections 6.1.2.3 and 6.2.1(a) below and the draft provisions regarding the possibility of mobility for old age annuity recipients (for details, see section 6.2.1(c) below). On the other hand, this trend could be moderated, due to the fact that the acceptance of members at retirement age could create a negative preference for new members to join funds in which the rate of assets associated with annuity recipients is high, relative to other pension funds, as specified above. During the reporting year, there was a certain increase in members' requests to transfer near retirement age, and the Company believes that this is a trend which could increase in the coming years.

The Company's estimate in connection with the Crediting of Returns Regulations constitutes forward looking information, which is based on the information which is available to the Company as of the reporting date. Actual results may differ from the estimated results, and depend, inter alia, on the development of competitive conditions in the market, on the conduct of competing entities, and on the reciprocal effects between the

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[18] Beginning in early 2024, for members aged 50 or older (who are not annuity recipients), the crediting of designated bond returns will be done according to the ratio of between 30% of the total accrued balances in the fund to members of this group, and the total fund assets which were invested in designated bonds; whereas, for members who are not annuity recipients, the crediting of designated bond returns is done according to the balance of returns in the fund due to the investment in designated bonds, after the returns have been credited to the annuity recipients and to members over age 50.

Crediting of Returns Regulations and other regulatory provisions, including transferring while joining pension funds, the establishment of default funds (for details, see section 6.2.1(b) and 6.2.1(a) below) and the draft amendment to the fund transfer regulations (insofar as it is approved), regarding the possibility of transferring old age annuity recipients (for details, see section 6.2.1(c) below), and the conduct of competing entities, distributing entities and the choices of members and policyholders.

- **Provident funds**

Since the mid-1980's, designated bonds[19] have not been issued for the provident funds, and the assets are invested in accordance with the restrictions specified in the Investment Regulations.

6.1.2. Details regarding the primary details included in the operating segment

Presented below is a description of the products and services which were managed by the Company during the reporting year.

6.1.2.1. Life insurance branch

(A) **General**

The Group markets insurance to the self-employed and employees, as well as individual insurance and collective insurance, as specified below.

- **Individual policies and policies for salaried employees and the self-employed**

The policies generally combine savings and insurance coverage such as risk and loss of working capacity[20]. Some of the insurance policies are intended for salaried employees and the self-employed, are approved as provident funds, receive tax benefits and constitute a part of the social security net for salaried employees and the self-employed, whereas individual policies, which include savings, are not approved as a provident fund, but receive tax benefits with respect to insurance coverage in case of death and/or loss of working capacity, which is purchased within the framework of the policies, and in certain conditions also with respect to the component of the returns which were accrued with respect to the savings.

- **Collective insurance**

The collective insurance agreement is intended to provide insurance coverage in case of death, with optional additional coverage for accident, illness and disability risks, as well as insurance coverage in case of loss of working capacity. The insurance policies do not include any savings component, for groups including over 50 policyholders which share ties, and is marketed primarily to groups of employees, and are subject to the provisions of specific regulations on the matter.

The insurance amount in collective life insurance is generally equal for all of the Group members, or is determined according to age, salary or another objective criterion, or a combination of the above. The insurance amount in collective loss of working capacity insurance was determined, inter alia, based on various indicators, including occupation, salary, age and gender.

In accordance with the legislative arrangement and/or in accordance with the terms of the collective policy, a policyholder regarding whom the collective policy has expired, is entitled, under certain predetermined conditions, to acquire a personal policy under his name, with no need for a medical underwriting process, according to the premiums which applied at the time of the transition to all policyholders at an insurer, with a similar individual policy.

The Company manages collective policies over many years.

(B) **Details regarding the main insurance plans in the life insurance segment**

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[19] Excluding a limited number of guaranteed return provident funds.

[20] See footnote 6 above.

The Group's life insurance portfolio includes several different insurance plans, in accordance with the types of products which were sold over the years. Presented below are details regarding the main products:

- **Insurance of the traditional type**

  - **Policy of the traditional combined type** - A policy which includes two components, savings and risk (death). The premium is derived from the insurance amount, the policyholder's age, the insurance period, etc., and cannot be separated and attributed to the policy components. The insurance amount is paid as a one-time amount at the end of the insurance period (generally at age 65), or in case of death before the end of the insurance period, excluding amounts which are paid at the end of the insurance period, which were deposited after January 2008, for policies subject to the Provident Fund Regulations, which are paid as annuities.

  - **Policy of the traditional pension type** - A policy in which most of the premiums are intended for the payment of a pension which will be paid on the date of retirement from work. The pension amount to be paid, and the premium amounts, were determined on the policy issuance date.

  - **Traditional savings policies** are policies in which the entire premium which has accrued in respect thereof is paid as a single payment, or in case of death before the end of the insurance period, excluding amounts which are paid at the end of the insurance period, which were deposited after January 2008, for policies which are subject to the Provident Fund Regulations (policies for salaried employees and the self-employed), which are paid as annuities. The redemption value is determined on the policy issuance date, and is derived from the premiums.

  In policies of the traditional type, it is not possible to increase the amount of deposits in the policy, including with respect to salary increase beyond the rate of the CPI's increase, and in these cases, an additional policy should be prepared with respect to the increase in the deposit amount, or in the salary, as applicable.

  Policies of the traditional type were the only products sold until 1982 as individual insurance, compensation for the self-employed and managers. Policies of the mixed, pension and traditional types - savings continued being marketed as managers insurance until June 2001, and as individual insurance and as compensation for the self-employed until the end of 2003, in addition to other products which were sold in parallel.

- **Insurance of the preferred type (Meitav, Meitavit)**

  The main characteristics of this product include:

  - The policy is divided into two components - after deducting expenses in a fixed amount, a certain percentage of the premiums is accrued as savings, and the balance of premiums is designated for the acquisition of insurance coverage in case of death, and as operating and marketing expenses (the "**Risk Component**"). Until the end of the 1990's, the original premium rate which was designated to savings in these policies was mostly 72%. From the beginning of 2000's, the rate designated to savings was originally, for the most part, 80% and higher. Over the years, changes have been made to the mix of components, as stated in some of the policies.

  - With respect to deposits which were made until 2000, the policyholder can choose, proximate to the annuity receipt date, whether to receive the accrued savings as a capital payment or as a pension, according to the annuity factor which was determined in the policy on the policy acquisition date. With respect to deposits which were made beginning in 2000, the policyholder was required to choose, on the acquisition date, between a deposit to: (A) A capital policy or a capital annex which was attached to the fixed-payment policy - in which it was possible to designate the accrued savings to a capital track, with no option for conversion to a pension payment; and (B) A fixed-payment policy, under which the accrued savings could be converted into an annuity payment based on an annuity factor with guaranteed life expectancy, which was determined on the policy acquisition date.[21]

In policies marketed until 2000, policyholders who reached retirement age have the option to choose among several possible annuity receipt tracks. In all of the tracks, annuities are paid based on guaranteed annuity factors.

- Beginning in 2001, the policyholder is entitled to payment of an annuity based on a guaranteed life expectancy annuity factor, throughout his entire lifetime, and in one track only, which includes guaranteed payment of a minimum of 240 monthly annuity payments, to the beneficiary and/or beneficiaries; In additional tracks, the guaranteed life expectancy annuity factor is determined on the annuity receipt date, in accordance with the policy terms.

The policy was marketed in the life insurance branch from 1983 until the end of 2003. The policy was marketed as individual insurance, as compensation insurance for the self-employed and as managers insurance.

- **Insurance of the profile type**

  - Since 1999, the Group has marketed a line of products under the trade name "profile", including various types, which differed from the products that were marketed before that time, inter alia: (a) by separating between the components of savings, risk and expenses / management fees; (b) by allowing the possibility to adjust the insurance coverages in accordance with the policyholder's choice; (c) by allowing the possibility to manage the savings through several investment tracks with daily (instead of monthly) returns; (d) in the structure of management fees, which do not change depending on returns; (e) by allowing the option to designate the accrued savings to a capital track and/or to an annuity paying track in the same policy (since 2008, the savings in policies which are subject to the Provident Fund Regulations can only be designated to an annuity paying track).

    Since 2004, Clal Insurance has marketed several types of profile policies. These policies are differentiated from one another, inter alia, in the structure and rate of management fees, and in the annuity factors.

  - In 2013, Clal Insurance adjusted the managers' insurance policy and the self-employed insurance policy of the "profile" type, which were marketed by it from that date onwards, to changes in the management fees, in accordance with the Management Fees Regulations, as specified in section 6.1.2.3 below. Additionally, beginning in January 2013, a restricted was imposed on the possibility to sell new life insurance plans with annuity factors which include a life expectancy guarantee, to policyholders under age 60[22].

    During the reporting year, life insurance policies with annuity factors were marketed to persons aged 60 or older in an immaterial scope.

    For details regarding new products, see section 6.1.3 below.

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[21] Subject to the policy terms. A Meitavit policy is a capital policy with no annuity option.

[22] Excluding an exception which was permitted by the Commissioner for one year, subject to the determined conditions.

Under the aforementioned profile policies, the default track involves the payment of an annuity with a guaranteed life expectancy annuity factor, throughout his entire lifetime, and in case of his death before payment to the policyholder of a minimum number of guaranteed monthly annuity payments (240 payments), the balance of the annuities will be paid to the beneficiaries. There are also alternative tracks to receive an annuity, as chosen by the policyholder. In policies which were marketed until 2013, the annuity factors in the alternative tracks and in policies which were sold since 2013, the annuity factors in all of the tracks are determined on the retirement date, except with respect to policyholders who purchased the policy after age 60, and who chose an insurance plan with annuity factors which include a life expectancy guarantee.

- Over the years, profile policies of the managers, self-employed and individual types were marketed, some with insurance coverages and others without insurance coverages, some with annuity factors which include a life expectancy guarantee, and others without annuity factors which include a life expectancy guarantee. Until 2009, it was possible to convert savings which accrued in individual policies to annuities according to annuity factors which include a life expectancy guarantee. In general, beginning in 2009, the aforementioned possibility was canceled, and the conversion is possible according to the annuity factors which are known on the date of the request to convert the one-time savings amount into an annuity.

Traditional policies and preferred policies which included a savings component and which were sold until the end of 1990, are guaranteed return policies, where some of the Company's liabilities to holders of such policies are backed by designated bonds. Policies which include a savings component, which were sold from 1991, are generally investment-linked policies.

For details regarding the management fees which are collected in the main life insurance policies, see Note 20 to the financial statements.

- **Products including "risk" insurance coverage**

The risk products (insurance in case of death and/or disability and/or loss of working capacity and/or critical illness) are sold, or were sold in the past, as independent policies and/or as riders / additions to "traditional", "preferred", or "profile" policies.

The main risk coverages include:

- **Pure risk insurance - individual** - Life insurance in case of death, without a savings component. The plan guarantees to beneficiaries a predetermined insurance amount if the policyholder passes away during the insurance period. The insurance benefits are paid to beneficiaries as one-time compensation, or as a monthly amount for the period determined in the policy. In case of a risk plan which is intended to cover the balance of debt on a mortgage loan, the insurance amount is updated according to the interest rate determined in the policy, and the insurance benefits are paid to the irrevocable beneficiary, while the remainder, if any, is paid to the beneficiaries. In the past the Company allowed the purchase of life insurance in case of death, with no need for an advance medical underwriting process, where in such case, the insurance coverage in the first three years of the insurance period was with respect to death due to accident only, and in the subsequent period, with respect to death for any reason. Beginning in 2018, and in accordance with **Amendment No. 18 to the Equal Rights for Persons with Disabilities Law, 1998**, the Company allows the purchase of life insurance in case of death which is intended to cover the debt in the balance of a mortgage loan to people with life-shortening disabilities (as this term is defined in law), with no requirement for an advance medical underwriting process, and subject to a qualification period of two and a half years.

- **Loss of working capacity insurance** - An insurance plan which combines monthly compensation, at a rate of which generally does not exceed 75% of the policyholder's salary, subject to certain underwriting restrictions in case of a salary increase. In addition to the monthly compensation payments which are paid to the policyholder, the policyholder is released, in general, from premium payments and they are paid by the insurance company for as long as the policyholder is incapable of working ("**Release**"). The insurance benefits are paid in monthly payments, commencing from the end of the waiting period, and for as long as the policyholder is incapable of working, but no later than the end of the insurance period.

- **Supplementary disability pension insurance (pension fund umbrella)** - Loss of working capacity insurance for a pension fund member which is intended to expand the insurance coverage which is given according to the pension fund regulations, in cases where there is no eligibility for payment of a disability annuity according to the pension fund regulations, such as in case of loss of working capacity, or with respect to the qualification period specified in the pension fund regulations. For details regarding the supplementary coverage to pension funds, in accordance with the circular on "guidelines regarding loss of working capacity insurance plans", see section 6.2.1(f)(1) below.

- **Critical illness insurance -** For details regarding the sale of critical illness insurance, see section 8.1.2.1(a) below.

- **Accidental death insurance** - An insurance plan which guarantees the payment of a one-time amount in case of death due to an accident.

- **Accidental disability insurance** - An insurance plan which guarantees payment of a one-time amount in case of disability due to an accident.

6.1.2.2. Pension funds and provident funds branches

Pension funds and provident funds are managed by managing companies, in accordance with the provisions of the regulations. The regulations are dynamic and may change from time to time, with the Commissioner's approval. Notice regarding significant changes is sent to the members. In general, members' rights are determined according to the fund regulations which are in effect as of the date of eligibility.

During the reporting year, no mergers of provident funds and of investment tracks in provident funds were performed.[23] As of the reporting date, the provident funds and investment tracks which are managed by Clal Pension and Provident Funds include the following:

Fund name	Investment tracks		Fund type
Clal Tamar	Age-dependent investment model	Track for persons aged 50 or less	Personal provident fund for compensation and severance pay and provident fund for savings
		Track for persons aged 50 to 60	
		Track for persons aged 60 or older	
	Bonds maximum 25% stocks		
	CPI-linked bonds		
	NIS		
	Stocks		
	Short term NIS		
	Bonds		
	Halacha		
	Bonds maximum 15% stocks[24]		

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[23] In November 2019, Clal Pension and Provident Funds submitted a request to approve a merger of some of the central provident funds which it manages, where as a precondition the ownership of the merging fund will be transferred from Clal Insurance to Clal Pension and Provident Funds (against an allocation of shares of Clal Pension and Provident Funds). The transfer of ownership of all of the central funds which are owned by Clal Insurance to Clal Pension and Provident Funds was also requested. In March 2020, the approvals required to complete the transfer of ownership of the central funds which are owned by Clal Insurance to Clal Pension and Provident Funds, and for the aforementioned merger of central funds, were received.

Fund name	Investment tracks	Fund type
Bar Gemulim fund	Bar A - guaranteed return	Guaranteed return provident fund
	Bar C	Personal provident fund for compensation and severance pay
Clal Study Fund	Non-life	Study fund
	Short term NIS	
	CPI-linked bonds	
	Stocks	
	Bonds	
	Halacha	
	Bonds maximum 15% stocks	
Clal Provident for the Future	Non-life	Provident fund for investment
	Bonds	
	Government bonds	
	Stocks	
	Bonds maximum 15% stocks	
	Short term NIS	
	Halacha	
General fund for severance pay[25]		Central severance pay fund
Hadas[26]		
Clal - employer severance pay [27]		
Clal Barzel - central fund for severance pay		
Clal Provident central fund for severance pay		
Almog severance pay		
Clal Provident central track-based fund		
Central provident fund for sick pay [28]		Central fund for sick pay
Clal budgetary		Central fund for participation in budgetary pension

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[24] A new track which was created in March 2019.

[25] See footnote 23 above.

[26] See footnote 23 above.

[27] See footnote 23 above.

[28] In March 2019, a request to close the provident fund, in the absence of any members or assets in the fund, was submitted to the Commissioner. As of the reporting date, the required approvals to complete the merger have not yet been received.

Presented below are details regarding managed assets, contributions, net accrual, ratio of management fees from assets and ratio of management fees from deposits of the pension funds and provident fund which were marketed by the Group's member companies in 2019:

		Managed assets as of December 31, 2019 (NIS thousands)	Contributions in 2019 (NIS thousands)	Net accrual in 2019 (NIS thousands)	Average rate of management fees from assets in 2019	Average rate of management fees from deposits in 2019
Atudot Havatika pension fund		11,549,644	215,447	(107,119)	0.28%	3.36%
New pension funds	Clal Pension	64,530,990	5,911,465	3,648,175	0.21%	2.02%
	Clal Pension supplementary	2,039,500	254,011	193,443	0.41%	-
Provident funds for compensation and severance pay and provident funds for savings		24,516,271	610,429	(133,238)	0.47%	0.09%
Provident fund for investment		482,652	254,435	206,767	0.65%	-
Study funds		9,629,858	1,328,466	744,625	0.61%	-
Other[29]		2,415,100	417	(197,720)	0.64%	-
Total		**115,164,015**	**8,574,670**	**4,354,933**		

* Net accrual - deposits plus incoming transfers less redemptions and outgoing transfers.

Presented below are details regarding managed assets, contributions, net accrual, ratio of management fees from assets and ratio of management fees from deposits of the pension funds and provident fund which were marketed by the Group's member companies in 2018:

		Managed assets as of December 31, 2018 (NIS thousands)	Contributions in 2018 (NIS thousands)	Net accrual in 2018 (NIS thousands)	Average rate of management fees from assets in 2018	Average rate of management fees from deposits in 2018
Atudot Havatika pension fund		**10,028,397**	**227,462**	**(90,503)**	**0.27%**	**3.43%**
New pension funds	Clal Pension	54,363,827	5,646,940	3,817,052[30]	0.22%	2.25%
	Clal Pension supplementary	1,633,395	243,751	178,368[31]	0.43%	-
Provident funds for compensation and severance pay and provident funds for		22,436,655	452,670	(633,416)	0.48%	0.17%

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[29] Includes central provident funds for severance pay, central provident funds for participation in budgetary pension and provident funds for sick pay.

[30] The figure was restated.

[31] The figure was restated.

	Managed assets as of December 31, 2018 (NIS thousands)	Contributions in 2018 (NIS thousands)	Net accrual in 2018 (NIS thousands)	Average rate of management fees from assets in 2018	Average rate of management fees from deposits in 2018
savings					
Provident fund for investment	238,455	164,310	142,861	0.65%	-
Study fund	7,938,848	1,196,655	543,710	0.64%	-
Other[32]	2,368,813	404	(532,444)	0.60%	-
Total	**99,008,390**	**7,932,192**	**3,425,628**[33]		

* Net accrual - deposits plus incoming transfers less redemptions and outgoing transfers.

<u>Presented below are details regarding managed assets, contributions, net accrual, ratio of management fees from assets and ratio of management fees from deposits of the pension funds and provident fund which were marketed by the Group's member companies in 2017:</u>

		Managed assets as of December 31, 2017 (NIS thousands)	Contributions in 2017 (NIS thousands)	Net accrual in 2017 (NIS thousands)	Average rate of management fees from assets in 2017	Average rate of management fees from deposits in 2017
Atudot Havatika pension fund		**10,084,296**	**233,259**	**(52,399)**	**0.29%**	**3.32%**
New pension funds	Clal Pension	50,178,494	5,454,538	3,157,107	0.25%	2.52%
	Clal Pension supplementary	1,486,009	247,747	194,924	0.48%	0%
Provident funds for compensation and severance pay and provident funds for savings		23,070,937	394,488	(2,079,758)	0.53%	0.16%
Provident fund for investment		101,810	102,536	99,216	0.57%	-
Study fund		7,510,248	1,103,161	(184,131)	0.71%	-
Other[34]		2,936,741	1,439	(509,957)	0.59%	-
Total		**95,368,535**	**7,537,168**	**625,002**		

* Net accrual - deposits plus incoming transfers less redemptions and outgoing transfers.

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[32] Includes central provident funds for severance pay, central provident funds for participation in budgetary pension and provident funds for sick pay.

[33] The figure was restated.

[34] Includes central provident funds for severance pay, central provident funds for participation in budgetary pension and provident funds for sick pay.

6.1.2.3. Management fees and expenses in the various products

1) Presented below are tables describing the rate of maximum management fees in the different main products[35], in accordance with the legislative arrangement, including the Control of Finance Services Regulations (Provident Funds) (Management Fees), 2012 (hereinafter: the "**Management Fees Regulations**"):

Life insurance

Pension product	Maximum annual management fees
Investment-linked life insurance plans which were marketed until the end of 2003, of the "traditional" and "preferred" types[36]	Fixed management fees up to 0.6% of the accrual + variable management fees up to 15% of the real returns which were achieved, less fixed management fees. In case of loss, the insurance company is not entitled to the variable management fees, until the cumulative loss specified in the policies has been recouped.[37]
Investment-linked life insurance plans which were marketed from January 1, 2004 until the end of 2012	2% of the accrual + +0% of the deposits, or a lower rate of the accrual and a higher rate of the deposits (according to a mix approved by the Commissioner - where the management fees from deposits are in the range from 0% to 13%).[38]
Investment-linked life insurance plans which were marketed since January 2013	Up to 1.05% of the accrual (plans which were marketed in 2013 - up to 1.1% of the accrual) + up to 4% of the deposits
Annuity recipients	Up to 0.6% of the accrual.

The Company's income from guaranteed-return policies is due to the financial margin, insofar as any is created, between the guaranteed returns in designated bonds and the profits from the investments on the free assets and the liabilities towards policyholders.

Pension funds

Pension product	Annual management fees beginning in 2014
Balanced old fund	According to specific permits which were given by the Commissioner
Comprehensive new pension fund	Up to 0.5% of the accrual + up to 6% of the deposits
General (supplementary) new pension fund	Up to 1.05% of the accrual + up to 4% of the deposits
Annuity recipients in comprehensive pension fund	Up to 0.5% of total assets held against the fund's liabilities to all annuity recipients[39]
Annuity recipients in general pension fund	Up to 0.6% of total assets held against the fund's liabilities to all annuity recipients

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[35] The foregoing does not include management fees and expenses of various kinds which are collected in some of the life insurance policies, for example, including with respect to the management of investment portfolios, the policy factor or collection factor, etc.

[36] "Profile" policies which were sold until 2003 included a different pricing mechanism.

[37] See Note 3(n)3 to the financial statements.

[38] The possibility of collecting a lower rate than the accrual and a higher rate than the deposits applies to policies which are not recognized as insurance funds, beginning in August 2007.

[39] Excluding assets held against liabilities of the fund, to those who were entitled to an annuity or disability annuity before January 1, 2004.

Provident funds[40]

Pension product	Annual management fees beginning in 2014
Personal provident fund for compensation and severance pay, provident fund for savings and provident fund for investment	Up to 1.05% of the accrual + up to 4% of the deposits
Central provident fund	Up to 2% of the accrual (without management fees from deposits)
Study funds	Up to 2% of the accrual (without management fees from deposits)

Additional supplementary arrangements were also established, including as specified below:

- With respect to policyholders and members with whom contact has been lost - the institutional entities are entitled to collect management fees at a rate of up to 0.3% of the accrual, or the rate which is collected in the policy or in the member's account, as applicable, on the date when contact was lost, whichever is lower.[41]

- The minimum annual management fees in the accounts of provident funds which are not insurance funds or comprehensive pension funds[42], to which deposits were made before the 2008 tax year, will be no less than NIS 6 per month (CPI-linked), in all of the member's accounts.

In practice, in some of the products, the Group's institutional entities collect management fees at a lower rate than the maximum limits specified above, in accordance with specific agreements, due to the existing competition in the market, and in accordance with regulatory directives which apply to the provision of discounts on management fees (for additional details regarding the competition in the market, see section 6.3 below). The provisions of the legislative arrangement formalize the provision of discounts, and directives a total of which discounts to annuity recipients will apply throughout the entire annuity payment period (including with respect to survivors).

Discounts on the management fee rate which are future to pension fund annuity recipients, combined with an undertaking to provide discounts throughout the entire lifetime of the member and his survivors, may have a significant impact on the amount of management fees collected by Clal Pension and Provident Funds from annuity recipient members, and on profitability. The default fund circular determines that the management fees which will be collected by the managing company of the fund that was chosen as a default fund, from annuity recipients who retire during the winning period (even if they joined through methods other than the default), will not exceed a rate of 0.3% per year (as compared with a maximum rate of 0.5%, in accordance with the law). In general, during the reporting year, Clal Pension and Provident Funds does not provide discounts to old age annuity recipients.

The information presented on all matters associated with the possible implications of discounts on management fees for annuity recipients constitutes forward looking information, which is based on the Company's estimates and assumptions, and actual results may differ significantly from the forecast, inter alia, in light of the uncertainty regarding its impact on the decisions of the Group's institutional entities, which are dependent, inter alia, on the conduct of competing entities, distributing entities, employers and customers.

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[40] Excluding guaranteed return provident funds, in which the management fees are determined in accordance with the provisions of the regulations.

[41] With respect to a member/policyholder who has been found, who is not a deceased member/policyholder - the institutional entity is entitled to collect, retroactively, additional management fees, in a manner whereby the management fees which will be collected with respect to the period beginning from one year after the date when contact was lost, until the date when the member/policyholder was found, will be at a rate of up to 0.5% of the accrued balance in their account (instead of 0.3%).

[42] Excluding additional products, as determined in the Management Fees Regulations.

For details regarding the management fees which were collected by the Group's member companies in the various products in the years 2017 to 2019, see section 6.1.2.2 above, and Notes 20 and 30 to the financial statements.

2) Expenses in connection with investment management

In addition to the management fees, the institutional entities collect expenses in connection with investment management, subject to the provisions of the Control of Finance Services Regulations (Provident Funds) (Direct Expenses Due To Performance Of Transactions), 2008 (hereinafter: the "Direct Expenses Regulations"), which specify the types of expenses which can be charged to members, and apply a cumulative quantitative annual restriction of 0.25% of the assets on the amount of expenses which can be charged to the members with respect to some of the expenses. For details in connection with the aforementioned regulations, see section 10.5.5.2 below.

The total amount of expenses which are collected from members constitutes an additional component of the effect on returns for customers in the various savings products, and also constitutes an additional component for comparison between the competing entities, and as a result, affects the competition in the branch.

In November 2019, draft regulations were published which extended the period during which the restriction applied on direct expenses which can be collected from assets in the funds against investment-linked liabilities, for another two years (until December 31, 2021), in order to allow the Authority to complete the in-depth study which it began regarding the implementation of the expense restriction by institutional entities. In January 2020, the Authority published a letter in which it stated that the Direct Expense Regulations would remain in effect up to three months after the date of convention of the 23rd Knesset.

Non-extension of the aforementioned regulations, or approval thereof in a different framework than the current framework, could have a significant impact, beginning in January 2020, on all matters associated with the provisions of the expired regulations.

The Company's estimate in connection with the implications of the Expense Regulations constitutes forward looking information, which is based on the information which is available to the Company as of the reporting date. Actual results may differ from the estimated results, due, inter alia, to the provisions which will be determined with respect to the extension and/or contents of the Expense Regulations, if and insofar as they are published.

6.1.3. New products

- **General:**

During the reporting year, the Group's member companies did not market any significant new products in this segment, save as specified below:

- **Changes to insurance policies during the reporting year:**
  - Further to the provisions of the circular "**guidelines regarding loss of working capacity insurance plans**" (the "**Guidelines Circular**") (for details, see section 6.2.1(f)(1) below), and regarding the adjustment of loss of working capacity insurance plans in managers' insurance, according to provisions of the guidelines circular, during the reporting year, the Company received approval for the pension fund umbrella product "Clal Magen Disability Pension".

Changes in the regulations of pension funds during the reporting year:

(A) **Comprehensive pension fund - "Clal Pension"**

Clal Pension and Provident Funds works, from time to time, subject to the Commissioner's approval, to amend the regulations of the comprehensive pension fund, due, inter alia, to the regulatory changes and the need to perform operational adjustments.

During the reporting year, no amendments were made to the regulations of the comprehensive fund "Clal Pension".

In May 2019, Clal Pension and Provident Funds began marketing, within the framework of the comprehensive pension fund "Clal Pension", a new management fee model called "Pension Guarantee", in which predetermined management fees are guaranteed to members throughout their entire period as active members of the fund, which change according to the development of accrual in the fund (and subject to the joining terms).

(B) **General pension fund - "Clal Pension supplementary"**

Clal Pension and Provident Funds works, from time to time, subject to the Commissioner's approval, to amend the regulations of the supplementary pension fund, due, inter alia, to the regulatory changes and the need to perform operational adjustments.

During the reporting year, no amendments were made to the regulations of the supplementary fund "Clal Supplementary Pension".

During the reporting year, a request to update the regulations and to add an additional investment track, called "annuity recipients track - bonds up to 20% shares", was submitted for the Commissioner's approval.

(C) **Old pension fund - Atudot Pension Fund for Workers & Self-Employed Workers ("Atudot Havatika")**

In June 2019, an update to the regulations was approved, which included an update to the factors which are used in the fund.

Changes in the regulations of pension funds after the reporting year

In February 2020, requests were submitted to update the regulations of comprehensive and supplementary pension funds in accordance with the circular "amendment to the provisions of the consolidated circular regarding the measurement of liabilities - update to the set of demographic assumptions in life insurance and update to the mortality improvement model for insurance companies and pension funds" (see section 6.2.2(d) below), and the circular "annuity recipients who have left Israel for extended periods", which included updates to the default assumptions which the Company uses to calculate the actuarial balance and the factors applicable to the pension funds, and a section was also added regarding the obligation to notify annuity recipients who leave Israel for extended periods, and the submission of a life certificate.

Changes in provident fund regulations during the reporting year:

In March 2019, amendments were approved to the regulations of the provident fund "Clal Tamar", and to the regulations of the study fund "Clal Study Fund", in which a combined specialized investment track "bonds maximum 15% stocks" was added to each of the regulations.

6.1.4. Main markets, trends, and changes in supply and demand

The issue of social security in Israel is comprised of a compulsory layer, which is managed by the state, and beginning in 2008, an additional compulsory later which is managed by institutional entities, within the framework of the Compulsory Pension Ordinance[43], which pertains to all salaried employees in the market, and requires employers to deposit, on behalf of their employees, funds with respect to the compensation and severance pay components, according to the rates specified in the Compulsory Pension Ordinance, within the framework of the comprehensive pension arrangement which was determined as the default arrangement, or

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[43] An ordinance which expanded the general collective agreement (framework agreement) for comprehensive pension insurance in the market.

within the framework of an insurance fund for annuities, which includes coverage in case of death and disability.

Beginning with the salaries for January 2017, the minimum rates of deposit for all employees and employers in the market are 6% for the employee's component, 6.5% for the employer's compensation component, and 6% for the severance pay component. It was further determined that the employer's payment, as stated above, will include the acquisition of loss of working capacity coverage for the employee, however, in any case, the employer's provisions to the compensation component will not fall below 5% of the effective salary, and the employer's total costs with respect to the compensation component and the loss of working capacity coverage will not exceed 7.5% of the effective salary, which will be the salary for which deposits are made in accordance with the agreement with the employee, and no less the guaranteed salary in accordance with the extension order regarding compulsory pension. It was further determined in the extension order regarding the increase of pension deposits that the rate of the employer's deposits will be standard for all pension products.

Since 2017, the self-employed are also obligated to make contributions to an annuity paying provident fund, according to rates which were determined (4.45% up to half of the average market salary, and 12.55% on income exceeding half of the average market salary, and no more than the average market salary), according to their level of income (hereinafter: the "**Compulsory Pension for the Self-Employed Law**"). The Compulsory Pension for the Self-Employed Law also includes provisions regarding the provision of the possibility to withdraw a part of the amount which has accrued in favor of the self-employed person, in case of his unemployment, in accordance with the terms and dates which were determined in the regulations.

During the reporting year, the Compulsory Pension for the Self-Employed Law did not result in any significant change in deposits to the pension funds which are managed by Clal Pension and Provident Funds.

There are also deposits in the optional layer, which are due to employees' and employers' deposits which constitute a beneficial arrangement, and deposits of self-employed members beyond the legal obligation. The aforementioned optional layer includes deposits at a rate or in an amount which exceed those required by law, as well as deposits to savings channels, some of which do not receive tax benefits, or receive reduced tax benefits.

6.1.4.1. Life insurance branch

Trends in supply and demand: During the reporting year, pension was the main pension product which was marketed by the institutional entities to the general public, further to the ongoing trend in recent years, of regulatory encouragement of deposits to pension products, such as the partial backing of designated bonds to secure returns up to a rate of 30%[44], the determination of pension as a default product within the framework of the Compulsory Pension Ordinance and additional regulatory changes, including the cancellation of guaranteed annuity factors in insurance, except for customers aged 60 or higher, and non-approval of tariffs for the sale of risk coverages within the framework of the managers' insurance policies (see section 6.1.4.1 below).

During the reporting year, the scope of new members of life insurance products combined with savings decreased significantly relative to the previous year. Additionally, during the reporting year, an increase occurred in sales of risk products, primarily with respect to risk products which are sold through pension savings.

- **Scope of activities**: In accordance with the Commissioner's publications, assets in the life insurance branch in the Israeli insurance market as of December 31, 2019, amounted to approximately NIS 447.1 billion, of which NIS 371.1 billion were assets in the new life insurance portfolio (investment-linked policies), as

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[44] For details regarding the Control of Financial Services Regulations (Provident Funds) (Crediting of Returns in New Comprehensive Pension Fund), 2016, in connection with the scope of allocations of designated bonds to pension fund members of various ages, see section 6.1.1.2 above.

compared with NIS 387.4 billion as of December 31, 2018, of which NIS 315.1 billion were assets in the new life insurance portfolio, i.e., an increase of approximately 15.4% in total assets, and an increase of approximately 17.8% in the assets of the investment-linked policies.

As of December 31, 2019, assets in the new life insurance portfolio which are managed by Clal Insurance amounted to approximately NIS 91.1 billion, of which approximately NIS 72.2 billion of assets in the new life insurance portfolio (investment-linked policies), as compared with approximately NIS 79.9 billion as of December 31, 2018, of which approximately NIS 61.7 billion of assets in the new life insurance portfolio. In other words, an increase of approximately 14.0% in total assets, and an increase of approximately 16.9% in assets of the new life insurance portfolio.

The increase in assets in the new life insurance portfolio is a result, inter alia, of the returns on managed assets and of the deposits of policyholders to policies which were marketed primarily before the reporting year.

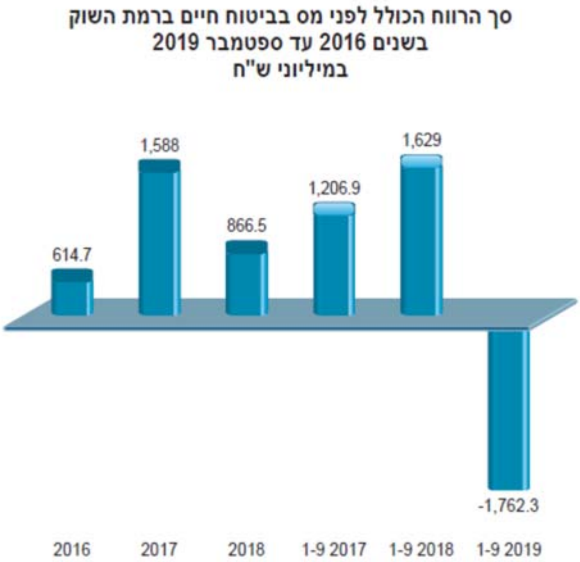
As of December 31, 2019, assets in the life insurance portfolio which are managed by Clal Insurance constituted approximately 18.4% of total assets in the life insurance market, as compared with approximately 18.9% as of December 31, 2018.

Development of assets in the market in the new life insurance portfolio
(profit sharing policies since 1991)
In the years 2016-2019
NIS in Billions

- **Profitability**: In accordance with the Commissioner's publications, total comprehensive loss before tax from insurance business operations in the life insurance market in the first nine months of the reporting year amounted to approximately NIS 1,762.3 million, as compared with income of approximately NIS 1,629.0 million in the corresponding period last year.

  The loss in life insurance was mostly due to the increase of reserves in the first nine months, due to the low interest rate environment. The profitability in life insurance is based, inter alia, on the aggregate result of the following components, component the policy: The financial margin in the guaranteed return life insurance portfolio, the management fees collected from accrual and/or from the investment profits and/or from the deposits in investment-linked policies, the difference between premiums collected to cover insurance risks and expenses, and their actual cost, redemption fines, policy lifetime, investment gains, changes in the changes in the risk-free interest rate curve, commissions and other expenses.

Total comprehensive income before tax in life insurance
2016 to September 2019
NIS in millions



The cumulative results of the insurance companies in the Israeli insurance market in the life insurance branch during the first nine months of 2019 were primarily influenced by the low interest rate environment, by liabilities to policyholders in some life insurance policies, and by the implications of the mortality tables circular (see section 6.2.2(d) above). The total management fees which were collected in the first nine months of 2019 increased, due to the increase in the rate of management fees collected by the insurance companies relative to the corresponding period (due to the surplus returns relative to the corresponding period), which amounted to approximately NIS 3,190 million, as compared with a total of approximately NIS 2,368 million the corresponding period last year.

For additional details regarding the profitability of the life insurance branch in the fourth quarter of 2019, see Part B of the Report - Board of Directors' Report, section 3.1.1.1.

The market for life insurance products in the first nine months of the reporting year was characterized by a certain increase in the redemption rate. For details regarding the redemption rate of life insurance policies in the Group during the reporting year, see Part B of the Report - Board of Directors' Report, section 3.1.1.1.

Liabilities with respect to lifetime payout annuities, regarding policies which are in effect, for which annuities have not yet been withdrawn, are calculated, inter alia, in accordance with the projected life expectancy, and according to the probability of the annuity in policies which are in effect. In recent years, the Company has identified an increase in the annuity realization rate, over the withdrawal of savings funds in a capital amount, in addition and in parallel to the existing increase in life expectancy. The Company updates the liabilities with respect to annuity recipients from time to time. For details regarding the changes due to the update to the demographic assumptions following the mortality tables circular, and the implications of the circular, and regarding improvements to the model, see section 6.2.2(d) below and Notes 39(e)(e1)(d)(2) and (3) to the financial statements.

In February 2019, the Capital Market Authority approved new tariffs for life insurance products in case of death (risk) of insurance companies in Israel, including a reduction of dozens of percent in the approved tariffs of risk products which are sold from that date onwards (hereinbefore and hereinafter: the "**Risk Tariffs Approval**"). As part of the risk tariffs approval, the Authority determined that the insurance companies are required to implement a mechanism for reimbursement of commissions on cancellations of risk policies, such that the cancellation of the policies in the first years after their purchase will lead to a gradual reimbursement of one-time sale commissions (first year commissions) which will be paid by the insurance companies to the relevant agents. This mechanism may lead to increased retention in the risk insurance portfolio. The tariffs were approved for a period of two years, after which time the Authority will evaluate the implications of the new provisions on competition in the market, and the need for an additional update to the tariffs.

In light of the sale tariffs of risk products (after discounts), and the expenses which are paid with respect to the sale of risk products, according to the standard practice in the market after the approval of the new tariffs, as stated above, the competitive conditions in the market (which intensified during the reporting year) and the differences in tariffs for different age groups, the Company's profitability in the sale of risk products decreased. In light of the preliminary phase of the change, the Company is unable to estimate, at this stage, the full implications of the aforementioned change in tariffs on the sale of risk products, including on the sales volume, the actual tariffs at which they will be sold (after discounts), and the commissions which will be paid for them.

As of the publication date of the report, as part of the approval of risk tariffs, tariffs were not approved for the Company (and, to the best of its knowledge, nor for other companies) for the sale of risk coverages in managers' insurance policies. In light of the above, the insurance companies discontinued marketing the risk coverages in managers' insurance policies. The absence of approved tariffs for the sale of risk coverages as part of managers' insurance policies resulted in a significant decrease in sales of managers insurance, and as a result, also led to a decline in sales of loss of working capacity coverage which is sold through managers insurance, and resulted in a certain increase in the sales of other pension products, mostly pension products, including the pension funds which are managed by Clal Pension and Provident Funds, albeit at a scope which did not reach the decrease in the sales volume of Clal Insurance's managers insurance products, due, inter alia, to the multiplicity of competitors in the pension market. As of the present date, the Company does not know if and when tariffs for the sale of risk coverages will be sold as part of managers' insurance, and accordingly, it is unable to estimate the aforementioned implications on the pension market as a whole.

The Company's estimates in connection with the implications of the approval of risk tariffs and the discontinuation of risk sales in managers' insurance constitutes forward looking information, which is based on the Group's estimates and assumptions as of the publication date of the report. The changes, and the actual implications thereof, may differ from the forecast, due to the fact that the change with respect to risk tariffs is still in the initial stages of implementation; The Company is unable to estimate if and when approval will be given for the continued sale of risk insurance in managers' insurance, and under what conditions; competitive conditions in the market; the conduct of the competing institutional entities and distributing entities; and the preferences of customers.

For the Company's financial information in the life insurance branch, see also Note 20 to the financial statements.

- **Customers**: During the reporting year, no material changes occurred in the mix of customers in the branch. For additional details, see section 6.4.1 below.

6.1.4.2. Pension funds branch

- **Trends in supply and demand**: Over the years, the state has encouraged pension savings in the annuity paying channel, inter alia, by backing part of the investments in pension fund through designated bonds; the Compulsory Pension Ordinance, in which it was determined that the default, so long as the policyholder has not chosen otherwise, is to join the pension fund; restrictions on the possibility for insurers to sell new life insurance plans with annuity factors which include a life expectancy guarantee; the creation of default funds (for details, see section 6.2.1(a) below); the crediting of designated bond returns to annuity recipients in pension funds (for details, see section 6.1.1.2 above); and the non-approval of risk product tariffs as part of managers insurance (for details, see section 6.1.4.1 above). All of the above have created a tendency among customers, in recent years, for the annuity product which is purchased in the pension fund, despite certain advantages of insurance over pension products. During the reporting year, the trend of preference for pension products over insurance and provident products continued and intensified, and pension products continued being the leading pension product marketed in the market. As a result, during the reporting year there was an increase in new members of pension products.

- **Scope of activities**: In accordance with publications issued by the Commissioner, the scope of accrued assets in the new and general pension funds in the pension market as of December 31, 2019 amounted to approximately NIS 412.3 billion, as compared with approximately NIS 335.7 billion in the corresponding period; i.e., an increase of approximately 22.8%. The increase in the scope of accrued assets was mostly due to returns on managed assets. The share of the comprehensive and general pension funds in the Group out of the total market for comprehensive and general pension funds, as of December 31, 2019, amounted to approximately 16.1%, as compared with 16.7% in the corresponding period. The net accrual in the market for comprehensive and general pension funds with respect to deposits during the reporting year amounted to approximately NIS 36.8 billion, as compared with NIS 31.8 billion in the corresponding period.

Development of assets in the new and general pension funds market
In the years 2016-2019
NIS in billions

- **Profitability**: Profitability in pension funds is based, inter alia, on the difference between the management fees charged by managing companies, and the actual rate of expenses. The management fees and expenses are affected by the number of members, the scope of accrued assets, and the amounts of deposits, are also affected by the capital market returns.

  The intense competition in the pension market, which increased by due to regulation, is reflected in discounts on management fees to members. The creation of chosen default funds caused, and is continuing to cause, a decline in the average rate of management fees for new members and existing members. The cancellation of the collective arrangements in March 2019 intensified this trend. For details regarding provisions in connection with the increased competition in the pension savings market, and the implications thereof, see section 6.2.1 below. For details regarding the scope of assets, accrual and average management fees, see section 6.1.2.2 above.

  For the Company's financial information in the pension fund branch, see Note 20 to the financial statements.

  The amendments to the Provident Funds Law regarding transferring while joining and the default fund circular (see sections 6.2.1(b) and 6.2.1(a) below), resulted in a significant decline in the profitability of the pension branch, including Clal Pension and Provident Funds.

- **Customers**: During the reporting year, no material changes occurred in the mix of customers in the branch. For additional details, see section 6.4.3 below.

- In the old pension funds branch, no change occurred in supply and demand, in light of the fact that these funds are closed to the joining of new members.

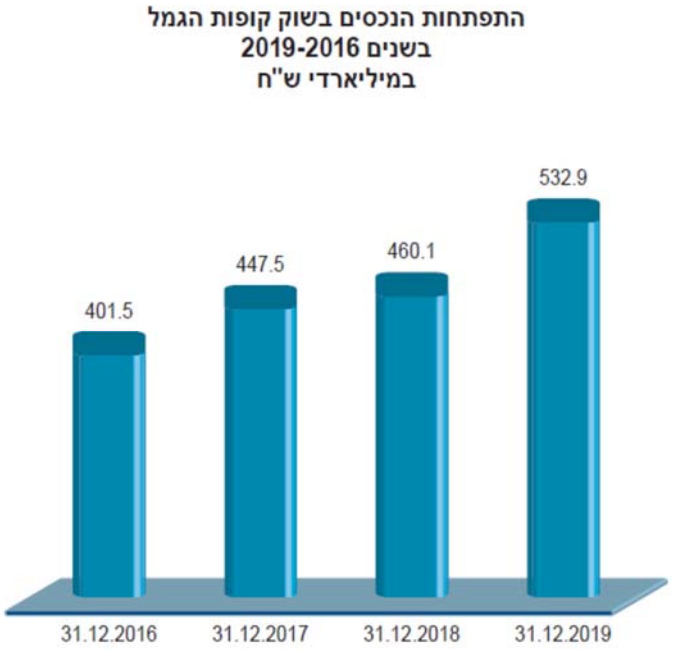
6.1.4.3. Provident funds branch

- **Trends in supply and demand:** The demand for provident products, which are mostly savings product only, was mostly focused on the provident fund product, mainly involving the transfer of existing accruals between the different institutional entities, and the receipt of one-time deposits upon the member's retirement or death (pursuant to amendment 190[45]), with respect to study funds - in new deposits, and in transfers of existing accruals between the different institutional entities, and with respect to provident funds for investment - in new deposits only; along with competition over management fees and returns.

- **Scope of activities**: In accordance with the Commissioner's publications, the total assets in provident funds in the provident fund market amounted as of December 31, 2019 to approximately NIS 532.9 billion, as compared with approximately NIS 460.1 billion as of December 31, 2018, an increase of approximately 15.8%. This increase was due to returns on managed assets, and the net positive accrual of approximately NIS 20.9 billion, which resulted (after deducting the collection of management fees) in an increase of approximately NIS 73 billion in the funds of provident funds in the market.

  As of December 31, 2019, the scope of provident fund assets managed in the Group constitute approximately 7.0% of total assets in the provident fund market, as compared with approximately 7.2% as of December 31, 2018.

Development of assets in the provident fund market
In the years 2016-2019
NIS in billions



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[45] An amendment to the Income Tax Ordinance and transitional provision ("**Amendment 190**"), which included an expansion, inter alia, of the tax benefits which are given upon the withdrawal of funds from an annuity savings channel, and provisions were also determined in connection with members' entitlement to severance pay funds, and beneficiaries' entitlement to funds of deceased persons.

- During the reporting year, the trend involving the transition of members and accrual between the provident funds continued. According to the Group's estimate, this trend us due to the competition between the funds over returns, the competition over management fees, and the increased transparency in the branch.

  For the Company's financial information in the provident fund branch, see section 6.1.2.2 above.

- **Profitability**: Profitability in the provident funds is based, inter alia, on the difference between the management fees charged by the managing companies, and the actual rate of expenses. The management fees are affected by the competition on the market, the scope of accrued assets and returns in the managed assets, as well as regulatory changes. During the reporting year, management fees declined, mostly in the study funds.

- **Customers**: During the reporting year, no material changes occurred in the mix of customers in the branch. For additional details, see section 6.4.4 below.

6.1.5. Material expected changes in the Company's share in the main markets, with respect to the main products and services and the mix thereof, in consideration of, inter alia, the demand and seniority of current products

Life insurance policies, pension funds and provident funds serve as alternative products to one another, in light of the fact that they are long term savings products, which confer entitlement to tax benefits, and in which insurance coverages can be combined. Following the regulatory changes which have taken place in recent years, the uniformity between the various products has increased, as reflected, inter alia, in the structure of management fees, in the ability to sell insurance coverages to members and in the absence of guaranteed annuity factors. According to the Group's estimate, the pension product will continue being the leading product in the market, inter alia, in light of the Compulsory Pension Ordinance, the Compulsory Pension for the Self-Employed Law (for details, see section 6.1.4 below), the provisions in connection with default funds (for details, see section 6.2.1(a) below), and the existence of designated bonds (for details, see section 6.1.1.2 above), and the absence of tariff approval for risk products within the framework of directors' insurance products (for details, see section 6.1.4.1 above). The impact of various regulatory changes which are in the initial stages of adoption, and the preferences of customers and distributing entities, may result in the strengthening of all or some of the alternative products.

During the reporting year, the Group was the fourth largest group in the pension market, and had a certain relative advantage, in light of the fact that it markets the entire variety of products in the segment.

6.1.5.1. Life insurance branch -

In accordance with the Commissioner's publications, during the reporting year, the Group was the second largest group in the life insurance branch, in accordance with the scope of managed assets, as defined by the Commissioner. The Company is not aware of any expected material changes to its overall share in the life insurance branch, which depends, inter alia, on the conduct of competing institutional entities, on the preferences of policyholders and members, on the conduct of distributing entities, and on the effects of regulatory changes in the pension savings segment, with respect to managed assets and new sales, and the feasibility of continued future sales of risk insurance as part of managers' insurance policies.

The fact that the annuity-paying insurance policies which were sold in the past and which include annuity factors which include a life expectancy guarantee have a relative advantage over the pension funds for customers, with respect to the period after retirement age, due to the fact that they are not subject to regulatory provisions and do not include a mechanism for actuarial balance, and on the other hand, to changes in the allocation of designated bonds for annuity recipients or for members in ages near retirement in the pension funds may affect the share of the insurance branch in the pension savings market.

The absence of approved tariffs for insurance policies in case of death (risks) in managers insurance (for details, see section 6.1.4.1 above) led to an increased preference for the purchasing of pension products, instead of insurance products; however, Clal Insurance is unable to estimate the long term effects of the above, which depends, inter alia, on the sale discontinuation period, on the conduct of competitors, and on the preferences of customers and the distributing entities.

The impact of the absence of approved tariffs for risk sales in managers insurance, as stated above, may be intensified in light of the impact combined with the establishment of the scope of insurance coverage mechanism (risk and loss of working capacity) which may be sold to a policyholder, due to the restriction on the cost of insurance coverage relative to the compensation which is deposited on their behalf, which entered into effect in November 2019 (see section 6.2.1(f)(1) below and the provisions in connection with the explanatory obligation (see section 10.8.1.1(a) below).

Sales of life insurance products may be affected if and insofar as the draft circular regarding personal accidents is published as a binding circular. The Company is evaluating the provisions of the draft circular regarding personal accidents, which includes a provision stipulating that coverage for accidental death and accidental disability will be marketed in accordance with the provisions of the circular regarding personal accidents. For additional details regarding the draft personal accidents circular, see section 8.1.2.1(c) below.

The aforementioned provisions regarding the absence of approved tariffs for insurance policies in case of death, as part of managers' insurance, may result in a significant reduction of the variety of products sold in the life insurance market. The draft circular regarding personal accidents, if and insofar as it will be approved, may intensify this trend.

6.1.5.2. Pension funds branch -

During the reporting year, the Group was the third largest group in the pension funds branch, in accordance with the scope of managed assets, as defined by the Commissioner. According to the Company's estimate, in the coming years, the pension products will continue being leading products in the pension savings market. The Company estimates that the share of Clal Pension and Provident Funds in the pension branch will be affected, inter alia, by the rate of management fees which will be collected, by returns, by service, and by the competition between institutional entities, the conduct of distributing entities, the preferences of policyholders and members, and the relevant regulatory directives.

As stated above, the Company's share in the pension branch is affected, and is expected to continue being affected, to a significant degree, by the default funds, in light of the rate of management fees collected therein (including the management fees which are collected from recipients of old age annuities), and their direct and indirect effects on competition in the market. For details, see section 6.2.1(a) below, in light of the operational advantage of those funds regarding the addition of new members, which dictate that it is not necessary to fill out a form in order to join them; the transfer of funds from inactive accounts to active accounts in pension funds, as part of the process of transferring while joining (for details, section 6.2.1(b) below); the conclusion, during the reporting year, of the last of the collective arrangements (which resulted in a decline of new business sales); the provisions which were published regarding the clarification with respect to the pension marketing process, pertaining to the non-payment of commissions to a license holder for a pension product regarding which a pension marketing process was not performed, as specified in section 10.8.1.1 below; and the impact of the changes in the allocation of designated bonds on age groups, between the various pension funds. For details, see section 6.1.1.2 above. According to the Company's estimate, in light of the regulatory changes in recent years, whose effects intensified during the reporting year, and in light of the intense competition in the segment, as reflected, inter alia, in the competition over management fees and returns which affect the scopes of retention and new sales of the various pension products, and in light of the conclusion, in March 2019, of the collective arrangements of employers, and the inherent advantages of default funds, there is uncertainty, inter alia, regarding the future market share of the chosen default funds, which is also expected to affect the Company's market share, particularly with respect to pension funds, and the rate of management fees that it will collect.

The continued absence of approved tariffs for the sale of risk coverages in managers' insurance, as specified above, may continue to result in an increase of pension products, although the Company is unable to estimate the extent of the aforementioned implications.

Additionally, the continued growth of members' requests to transfer to pension funds proximate to their date of retirement could also have a significant impact on the Company's business results. During the reporting year, there was a certain increase in members' requests to transfer near retirement age, and the Company believes that this is a trend which could increase in the coming years.

6.1.5.3. Provident funds branch -

During the reporting year, the Group was the sixth largest group in the provident fund branch, by scope of managed assets, as defined by the Commissioner. The Company's share in the provident fund branch is affected, inter alia, by the competition between the institutional entities and investment houses, which is affected by the returns of the provident funds, the amount of management fees, and the service which will be given to members.

The study funds differ from the other pension savings products due to the fact that they provide the possibility for medium term savings, which grants eligibility for tax benefits. The Company's share in the study fund branch is affected, inter alia, by the competition between the institutional entities, which is affected by the returns of the study funds, the variety of investment tracks, management fees, and the service which will be given to members.

Provident funds for investment constitute an opportunity to increase the accrual of money in provident funds. However, during the reporting year, deposits to provident funds for investment, in the provident funds for investment which are managed by Clal Pension and Provident Funds, were made in an immaterial scope (similarly to the deposits at most competitors in the market).

The Company's share in the provident fund branch is expected to be affected, with respect to the study funds and the annuity-paying provident funds, also by the provisions of the default fund circular In this regard, it is noted that, beginning in March 2019, new members may be added to study funds through adding the member by signing a new member form, or by the institutional entity's winning of an employer's tender regarding the selection of a default study fund. The average management fees for the addition of new members to study funds, and the retention of members, are significantly lower than the average management fees which are collected in the fund as of the reporting period. For details, see section 6.2.1(a) below.

The information presented on all matters associated with the future changes in the Company's share in the markets, in the various pension products, constitutes forward looking information, which is based on the Group's estimates and assumptions as of the publication date of the report. The changes, and the effective implications thereof, may differ from those which were predicted, in light of the many regulatory changes which are at the initial stages of implementation and/or which have not yet been implemented; future regulatory changes, if any, which could affect the Company's share in the different markets; competition in the market; the conduct of the competing institutional entities and distributing entities; and the preferences of customers.

6.2. Restrictions, legislation, standardization and special constraints which apply to the operating segment

The activity in this segment is subject to the provisions of the law which apply to insurers, pension funds and provident funds which are active in the segment - including the Insurance Law, the Provident Funds Law, the Pension Advice Law and the Income Tax Regulations (Rules for Approval and Management of Provident Funds), 1964 - and subject to and in accordance with the Commissioner's directives which are published from time to time. Provident funds and pension funds are managed by managing companies; insurance funds are managed by insurance companies.

The activity in this segment requires a license from the Commissioner, in accordance with the Insurance Law and the Provident Funds Law, and is overseen by the Capital Markets, Insurance and Savings Authority in the Ministry of Finance. A managing company of provident funds which manages a pension fund is required to obtain an insurer license, which also constitutes a managing company license, for all provident funds under its management. A managing company to which an insurer license has been given, as stated above, is currently entitled to manage all types of provident funds, excluding insurance funds. A managing company may manage one comprehensive new pension fund (which is entitled to designated bonds), a new general pension fund (which is not entitled to designated bonds), and an old pension fund and provident funds.

A managing company is also entitled to engage in another segment which pertains to a pension product that was approved by the Commissioner, subject to the approved terms, provided that the engagement is regulated in accordance with the provisions of the Provident Funds Law, the Insurance Law or the Pension Advice Law. Additionally, any provident fund which is managed by a managing company requires approval for the management of a provident fund, which must be renewed annually.

The Insurance Law prescribes that a permit for control of an insurer will not be given to any person if, after the issuance of the permit, that person will have a holding exceeding 15% of the total long term savings assets, as defined in the Insurance Law. The Insurance Law permits a material holding in the long term savings segment if that material holding originates from changes which are due to operating activities. To the best of the Company's knowledge, in accordance with the weighing of the information which is published on the Commissioner's website, the scope of the Company's holdings in the long term savings segment as of December 31, 2019 is approximately 13.4%.

The operating segment is characterized by significant, extensive, and frequent regulation, both with respect to products which were sold in the past and are still effective today, and with respect to products which will be sold in the future, which is intended, inter alia, to increase transparency, competition and quality in the market.

Presented below are details regarding significant changes which have been made to the regulatory provisions in the operating segment in recent years:

6.2.1. Increased competition in the pension savings market

In recent years, various directives and regulations were published which resulted in increased sophistication of the market, and in competition and transparency, inter alia, with the aim of allowing pension savers to better adjust the products to their particular needs, and to simplify their decision making process. Presented below are details regarding the main provisions:

A. Default funds

As part of the circular "provisions regarding the selection of provident funds" (hereinafter: the "**Default Fund Circular**"), pension funds were selected which will serve as default funds, to which members will be added who have not filled out a provident fund new member form, and whose employers have not chosen a default fund in a competitive process to be conducted by them. Further to the above, in October 2018, four competing pension funds were selected to serve as chosen default funds, for a period of three years, beginning in November 2018. The management fees which will be collected by the default funds are 1.49% of the deposits and 0.1% of the accrual in two funds; 2.49% of the deposits and 0.05% of the accrual in one fund; and 1.68% of the deposits and 0.0905% of the accrual in the fourth fund.

Additionally, the management fees which will be collected by the managing company of the fund that was chosen as a default fund, from annuity recipients who retire during the winning period (even if they joined through methods other than the default), will not exceed a rate of 0.3% per year (as compared with a maximum rate of 0.5%, in accordance with the law).

The creation of the default funds, and the competitive advantages which are available to them, have a significant sector-wide impact on the pension fund market. The provisions of the default fund circular, including the provisions in connection with the determination of management fees as a primary criterion, resulted in a decrease of the average management fees which are collected in annuity-paying provident funds and in study funds, in a decline in new members of the pension fund of Clal Pension and Provident Funds through collective addition, in increased transfers from the pension fund of Clal Pension and Provident Funds (including due to the entry of default funds for employers, against which Clal Pension and Provident Funds competes), in changes to the business model of the managing companies, and accordingly, also in changes to the market shares of the current competitors, including Clal Pension and Provident Funds.

The demand for a discount on management fees for annuity recipients is expected to increase the competition between institutional entities, with respect to members who are near retirement age.

The aforementioned effect was intensified due to the combined impact of the aforementioned provisions, together with the provisions regarding the automatic expiration of some of the collective arrangements, which resulted in a decrease in the new business sales of Clal Pension and Provident Funds, and together with the **clarification regarding the "pension marketing process"**, which determines that an insurance agent, when performing a transaction (including addition) involving a pension product, must perform a pension marketing process as a condition for receiving a distribution commission with respect to the aforementioned product, and is not entitled to a distribution commission in case of adding members who have not filled out a provident fund new member form (addition by way of an "collective arrangement") (see section 10.8.1.1 below), and the provisions regarding transferring while joining (see section **6.2.1(b)** below).

However, due to the increased scope of pension marketing performed by the Company and/or by agents, and due to the absence of approved tariffs for the sale of risk coverages as part of managers' insurance (for details, see section 6.1.4.1 above), there was an increase in new member deposits to pension products, including the pension funds which are managed by Clal Pension and Provident Funds, relative to last year, although at a scope which does not represent a decline in the sales volume of managers insurance in the Group.

The information presented on all matters associated with the possible implications of the provisions regarding the creation and selection of default funds constitutes forward looking information, which is based on assumptions and estimates made by the Group as of the publication date of the report. Actual implementation may differ significantly from the forecast, and is significantly dependent on the following factors: the steps which will be taken by the member companies in the Group, including as regards dealing with the increasing competition in the market, and changes in the market shares and revenues of the Group's institutional entities; the institutional entities' relationships with employers and distributing entities; the conduct of the competing institutional entities; the preferences of members and policyholders and their conduct with respect to their products; the conduct of employers and operating entities on their behalf; implications of other regulatory changes in the segment, and their impact combined with the abovereferenced directives.

B. Transferring while joining pension funds

Amendment 13 to the Provident Funds Law included, inter alia, a provision stipulating that, when a new member joins a new pension fund, and so long as the member has not requested otherwise, the savings funds which are available to him in inactive accounts in other new pension funds, will be transferred to the new pension fund which he intends to join, while maintaining continuity of insurance, and with the aim of creating savings in management fees and improving the member's control of the management of their savings funds (hereinafter: "**Transferring While Joining**").

The directives regarding transferring while joining continue and will continue to affect, on all matters pertaining to the accruals of members who join pension funds, and where, as a result of there joining, the savings funds which are available to them will be transferred from inactive accounts to other new pension funds.

The combination of the provisions regarding transferring while joining pension funds, with respect to members who joined in the past, and who will join pension funds in the future, together with the creation of the default funds, has resulted, and is expected to continue to result, in a significant increase in the scope of assets of the default funds, at the expense of the other entities which are engaged in the market, and will continue to adversely affect market shares, accruals and the rate of management fees which are collected in the pension funds that are managed by Clal Pension and Provident Funds (inter alia, because the rate of management fees in inactive accounts which are transferred to other pension funds is significantly higher than the rate of management fees which is collected from inactive monies which are transferred to the pension fund which is managed by Clal Pension and Provident Funds).

The information presented on all matters associated with the possible implications of the provisions regarding transferring while joining constitutes forward looking information, which is based on assumptions and estimates made by the Group as of the publication date of the report. Actual implementation may differ significantly from the forecast, and is significantly dependent on the following factors: the steps which will be taken by the member companies in the Group, including as regards dealing with the increasing competition in the market, and changes in the market shares; the conduct of the competing institutional entities; the preferences of members and policyholders and their conduct with respect to their products; the combined impact other regulatory changes in the segment, and first and foremost the establishment of default funds.

C. Reduction of restrictions on transfer of funds between provident funds

In August 2016, the **Draft Control of Finance Services Regulations (Provident Funds), (Transfer of Funds between Provident Funds), 2016** (hereinafter: the "**Draft Amendment to the Transfer of Funds Regulations**") were published, in which it is proposed to amend the Control of Financial Services Regulations (Provident Funds) (Transfer of Funds Between Provident Funds), 2008. The main proposed amendments include the cancellation of the current restriction against the transfer of funds by persons who have begun receiving an old age annuity; cancellation of the current restriction which prohibits the transfer of funds of members who have debit balances to provident funds, due to a loan which was given to the member; provision of the possibility to transfer funds from one provident fund for investment to another provident fund for investment; shortening of the periods for the transfer of funds between provident funds; Cancellation of the currently available possibility of canceling the transfer of funds after a detailed, signed and completed application has been submitted to the receiving fund.

According to the Company's estimate, the entry into effect of the draft amendment to the Transfer of Funds Regulations, insofar as it is accepted as a binding version, will result in the lifting of barriers to transfer which currently exist in the market regarding the transfer of funds between provident funds, particularly in the stage after the receipt of the annuity. Accordingly, the draft amendment to the transfer of funds circular, insofar as it will be approved, is expected to result in a reduction of the management fees which are collected from assets held against liabilities to recipients of old age annuities, an increase in the current handling expenses and changes to the demographic composition of annuity recipients, and may affect the reserves which are managed with respect to these policies, harm economic capital, and result in a significant decrease in profitability. However, at this stage, while the manner of implementation of the aforementioned mobility with respect to the annuity recipients is not yet known, and in light of the precedence and preliminary status of the proposed arrangement, the Company is unable to estimate all of its implications, which could be significant.

Additionally, the draft's entry into effect, as stated above, in combination with the provisions regarding the provision of full explanation during retention activities, in accordance with the provisions of the explanatory document circular (for details, see section 10.8.1.1(a) below), is expected to impose difficulties on the performance of retention activities by institutional entities.

The information presented on all matters associated with the possible implications of the draft amendment to the Transfer of Funds Regulations reform constitutes forward looking information, which is based on assumptions and estimates made by the Group as of the publication date of the report. Actual implementation may differ significantly from the forecast, and is significantly dependent on the final wording of the published directive, and on the following factors: the steps which will be taken by the member companies in the Group, including as regards dealing with the increasing competition with respect to the annuity recipients; the conduct of the competing institutional entities; the preferences of members and policyholders and their conduct with respect to their products; the implications of other legal provisions in the segment; and their combined impact, together with the aforementioned provisions.

D. Lifting of operational barriers

Over the years, the Authority adopted a series of measures which were intended to lift operational barriers and facilitate the receipt of information, the creation of transparency and the lifting of barriers to transition between different products.

(1) Transfer of information in the pension savings segment and the pension clearing house

The pension clearing house (hereinafter: the "**Pension Clearing House**") is used to transfer information between the various entities in the pension savings market (institutional entities, license holders, employers, policyholders and members), and to perform a series of actions (some of which must be performed through the pension clearing house only). Since the establishment of the pension clearing house, provisions were added and updated with respect to the information which must be transferred through the pension clearing house, and the requests to perform activities which are performed through it.

For the purpose of implementing the provisions pertaining to the transfer of information through the pension clearing house, a circular gradually entered into effect which determines the structure of a standard record, which is intended for use by the institutional entities, license holders and other consumers of information in the pension savings segment, as part of the various business activities which are performed between them (hereinafter: the "**Standard Structure Circular**").

The standard structure circular includes the events interface through which requests are transferred[46], the holdings and pre-consulting interface[47], the severance pay balances interface[48] and feedback through which responses are sent to inquirers.

In accordance with the update to the standard structure circular from December 2017, the fund transfer process which takes place between the various institutional entities will be performed within the framework of the pension clearing house only, through the mobility interface.[49]In accordance with the update from September 2019, the mobility interface will begin operating in February 2020.

(2) Employers Interface and Payment Regulations

The Control of Financial Services Regulations (Provident Funds)(Payments to Provident Funds), 2014 (hereinafter: the "**Payment Regulations**") prescribe rules regarding the manner and timing of execution of employers' payments to pension products on behalf of their employees, as well as provisions regarding the method of reporting by the employer, and the obligation for the institutional entity to provide feedback.

In November 2017, a **circular was published regarding the method for depositing of payments to provident funds** (hereinafter: the "**Circular Regarding The Payment Deposit Method**"), to which the provisions which were set forth in the Payment Regulations[50] were transferred. The adoption of the provisions regarding the employers interface was applied gradually to employers, and as of the publication date of the report, it applies to employers of 10 or more employees. The entry into effect of the provisions regarding the employers interface, with respect to employers of up to 10 employees, was gradually postponed to June 2021 and thereafter.

In December, a draft amendment to the circular regarding the payment deposit method was published, which includes a proposed change to the method for accepting reports from whom employers who have up to 10 employees, which are intended to facilitate the integration of small employers into the requirements of automated reporting, and a proposal to streamline the process of sending reports to members, which are sent to policyholders and employers with respect to the deposition of funds and the handling of reimbursement of funds which have been over-deposited by the employer. According to the Company's estimate, these amendments, insofar as they will be published as binding versions, are expected to require additional designated automational and operational preparation, for the purpose of allowing the intake of employer reports which will be submitted in the aforementioned manner.

The institutional entities in the Group have prepared, and are continuing to prepare, in operational terms, to implement the arrangements which were determined for the purpose of operating the clearing house, including in connection with the Payment Regulations. The required preparations for the implementation of the mobility

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[46] The events interface is an interface which expresses all of the requests that are received by the Company from the clearing house, whether these are requests for information, or requests to perform actions.

[47] The holdings interface is an interface which includes data regarding the pension products of policyholders and members, which an institutional entity is required to submit to a license holder further to their request to transfer information regarding the customer.

[48] The severance pay balances interface is an interface for the provision of information regarding severance pay balances, to employers with respect to their employees, or to policyholders with respect to their periods of employment at employers.

[49] The mobility interface formalizes the processes of transferring funds between institutional entities and different products.

[50] Excluding Regulation 11 of the Payment Regulations, regarding the determination of interest due to a delay in the depositing of funds by an employer, which was left under the authority of the Minister of Finance.

interface involve significant operational complexity, inter alia, in light of the need to classify the funds in an automated manner, in accordance with the layers of the various regulatory directives over the years.

The clearing house assists and increases the efficiency of fund clearing, lifts operational barriers and facilitates the transfer of funds between competing institutional entities, and the identification of those funds, and facilitates the joining of members and collection, and therefore, it is expected to result, over the long term, in increased efficiency and increased competition.

According to the Company's assessment, the provisions of the circular regarding the **payment deposit method**, the use of the employers interface and the regulation of the process for handling funds, are having positive effects, inter alia, by improving the information which is available to institutional entities regarding the deposits of funds to them, and accordingly, have improved the funds intake process which has been performed since the date when the Payment Regulations entered into effect, and reduced dependence on marketing entities. However, in the short term, as reflected in the market and in the Group's institutional entities, it resulted in delays in fund intake processes, delays in the distribution of some of the deposits, particularly due to inconsistencies between the reports of employers and the policy data, and indicated specific inconsistencies whose cumulative implications cannot be predicted, at this stage, with respect to the relevant periods. The implementation of the Payment Regulations also resulted in possible temporary delays in reporting to members, in difficulties in identifying arrears, for the purpose of making direct contact with employers and operating entities, and in an increase of operating and automation expenses. The process of implementing the treatment of this issue in the systems of the Group's institutional entities resulted, during the reporting year, in a significant improvement in the treatment of the pension monies which were received by the Company from employers, within the framework of the circular regarding the method of depositing payments and accepting them in the systems of institutional entities. The Group's institutional entities are still in the process of implementing and handling the issues which come up during the implementation of the circular regarding the payment deposit method, and are working to address the aforementioned issues, including by improving the automation system and the workflows. It is noted that the entry into effect of the directive regarding the reporting requirement on the level of the policyholder, as part of the employers interface (as opposed to reporting on the level of each pension product), is expected to add operational difficulty to the association of the deposits to the various pension products of policyholders and members. For additional details in connection with the implications of the adoption of the employers interface and the provisions of the Payment Regulations, see Note 42(a)(a4)(2) to the financial statements.

Following the audit report which was conducted by the Authority, which was received by Clal Insurance and which identified deficiencies, mostly pertaining to the manner of implementation of the Payment Regulations, with respect to products in the life insurance branch, Clal Insurance submitted to the Commissioner a work plan to address the findings of the report, which is being applied. Clal Insurance is reporting the progress on the implementation of the plan to the Authority.

In December 2019, a draft amendment to the standard structure circular was published, which included a proposal according to which the institutional entities will be required to report to employers regarding gaps between the records which were reported by the employer, and the method for accepting funds into the institutional entity's information systems. According to the Company's estimate, the aforementioned demand involves operational and automational difficulty, and the Company is unable to estimate its full implications.

It is noted that, in accordance with the Wage Protection Law, 1958, an amount which is owed by an employer to a provident fund, as defined in that law, with respect to the rights of the employee, or his replacement, towards the provident fund, is viewed as if it had been paid on time, unless the Regional Labor Court has decided that the arrears in the collection of the debt occurred for a reason which was not due to its negligence, or occurred under other circumstances which justify the provident fund's case, and subject to the right of indemnification which exists for the fund towards the employer, in accordance with the provisions of the law. Additionally, in accordance with the Payment Regulations, the provident fund will receive, from an employer who has not transferred payments to the provident fund on time, interest in arrears. There are difficulties in the interpretation and implementation of the provisions of the law. The responsibility of the Group's institutional entities to collect employers' debts to such funds creates exposure in case of deficiencies in the collection process.

The information presented on all matters associated with the possible implications of the legal provisions specified above constitutes forward looking information, which is based on the Group's estimates and assumptions as of the publication date of the report, and in light of the fact that the

aforementioned arrangements involve various entities. Actual implementation may differ significantly from the forecast. The implications of the aforementioned provisions of the law are largely dependent upon the institutional entities' continued preparation for the provisions of the law, and on the collaboration and conduct of employers and operating entities on their behalf; the conduct and preferences of license holders; the conduct of members and policyholders with respect to their products; and the complexity of operational and business preparation regarding the provisions concerning the acceptance of reports from employers who have up to 10 employees.

E. Commission arrangements with respect to insurance products and pension savings products

For details regarding the **Draft Control of Financial Services Regulations (Provident Funds) (Distribution Commissions), 2016** (hereinafter: the "**Draft Distribution Commission Regulations**"); For details regarding **the Commissioner's position and the amendment to the Control of Financial Services Law (Provident Funds)(Amendment No. 20)**, pertaining to the separation of commissions from management fees, the **clarification with respect to the pension marketing process**, regarding the non-payment of commissions to license holders with respect to pension products for which a pension marketing process was not performed, see section 10.8.1.1 below.

F. Changes to products - unification of products, transparency and tariff intervention

Over the years, the Authority has implemented a series of actions with the aim of encouraging and focusing on management fees, returns and service.

(1) Guidelines for loss of working capacity

The circular "**guidelines with respect to loss of working capacity insurance plans**" (hereinafter: the "**Guidelines Circular**"), determines a standard and modular structure for loss of working capacity insurance plans, to which the policyholder is entitled to attach riders which allow expansion of the basic coverage.

Further to the guidelines circular, in December 2017, **the Commissioner's letter to the managers of institutional entities** was published, in which it was clarified that it is prohibited to sell loss of working capacity policies with respect to the part of the salary which overlaps with the salary layer for which the member has coverage in the pension fund, except for supplementary coverage to cover the disability of a member of the pension fund (hereinafter: the "**Pension Fund Umbrella**"). In December 2019, Clal Insurance began marketing a pension fund umbrella product, in accordance with the aforementioned provisions.

Additionally, in Additionally 2018, the primary provisions of the **circular regarding the marketing of loss of working capacity insurance plans** (hereinafter: the "**Circular Regarding The Marketing Of Loss Of Working Capacity Insurance Plans**") entered into effect, which determined that an institutional entity, license holder or insurance agent are obligated to identify, before selling loss of working capacity insurance plans, including the sale of collective insurance plan, and excluding the determined exceptions, through the clearing house, whether the applicant already has loss of working capacity coverage, and to issue a recommendation to the customer in connection with the purchase of the loss of working capacity insurance plan in question (an obligation which did not apply in the past when joining a collective loss of working capacity insurance, and which applies to policyholders who have joined collective loss of working capacity insurance since 2019). Provisions were also determined regarding the provision of information to customers, as well as a restriction limiting the sale of loss of working capacity insurance coverage only to policyholders who have income which is not already covered by existing loss of working capacity insurance coverage. The implementation of the marketing of loss of working capacity insurance plans circular includes a change, which entered into effect in November 2019, to the mechanism for determining the scope of insurance coverage (risk and loss of working capacity) which can be sold to the policyholder, due to the restriction on the cost of insurance coverage, relative to the compensation which is deposited on their behalf. The established mechanism restricts, in certain circumstances, the sale of insurance coverage in managers' insurance policies and compensation for the self-employed, and may result in a decrease in the sales of such policies, and in a reduction of the insurance coverage which is sold thereunder.

At this stage, in light of the fact that these products were launched in late 2017, and are long term products, it is not possible to estimate the full implications of the guidelines circular, and the additional provisions on the matter, specified above. These effects may only be identified over a long time, and will be affected, inter alia, by the scope of insurance coverage which was extended relative to the preceding product, and the pricing method thereof, by the effect of the provisions regarding the coverage of the pension fund umbrella, relative to the extended coverage for loss of working capacity which pension fund members could acquire previously, and the pricing thereof, the effect of the entire series of aforementioned changes on claim settlement expenses, and on the number of new members, including by way of cancellation and replacement of previous products, and the effect on the product's total profitability, inter alia, in consideration of the reinsurance which was extended for the purpose of hedging these risks, and of the associated costs, and also in consideration of the product's effect on the economic capital ratio of Clal Insurance.

(2) New tariffs for life insurance products in case of death (risk)

For details regarding new tariffs for life insurance products in case of death (risks), which were approved by the Authority in February 2019, and the absence of approved tariffs for the sale of risk coverages as part of managers' insurance, and the implications of the said tariffs, see section 6.1.4.1 above.

The information presented on all matters associated with the possible implications of the aforementioned circulars constitutes forward looking information, which is based on the Company's estimates and assumptions, and the actual results may differ significantly from the forecast, in light of, inter alia, the steps taken by the Group's member companies; the conduct of the competing institutional entities, following the legislative amendments; and the preferences of members and policyholders and their conduct with respect to their products.

Implications of provisions pertaining to increased competition in the pension savings segment

The entry into effect of the arrangements as part of the regulatory changes pertaining to the increased competition in the pension savings segment (sections A to F above) have aggregate implications, and affect, and may continue to affect, the Group's activities on a cumulative basis, as specified below:

- **Changes in profitability** - During the reporting year, the various regulatory changes involving increased competition had an impact on the scope of managed assets and on the Company's income from management fees with respect to all of the Group's group long term savings products. For additional details, see Part B of the Report - Board of Directors' Report, section 3.1.1.

  The future income from management fees and premiums in long term savings products depend, inter alia, on the conduct of policyholders and members, on the conduct of the capital market, and on the possible effects of changes in regulatory provisions, including the Commissioner's policy regarding the approval of tariffs and the reduction thereof relative to the different products, as reflected with respect to the loss of working capacity and risk of death product. Thus, for example, the implementation of the changes specified below have resulted and/or may result, directly or indirectly, in a reduction of the Company's income from management fees, and in reduced profitability: creation of default funds, in accordance with the provisions of the default fund circular; transferring while joining pension funds; provisions in connection with the unification of products; the clarification regarding the pension marketing process when marketing a pension product; and the reduction of risk tariffs, which may result in the replacement of current risk insurance products with cheaper insurance products. The following draft directives, insofar as they are published as binding directives, may also lead to a continuation of the trend of lower profitability: the draft amendment to the Transfer of Funds Regulations with respect to annuity recipients; and the draft amendment to the Distribution Regulations (for details, see section 10.8.1.1(b) below). For details regarding the average rate of management fees from premiums and from accrual which were collected during the reporting year, and the scope of managed assets, see section 6.1.2.2 above and Note 20 to the financial statements.

  For the possible implications of the draft distribution commission regulations, see section 10.8.1.1(b) below.

- **Competition** - The creation of the default funds, the entry and strengthened position of new market players, the increased transparency, the removal of operational barriers which delay money transfer processes between institutional entities, such as the creation of the pension clearing house and the increased use thereof, as well as the continued trend of consolidating long term savings products, the discontinuation of sales of risk insurance products as part of managers insurance, have resulted in increased competition in the segment, while focusing the competition on management fees, returns, service and operation, and accordingly, may affect the scope of mobility between the various pension products, the scope of new sales, the retention and profitability of the current portfolio.

The information presented on all matters associated with the possible implications of the provisions of the law regarding increasing competition in the pension savings segment, including in connection with the Company's profitability, constitutes forward looking information which is based on the Group's estimates and assumptions, as of the publication date of the report, and in light of the fact that not all of the arrangements have been accepted, and that some of the arrangements are in the early stages, actual implementation may differ significantly from the forecast. The implications of the aforementioned provisions of the law are significantly dependent upon the following factors: the current uncertainty regarding the manner of implementation of some of the provisions of the law, and the steps which will be taken by the member companies in the Group, including as regards dealing with the various provisions aimed at increasing competition in the market, and which may result in changes in the market shares and income of the Group's institutional entities; Their relationships with the distributing entities, agents, banks which have not yet begun advising regarding insurance products, and reinsurers; the conduct of the competing institutional entities, following the legislative amendments; the preferences of members and policyholders and their conduct with respect to their products; the conduct of employers and operating entities on their behalf; The implications of other legal provisions in the segment, and their combined impact, together with the provisions pertaining to increased competition; and the complexity of the operational preparations with respect to the various provisions.

6.2.2. Other

(A) Data cleansing with respect to members' rights

Further to the provisions of the circular regarding data cleansing with respect to members' rights in institutional entities, which was published in November 2012, regarding data cleansing with respect to members' rights (institutional entities circular 2014-9-13) (the "**Circular**"), which obligated the institutional entity to cleanse the data which confer rights upon members, in order to ensure that the recording of members' rights in the information systems is as reliable, complete, accessible and retrievable as possible, by mid-2016. The Group's institutional entities conducted, after the publication of the circular, in 2013, a gap survey with respect to members and policyholders which manage policies and/or accounts in the Group's institutional entities ("**Cleansing Tasks**"), and also worked during the reporting period on the implementation of a comprehensive process of data cleansing in the systems of the long term savings segment. In general, as of the publication date of the report, most of the tasks involving the cleansing of data regarding accrued balances of policyholders have been completed. The Group's institutional entities are continuing their data cleansing activities with respect to members and policyholders, including with reference to additional gaps which are identified from time to time, including as regards the automation of classification of funds, in accordance with the layers of the regulatory directives, over the years, and these are in the final stages of handling. At this stage, the institutional entities in the Group are unable to estimate the scope, cost, and full implications of the aforementioned activities, or the scope of the future gaps in data cleansing, which may result from regulatory changes, due, inter alia, to the complexity of the products, the fact that they are long term products, and due to the multiplicity of automation systems in the segment, and their limitations. The Group's institutional entities update their insurance liabilities from time to time, as required.

(B) Withdrawal of funds from small accounts in provident funds

In January 2020, a draft amendment was published to the **circular regarding "withdrawal of funds from small accounts in provident funds**", in which it was proposed to increase the threshold at which managing companies will be obligated to perform an initiated withdrawal, and to send to members who own small accounts a check by mail with respect to the accrued balance, such that the threshold will amount to NIS 6,500 (excluding accounts of members with whom contact has been lost), and provisions were also determined regarding the provision of notice to members (with an accrual of up to NIS 8,000) on the subject.

The aforementioned amendment is expected to result in a decrease of the Company's income from management fees.

The information presented on all matters associated with the possible implications of the draft amendment to the circular regarding the withdrawal of funds from small accounts in provident funds constitutes forward looking information, which is based on the Company's estimates and assessments, and actual results may differ significantly from the forecast, inter alia, in light of the final version of the amendment, if and insofar as it is published, and due to the conduct of members.

(C) Method for withdrawal of funds from the upon the conclusion of upon conclusion of the work relationship

In July 2018, Amendment 21 to the Provident Funds Law was published, in which it was determined that an employer will be entitled to withdraw deposits which it has made for its employee, to the severance pay component, within 4 months after the end of the employee's period of employment at that employer, provided that the employer has submitted, to the institutional entity where the severance pay funds are held, one of the following: (1) A declaratory ruling determining its right to severance pay, or a reference confirming the initiation of such legal proceedings; (2) References confirming the existence of legal proceedings, in which a final determination was given regarding the employer's entitlement to severance pay, or revocation of the employee's entitlement to severance pay: or (3) Notice by the employer and employee confirming that the funds can be returned to the employer. It was further determined that insofar as the employer has not submitted to the managing company the aforementioned documents within the specified period, and the employee has withdrawn the severance pay, the employer will be estopped from bringing claims against the managing company. An employer will be entitled to withdraw deposits which it has performed on behalf of its employees to the severance pay component 4 months after the end of the employee's period of employment at that employer, only if it has submitted to the institutional entity a declaratory ruling determining its entitlement to severance pay, and the employee has not yet withdrawn the severance pay as of the date when the aforementioned ruling is given.

The aforementioned amendment includes transitional provisions for 4 months, which concluded in November 2018, during which time the employer could object to the transfer of severance pay funds of employees whose employment concluded before the amendment entered into effect.

As of the publication date of this report, no significant change has been made in the scope of withdrawals of severance pay funds managed by the Group. However, the Company is unable to estimate, at this stage, the full future implications of the aforementioned directive.

For details regarding the summary of additional final provisions of the law, which were published during the reporting year and thereafter, and a summary of the draft provisions of the law which were published, which apply to the operating segment, beyond the provisions of the law which were specified in this chapter above, see also section 10.2 below.

(D) Update to the series of demographic assumptions in life insurance and mortality improvement model

In November 2019, the Authority published a circular entitled "amendment to the provisions of the consolidated circular: update to the series of demographic assumptions in life insurance, and update to the mortality improvement model for insurance companies and pension funds", to which an position paper on the subject was attached, which updated the demographic assumptions underlying the estimates regarding annuity factors on the date of retirement in life insurance policies and in pension funds (hereinafter, jointly: the "**Circular Regarding Mortality Tables**").

The mortality tables circular includes mortality tables which are based, inter alia, on data regarding retirees which was collected by the Authority from the insurance companies, and also includes recommendations regarding the expected future rates of improvement in mortality. The circular addresses different population groups separately, and predicts, for some groups, an extension of life expectancy.

For details regarding the consequences of the mortality tables circular, see Note 39(e)(e1)(d)(2) to the financial statements.

For details regarding the Company's sensitivity to changes in mortality rates, see Note 39(e)(e1)(c) to the financial statements.

(E) Retirement Age Law Memorandum

In June 2019, the Retirement Age Law Memorandum was published, in which it is proposed to increase the retirement age for women to 65, gradually over a period of around 11 years. In the second stage, beginning in January 2037 (around three and a half years after the retirement age for women becomes 65), it is proposed to apply an automatic mechanism to increase the retirement age for women in accordance with changes in life expectancy, in a manner whereby the retirement age for women will not exceed the retirement age for men.
The provisions of the memorandum include increasing the retirement age for women broadly, across the entire economy (and not within the specific context of insurance and pension laws); however, they may have an indirect effect, inter alia, with respect to the period for deposits and receipt of annuities in managers' insurance policies and in pension funds, and throughout the insurance coverage period in case of death or loss of working capacity.

The Company's estimates regarding the implications of the Retirement Age Law Memorandum constitutes forward looking information, which is based on the Company's non-final estimates which are known as of the publication date of the report, and which are expected to change according to the final wording of the Retirement Age Law, insofar as it will be amended.

(F) Circular regarding the settlement of loss of working capacity claims

In February 2020, a draft circular was published regarding the "settlement of loss of working capacity claims" (hereinafter: the "**Circular Regarding the Settlement of Loss of Working Capacity Claims**"), which includes provisions regarding the settlement of loss of working capacity insurance claims, which are intended to guarantee a claim settlement process which is fair, efficient, transparent and professional, inter alia, through an objective investigation of the loss of working capacity claims by an independent external entity, similarly to the model which currently exists for disability claims in pension funds, while reducing, as much as possible, the burden on the policyholder.

The draft circular included, inter alia, provisions with respect to the order of activity and timetable which will apply to the insurer in the claim settlement process, including investigating the claim within 20 business days after the date of receipt of the documents which were submitted by the policyholder to the insurer; and restrictions in cases where investigations can be made, and regarding the methods used to make them. Inter alia, it was proposed that an investigation will include only documentation of the policyholder's actions as they occurred, and that, within the framework of a decision to reject a claim, which also relies on findings of an investigation, the insurer should be required to attach to its decision the date and location of the investigation, as well as a picture from the investigation, which allows verification of the policyholder's identity.

The draft includes a proposal to create list of medical consulting service providers, including specialized physicians with appropriate geographical distribution who are not employees of the insurance company ("Medical Consulting Service Provider"). A doctor will be selected from the list in a random and cyclical manner, and any provider of medical consulting services who chooses to do so may be added to the list, in accordance with the rules specified in the circular.

The draft circular includes an option to refer policyholders, as part of the investigation of their claims, for medical examination by a company physician or by a provider of medical consulting services, in the Company's discretion. Appeals against the decisions of doctors will be heard by a medical committee (which will include doctors from the list of medical consulting service providers), and appeals against the decisions of the medical committee will be heard by the medical appeals committee, which will be coordinated by the hospital.

In accordance with the draft circular, the application date will be the date of the circular's publication, insofar as it will be published, excluding the provisions pertaining to the creation of an automated system for the submission of claims, for which a later application date was determined, until January 1, 2021.

The described processes, provisions and restrictions set forth in the draft circular with respect to the settlement of loss of working capacity claims are expected to have an impact on the entire claim settlement process with respect to loss of working capacity claims, both from the operational perspective, and on all matters associated with claim settlement and the tools which will be available to the insurer to ascertain its liability, and as a result, are expected to increase claim settlement costs. At this preliminary stage, the Company is unable to estimate the entire impact of the aforementioned provisions, which could be significant.

The information presented on all matters associated with the possible implications of the draft circular regarding the settlement of loss of working capacity claims, as described above, constitutes forward looking information, which is based on assumptions and estimates made by the Group, and actual results may differ significantly from the forecast, and depend, inter alia, on the final wording of the circular, if published, on the manner of actual implementation, and the implications of the loss of working capacity claim settlement process, including with respect to claims which will be settled after the application date, based on policies which were marketed in the past.

6.3. Competition

6.3.1. The competitive conditions in the operating segment and names of the significant competitors in the segment

This segment is characterized by intense competition between all of the institutional entities.

Life insurance, pension and provident products are alternative products with specific emphases in each of them. In light of a series of reforms in the segment, which reduced the variability between the products, and gave preference to annuity products, the cancellation of the guaranteed factors in the insurance funds, the relatively low cost of the insurance coverages in the pension fund, the management fees which are collected, the guaranteed returns on some of the assets in the pension funds, and the creation of default funds, pension funds are the main product which is being marketed to the general public. For details regarding trends in supply and demand during the reporting year, see section 6.1.4 above.

Insurance products which do not receive tax benefits, such as individual policies or pension savings funds which became liquid, as well as provident funds for investment (the investment in which has a tax advantage, insofar as the funds are withdrawn upon the saver's retirement, see section 6.1.1 above), are products which also compete amongst themselves and against other investment products which are also marketed by financial entities that are not entities overseen by the Commissioner, mostly including banks, portfolio managers and mutual funds.

The competition in the segment is focused on returns, on existence or absence of annuity or guaranteed return factors, the amount of the management fees (and the given discounts), the insurance coverages, the service level, and supplementary insurance solutions.

In accordance with the Commissioner's publications, as of December 31, 2019, the Group is the fourth largest in the life insurance branch, the third largest in the pension fund branch, and the sixth largest in the provident fund branch, and in total, the Group is the fourth largest in the pension market, in accordance with the scope of managed assets, as defined by the Commissioner. It is noted that preference was given, in the default fund selection process, for introducing and strengthening small players in the pension market.

The competition in risk and loss of working capacity products takes place between the various insurance companies, and is focused on the given tariffs and discounts, due, inter alia, to the significant similarity between the terms of the products (on this matter see, inter alia, the provisions of the guidelines circular, in section 6.2.1(f)(1) above, and the provisions regarding the determination of tariffs in risk, in section 6.1.4.1 above). For details regarding the lifting of competitive barriers regarding entry to the market, on all matters pertaining to the capital requirement, see section 10.3.1.2 below. Additionally, pension funds which include survivors insurance (in case of the member's death) and disability insurance also constitute competition to the risk and loss of working capacity products, as a supplementary product to managers insurance.

The combined impact of regulatory changes which were made in recent years, including the creation of default pension funds (including cancellation of the collective arrangements which applied) (for details, see section 6.2.1(a) above), and the increased trend of interchangeability between products of the same type of the different institutional entities, the trend of unification between the different products, the creation of the pension clearing house (see section 6.2.1(d)(1) above), the addition to insurance circular[51], the publication of comparative benchmarks[52] and the removal of mobility barriers, have resulted in intensified competition between the products in the segment, and between the institutional entities. For details regarding additional directives which have affected and continue to affect the competition and profitability in the segment, see section 6.2 above.

The competitive conditions described above affect the mobility of the pension products which are managed by the Group's institutional entities. For details regarding the transfer of funds from and to the Group's institutional entities in long term savings branches during the years 2017 to 2019, see section 6.4.5 below.

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[51] The addition to insurance circular, which regulates the conduct of insurance companies and insurance agents when adding an insurance applicant to an insurance plan, included the determination, inter alia, of provisions regarding the process of tailoring the insurance to the customer's specific needs, by querying on the Insurance Mountain website in order to receive information regarding the policyholder's additional insurance policies through other companies; and provisions prohibiting the addition of an insurance applicant to individual insurance which provides compensation, when the policyholder has another policy which provides compensation for an insurance event, except in exceptional cases and/or with the policyholder's consent.

[52] The Authority publishes, on the Ministry of Finance website, comparative figures with respect to returns and the risk indicators of provident funds, pension funds and insurance funds, information regarding the composition of investment assets and expenses which are deducted from members' assets with respect to the performance of investments, and statistical information regarding the claim settlement method and the time required to handle requests for withdrawal, transfer, transition between tracks and receipt of annuities, as well as comparative figures in connection with the service level indicator.

The competition over the aforementioned products was reflected, inter alia, in the retention ability, in returns, in the amount of collected management fees and in commissions paid to agents. For additional details, see Part B of the Report - Board of Directors' Report, section 3.1.1.

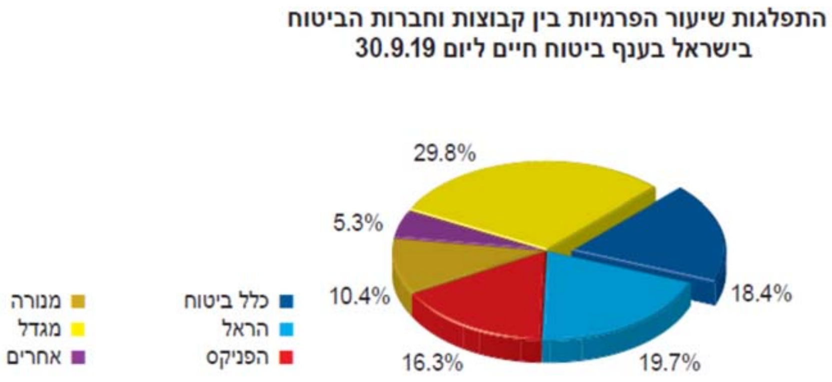
During the reporting year, the competing entities expanded their direct sale channels, and there was even a trend of acquisition of insurance agencies by institutional entities.

1) <u>Life insurance branch</u>

Approximately 95.0% of the life insurance market, in terms of gross premiums earned, is controlled by the five large insurance companies (Clal Insurance, Migdal, Harel, Menorah and Phoenix). Clal Insurance primarily competes against these insurers, against pension funds and against provident funds which provide alternative products. Clal Insurance also competes in the individual insurance segment against the other insurance companies.

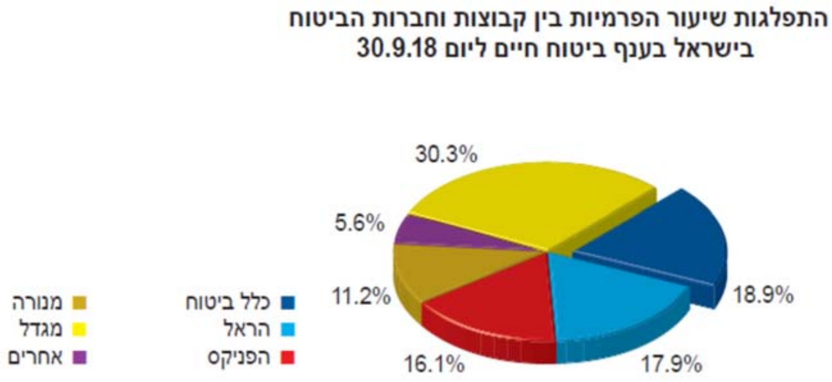
The decline in market share was primarily due to redemptions and transfers from the Company's insurance funds at a higher rate than its share in the managers' insurance market.

Distribution of premium rates between insurance groups and companies in Israel in the life insurance branch as of September 30, 2019



Dark blue – Clal Insurance
Turquoise – Harel
Red – Phoenix
Beige – Menorah
Yellow – Migdal
Purple – Others

Distribution of premium rates between insurance groups and companies in Israel in the life insurance branch as of September 30, 2018



Dark blue – Clal Insurance
Turquoise – Harel
Red – Phoenix
Beige – Menorah
Yellow – Migdal
Purple – Others

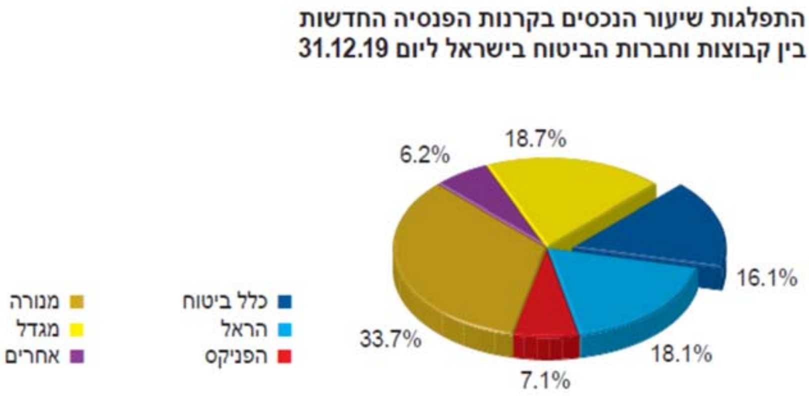
* The scope of premiums in the life insurance branch reflects the premiums which are paid with respect to all policies which are in effect and which were sold over the years, and changes therein do not necessarily indicate a change in supply and demand during the reporting year. The scope of premiums also does not take into account the effects of the absence of approved tariffs for the sale of risks in managers insurance, which began in the period after the reporting period (see section 6.1.4.1 above).

2) Pension funds branch

According to the Group's estimate, Clal Pension and Provident Funds primarily competes against the chosen default funds and the large funds, Mivtachim (Menorah) and Makefet (Migdal), and Harel Pension and Phoenix Pension.

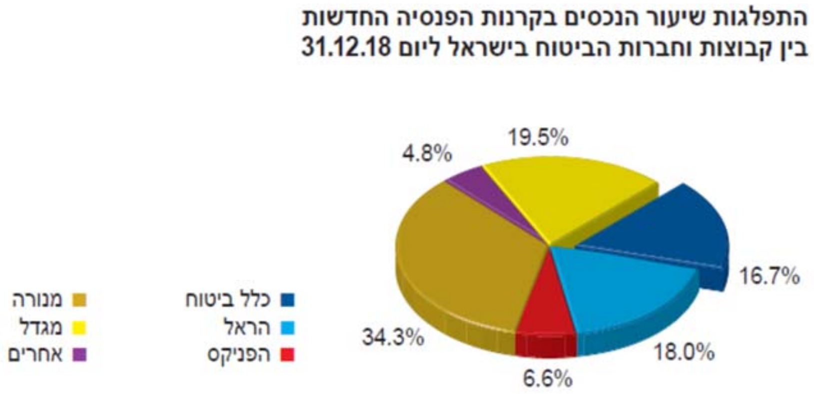
The decrease in the Company's market share was due to the increased competition in the market, the strengthened position of the chosen default funds, and, with respect to new members - the calculation of the collective arrangements in March 2019.

Distribution of asset rates in new pension funds between insurance groups and companies in Israel as of December 31, 2019



Dark blue – Clal Insurance
Turquoise – Harel
Red – Phoenix
Beige – Menorah
Yellow – Migdal
Purple – Others

Distribution of asset rates in new pension funds between insurance groups and companies in Israel as of December 31, 2018

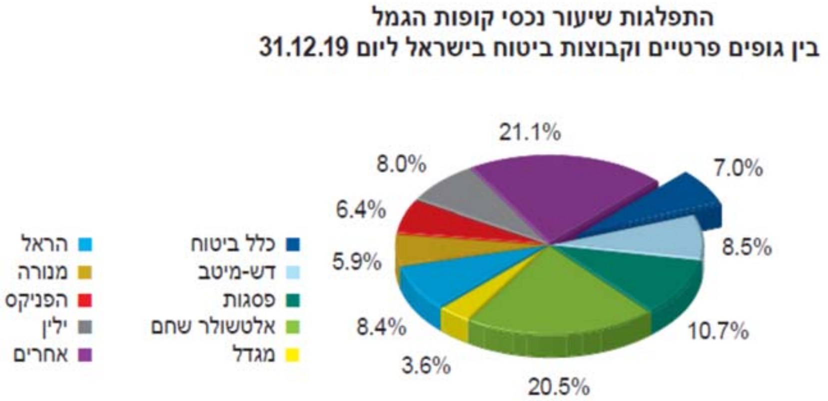


Dark blue – Clal Insurance
Turquoise – Harel
Red – Phoenix
Beige – Menorah
Yellow – Migdal
Purple – Others

3) Provident funds branch

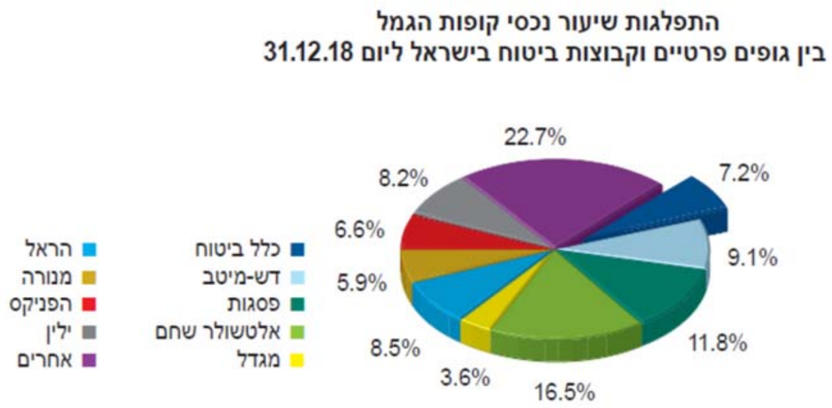
As of the reporting year, the competition in the branch takes place primarily against the other provident funds for savings. According to the Group's estimate, its main competitors are Altshuler Shaham, Psagot, Meitav DS, Harel, Phoenix, Menorah and Migdal.

Distribution of asset rates in provident funds between private entities and insurance groups in Israel as of December 31, 2019



Dark blue – Clal Insurance
Light blue – DS-Meitav
Dark green – Psagot
Light green – Altschuler Shaham
Yellow – Migdal
Turquoise – Harel
Beige – Menorah
Red – Phoenix
Grey - Yellin
Purple – Others

Distribution of asset rates in provident funds between private entities and insurance groups in Israel as of December 31, 2018



Dark blue – Clal Insurance
Light blue – DS-Meitav
Dark green – Psagot
Light green – Altschuler Shaham
Yellow – Migdal
Turquoise – Harel
Beige – Menorah
Red – Phoenix
Grey - Yellin
Purple – Others

6.3.2. Methods for dealing with competition and factors affecting the Company’s competitive position

Dealing with competition in this operating segment takes place on several levels:

- Synergy between the Group’s member companies - provision of integrative solutions to customers in all long term savings channels.
- The use of regulatory changes, in order to receive exposure to potential new customers, and to add them as customers.
- Increased operational efficiency - through the improvement of work methods and the improvement of automation systems. For details regarding the improvement of automation and digitization systems, see section 10.10.3.2 below.
- Retaining customers in the existing portfolio and improving customer service – by activating designated units to handle an issue, creating designated service hotlines, including claims hotlines and employers’ hotlines, while presenting a range of existing possibilities in the Group to the customer.
- Expansion of the customer base, both by expanding the distribution channels, including directly, and by increasing the sales volume, product types, and the scope of insurance coverage to existing customers.
- Maintaining a significant scope of activity, and expanding it based on the operations network and the output database.
- A professional and highly skilled investments unit, which aims to achieve maximum returns for policyholders and members, through informed risk management.
- Expansion of the distribution and marketing units, both direct and through agents, by conducting sales promotion campaigns, improving service to agents (including technological improvement in interfaces vis-à-vis agents, and the provision of digital service), and recruiting new agents.

- Branding and positioning of the Group.
- Innovation, development of products and adjustment of product to the needs of customers and to changing market conditions, under the regulatory restrictions.
- Competitive tariffs.

The main factors affecting the Company's competitive position include:

- Many years of experience in the life insurance and long term savings segment.
- The Group's reputation in the segment.
- Long term relationships with agents marketing the Group's products.
- Direct distribution network.
- The variety of pension products which are sold under one roof.
- Financial stability.
- Returns achieved on savings funds, as compared with the returns of competing entities.
- The service given by the Company to customers and agents, and the claim settlement method.
- Transparency and price - as part of the Commissioner's policy in recent years, significant reforms have been promoted which pertain to transparency, tariff reductions, and increasing competition. These reforms are affecting, and will continue to affect in the coming years, the long term savings segment and the profitability thereof.
- Competitive barriers - for details regarding the lifting of barriers to entry to the market and to the entry of competitors, see section 10.3.1.2 below.

6.4. Customers

The main types of customers in the long term savings segment include employers, members, individual policyholders, self-employed workers and collectives.

In this segment, the Company is not dependent on any individual customer, or on a limited number of customers. The Company does not have individual customer whose income constitutes 10% or more of the Company's total income in the consolidated reports.

The Group markets, from time to time and in the ordinary course of business, to member companies of the IDB Group (as policyholders in collective insurance, as members in central provident funds and as employers depositing into pension savings for their employees), long term savings products. The Group's total income in the long term savings segment from member companies of the IDB Group, from premiums and contributions in the ordinary course of business, does not exceed 5% of the Company's total income in the segment in 2019. For the sake of caution, despite the fact that the IDB Group includes a large number of companies, all of the member companies of the IDB Group were addressed, for this purpose, as a single entity.[53]

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[53] For details regarding the Commissioner's announcement dated December 8, 2020, regarding the Company's status as a company without a control core, see Note 1(a) and (b) to the Company's financial statements. With respect to the

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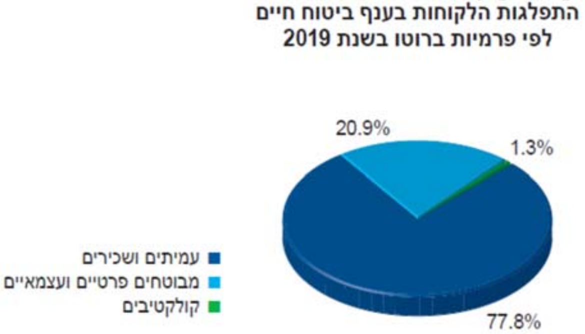
reporting year, the evaluation also included Mr. Moshe Terry, who serves as the trustee for IDB Development for the purpose of exercising the authorities which are vested in him by virtue of the means of control.

6.4.1. Distribution of Company customers in the life insurance branch by premiums in the years 2019 and 2018

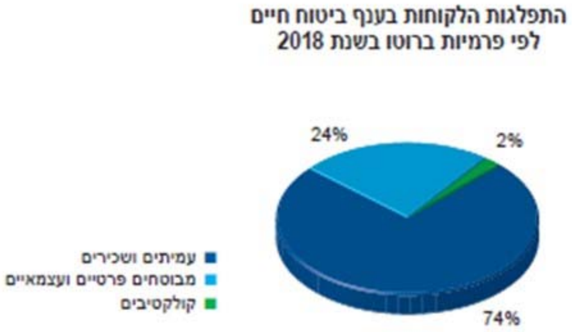
Customer type	**2019**		**2018**	
	Gross premiums (NIS in thousands)	**Proportion of total sales**	**Gross premiums (NIS in thousands)**	**Proportion of total sales**
Members and salaried employees	4,655,858	78%	4,342,883	74%
Private and independent policyholders	1,250,469	21%	1,422,239	24%
Collectives	79,665	1%	81,573	2%
Total	**5,985,992**	**100%**	**5,846,695**	**100%**

Distribution of customers in the life insurance branch by gross premiums in 2019



Dark blue – Members and salaried employees
Light blue – Individual and self-employed policyholders
Green – Collectives

Distribution of customers in the life insurance branch by gross premiums in 2018



Dark blue – Members and salaried employees
Light blue – Individual and self-employed policyholders
Green – Collectives

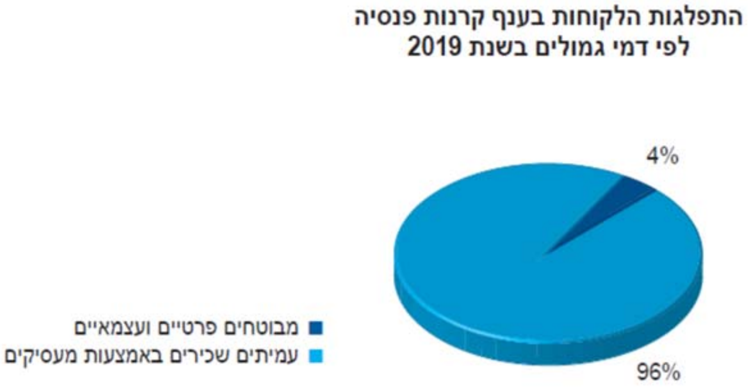
6.4.2. Redemptions in the life insurance branch

In the life insurance branch, the redemption rate from the average reserve during the reporting year was 1.8%, as compared with 2.0 in 2018.

6.4.3. Distribution of the Company's customers in the pension funds branch by contributions for the years 2019 and 2018

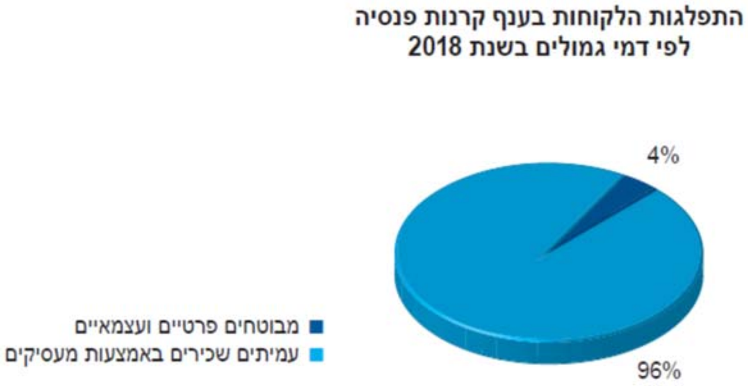
Customer type	**2019**		**2018**	
	Contributions (NIS in thousands)	**Proportion of total sales**	**Contributions (NIS in thousands)**	**Proportion of total sales**
Salaried employee members	5,894,817	96%	5,634,844	96%
Individual and self-employed policyholders	270,659	4%	255,847	4%
Total	**6,165,476**	**100%**	**5,890,691**	**100%**

Distribution of customers in the pension fund branch by contributions in 2019



Dark blue – Individual and self-employed policyholders
Light blue – Salaried employee members through employers

Distribution of customers in the pension fund branch by contributions in 2018



Dark blue – Individual and self-employed policyholders
Light blue – Salaried employee members through employers

6.4.4. Distribution of the Company’s customers in the provident funds branch according to contributions in 2019 and 2018

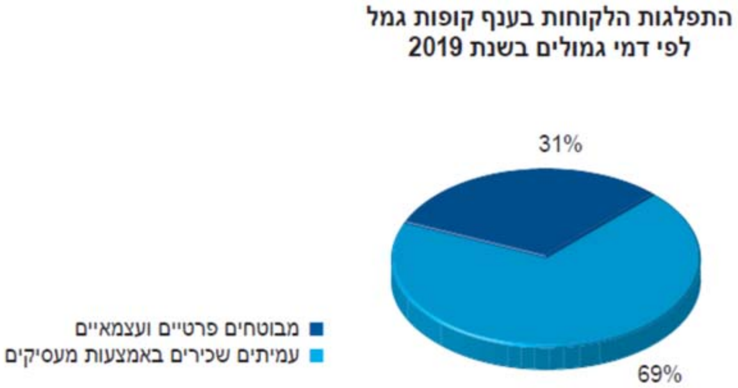
2019

Customer type	Contributions and provident funds (NIS in thousands)	Central severance pay contributions (NIS in thousands)	Contributions / deposits to study funds (NIS in thousands)	Provident funds for investment (NIS in thousands)	Total contributions (NIS in thousands)	Proportion of total contributions (NIS in thousands)
Salaried employee members	306,376	417	1,197,787	-	1,504,580	69%
Individual and self-employed policyholders	304,053	-	130,679	254,435	689,167	31%
Total	**610,429**	**417**	**1,328,466**	**254,435**	**2,193,747**	**100%**

2018

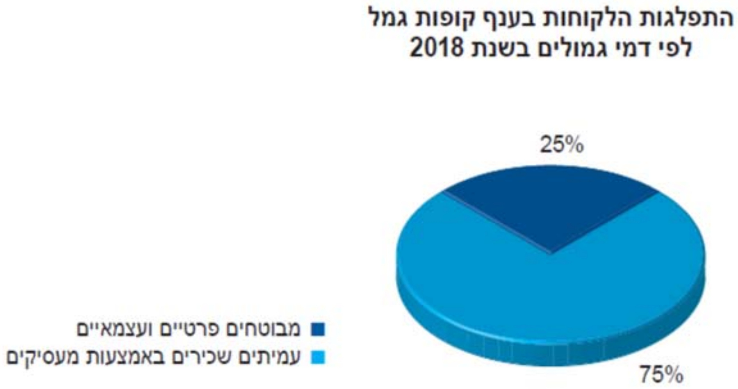
Customer type	Contributions and provident funds (NIS in thousands)	Central severance pay contributions (NIS in thousands)	Contributions / deposits to study funds (NIS in thousands)	Provident funds for investment (NIS in thousands)	Total contributions (NIS in thousands)	Proportion of total contributions (NIS in thousands)
Salaried employee members	278,125	404	1,081,578	-	1,360,107	75%
Individual and self-employed policyholders	174,545	-	115,077	164,310	453,932	25%
Total	**452,670**	**404**	**1,196,655**	**164,310**	**1,814,039**	**100.00%**

Distribution of customers in the provident fund branch by contributions in 2019



Dark blue – Individual and self-employed policyholders
Light blue – Salaried employee members through employers

Distribution of customers in the provident fund branch by contributions in 2018



Dark blue – Individual and self-employed policyholders
Light blue – Salaried employee members through employers

6.4.5. Information regarding the transfer of funds from and to the Group's institutional entities in the long term savings branch during the years 2017 to 2019:[54]

2019

NIS in thousands	The Group's activity			Total
	Life insurance	Provident funds	Pension	
Transfers to the Group from other entities				
Transfers from other insurance companies	134,308	73,015	87,350	294,673
Transfers from pension funds	131,135	40,175	1,458,925	1,630,235
Transfers from provident funds	112,287	1,623,078	29,144	1,764,509
Total transfers to the Group	**377,730**	**1,736,268**	**1,575,419**	**3,689,417**
Transfers from the Group to other entities				
Transfers to other insurance companies	214,745	71,090	123,108	408,943
Transfers to pension funds	231,361	20,972	2,236,890	2,489,223
Transfers to provident funds	515,754	1,496,887	141,711	2,154,352
Total transfers from the Group	**961,860**	**1,588,949**	**2,501,709**	**5,052,518**
Net transfers	**(584,130)**	**147,319**	**(926,290)**	**(1,363,101)**

2018

NIS in thousands	The Group's activity			Total
	Life insurance	Provident funds	Pension	
Transfers to the Group from other entities				
Transfers from other insurance companies	61,879	3,912	55,196	120,987
Transfers from pension funds	94,148	32,064	1,779,639	1,905,851
Transfers from provident funds	35,307	1,147,050	9,748	1,192,105

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[54] Data regarding life insurance with respect to the years 2017 and 2018 were restated in light of the neutralization of internal transfers within the group.

Total transfers to the Group	**191,334**	**1,183,026**	**1,844,583**	**3,218,943**
Transfers from the Group to other entities				
Transfers to other insurance companies	173,990	77,282	175,338	426,610
Transfers to pension funds	123,641	7,121	2,231,492	2,362,254
Transfers to provident funds	291,095	1,722,270	39,269	2,052,634
Total transfers from the Group	**588,726**	**1,806,673**	**2,446,099**	**4,841,498**
Net transfers	**(397,392)**	**)623,647)**	**(601,516)**	**(1,622,555)**

2017

NIS in thousands	**The Group's activity**			**Total**
	Life insurance	**Provident funds**	**Pension**	
Transfers to the Group from other entities				
Transfers from other insurance companies	6,912	41,463	49,626	98,001
Transfers from pension funds	15,351	25,742	1,645,592	1,686,685
Transfers from provident funds	5,577	698,573	30,773	734,923
Total transfers to the Group	**27,840**	**765,778**	**1,725,991**	**2,519,609**
Transfers from the Group to other entities				
Transfers to other insurance companies	147,234	93,232	159,869	400,335
Transfers to pension funds	103,532	13,106	2,672,695	2,789,333
Transfers to provident funds	236,824	3,077,022	62,139	3,375,985
Total transfers from the Group	**487,590**	**3,183,360**	**2,894,703**	**6,565,653**
Net transfers	**(459,750)**	**(2,417,582)**	**(1,168,712)**	**(4,046,044)**

7. Non-life insurance segment

7.1. Products and services

7.1.1. Description of the insurance branches and the insurance coverages included in the segment

This segment includes the Group's operations in the non-life insurance branches. The non-life insurance segment is traditionally divided into 2 main categories: (a) property insurance and (b) liability insurance.

Operations in property insurance are considered characterized by "short tail claims", due to the fact that the obsolescence period is only three years after the occurrence of the insurance event, and due to the fact that these claims are submitted, in most cases, during the insurance period. On the other hand, compulsory insurance and liability insurance are considered characterized as "long tail claims", due to the fact that the obsolescence period is seven years after the occurrence of the insurance event, and due to the fact that the insurance claim does not become obsolete so long as the third party claim against the policyholder has not become obsolete, and due to the extended period of time which passes between the date of materialization of the cause of action against the policyholder, and the date of the discovery and/or the filing date of the claim, inter alia, in light of the aforementioned obsolescence period, and/or due to the time period which is required to investigate the claim. The obsolescence period of claims for insurance benefits, in case of disability which was caused to the policyholder due to an illness or accident, will begin on the date when the policyholder earns the right to claim insurance benefits in accordance with the terms of the insurance contract. Therefore, personal accidents policies which include accidental disability coverage may also be considered as having "long tail claims".

Presented below is a review of the main branches which are included in the non-life insurance segment:

7.1.1.1. Compulsory motor insurance branch

A. General

In this branch, insurance coverage is provided to vehicle owners and to vehicle drivers for any liability which they may incur in accordance with the **Road Accident Victims Compensation Law, 1975** (the "**RAVC Law**"), as well as any other liability due to physical harm caused to a person by or due to the use of the motor vehicle, and coverage is also given to the vehicle owner and his permitted driver for physical injury which may be caused to them in a road accident. In general, the terms of coverage are standard and formulated in accordance with the wording of the Standard Policy which was established in the **Control of Financial Services Regulations (Insurance) (Contract Terms in Compulsory Motor insurance), 2010**. This insurance is compulsory, and constitutes a the use of condition for a motor vehicle, in accordance with the **Motor Vehicle Insurance Ordinance, 1970** (the "**Ordinance**").

B. Special arrangements in the compulsory motor insurance segment

Several arrangements are in effect in the compulsory motor insurance segment which affect insurance tariffs, as specified below:

(1) Residual insurance arrangement (arrangement through the "Pool"):

In light of the fact that, on the one hand, compulsory motor insurance is a legal obligation, while on the other hand, there is no obligation to insure all parties who request to acquire such insurance, by virtue of the Motor Vehicle Insurance Regulations (Residual Insurance Arrangement and Tariff Establishment Mechanism), 2001, the residual insurance arrangement was established, which covers individuals using motor vehicles who did not obtain insurance coverage directly from the commercial insurance companies (such as drivers with an insurance past indicating high risk, drivers with a history of license revocations, high risk vehicles such as motorcycles, all-terrain vehicles and/or additional vehicles which were rejected by the insurance companies). Following the reduction of the tariffs of the Pool, as part of the 2016 and 2017 amendments to the compulsory motor insurance circular (see section 7.1.1.1(c)(1) below), the sales volume increased of insurance for private and commercial vehicles of up to 3.5 tons through the Pool, which became a relevant competitor. The residual insurance arrangement is based on co-insurance of all of the insurance companies operating in the compulsory motor insurance branch, according to which the aforementioned companies are required to participate in the residual insurance arrangement, and jointly bear its losses or profits, in accordance with their share in the total premiums in compulsory motor insurance (the "**Compulsory Market Share**"). The Group's share in the residual insurance arrangement as of the 2019 underwriting year amounted to a total of approximately 8.8%[55], as compared with a rate of approximately 9.12% in the 2018 underwriting year.

The insurance companies finance their share in the residual insurance arrangement (within the framework of the "pool") by loading the residual insurance cost onto the other policyholders in compulsory motor insurance in the insurance company through avenues other than residual insurance.

In July 2018, the **Law in Amendment of the Motor Vehicle Ordinance (No. 23), 2018**, was published, which updated the legislative arrangement with respect to the loading component (hereinafter: the "**Amendment to the Loading Component Range**") which the insurance companies participating in the residual insurance arrangement are entitled to collect for the purpose of financing the cost for residual insurance, such that the loading component, until July 2020, will be in the range from 5.5% to 8.5% of the cost of pure risk[56] of the insurer's compulsory insurance which are not under residual insurance, and after July 2020, it will be in the range from 5.5% to 8%.

During the reporting year, the correction of the loading component range had no effect on the tariffs of Clal Insurance. However, it is not possible to predict the full impact of the amendment in the future, which depends, inter alia, on business results and on the entire set of competitive conditions in the market, including the method for updating the tariffs of the Pool, insofar as they will be updated, the compulsory motor insurance tariff of Clal Insurance, as approved by the Commissioner, and on decisions which will be made regarding changes to the discount rate (see section 7.1.1.1(d)2 below).

(2) Karnit Road Accident Victims Compensation Fund

Karnit Road Accident Victims Compensation Fund ("**Karnit**") is a corporation which was established in accordance with the RAVC law, for the purpose of paying compensation to eligible individuals in accordance with the RAVC law, who are unable to claim compensation from an insurance company, due to one of the following cases: **(1)** Injury caused by an uninsured vehicle; (2) Unknown insurer (such as "hit and run" accidents); (3) Insurer in liquidation proceedings, or for which an authorized manager has been appointed.

The fund is financed by loading a rate of 1% of net premiums[57] on the holders of compulsory motor insurance policies. This amount is transferred by the insurance companies to Karnit.

(3) Liability regarding the provision of medical services -

In accordance with a legislative amendment from 2009, in which the insurance liability for the provision of medical services which are included in the basket of services set forth in the Second Addendum to the National Health Insurance Law, 1994 (hereinafter: the "**National Health Insurance Law**") and in the Drugs Ordinance, in accordance with section 8(g) of the National Health Insurance Law, due to physical injuries caused to road accident victims, was transferred from the insurers to the health funds, the insurance companies collect 9.4% of the premiums in order to finance the cost of financing the cost of providing services to road accident victims (hereinafter: the "**Participation Amount**"). The insurers will continue being liable for the remaining medical services that are not included in the Second Addendum to the National Health Insurance Law and in the Medicines Ordinance. The foregoing does not apply to certain population groups, including,

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[55] The specified rate is a temporary rate which is based on the data for September 2019, as published by the Pool.

[56] "Cost of pure risk " - The part of an insurance tariff which does not include profit, expenses and service provision costs, excluding claim settlement costs. The cost of pure risk is based on the past claims experience in the insurance branch for motor vehicles subject to compulsory insurance, plus an estimate of future payments with respect to those claims, and in consideration of the trends which affect the prevalence and cost of claims, in accordance with section 7a of the Motor Vehicle Insurance Ordinance (New Version), 1970.

[57] Net (insurance) premiums - premiums which reflect the cost of risk, without external loading, such as expenses and commissions.

inter alia, soldiers and work accident victims, where the insurance liability to cover their medical treatment expenses in case of a road accident remains with the insurers. The participation amount is transferred to the health funds by the insurers, through Karnit and the National Insurance Institute.

C. Tariffs and oversight thereof, the statistical information database and the database to identify insurance fraud in the compulsory motor branch

(1) Tariffs reform in compulsory motor insurance - maximum and variable (net) premiums to determine tariffs in the compulsory motor branch

The insurance companies determine the premiums using variables which were approved by the Commissioner as variables which an insurer will be entitled to use for the purpose of determining the tariff (hereinafter: the "**Variables**"). The variables are intended to adjust the risk premium to the insured risk.

In January 2016, the Commissioner published an amendment to the provisions of the consolidated circular in the compulsory motor insurance branch, which entered into effect in March 2016 (the "**2016 Amendment to the Compulsory Motor Insurance Circular**"). As part of the 2016 Amendment to the Compulsory Motor Insurance Circular, the residual insurance premiums for private and commercial vehicles which are sold by the managing company of the residual insurance arrangement (the "**Pool**") were updated in a manner which reduces the cost of compulsory insurance which is sold by the "Pool", and makes us of additional variables which were previously not used by the "Pool".

In September 2016, the Commissioner published an additional amendment to the provisions of the consolidated circular in the compulsory motor insurance branch, in which an update was implemented to the residual insurance premiums for private vehicles, beginning in January 2017 (hereinafter: the "**2017 Amendment to the Compulsory Motor Insurance Circular**").

As a result of the compulsory motor tariffs reform, in 2016 and 2017 Clal Insurance was required by the Commissioner to submit to her, for approval, updated insurance tariffs which reflect, after neutralizing the implications of the Winograd committee and the amendment to the Discounting Regulations (for details, see section 7.1.1.1(d)(2) below), a significant reduction of the compulsory insurance tariff.

The compulsory motor tariffs reform, as a whole, has resulted in a substantial reduction of profitability. At this stage, it is not yet possible to assess its full impact, inter alia, in light of the fact that the branch is characteristically includes long tail claims, and in light of the uncertainty regarding the Commissioner's policy upon tariff approval, the conduct of competitors and customers, the underwriting results which will result in the future, and regulatory changes, including as specified in section 7.1.1.1(d)(2) below.

Maximum fees

The consolidated circular establishes arrangements regarding the determination of premiums in the compulsory motor branch, which an insurer is entitled to collect, and the manner by which they are to be submitted to the Commissioner for approval. In accordance with the non-life insurance chapter in the consolidated circular, the risk premium component in the compulsory motor insurance tariff (net insurance premiums) is standard for all policyholders with the same characteristics at the insurer. The insurer is also entitled to collect premiums at a rate of up to 16.25% of the risk premium, which are intended to cover the insurer's administrative expenses, agent fees and profit. The insurer is entitled to provide discounts with respect to the fee component only, except for vehicle fleets, regarding which the insurer is entitled to provide a discount also on the net insurance premiums (insurance premiums less fees). On this matter – a vehicle fleet includes at least 40 vehicles under the same ownership and insured by the same insurer.

(2) Databases

Statistical database -

In the compulsory motor insurance branch, a statistical database operates which is used to estimate the cost of risks in the compulsory motor insurance branch, and which was created by virtue of the **Motor Vehicle Insurance Regulations (Residual Insurance Arrangement and Tariff Determination Mechanism), 2001**.

The statistical database and the insurance fraud handling database, as specified in this section below, are managed by an third party which is unrelated to the Company and the insurance companies (the "**Database Operator**").

The database operator is authorized by law to collect information from insurers in the insurance branch, and to use it to determine the cost of pure risk (the "**Risk Tariff**"). The risk tariff does not directly obligate the insurance companies; however, the "Pool" tariff is determined by the Commissioner in reference thereto, and additionally, constitutes a relevant indicator, from the perspective of the Commissioner, for the approval of the insurance companies' tariff. For details regarding the reform in compulsory motor insurance, in accordance with the 2016 compulsory motor insurance circular and the 2017 amendment to the compulsory motor insurance circular, see section 7.1.1.1(c)(1) above. For details regarding the residual insurance arrangement, see section 7.1.1.1(b)(1) above.

Insurance fraud handling database -

In the compulsory motor insurance branch, an insurance fraud handling database is operated in accordance with the **Motor Vehicle Insurance Regulations (Creation and Management of Databases), 2004**. The database, which concentrates information from all insurance companies, is used to identify suspected cases of fraud in compulsory motor insurance claims, and to prevent insurance fraud in the underwriting process in compulsory motor insurance policies. The cost of financing the operation of the database applies to all insurance companies, in accordance with the rules which were determined by the Commissioner. In accordance with the provisions of the consolidated circular, in general, a certificate of compulsory motor insurance will not be issued for a private or commercial vehicle up to 3.5 tons, or for motorcycles, if the data were not verified through an online database query during the underwriting process.

D. National Insurance

(1) Subrogation rights of the National Insurance Institute

Pursuant to the **National Insurance Law (Consolidated Version), 1995** (hereinafter: the "**National Insurance Law**"), in the event that the National Insurance Institute has paid to an individual who is entitled to a stipend, based on grounds which also constitute grounds for requiring a third party to pay compensation to that entitled individual, in accordance with the Civil Wrongs Ordinance, or in accordance with the RAVC law, the National Insurance Institute will be entitled to claim from that third party compensation for the stipend which it paid, or which it will pay (hereinafter: the "**Third Party**"). The third party will be entitled to deduct from the compensation the stipends which are being paid and/or which will be paid by National Insurance.

Further to the 2013 and 2015 legislative amendments to the National Insurance Law, an arrangement was determined according to which the third party which deducted, or which was entitled to deduct, any amount from the compensation which they are required to pay with respect to payments which the National Insurance Institute is entitled to claim from them, must report such amounts to National Insurance, and sanctions for non-reporting were established.

The legislative arrangement in connection with claims settled by Clal Insurance, including by way of ruling, settlement or other payment, and regarding which the National Insurance Institute has subrogation claims (hereinafter: "**National Insurance Subrogation Claims**"), has resulted and will continue to result in an increase of subrogation claims from the National Insurance Institute, with respect to claims in the compulsory motor insurance branch and in the liabilities branches, which were have been repaid by Clal Insurance in the past. However, according to Clal Insurance's assessment, the aforementioned arrangement is not expected to have a significant impact on profitability, so long as the scope of deductions which are deducted in practice by Clal Insurance from the damages which are paid to the plaintiffs does not exceed the payment to National Insurance within the framework of subrogation claims.

The Company's estimate in connection with National Insurance subrogation claims constitutes forward looking information, which is based on the information which is available to the Company as of the reporting date. **Actual results may differ from the estimated results, depending, inter alia, on the manner of development of National Insurance subrogation claims on the one hand, and on the deductions which will be made by Clal Insurance on the other hand.**

In March 2018, the Economic Efficiency Law (Legislative Amendments to Achieve Budgetary Goals for 2019), 2018 (hereinafter: the "**Economic Efficiency Law**") was published, in which changes were made to the mechanism for the settling of accounts between the National Insurance Institute and the insurance companies, with respect to the subrogation right of the National Insurance Institute from the insurance companies in claims by virtue compulsory motor policies. In accordance with the legislative amendment, the current specific subrogation arrangement mechanism was canceled, according to which the settling of accounts is performed separately with respect to each claim, and instead it was determined that the insurer will submit to the National Insurance Institute, each year, a fixed annual amount to cover its liability with respect to all of the subrogation claims by virtue of compulsory motor policies (hereinafter: the "**New Subrogation Arrangement**" and the "**Fixed Amount**"). It was further determined that an insurer will be required to transfer the fixed amount each year, in accordance with a distribution which will be determined with respect to that year as compensation, and that the Minister of Finance, with the approval of the Labor and Welfare Committee, and after having given the insurers an opportunity to present their claims, will establish provisions in the regulations regarding the method used to determine the fixed amount, the method for updating it, rules for the distribution of the total amount among the insurers, which will be used to calculate the fixed amount for each insurer, and the date when the insurance companies will pay the fixed amount to the Institute. The fixed amount will be determined, inter alia, based on the receipts which the National Insurance Institute is entitled to receive with respect to road accidents which occurred during the years 2010 and 2011, plus various updates and considerations which are prescribed in the Economic Efficiency Law, including, inter alia, updates and considerations regarding the discount rates, actuarial tables which are published by the National Insurance Institute, insurance risk in the compulsory motor branch, compulsory insurance premiums which were actually collected by the entire branch from 2010 to 2017, in accordance with the Authority's figures, the expected effect of the fixed amount on future compulsory insurance premiums, and the retirement amounts which are paid by the National Insurance Institute pursuant to the National Insurance Law (hereinafter: the "**New Subrogation Arrangement Regulations**"). In accordance with the Economic Efficiency Law, it will enter into effect on the publication date of the new subrogation arrangement regulations. It was further determined that the provisions of the law will also apply to road accidents which occurred from January 2014 until the date of the law's entry into effect, provided that a claim or demand has not been submitted regarding them by the National Insurance Institute.

In June 2019, the Draft National Insurance Regulations (Transfer of Annual Amount from Insurers to the Institution for Road Accidents), 2019 (hereinafter: the "**New Draft Subrogation Arrangement Regulations**") were published, inter alia, for the purpose of determining the effective amount.

According to the Company's estimate, insofar as the Draft New Subrogation Arrangement Regulations enter into effect, the matter will not significantly affect the Company's financial statements.

The information presented on all matters associated with the Draft New Subrogation Arrangement Regulations constitutes forward looking information, which is based on the information which is available to the Company as of the reporting date. Actual results may differ from the estimated results, and depend, inter alia, on the final version of the New Subrogation Arrangement Regulations, and on the effective amount which will be determined.

The new subrogation arrangement regulations were scheduled for publication within 30 days after the publication date of the law; however, as of the publication date of the report, they have not yet been published, and therefore, at this stage, Clal Insurance is continuing to act vis-à-vis the National Insurance Institute in accordance with the currently existing agreement between them.

(2) Interest rate for discounting National Insurance annuities

In June 2014, an inter-ministerial committee led by the Hon. Judge (Emeritus) Dr. Eliyahu Winograd was appointed in order to evaluate a correction to the life expectancy tables and the interest rate which is used to discount annuities in accordance with the National Insurance Regulations (Discounting), 1978 (hereinafter: the "**Discounting Regulations**" and the "**Winograd Committee**"). In June 2016, an amendment to the Discounting Regulations (hereinafter: the "Amendment") was published which includes, inter alia, updates to the mortality tables and the discount rates which are used to calculate the aforementioned annuities.

The Discounting Regulations formalize, inter alia, the discount rate which is used to calculate the subrogation claims which are submitted by National Insurance towards third parties, in accordance with the right which is conferred upon it by virtue of the National Insurance Law in cases where the event constitutes grounds to charge the third party in accordance with the Civil Wrongs Ordinance or the RAVC law.

In accordance with the amendment, the interest rate for the purpose of determining the annual annuity will be 2% instead of 3%, as specified in the Discounting Regulations prior to the amendment. The amendment also determines that the mortality tables and annuity discount rates will be updated again on January 1, 2020, and once every four years thereafter.

The amendment to the Discounting Regulations entered into effect in October 2017, and the courts subsequently evaluated the impact on the change in the discount rate, as stated above, also with respect to compulsory and liabilities insurance. This matter was presented to the Supreme Court for a decision, as part of a specific case which was conducted against the Pool (hereinafter: the "**Specific Case**"). In April 2018, an inter-ministerial committee was established (by the Ministry of Justice and the Ministry of Finance) for the purpose of evaluating the subject of the discount rate for tort damages, for all intents and purposes, which submitted its conclusions in June 2019 (hereinafter: the "**Kaminetz Committee Report**"). The Kaminetz Committee recommended, inter alia, that the discount interest rate for tort damages which is used, inter alia, to discount insurance benefits for policyholders, remain at the fixed rate of 3% for all injured parties (hereinafter: the "**Determined Discount Rate**"). The committee also recommended that it will be possible to change the discount rate which was determined, in accordance with an evaluation mechanism which will be implemented once every two years, based on an evaluation of the returns which are received from investment in AA rated corporate bonds, over a period of 25 years, in the half-year preceding the aforementioned date. Insofar as a deviation of over one percent in either direction has been identified, the interest rate will be updated by the Accountant General (hereinafter: the "**Update Mechanism**"), except in extraordinary circumstances, as specified in the committee's recommendations. In August 2019, a ruling was given regarding the specific case, which adopted the main conclusions of the Kaminetz Committee report (hereinafter: the "**Ruling**"), and which kept the discount rate at 3%. The Court also determined that until a legislative amendment on the matter, for the purpose of evaluating a significant economic change which requires a change in the discount rate, it will adopt the update mechanism. It was further determined in the ruling, with respect to the discount rates which will be used by insurers for the purpose of deducting National Insurance Institute compensation from the policyholders, and for the purpose of paying subrogation claims to the National Insurance Institute, that during the interim period, until the amendment to the Discounting Regulations, according to the committee's recommendations, the insurers' consent to deduct National Insurance Institute compensation from insurance benefits for policyholders, according to a discount rate of 3%, will remain in effect. However, it was determined that in light of the damage caused to the injuring parties (including the insurance companies), it is presumed that, until the amendment to the Discounting Regulations, National Insurance will also have recourse to the injuring party, through a demand according to a discount rate of 3% (hereinafter: "Subrogation Claims of the National Insurance Institute"). At this stage, an agreement has not yet been reached with National Insurance on the matter.

A motion to conduct an additional hearing, which has not yet taken place, was filed with respect to the ruling in September 2019.

For the impact of the ruling on the Company's financial results during the reporting year, see Note 39(e)(e2)(4)(f) to the financial statements. At this stage, and before the Supreme Court has decided regarding the motion for an additional hearing regarding the issue of the discount rate for tort damages, and before the legislator has determined regarding the Discounting Regulations, in light of the gap which was created, as stated above, and in light of the update mechanism, and the uncertainty in connection with the possibilities of evaluating the deviation from the mobility band, which would affect the Company's liabilities, and in consideration of the developments in the interest rate environment after the balance sheet date, as specified in Note 43(a) to the financial statements, it is not possible to predict the impact on insurance liabilities or on the insurance tariffs.

E. Outline regarding light-heavy clearing

In accordance with the RAVC law, each insurer is required to compensate the passengers who were riding in a vehicle which was insured by it. The RAVC law further provides that, with respect to any person who was injured in an accident outside of the insured vehicles, in an accident in which several vehicles were involved, the various insurers will be liable (without proof of guilt), jointly and severally, and amongst themselves the insurers will bear the burden, in equal parts. In accordance with the RAVC law and the **Compensation for Road Accident victims Ordinance (Arrangements for Distribution of Burden of Compensation Between Insurers), 2001**, exceptions were made to the foregoing rule, which pertain to accidents between vehicles which are significantly different from one another, i.e., a motorcycle and another vehicle, or a light vehicle and a heavy vehicle. In these cases, the division orders determine the insurers' "balance payments", i.e., the indemnification which the insurers are entitled to receive from one another with respect to these accidents, for the purpose of balancing out the burden of payment between the insurers, in cases where the risk of the involved vehicles causing damage in a road accident is not clearly balanced. The Israel Insurance Association operates a clearing system which is intended, inter alia, to transfer payments automatically between vehicle insurers in compulsory motor insurance, in the event that the risk factors of the vehicles involved in the road accident are not clearly balanced. The outline manager has the authority to serve as an arbitrator in cases where disputes have arisen between the insurers, regarding the involvement of an insured vehicle in an accident. The arrangement was given a conditional exemption from the approval of a restrictive arrangement by the Antitrust Commissioner until August 2020. The conditions include, inter alia, the restriction of the system's operations to the aforementioned purpose only, the operation of the system by an independent entity which is not related to the insurers, a prohibition against the transfer of information between the parties to the agreement, and giving the possibility for each insurer to join the system.

7.1.1.2. Motor property insurance branch

A. General

The motor property insurance branch includes the Group's activity in insurance to cover loss or damage of insured vehicles and damages caused to third party property by the insured vehicles.

The motor property insurance branch is divided into two main categories:

A) Insurance for private vehicles and commercial vehicles weighing up to 3.5 tons, whose insurance policy is subject to the terms of the standard policy, as determined in the regulations which were enacted on the matter (hereinafter: the "**Standard Motor Property Policy**" and the "**Motor Property Regulations**", respectively)

B) Insurance for vehicles which is not included in the first category (such as trucks, motorcycles, buses, forklifts and all-terrain vehicles), he insurance policy for which is not subject to the terms of the standard motor property policy.

The standard motor property policy sets forth minimum terms and conditions for motor property insurance, which the insurer is entitled to amend only if the amendment is in favor of the policyholder. Expansions can be added in the Standard Policy to the scope of coverage, with the Commissioner's approval.

In February 2020, the Commissioner published the draft provisions of the Control of Insurance Law (Contract Terms for Private Motor Insurance)(Amendment), 2020 (hereinafter: the "**Draft Amendment to the Standard Policy**") in which it was proposed to amend the standard policy, inter alia, on the following subjects: providing the possibility for policyholders to benefit from reduced premiums, in exchange for a reduction of the scope of insurance coverage in case of total loss of the vehicle; determination of compensation for devices and units which are included in modern vehicles; updating the provisions which pertain to the reimbursement of proportional premiums in case of cancellation of the policy by the policyholder, independent of the remaining insurance period, and without a penalty; and correction of an insurance history report (a report which is used to acquire insurance in the future), such that any claims below the premium amount will not be included.

At this preliminary stage, Clal Insurance is unable to estimate the implications of the draft amendment to the standard policy. However, insofar as the draft amendment to the standard policy is enacted as binding law, it may result in an increase in the frequency of claims in motor property insurance, and accordingly, may increase claim settlement costs, due, inter alia, to the expected increase in claims for insurance benefits in low amounts, which, following the amendment, will not be included in insurance history reports.

The Company's estimate regarding the impact of the draft amendment to the Standard Policy constitutes forward looking information, which is based on the information which is available to the Company as of the reporting date. Actual results may differ from the estimated results, and depend, inter alia, on the final version of the draft, on the conduct of customers, competitors and agents, on the Commissioner's approval of tariff updates, on claim settlement costs and on the insurance tariffs which will be determined over time.

The premium tariff with respect to motor property insurance is generally differential, and was determined, inter alia, in consideration of the vehicle's characteristics (primarily the model of the insured vehicle, and its production year), and the characteristics of its drivers (primarily the age of the main driver, drivers who are authorized to drive the vehicle, the license period and the claims experience of the policyholder).

B. Special arrangements regarding the settlement of motor property claims

B1. Arrangement regarding loss adjusters

In order to increase efficiency and shorten claim settlement processes in motor property, and in accordance with the provisions which were determined in the consolidated circular which is published by the insurance companies out of the list of loss adjusters[58] (the "**List of External Loss Adjusters**"), at the policyholder's request. In accordance with the provisions of the consolidated circular, a proposed repair or an assessment by an external loss adjuster who has been chosen by the policyholder out of the list of external loss adjusters (hereinafter: "**External Loss Adjusters**"), constitutes a proposed repair, or an effective assessment, and will be binding towards the party, subject to the right of the insurer and the policyholder to bring remarks towards external loss adjusters regarding technical matters. Additionally, the insurer and the policyholder have the option to appeal the assessment, in accordance with the arrangement set forth in the loss adjusters arrangement.

B2. Arrangement garages

In order to increase efficiency, reduce processing times and reduce prices involved in loss adjustment with respect to motor property claims, the Company engaged with "arrangement garages" with respect to the repair of partially damaged vehicles of policyholders (non-total loss). An arrangement garage is a garage which has engaged with the Company in a service provision agreement as an arrangement garage, in consideration of discounts which are given to the insurer (in replacement part prices and/or in work hour prices) and/or including an undertaking to make use of replacement parts which are provided by it to the insurer, and which can be obtained at a reduced cost relative to the "book price" on the market (hereinafter: "**Arrangement Garage**"). Clal Insurance allows its policyholders to choose the garage where the vehicle will be repaired; however, it offers to its policyholders various benefits, such as discounts on deductibles and/or the provision of alternative vehicles during the period of the repair, in order to incentivize the policyholders to have their vehicles repaired in one of the arrangement garages with which the Company has engaged. The policyholder has the possibility to agree, when signing the agreement, that in case of an insurance event, the vehicle will be repaired at an arrangement garage, and in exchange, the policyholder will also receive a discount on premiums, and other benefits upon the occurrence of the insurance event (hereinafter: the "**Select Garages Policy**").Clal Insurance also offers a unique insurance track called "Clal VAR", in which the policyholder receives a road camera for installation in their vehicle, which they then connect to the application "Nexar". The application allows the submission of real time reports, and therefore, allows representatives of Clal Insurance to support the policyholder upon the occurrence of an insurance event, and to assist them, as required, inter alia, in ordering towing services, in ordering a taxi home, providing an alternative vehicle, and rescue services for the injured (hereinafter: "**Clal VAR**").

B3. Proposed reform regarding arrangement garages and the loss adjusters arrangement:

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[58] External loss adjusters include anyone who is not a home loss adjuster. Home loss adjusters are those who may have a conflict of interests due to a special connection with the insurer, such as in case of a loss adjuster who is an employee of the insurance group; a loss adjuster whose income is 30% or more comprised of loss adjustment and other businesses with insurers from the insurance group; and a loss adjustment company in which the insurance group holds over 5% of the means of control.

(1) Joint letter from the Ministry of Transport and the Ministry of Finance regarding arrangement garages, the loss adjusters arrangement and the **Draft Vehicle Services Licensing Regulations (Vehicle Loss Adjustment), 2016** -

Further to discussions which were held between the Ministry of Finance and the Ministry of Transport (hereinafter, jointly: "**Ministries**"), in light of the proceedings regarding the enactment of the Licensing of Services and Professions in the Vehicle Branch Law (hereinafter: the "**Vehicle Services Licensing Law**"), in June 2016, a joint letter from the Ministry of Transport and the Ministry of Finance was sent, which was addressed to the Chairman of the Finance Committee, in which were specified the principles which the ministries intend to implement, including: cancellation of the companies' list of external loss adjusters and replacement thereof with a national list of loss adjusters, which will include all of the licensed loss adjusters, excluding "home loss adjusters" on behalf of the insurance company; Determination of a provision stipulating that repairs may not be performed on a vehicle before approval has been given by the insurance company for the loss adjuster's report or for the appointment of a loss adjuster on its behalf; cancellation of the currently existing lists of loss adjusters, and expansion of the lists of arrangement garages for all garages which meet the requirements which will be determined by the ministries; the insurance companies will be required to publish conditions for recognition of a garage as an arrangement garage, and will allow each garage which meets those conditions to engage with them as an arrangement garage (hereinafter: the "**Statement Of Principles**"); the statement of principles further specifies that the ministries have agreed that the provisions and amendments to the regulations on the subjects specified above will be performed in consultation and in collaboration between them, and that an intra-governmental professional staff will be established, including representatives on behalf of the ministries (hereinafter: the "**Joint Staff**"), which will evaluate the implementation of the aforementioned principles, and will evaluate additional issues, including the imposition of supervision on the prices of the main replacement parts which are used in vehicle repairs following accidents, and its implications on the conditions for engagement with arrangement garages; the pricing of premiums; the differentiation in deductibles between policyholders who have their cars treated in arrangement garages and policyholders who have their cars treated in non-arrangement garages; and additional issues which will promote competition and contribute to increased professionalism, while protecting customers.

Subsequently, in May 2019, the Commissioner published a second draft regarding an "**amendment to the provisions of the consolidated circular - provisions in the motor property branch**" (hereinafter: the "**Draft Circular Regarding Garages and Loss Adjusters**"), which regulates the loss adjustment method for insurance claims in the motor property branch, with respect to the engagement with loss adjusters and with garages, as well as various provisions regarding the processes of policy marketing and loss adjustment.

The draft includes, inter alia, provisions which provide the possibility, for each garage which undertakes to fulfill the principles which have been determined by the insurer, and which signs a contractual agreement with it, to serve as an agreed-upon garage, and to provide service to its policyholders, or to a third party (hereinafter: "**Agreed-Upon Garage**"); The insurer is required to conduct negotiations, on an egalitarian basis, between garages with similar characteristics, and once it has signed an agreement with an agreed-upon garage, it must allow any other garage with similar characteristics to sign an agreement in the same wording; The price per work hour will be determined by agreement between the agreed-upon garage and the insurer; The cost of replacement parts will be determined according to a discount which the agreed-upon garage will undertake to grant to the insurer, or the agreed-upon garage will undertake that the price of the replacement parts that it will provide will not exceed the price of the replacement part which the insurer purchased, or which it may provide, in accordance with an agreement between the insurer and the garage; An agreed-upon garage will not commence repair of the vehicle unless approval has been given by the insurance company and the vehicle owner.

With respect to loss adjusters, it was proposed to determine, inter alia, that in case of selection of a loss adjuster from the database of loss adjusters offered by the insurer (a loss adjuster whose decision is binding towards the insurance company, subject to a limited appeal process which was determined by a deciding loss adjuster), the insurer will be obligated to make use of the database of loss adjusters, which will be open to all loss adjusters who meet the criteria specified in the draft. The loss adjuster will be chosen from the database by the policyholder, out of a list of three loss adjusters which will be selected at random (hereinafter: the "**Database Loss Adjuster Mechanism**"). It was further determined that if the plaintiff decides to contact a private loss adjuster (by means other than the loss adjusters database mechanism), the insurance company will be entitled to make such choice dependent on the condition of examining the vehicle before repair, and that the proposed repair or loss adjustment in the foregoing case will be the effective proposed repair and loss adjustment, unless the insurance company has presented, in writing, a contrary proposed repair and loss adjustment, and has announced its intention to appeal the proposed repair and loss adjustment before a deciding loss adjuster, through a restricted mechanism, as stated above.

The insurance company will be obligated to offer to policyholders a program in which any garage may be chosen (as opposed to an agreed-upon garage), with no effect on the deductible amount which will be paid by the policyholder.

It is further proposed to determine various provisions regarding disclosure, transparency and service level, including the publication of policyholder satisfaction rates with respect to the agreed-upon garages, and extensive provisions regarding disclosure, both before the policy purchase date, and on the claim date.

Clal Insurance is unable to predict the consequences of the draft circular regarding garages and loss adjusters, insofar as it is published, which may affect claim settlement costs in motor property insurance, due, inter alia, to the multiplicity of proposed amendments, and their possible implications, which could have effects in opposite directions, in consideration of, inter alia, the conduct of companies, agents, garages, loss adjusters and customers.

In April 2018, the **Licensing of Services and Professions in the Vehicle Branch Regulations (Prohibited Influence on Judgment of Vehicle Loss Adjuster), 2017** (hereinafter: the "**Prohibited Influence on Judgment of Vehicle Loss Adjuster Regulations**") entered into effect, which address the definition of the prohibited influence on a loss adjuster by a license holder (garage), as defined in the law. The purpose of the regulations is to determine what constitutes a prohibited effect on the judgment of a vehicle loss adjuster, and which cases involve a permitted request to change a vehicle loss adjustment decision. At this stage, according to the assessment of Clal Insurance, the aforementioned regulations had no impact on the method or cost of claim settlement.

C. Entitlement to information and disclosure in the motor property branch

C.1. Motor property database

Beginning in December 2013, the database created by the Israel Insurance Association and the Clearing Center of the Insurance Companies Ltd. (the "**Clearing Company**") is in operation, which primarily involves the registration of historical vehicle accidents (hereinafter: the "**Motor Property Database**"). The information is available both to the public of used vehicle buyers and to insurers who chose to join the database, and is intended for location of information and transparency regarding accidents which occurred to used vehicles during the period prior to their acquisition.

The Israel Insurance Association and the clearing company received an exemption from approval of a restrictive arrangement from the Antitrust Commissioner, which is in effect until February 2021.

As of the publication date of the report, the motor property database includes information from most of the insurance companies which provide motor property policies in Israel, including Clal Insurance. Any insurer may join an arrangement (i.e., submit data to the database, and submit queries), or leave the arrangement, once per year, by giving advance notice of 90 days.

As of the publication date of the report, Clal Insurance makes use of the information stored in the motor property database for the purpose of claim settlement and underwriting, in accordance with its requirements. The possibility to make use of the information in the database reduces the information gaps in the market.

C.2. Motor property claims report

In August 2018, an amendment was published to the circular regarding the "Insurance Mountain" online interface for the identification of insurance products, in which it was determined, beginning with the report for March 2019, that the insurance companies will be required to report to the Insurance Mountain also the number of insurance events for which motor property insurance claims were filed by the policyholder or by a third party, in order to create a centralized claims report through the Insurance Mountain, and to simplify, for policyholders who are required by the insurance companies, for underwriting purposes, the process of presenting an authorization regarding the number of such claims, before joining the insurance (hereinafter: the "**Addition of Motor Property Claims Report Data to the Insurance Mountain**"). Since February 2020, the information regarding motor property claim report data is available on the Insurance Mountain website.

According to the assessment of Clal Insurance, the addition of report data with respect to motor property claims to the "Insurance Mountain" is expected to increase the reliability of data, to reduce fraud in the presentation of claims data, and to facilitate the process of joining insurance, lifting operational barriers, and as a result, to increase competition.

The information presented on all matters associated with the addition of motor property claims data to the "Insurance Mountain" interface constitutes forward looking information, which is based on assumptions and estimates of Clal Insurance, as of the publication date of the report. Actual implementation may differ significantly from the forecast. At this stage, it is not possible to estimate and predict all of its implications, which depend, inter alia, on the conduct of competitors and customers in the market.

7.1.1.3. Liabilities insurance branch

In liabilities insurance policies, insurance is conventionally applied according to one of two coverage bases:

- **Coverage on an occurrence basis** - In these policies, the coverage is given for events which occurred during the insurance period, when the claim can also be filed after the end of the insurance period, subject to a statute of limitations.

- **Coverage on a claims made basis** - In these policies, the coverage is given based on the filing date of the claim, in other words, for claims which were initially filed against the policyholder during the insurance period, even if the cause of action against the policyholder materialized before the insurance period start date, provided that it was created after a certain date which was specified in the policy.

The main insurance sub-branches in the liabilities insurance branch include:

- Third party liability insurance;
- Product liability insurance;
- Professional liability insurance;
- Employer's liability insurance;
- Directors and officers (D&O) liability insurance.

For a description of the policy characteristics, see section 7.1.2(c) below.

- **Amendment to the National Insurance Law (Consolidated Version), 1995**

  For details regarding amendments to the National Insurance Law from 2013 and 2015, see section 7.1.1.1(d) above.

- **Interest rate used to discount National Insurance annuities**

  For details regarding the interest rate which is used to discount National Insurance annuities, see section 7.1.1.1(d)(2) above.

- For details regarding the circular regarding certificates of insurance, see section 7.4.1 below.

7.1.1.4. Property and others insurance branch-

- This branch includes several sub-branches, as specified below:

A. Apartment insurance sub-branch

- This sub-branch includes apartment, contents and structure insurance, in various plans, of which the primary one is a comprehensive apartment insurance plan. This sub-branch includes coverage for the policyholder's apartment against loss or physical damage which have been caused to the structure of the apartment or to its contents, due to risks which are specified in the policy. This policy is subject to the minimum terms which were determined within the framework of the **Addendum to the Control of Insurance Business Regulations (Contract Terms Regarding the Insurance of Apartments and the Contents Thereof), 1986** (hereinafter: the "**Standard Apartment Insurance Policy**"). The terms of the standard apartment insurance policy can only be amended in favor of the policyholder, and expansions can only be added to it with respect to the insured property and risks, the scope of coverage and the types of liability insurance which are associated with the residential apartment (such as third party liability insurance). The insurance is intended for residential apartments in the private sector.

- In September 2017, an amendment to the consolidated circular on the subject of provisions regarding water damages in apartment insurance entered into effect (hereinafter: the "**Amendment To The Consolidated Circular Regarding Water Damages**"), in which it was determined, inter alia, that before engaging in an insurance contract, in cases where the insurance company has chosen the alternative of providing compensation to the policyholder by repairing the apartment, it must allow the policyholder to choose between repairs performed by a plumber chosen by the policyholder, and repairs of the damage performed by a plumber from the list of plumbers in the arrangement (hereinafter: "**List Plumber**" and "**List of Plumbers in the Arrangement**); The insurance company is required to compile the list of plumbers in the arrangement, according to the number of policyholders and the geographical region, and will be responsible, inter alia, for the quality of the repair and service given to the policyholder by the plumber in the list, for the availability of service and for the conclusion of the repair within a reasonable period of time. The payment to list plumbers will be performed directly by the insurer for each repair performed; and the option of including a restriction regarding the average claim amount in the contractual agreement between the arrangement plumber and the insurance company was prohibited.

According to the Company's estimate, the amendment to the circular regarding water damages resulted in a change to the claim settlement method with respect to cases of water damage in the apartment insurance sub-branch, in cases where the policyholder has chosen the alternative of providing compensation through repair of the apartment by a list plumber, inter alia, in light of the need to transfer the responsibility for settling water damage claims to the insurer, which resulted in an increase in claim settlement costs and in the prevalence of water damage claims, in parallel with the increase of the tariff. However, at this stage, it is not possible to estimate its full implications, which will be affected, inter alia, by the conduct of service providers, competing entities, distributors and customers, and depending on the actual development of claim settlement costs, and the adjustment thereof according to the updated policy prices, and as will be determined over time.

The Company's estimate constitutes forward looking information, which is based on the information which is available to the Company as of the reporting date. Actual results may differ from the estimated results, and depend, inter alia, on the conduct of service providers, competing entities, distributors, customers, claim settlement costs and the policy prices which will be determined over time.

B. Other property insurance sub-branch

This sub-branch includes policies which are primarily intended for the business segment, and cover loss or direct physical damage to the policyholder's property, or to property with which the policyholder is associated, due to risks which may be caused to the insured property, such as fire, lightning, and various other risks. Additionally, coverage can be acquired for resultant damage due to the direct physical damage ("**Loss of Profit Policy**"). In this sub-branch, insurance policies for engineering equipment and construction works (contract and construction works) are also sold, as well as cargo insurance in international land transport (sea and air), marine insurance, terrorism damage insurance and various other types of insurance. For a description of the characteristics of the products, see section 7.1.2(d) below.

C. Guarantees sub-branch-

This sub-branch mostly includes guarantee policies in accordance with the Sales (Apartments) (Securing Investments of Apartment Buyers) Law, 1974 (the "**Sales Law**"), which are issued by Clal Insurance, which involve an undertaking to indemnify the beneficiary with respect to the breach of the undertaking of the debtor and/or the policyholder, towards it. Policies in accordance with the Sales Law are intended to secure the investments of buyers of residential units whose construction has not yet been completed, in case the apartment seller is unable to transfer to the buyer ownership or other rights to the apartment, as agreed in the sale agreement, due to the fulfillment of one of the causes of action specified in the Sales Law. The wording of the policies in accordance with the Sales Law which are marketed by Clal Insurance is adjusted, mutatis mutandis, to the provisions which were published on the matter within the framework of the amendments enacted by virtue of the Sales Law.

The Company mostly provides loans to accompany residential construction, along with sale guarantees, in collaboration with banks or independently, and from time to time, also guarantees of other types. In the past, Clal Insurance also issued performance and quality guarantees; however, beginning in 2014, no new guarantees of this kind were issued, other than in exceptional cases.

For details regarding an agreement which was signed in 2018 between Clal Insurance and Michlol Urban Real Estate Renewal Solutions Ltd., according to which provided a credit facility and Sale Law guarantees to Michlol for the purpose of its activity, see section 9.3 below.

Clal Credit Insurance also commenced an activity involving the issuance of guarantees for periods of up to three years, including, inter alia, guarantees of the tender advance and performance types, to beneficiaries including government authorities, government entities, municipalities or companies owned by them. At this stage, the activity is in the preliminary stages.

D. Accident, illness and disability insurance sub-branch -

This sub-branch includes **personal accidents insurance policies** which are policies for set insurance periods of up to 12 months, which provide compensation in case of death and/or disability (full or partial) due to an accident and/or temporary loss of working capacity due to an accident, according to the chosen scope of coverage.

These policies are sold as individual insurance and as collective insurance.

In February 2018, a circular was published in amendment of the provisions of the consolidated circular regarding disclosure and reporting to policyholders in health insurance (hereinafter: the "**Circular Regarding Disclosure And Reporting In Health Insurance**"). The provisions of this circular apply, inter alia, to personal accidents insurance policies of up to one year, which do not constitute insurance which has been prepared for a group of policyholders, due to their participation in a certain non-recurring event which is shared by the Group members, or due to their participation in a certain activity.

The implementation of the provisions of the circular regarding disclosure and reporting in health insurance, with respect to short-term collective personal accident policies, resulted in operational burden, and requires the focusing on and reducing market segments, and adjusting the scope of insurance coverage, which, due to the scope of activities, is immaterial.

In February 2020, an "amendment to the provisions of the consolidated circular - volume 6, part 3, chapters 2, 3 and 4 - personal accidents insurance - second draft" was published (hereinafter: the "D**raft Circular Regarding Personal Accidents**"), which includes provisions which are intended to regulate the process of sale and insurance coverage in the personal accidents branch. The provisions of the draft circular regarding personal accidents exclude insurance which has been prepared in accordance with a provision of the law, and collective or non-collective personal accidents insurance, for periods no longer than one year, which has been prepared for a group of policyholders due to their involvement in an event which was common to the group members, or due to their participation in a certain activity. The draft circular also does not apply to individual personal accidents insurance for periods shorter than on year, which are obtained by an employer for its employees, and which is entirely funded by the employer, whether it is obtained for a non-specific policyholder, or as part of the business's insurance. For additional details regarding the draft circular regarding personal accidents, and its implications, with respect to short-term personal accident policies, which were not excluded from the draft's application, see section 8.1.2.1(c) below.

7.1.1.5. Credit and foreign trade risks insurance branch

This branch includes insurance policies to cover credit risk in the local market and foreign trade risks abroad, which are marketed by Clal Credit Insurance, and provide to policyholders - companies which sell on credit in Israel and abroad - coverage for commercial risks, against insolvency and ongoing default of the buyer from the insured company in Israel and abroad, as well as coverage for political risks abroad only. Political risks include a general moratorium declared by the state from which the payment of consideration to the policyholder was intended to take place (the "**Importing Country**"); a prohibition against importing by the country of import, or cancellation of an import license, which prevent the implementation of the agreement between the insured company and its customer; a political event, or economic difficulty in the importing country, which prevent the transfer of the consideration and non-payment of the consideration by a public customer in the country of import (i.e., the government or any local authority or entity overseen by any of them).

The engagement with the policyholder is made through a basic insurance policy which constitutes the framework for the engagement between the parties. Under the basic policy, the Company approved credit ceilings for the policyholder in varying amounts and conditions, in a specific underwriting process for each individual buyer of the policyholder. The maximum scope of coverage is specified in the policy list. In general, the policies in this branch are for one year, and are generally renewed automatically, and coverage for them is given for the short term (up to one year).

Activities in the credit and foreign trade risks insurance branch are performed through Clal Credit Insurance. Clal Credit Insurance is a company under the control of Clal Insurance, which holds 80% of its shares, where 20% of the additional shares are held by Atradius Participation Holdings SL ("**Atradius Group**"). An agreement is in place between the shareholders of Clal Credit Insurance, which formalizes the Group's business collaboration with Atradius Group as a strategic partner, and allows Clal Credit Insurance to insure credit transaction in many countries (the agreement between the shareholders, including the amendments thereto, shall hereinafter be referred to as: the "**Shareholders Agreement**"). For details regarding the shareholders agreement, which is renewable periodically, see section 10.17.3 below.

7.1.2. Details regarding the primary products and services included in the operating segment

Presented below is a description of the main coverages:

A. Compulsory motor insurance branch

The product is insurance which the vehicle owner is required to purchase with respect to physical harm only which may be caused to the driver of the insured vehicle, or to passengers therein, or to pedestrians who were injured as a result of the damage to the insured vehicle.

This operating branch has several unique characteristics, including, inter alia:

Product uniformity: The scope of liability and the scope of coverage for physical harm corresponds to the provisions of the standard compulsory motor policy, which determined binding standard phrasings. Extensions can be added to these coverages, with the Commissioner's approval.

No fault principle: In accordance with the provisions of the RAVC law, the liability of the vehicle driver or of the individual holding possession of the vehicle is absolute and total liability, with no need for proof of guilt.

Designation of cause of action: Any person who was injured in a road accident, and upon whom the RAVC law confers cause of action, must claim their right in accordance with the RAVC law only, and is not entitled to claim their damages in accordance with any other law. Any person who does not have does not have in accordance with this law may sue the party that caused the damage through a tort claim. In general, the insurer of the involved vehicle is required to cover the injured persons in the insured vehicle, and is not entitled to claim subrogation from the party which caused or contributed to or exacerbated the damage, of the compensation which the insurer paid to the injured party.

Special methods of compensation: The RAVC law, and accordingly, the compulsory insurance policy, do not specify the insurance amount, and the compensation due to physical injury is calculated in accordance with the RAVC law and the regulations which were enacted in accordance therewith. These determine, inter alia, in contrast to the Civil Wrongs Ordinance, the maximum compensation limit for the damage components which are not monetary damages, and limit the wage losses which can be claimed to three times the average salary on the market. Except for the aforementioned two heads of damage, the coverage is not restricted as to amount.

B. Motor property insurance branch

Motor property insurance is insurance which covers property damage which was caused to the vehicle, as specified in the policy. Motor property insurance for private and commercial vehicles weighing up to 3.5 tons provides insurance coverage in accordance with the terms of the standard motor property policy. For details regarding the standard motor property policy, see section 7.1.1.2(a) above.

Vehicles other than private and commercial vehicles weighing up to 3.5 tons are not subject to terms of the standard policy. A policyholder who owns at least 40 private and commercial vehicles of at least 3.5 tons insured at one insurer, is entitled at the insurance proposal stage to waive the contents of all or part of the standard policy in an express notice documented at the insurer.

Motor property insurance provides a basket of insurance coverages, including: theft, fire, accidental collision, overturn and accidents of any kind whatsoever, damages caused with malicious intent, and the policyholder's liability due to damage which may be caused to third party property as a result of the use of the vehicle during the insurance period ("**Third Party Insurance**"). During the insurance proposal stage, the policyholder is entitled to choose coverage through one of the following alternatives: (1) Comprehensive insurance; (2) Comprehensive insurance without theft coverage; (3) Comprehensive insurance without accident coverage; and (4) Third party insurance only.

Clal Insurance offers service letters (undertakings by the insurer according to the policy, which are given through a third party) as an addition to the policy, which grant the right to receive various services, including towing service and/or alternative vehicle services and/or windshield repair services.

C. <u>Liabilities insurance branch-</u>

Third party liability: This insurance is intended to cover the policyholder's liability - generally liability in accordance with the Civil Wrongs Ordinance - towards third parties (in case of a policyholder which employs employees, the insurance does not cover liability towards the policyholder's employees), due to accidental events which caused physical injury and/or property damage, including resultant damage due to the accident, and which took place during the insurance period (occurrence basis policy).

Third party liability insurance is sold as an independent product or as additional coverage within the framework of other insurance policies, such as business insurance policies, apartment insurance policies, and contract works insurance.

The premiums in policies of this kind are determined as a function of several variables, including the policyholder's activity type, the construction type of the business building, the scope of activities, the number of employees, the presence of dangerous materials used in the business, the number of sites in which the policyholder conducts its activities, adjacent businesses, the overall maintenance condition of the business, the liability limits requested by the policyholder, the deductible and the policyholder's claims history.

Employers' liability: This insurance is intended to cover the policyholder's liability towards its employees due to physical injury only, which was caused to an employee during and due to the work at the policyholder, due to negligence by the policyholder during the insurance period, as a result of an accident and/or illness (occurrence basis policy). The liability covered under this policy applies pursuant to the Civil Wrongs Ordinance. Broader policies also cover the liability of the insured employer towards its employees, also pursuant to the Liability for Defective Products Law.

Employer's liability insurance is a supplementary product to the compensation paid by the National Insurance Institute to a person who was injured due to a work accident or work-related illness, which, in the law, are restricted by type and limited in amount. This policy covers the surplus exposure, beyond the National Insurance coverage, and no more than the liability limit specified in the policy.

Employers' liability policies may be acquired as an independent product or integrated as additional coverage in the framework of other insurance policies, such as: policies insuring businesses, policies insuring apartments, and contract works insurance policies.

Insurance fees in these types of policy are determined as a function of a number of variables such as: the number of workers employed, the annual wages the employer pays, the business risk level according to its business, and its claims experience. Additionally, the premiums are affected by the adherence to the safety policies applied by the employer in the business, the general maintenance condition of the business, and the extent of its exposure to dangerous materials.

Product liability: This insurance is intended to cover the employer's liability with respect to physical injury and/or property damage to a third party, including resultant damage caused by a defect product which was manufactured, imported or provided by the policyholder, after the product has left the possession of the policyholder, and where a claim with respect thereto was filed for the first time during the insurance period, and the insurance event itself occurred after the retroactive date which was determined in the policy (claims made basis policy).

The policy relies on two provisions of the law: The Defective Products (Liability) Law, 1980, which imposes on the manufacturer (as defined in the Law, which includes, for example, also an importer and/or supplier), liability with respect to physical injury only (and establishes a closed list of protections for the manufacturer); and the Civil Wrongs Ordinance, which imposes tort liability on the manufacturer with respect to physical injury and property damage.

The premiums in policies of this kind are determined as a function of several variables, such as the policyholder's activity type, and the types of products which are manufactured, imported or provided by it, the scope of activities (in accordance with the sales turnover of the business), the requested liability limits, the deductible amount, the coverage period for claims which were first reported during the insurance period, but which refer to a specific preceding date, the claims history, and the scope of territorial coverage (in Israel or including also exporting to foreign countries).

Professional liability: This insurance is intended to cover the policyholder's debt with respect to physical injury and/or property damage caused to a third party and/or monetary damage caused to a third party, as a result of a breach in good faith of professional duty, which is due to an action or omission which constitute negligence, error or omission of the policyholder within the framework of the policyholder's profession, for which coverage was given in the policy, and for which a claim was first filed during the insurance period, and where the insurance event itself occurred after the retroactive date which was determined in the policy (claims made basis policy). The coverage in the policy is not limited to accidental events.

The premiums in policies of this kind are determined as a function of several variables, including: the area of engagement, the scope of activities, the coverage period for claims which were reported for the first time during the insurance period, but which refer to a specific date beforehand, the requested liability limits, the deductible amount, the revenue cycle, the number of employees, seniority in the profession, claims history, during the insurance territorial area and jurisdiction.

Directors and corporate officers' liability: This insurance is intended to cover the legal liability of directors and corporate officers with respect to monetary damages which were incurred due to an action or omission which they performed, or did not perform, in good faith, or due to negligence, subject to the exceptions specified in the policy, by virtue of their status as corporate officers in the Company, and for which claims were first field during the insurance period, while the insurance event itself occurred after the retroactive date which was determined in the policy (claims made basis policy). The liability which is covered under this policy is by virtue of the Companies Law and additional provisions of the law, which impose personal liability on officers including breach of their duty of care and breach of fiduciary duty in good faith, which can be insured by law.

The insurance company will pay insurance benefits to the policyholder (the corporate officer), or will indemnify the policyholder (generally the Company buying the coverage for its corporate officers), with respect to payment which is paid to the corporate officer, and was entitled to do so by law.

The premiums in policies of this kind are determined as a function of several variables, including: The area of activity, composition of shareholders, territorial exposure, financial stability, exposure to trading on stock exchanges, liability limits, deductible amounts, coverage period for claims which were reported for the first time during the insurance period but which refer to a specific time beforehand, the claims history and the terms of the reinsurance agreements.

D. Property and others insurance branch-

Apartment insurance sub-branch -

Comprehensive apartment insurance - This sub-branch includes coverage for the policyholder's apartment, in accordance with the minimum terms which were determined in the Addendum to the Control of Insurance Business Regulations **(Terms of Contract in Insurance for Apartments and Contents Thereof), 1986** (the "**Standard Apartment Insurance Policy**"), which can be amended only in favor of the policyholder, and to which extensions can only be added. The insurance is intended for residential apartments in the private sector and includes, inter alia, apartment insurance policies for policyholders who took out mortgage-backed loans, some of which were sold through agencies of mortgage banks, and in such cases, their premiums are restricted by the Commissioner.

The Group offers several apartment insurance plans, which are differentiated from one another by the scope of coverage and the premium amount. The premiums are for the most part differential, and are primarily derived from the requested scope of coverage, the insurance amounts and the risk level.

Other property insurance sub-branch -

Fire insurance policies provide insurance coverage against loss or physical damage caused due to fire and lightning, to buildings, machines, equipment and inventory owned by the policyholder, or with which the policyholder is associated.

The most common policy is the household insurance - "**extended fire"** insurance policy, which is a policy for specific risks included therein - covering damages which may be caused to the policyholder's property, including fire and lightning, explosion, collision, strikes, malicious damages, break-in and robbery. The policy also covers natural disasters, including earthquakes, if coverage for these risks has been purchased. "Extended fire" insurance is provides coverage for the restoration of the business, while providing reimbursement for the physical damage. Fire damages, including natural disasters and earthquakes, are characterized by low prevalence but high severity, as compared with break-in damages, which are characterized by high prevalence but low severity.

"**Resultant loss**" insurance coverage can be acquired as an addition to an "extended fire" insurance policy (loss of profits) which is due to the physical damage that was caused to the policyholder's property. Premiums in "resultant loss" coverage are generally determined as a proportion of the insurance amount which was determined in the policy, according to the activity type of the insured business, the scope of coverage provided to it, and the requested indemnification period.

The "**extended fire**" coverage can be expanded to "**all risks supplementary**" coverage (which covers all risks, except for the risks which are excluded in the policy). For the most part, the expansion involves the payment of an addition premium, and is in a limited amount. An "all risks industrial" policy is also available, which is sold in special cases for specific risks, in which accidental damage to the policyholder's property is covered, except for the damages which are excluded under the policy.

In most cases, other property insurance policies are issued for a period of one year.

Guarantees sub-branch -

Mostly policies in accordance with the Sales Law - Policies which are intended to secure the investments of residential unit buyers in accordance with the Sales Law, and which rely on its provisions. These policies are generally issued against collateral, such as the project's land, the project's bank account, guarantees and agreements. For the most part, the insurance period in these policies is long (several years may pass until the expiration of the policy, according to one of the alternatives under the Sales Law, and until the cancellation of the coverage provided therein). The risk in these policies gradually decreases as construction progresses, until the transfer of possession of the property. The recognition of income with respect to these policies is deferred over 3 years. In some of the cases where the Company sells policies pursuant to the Sales Law, it also provides, in parallel, financing to the entrepreneur for the purpose of building the project. From time to time, Clal Insurance also issues guarantees of other types.

For details regarding the guarantees activity in Clal Credit Insurance, see section 7.1.1.4(c) above.

Accident, illness and disability insurance sub-branch -

Personal accidents insurance - Provides coverage to the policyholder in case of death and/or permanent disability (full or partial) due to an accident and/or temporary loss of working capacity, as a result of an accident or illness. See section 7.1.1.4(d) above.

In general, Clal Insurance stopped marketing and insuring students personal accident insurance policies beginning in September 2016. The liabilities in personal accidents for students policies are characterized as very long tail claim, due to the fact that the obsolescence period for minors begins, at the earliest, when they reach age 18.

E. Credit and foreign trade risks insurance branch-

The policy is intended for companies which sell on credit, both in Israel and abroad, to other businesses (B2B). The insurance covers liabilities due to the sale of goods and/or the provision of services on credit. In general, the insurance is given with respect to all or most of the policyholder's debtors, where a certain credit limit is determined with respect to each debtor, and additionally, a total coverage limit is determined for the policy. The insurance coverage marketed by Clal Credit Insurance is primarily short term (up to one year), and includes coverage for commercial risks against insolvency (bankruptcy, receivership or issuance of liquidation order) and ongoing insolvency (when the debtor continues operating in the ordinary course of business, but does not repay its debts, except in case of a commercial dispute), political risks (in foreign trade risks insurance only, generally as an associated coverage); orders insurance (addition to the policy in case of the creation of special orders for the customers); legal assistance and collection services around the world, upon the occurrence of an insurance event (in general, as a supplementary service to the insurance coverage which is given in the policy). The policy grants stability to the policyholder by reducing lost debts and stability in cash flows, while managing the credit risks of the policyholder's customers and handling difficult to collect debts.

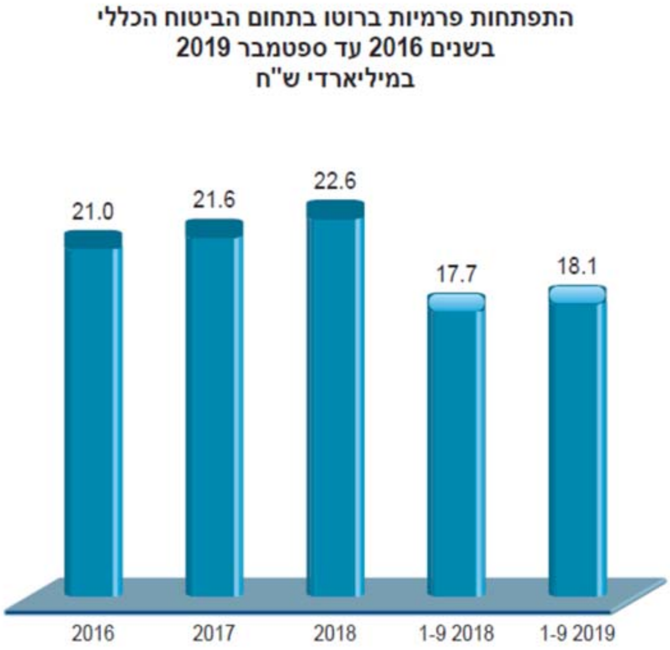
Additionally, based on the policyholder's insurance policy, the policyholder can choose to receive factoring services from banks or from other financial companies, and can also contact the financing entity of the policyholder (bank, factoring company or any other entity), in order to increase the policyholder's credit facility, by establishing the financing entity as a beneficiary to receive insurance benefits under the policy.

7.1.3. Main markets, trends and changes in supply and demand

The non-life insurance market showed a moderate increase in the scope of premiums during the reporting year, while maintaining stability in the mix of products in the segment.

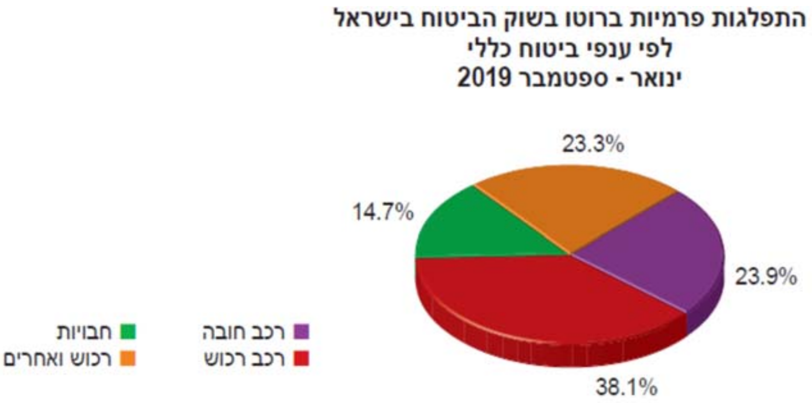
In accordance with the Commissioner's publications, as of September 30, 2019, gross premiums in the non-life insurance segment in Israel amounted, in the first nine months of 2019, to approximately NIS 18.1 billion, as compared with approximately NIS 17.7 billion in the corresponding period last year, i.e., an increase of approximately 1.9%, as compared with an increase of approximately 4.7% relative to the corresponding period last year. The decrease in the growth rate was mostly due to the decrease of average premiums in the motor branches, due to the competitive conditions. For additional details regarding the data for Clal Insurance, see Part B of the Report - Board of Directors' Report, section 3.1.2.

Development of gross premiums in the non-life insurance branch from 2016 to September 2019
NIS in billions



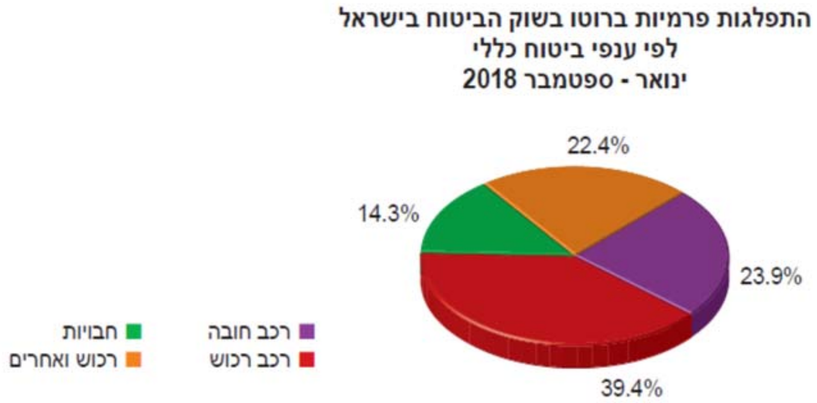
Presented below the distribution of gross premiums in the non-life insurance market in Israel, by non-life insurance branches, as described in this segment (excluding the short term illness and hospitalization branch, as described in the section regarding health insurance (section 8 below), with variability between the companies regarding its inclusion in the health segment or in the non-life insurance segment), in January to September of 2018 and 2019:

Distribution of gross premiums in the Israeli insurance market by non-life insurance branches January-September 2019



Purple – Compulsory motor
Red – Motor property
Green – Liabilities
Orange – Property and others

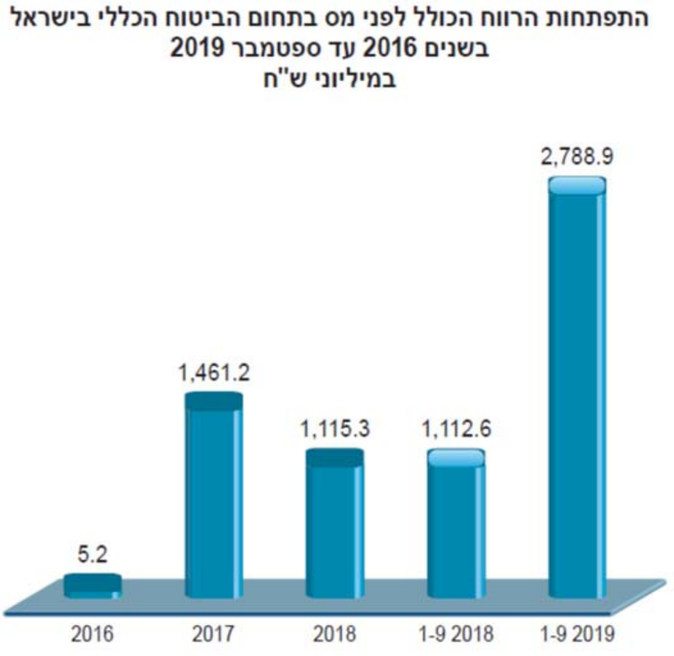
Distribution of gross premiums in the Israeli insurance market by non-life insurance branches
January-September 2018



Purple – Compulsory motor
Red – Motor property
Green – Liabilities
Orange – Property and others

In accordance with the Commissioner's publications, as of September 30, 2019, profit in the non-life insurance segment in Israel in the first nine months of 2019 amounted to approximately NIS 2.79 billion, as compared with income of approximately NIS 1.11 billion in the corresponding period last year. The increase in profitability was mostly due to the reduction of liabilities with respect to the implications of the Winograd committee during the reporting period, with no significant change in the corresponding period last year, and the increase in investment income. For additional details regarding the development of profit in the non-life insurance segment in Clal Insurance, see Part B of the Report - Board of Directors' Report, section 3.1.2.

Development of comprehensive income before tax in the non-life insurance segment in Israel
2016 to September 2018
NIS in millions



A. Compulsory motor insurance branch-

Most of the insurance companies in Israel operate in this branch, which is generally characterized by a uniform product, and by significant price competition. For details regarding the insurance tariffs reform in compulsory motor insurance, and its impact of the tariffs and the competitive conditions in the market, as well as the entry of new competitors, see section 7.1.1.1(c)(1) above. The demand in this segment is a result of the number of vehicles, which gradually increases each year, in light of the fact that it constitutes compulsory insurance, and due to the competitive conditions in the segment.

In recent years, the transparency in this branch was increased, inter alia, by providing the possibility to compare tariffs on the website of the Capital Markets, Insurance and Savings Authority, which resulted in increased competition in the branch, and in reduced prices (as specified in section 7.2.1 below).

Beyond pricing, which is affected by considerations of competition, the profitability in this branch may be affected, inter alia, by changes in the number of road accidents, and the severity of injuries therein, by changes in the scope of subrogation claims, and by changes in legislation and in case law which pertain to the branch.

The obtained profitability is affected by the underwriting results and by tariffs, and also by the results of the investments, which are affected by changes in the capital market, changes in interest rates and inflation rates. The aforementioned changes in interest and inflation rates particularly affect profitability in liabilities insurance, including compulsory motor insurance, in light of the fact that these branches are characterized by a relatively high level of reserves, due to the significant time difference between the premium receipt date and the completion of claims handling. For additional details regarding the reform in compulsory motor insurance tariffs, and the changes to the discount rate, see sections 7.1.1.1(c)(1) and 7.1.1.1(d)(2) above. For additional details regarding the National Insurance subrogation arrangement, see section 7.1.1.1(d)(1) above.

B. Motor property insurance branch

Most of the insurance companies in Israel operate in this branch, which is generally characterized by uniform products with respect to private and commercial vehicles weighing up to 3.5 tons, and in significant price competition. The increase in this segment is a result of the number of vehicles, which gradually increases each year.

The profitability in this branch may be affected, inter alia, by various changes to the components, including the underwriting policy, the number of vehicle thefts and road accidents, changes in the prices of replacement parts and in repair costs, changes in standardization and in regulation, changes in the prices of new vehicles, prices of work hours in garages, and damages due to natural disasters. For additional details, see section 7.1.1.2(b) above.

For details regarding expected regulatory changes in the motor property insurance branch which may affect the profitability in this branch, see section 7.1.1.2(b) above.

C. Liabilities insurance branch

Most of the insurance companies in Israel operate in this branch, which features products with similar characteristics, and significant price competition. The demand in this branch is a result, inter alia, of the legal situation, including case law which was determined in connection with the interpretation of provisions of the law regarding physical injury and property damage caused to third parties which are covered under the policies.

The profitability in the liabilities branches may be affected by the competition in the branch, regulatory changes, the quality of underwriting and the degree of legal certainty. For additional details regarding legislative amendments which regulate the National Insurance Institute's subrogation rights, and regarding changes to the discount rate, see sections 7.1.1.1(d)(1) and 7.1.1.1(d)(2) above.

For details regarding the impact of investment income on profitability in this branch, see subsection A above, "compulsory motor insurance branch", which has similar characteristics in this regard.

D. Property and others insurance branches-

The demand for the property branches, and the profitability thereof, may be affected, inter alia, by the rate of break-ins, fires and water damages to apartments and businesses, and to damages due to natural disasters.

The demand in these branches may be affected by the competition in the segment.

Guarantee insurance policies are sold by insurance companies, and Sale Law guarantees are also issued through banks. During the reporting year, the Company increased its activity in the Sale Law guarantees segment. The demand for these insurance policies is affected, inter alia, by the development in the construction segment, and by the alternatives which are evaluated by contractors, and may be affected, inter alia, by the economic, political and security situation in Israel and abroad, by the status of the capital market and the quality of underwriting, including assessment of the risks in the branch where the creditor operates, and determining the debtor's repayment ability.

E. Credit and foreign trade risks insurance branch -

The demand and profitability in the credit and foreign trade risks insurance branch may be affected, inter alia, by the economical, political and security situation in Israel and abroad, by the state of the capital market, by the risk level in the branch where the debtor operates, and by the state of competition in the Israeli credit insurance market.

F. Personal accidents insurance sub-branch

The demand for this sub-branch may be affected by the competition in the segment. Additionally, insurance policies of the personal accidents type may constitute alternatives through the acquisition of different products in life and health insurance which provide long term coverage. For details regarding students personal accident insurance, see section 7.1.2(d) above.

7.1.4. Material expected changes in the Company's share in the main markets, with respect to the main products and services and the mix thereof, in consideration of, inter alia, the demand and seniority of current products.

In accordance with the data which are published on the Commissioner's website, the Group is the fifth largest group in the non-life insurance segment.

According to the Company's estimate, Clal Insurance's share in the markets will be affected by the intense competition in the segment, which will remain focused on the amount of premiums and on the provision of services to policyholders, and also by the entry of new competitors which also operate digitally. For details on this matter, see section 7.2.1 below. The competition in the compulsory and liabilities branches may also be affected by the changes to the discount rate, which affect the tariffs in these branches (see section 7.1.1.1(d)(2) above). Clal Insurance is working on business growth, particularly in individual business operations, in a competitive and aggressive business environment. Additionally, changes to arrangements vis-à-vis providers (garages and loss adjusters) following the draft circular regarding garages and loss adjusters may affect the market shares in the markets. For details on this matter, see section 7.1.1.2(b3)(1) above. For additional details regarding the effect of the competition, see section 7.2 below.

The Company's estimates constitute forward looking information, which is based on the information which is available to the Company as of the reporting date. Actual results may differ from the estimated results, depending, inter alia, on the competitive conditions in the segment, on the manner of implementation of the regulatory provisions, including the expected draft circular regarding arrangement garages and the selection of loss adjusters, as well as the conduct of competing entities and license holders, the impact on tariffs and the changes to the discount rate.

7.1.5. New products

During the reporting year, no significant new products were marketed by the Group in this segment. However, Clal Insurance worked during the reporting year to correct and improve various products, including opening insurance tracks tailored to the customers' specific needs. As part of the above, Clal Insurance launched the following insurance tracks (subject to the policyholder's fulfillment of the underwriting conditions of each track): Clal Meterage - an insurance plan for buyers of private and commercial insurance up to 3.5 tons, who drive infrequently, and receive a discount accordingly; Clal On Track - A unique motor property insurance track for light trucks, providing comprehensive or third party coverage under attractive conditions; Online apartment insurance - an track allowing the online purchasing of apartment insurance with attractive conditions ("digital apartment").

Additionally, after the reporting year, Clal Insurance launched an option to purchase insurance coverage for a temporary driver, for policyholders of comprehensive insurance up to 3.5 tons, in a manner which allows them to purchase, through the agent or online, temporary insurance coverage for any driver, including new drivers and young drivers, for short periods, and for a limited number of times.

7.2. Competition

7.2.1. Factors encouraging competition

According to the Company's estimate, the significant competition in non-life insurance, and particularly in the individual branches, will continue in the near future, due to the entry into the market of new insurance companies, which are engaged in the non-life insurance segment, to the ongoing impact of regulatory reforms which are unique to the segment, as specified above and below, and to industry-wide regulatory directives.

Transparency and price -

- As part of the Commissioner's policy in recent years, significant reforms were promoted which involve the reduction of tariffs, promoting transparency and increased competition. These reforms affect, and will continue to continued in the coming years, the non-life insurance segment, and the profitability thereof. For additional details regarding section 2.5.4 above, and for details regarding the 2017 amendment to the compulsory motor insurance circular, see section 7.1.1.1(c)(1) above.

- **Availability of data by digital means** - In recent years, the Commissioner has promoted various provisions on the subject of the transfer of information by digital means. As part of the above, an amendment to the addition to insurance circular entered into effect in 2018, which obligates the marketing entity, when making inquiries regarding an insurance applicant's needs, to check at the Insurance Mountain (a platform concentrating information with respect to all of a policyholder's insurance products at the insurance companies) whether the insurance applicant already has similar insurance products, which increases competition in the market.

  For details regarding the use of a digital platform for marketing and distribution, see section 10.8.1.2(b) below.

  The Commissioner also promoted the reporting of claims experience in motor property claims to the Insurance Mountain, with the aim of creating a central claims report, which will facilitate matters for policyholders who are required to submit a claims report for underwriting purposes, before joining insurance. For additional details regarding the addition of data from the motor property claims report to the Insurance Mountain, see section 7.1.1.2(c2) above.

- **Calculators** - A significant part of the competition in the segment is focused on competition over the amount of premiums. On the website of the Capital Markets, Insurance and Savings Authority, a compulsory motor insurance calculator is available which presents the insurance tariffs of all of the companies, which are determined according to the relevant variables (of each company) to insure the vehicle for which a query is performed using the calculator (the "**Compulsory Motor Calculator**"). The compulsory motor calculator allows interested parties to compare tariffs for compulsory motor insurance between the companies. Additionally, on the aforementioned website, the apartment insurance tariff calculator is published ("**Apartment Insurance Calculator**"). The apartment calculator is intended to present comparative insurance tariffs of insurers, in accordance with the coverages given in the standard insurance policy for apartments and their contents.

- Price comparison aggregators - in recent years, various aggregators have been developed in the market, which are used by insurance agents and/or end customers as a comparative sales tool for motor insurance. The aggregators allow the receipt of insurance price quotes from several insurance companies in parallel, a feature which is increasing competition in the compulsory motor branch and in the motor property sub-branch.

Service and claim settlement -

According to the Company's estimate, in the reporting year and in the coming years, the competition in the segment will continue to increase, and also addresses additional components, beyond the pricing issue, such as the issue of service and the claim settlement method. These data constitute an additional measurement tool available to policyholders for choosing the insurance product. The Commissioner publishes, on the website of the Capital Market, Insurance and Savings Authority, comparative figures regarding the claim settlement method of insurance companies, as well as comparative figures regarding benchmarks for the evaluation of the service which is provided by insurance companies to policyholders.

During the period preceding the publication date of the report, Clal Insurance launched an application called "Clal Emergency Button", which allows Clal policyholders to receive emergency calls 24 hours a day in case of a vehicle accident or an incident abroad (in connection with international travel policies), or in case of plumbing damages in an insured apartment, at the push of a button. It is also possible to submit claims through the application, to check claim status, to review the personal file, and to perform various actions with respect to the personal file.

Lifting of barriers to competition -

For details regarding the lifting of barriers to entry to the market, see section 10.3.1.2 below.

According to the Company's estimate, the competition-encouraging factors listed above had a significant impact, during the reporting year, on the Company's activity in the non-life insurance branches, and accelerated the competition in the individual branches, which increased significantly during the reporting year, in combination with business decisions, aggressive price competition, and the conduct of competing players in the market, distributing entities and customers. According to the Company's estimate, the competitive conditions in the segment will continue in the near future as well.

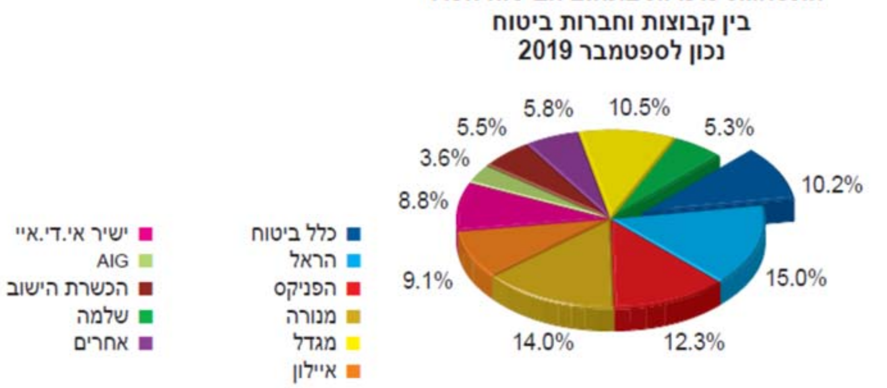
Clal Insurance's estimate in connection with the competing entities, as specified above, partially constitutes forward looking information, which is based on the information which is available to the Group as of the reporting date. Actual results may differ materially from the estimated results, due to the reasons presented above.

7.2.2. Competitive conditions in the operating segment

Most of the insurance companies in Israel are engaged in this segment.

Total gross premiums in the non-life insurance segment in the Group amounted, as of September 30, 2019, to approximately NIS 1,843 million, and constituted, according to the data in the financial statements of the insurance companies as of September 30, 2019, which are published on the website of the Capital Markets, Insurance and Savings Authority, approximately 10.2% of the activity in the non-life insurance segment. In the first nine months of 2018, gross premiums in non-life insurance in the Group amounted to approximately NIS 1,827 million, and constituted approximately 10.3% of activities in the non-life insurance segment.

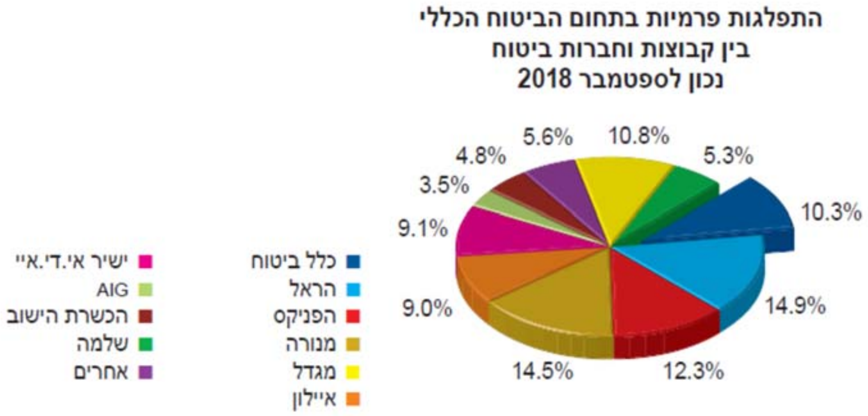
Distribution of premiums in the non-life insurance segment between insurance groups and companies as of September 2019



Dark blue – Clal Insurance

Light blue – Harel
Red – Phoenix
Beige – Menorah
Yellow – Migdal
Orange – Ayalon
Pink – Direct IDI
Light green – AIG
Brown – Israel Land Development Company
Dark green – Shlomo
Purple – Others

Distribution of premiums in the non-life insurance segment between insurance groups and companies as of September 2018



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Yellow – Migdal
Orange – Ayalon
Pink – Direct IDI
Light green – AIG
Brown – Israel Land Development Company
Dark green – Shlomo
Purple – Others

A. Individual branches

Most of the insurance companies sell most of the products in the segment in individual insurance branches (compulsory motor insurance, motor property insurance and apartment insurance). Some only through agents, others only through direct sale channels, and others through both channels. The market in the individual insurance branches involves significant competition. The competition in the activity branches is increasing in branches where there is uniformity between the products, and therefore, there is excess sensitivity to the tariffs in those products.

B. Business branches

Some of the insurance companies sell the business branch products. The competition in the liabilities and property branches is affected by the general competition in the business insurance segment. The sale of these insurance types requires specialization, and sometimes involvement of reinsurers in the specific risk.

The competition over large businesses is affected, inter alia, by the preparation of insurance tenders by customers, and the involvement of consultants, and the capacity and pricing of reinsurance.

For an analysis of the Company's business results in the individual segments and business insurance segments, see Part B of the Report - Board of Directors' Report, section 3.1.2.

7.2.3. Significant competitors in the segment

There is intense competition in vehicle and apartment insurance between all of the insurance companies which are engaged in this segment. The entry into the market of new insurance companies operating through a direct digital sales platform, along with the trend of growth in the market share of direct platforms which are held by the traditional insurance companies, have resulted in increased competition in the motor insurance market, and in the reduction of insurance premiums.

There is intense competition in the other products of non-life insurance (non-motor and apartment), mostly between the traditional insurance companies. According to the Group's estimate, the Group's main competitors in these products are the large insurance groups: Harel, Migdal, Phoenix and Menorah, which hold, jointly with the Group, approximately 61.9% of the market share in non-life insurance as of September 30, 2019, in accordance with the data which are published on the website of the Capital Markets, Insurance and Savings Authority.

In certain branches in the non-life insurance segment in Israel, there are significant competitors in the same branch. In the credit and foreign trade risks insurance branch, the main competitor of Clal Insurance is ICIC - The Israel Credit Insurance Company Ltd. Other competitors include Compagnie Française d'Assurance pour le Commerce Extérieur (Coface), which began operating in Israel in 2015, and several foreign credit insurance companies which insure Israeli companies in the credit insurance segment and which perform their sales activities through brokers.

7.2.4. Methods for dealing with competition and factors affecting the Company's competitive position

The Company deals with competition on several levels:

Improvement in pricing, underwriting and risk management methods - Data analysis using actuarial models, analysis of current business data and basing operations on an extensive database, which provide a picture that allows responding to market changes, including through differential tariffs and improvement of underwriting processes.

Improved service to customers and agents - Inter alia, thanks to the operation of systems which enable the issuance of policies at agents' offices, technological improvements to interfaces vis-à-vis agents (such as a system which enables the printing and direct mailing of policies, collaborations with motor insurance aggregators to streamline the production process), and the provision of digital services.

Operational improvements - for the purpose of complying with the regulatory directives, Clal Insurance developed automational tools in order to facilitate the agents' work in the required actions. Clal Insurance also worked to improve work methods, improve agreements with service providers, partial transition to digital mailing to policyholders, etc.

Products - Creation of designated products tailored to certain market segments and/or certain demographics, and expansion of existing policies, and adjusting them to customers' needs. For additional details, see section 7.1.5 above.

Marketing - Sales promotion through an extensive marketing campaign in various media, publications intended for agents, publications in professional media, targeted campaigns, initiated visits of professional entities on behalf of Clal Insurance at agent offices, professional conferences and professional training seminars. The Company operates a digital platform for the marketing of compulsory motor, motor property and apartment insurance products. The Company also markets unique tracks in the comprehensive policy, called "Select Garages", "Clal VAR" and "Clal Meterage" (for details, sees section 7.1.1.2(b2) and 7.1.5 above).

According to the estimate of Clal Insurance, the factors which positively affect its status in the segment include: the Group's stability and financial soundness, which are particularly significant in long tail claim insurance branches, professional specialization, the ability to offer a broad variety of solutions, and to tailor products to the customers' requirements, including providing innovative and unique solutions in the segment, advanced policy production systems in the individual branches, good relationships with reinsurers, including reinsurance agreements which allow the Company flexibility in the receipt of various businesses, and high quality service to agents and customers.

7.3. Customers -

7.3.1. General

Customers in the non-life insurance segment include individual and business customers: the motor property and compulsory motor insurance branches, and the apartment insurance sub-branch, primarily include individual policyholders. The liabilities insurance branch, the property and others (excluding apartments) insurance branch, the credit and foreign trade risks insurance branch, and the Sales Law guarantees and policies branch (in which the apartment buyer is the beneficiary, and the contractor is the policyholder) primarily include business policyholders.

In some of the insurance branches in the segment, which are individual insurance branches, a significant component of the sales aimed to collectives, including the (short term) personal accidents insurance sub-branch, the compulsory motor insurance branch and the motor property insurance branch.

Additionally, in the compulsory motor and motor property insurance branches, there are customers which are companies that own vehicle fleets, including companies which are engaged in vehicle rentals / leasing companies.

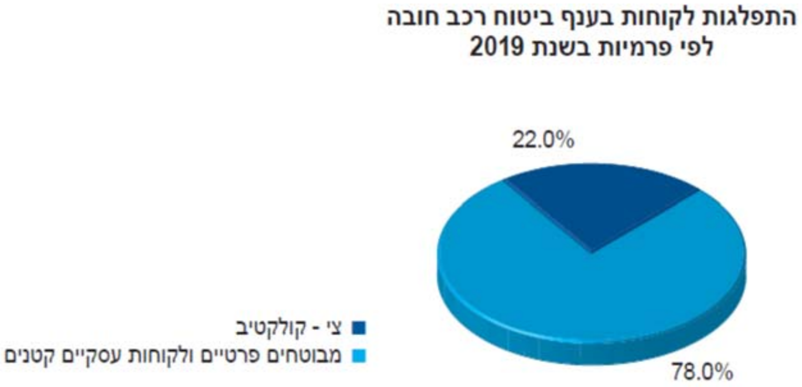
The Group's types of customers in the liabilities insurance branch are divided according to the insurance type: third party liability insurance and employer's liability insurance are intended both for the private sector (households and condominiums) and for the business sector (businesses, corporations, local authorities and other institutional entities). Directors and officers insurance, professional liability insurance and product liability insurance are intended for the business segment only.

Distribution of gross premiums (NIS in thousands) by types of customers in the various branches in the non-life insurance segment, in the years 2018 and 2019

A. Compulsory motor insurance branch

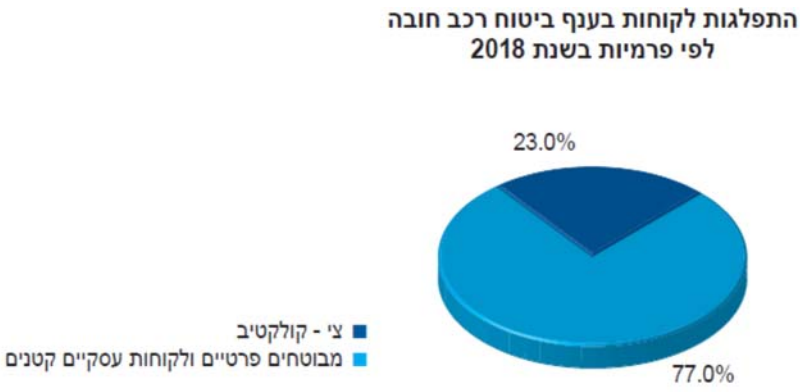
Customer type	2019		2018	
	Premiums, NIS in thousands	Proportion of total sales	Premiums, NIS in thousands	Proportion of total sales
Individual policyholders (not fleets or collectives)	358,896	78%	359,378	77%
Fleet - collective	101,116	22%	107,347	23%
Total	**460,012**	**100%**	**466,725**	**100%**

Distribution of customers in the compulsory motor insurance branch by premiums in 2019



Dark blue – Fleet – collective
Light blue – Individual customers and small business customers

Distribution of customers in the compulsory motor insurance branch by premiums in 2018

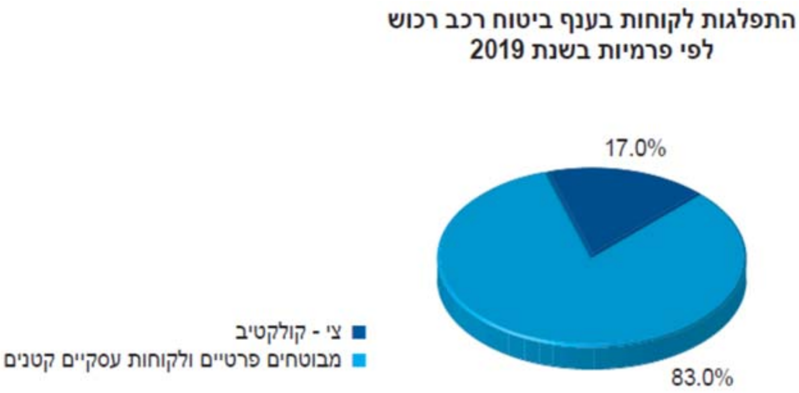


Dark blue – Fleet – collective
Light blue – Individual customers and small business customers

B. **Motor property insurance branch**

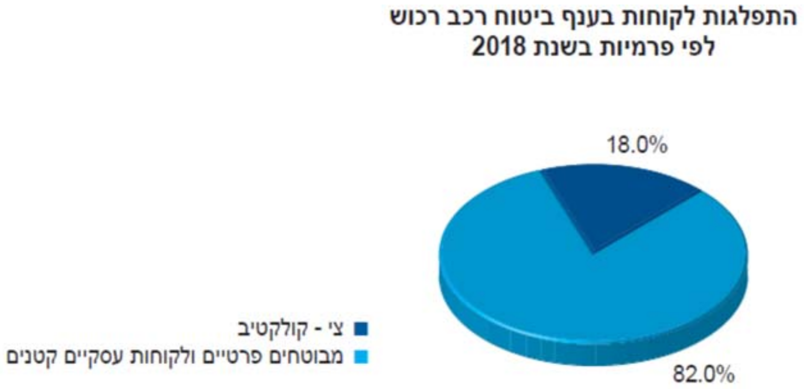
Customer type	2019		2018	
	Premiums, NIS in thousands	**Proportion of total sales**	**Premiums, NIS in thousands**	**Proportion of total sales**
Individual policyholders (not fleets or collectives)	559,896	83%	587,047	82%
Fleet - collective	117,240	17%	126,254	18%
Total	**677,136**	**100%**	**713,301**	**100%**

Distribution of customers in the motor property insurance branch by premiums in 2018



Dark blue – Fleet – collective
Light blue – Individual customers and small business customers

Distribution of customers in the motor property insurance branch by premiums in 2018

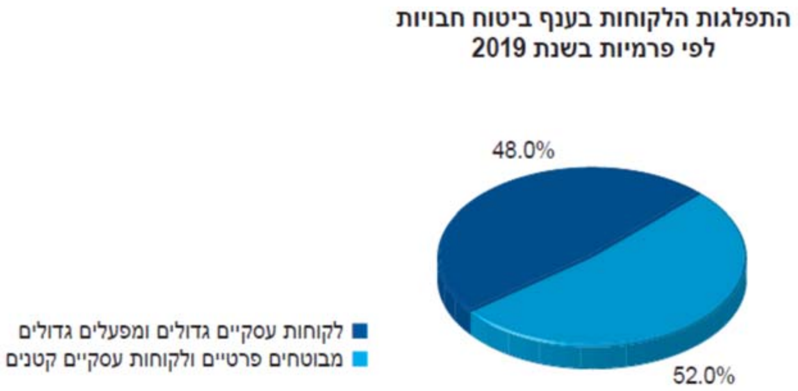


Dark blue – Fleet – collective
Light blue – Individual customers and small business customers

C. Liabilities insurance branch

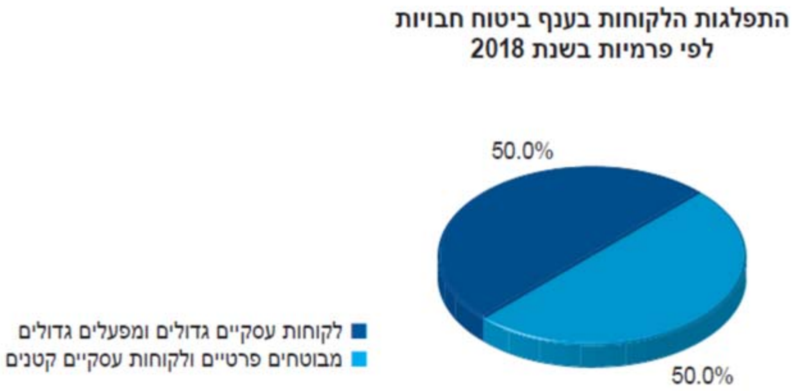
Customer type	2019		2018	
	Premiums, NIS in thousands	Proportion of total sales	Premiums, NIS in thousands	Proportion of total sales
Individual policyholders and small business customers	172,442	52%	168,623	50%
Large business customers and large plants	161,338	48%	165,284	50%
Total	**333,780**	**100%**	**333,907**	**100%**

Distribution of customers in the liabilities insurance branch by premiums in 2019



Dark blue – Large business customers and large enterprises
Light blue – Individual customers and small business customers

Distribution of customers in the liabilities insurance branch by premiums in 2018

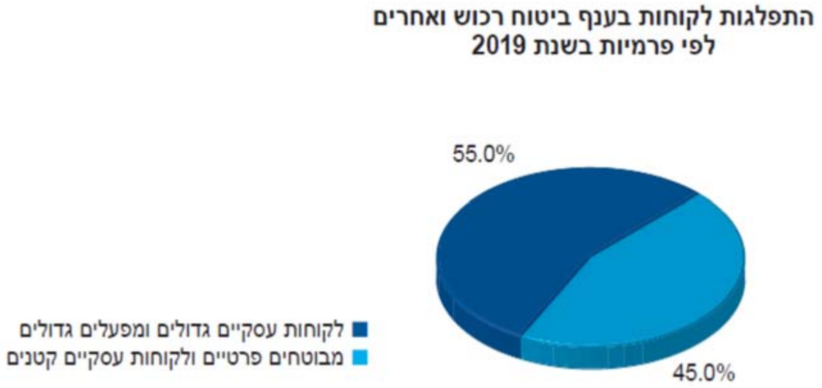


Dark blue – Large business customers and large enterprises
Light blue – Individual customers and small business customers

D. Property and others insurance branch

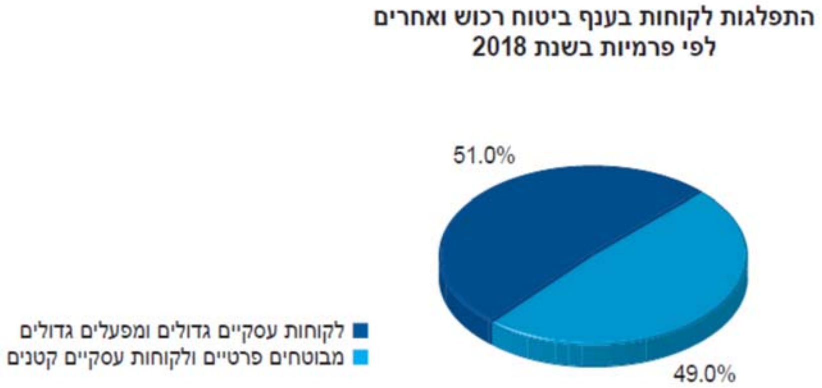
Customer type	2019		2018	
	Premiums, NIS in thousands	Proportion of total sales	Premiums, NIS in thousands	Proportion of total sales
Individual policyholders and small business customers	354,060	45%	359,460	49%
Large business customers and large plants	432,864	55%	368,192	51%
Total	**786,924**	**100%**	**727,652**	**100%**

Distribution of customers in the property and others insurance branch by premiums in 2019



Dark blue – Large business customers and large enterprises
Light blue – Individual customers and small business customers

Distribution of customers in the property and others insurance branch by premiums in 2018



Dark blue – Large business customers and large enterprises
Light blue – Individual customers and small business customers

E. **Credit insurance branch**

Customer type	2019		2018	
	Premiums, NIS in thousands	Proportion of total sales	Premiums, NIS in thousands	Proportion of total sales
Business policyholders	107,112	100%	109,793	100%
Total	**107,112**	**100%**	**109,793**	**100%**

7.3.2. Dependence on customers in the segment, renewal rates and seniority

- In the non-life insurance segment, the Group is not dependent on any individual customer or on a limited number of customers.

- The Group does not have any individual customer whose income in the segment constitutes 10% or more of the Company's total income in the consolidated reports.

- In this segment, the Company insures, from time to time and in the ordinary course of business, member companies of the IDB Group. The Company's total income in the non-life insurance segment from member companies of the IDB Group, from premiums in the ordinary course of business, did not exceed 5% of the Company's income in the segment in 2019. For the sake of caution, despite the fact that the IDB Group includes a large number of companies, all of the member companies of the IDB Group were addressed, for this purpose, as a single entity.[59]

- The rate of individual policyholders who purchased compulsory motor insurance together with motor property insurance in 2019, out of the total customers who purchased compulsory motor insurance in the Group, amounts to approximately 68%. The rate of individual policyholders who purchased compulsory motor insurance together with motor property insurance in 2019, out of the total customers who purchased motor property insurance in the Group, amounts to approximately 92%.

- Presented below are data regarding the renewal rate (customers who renewed policies in which the insurance had terminated) in the mandatory motor insurance, motor property insurance branches and the housing insurance sub-sector in 2019, 2018 and 2017 out of the total insurance fees in respect of policies that terminated in 2019, 2018 and 2017, respectively, which are affected, inter alia, by business optimization processes which were implemented by Clal Insurance in recent years:[60]

Branch	**Rate of renewals from total premiums with respect to policies whose conclusion date is in 2019**	**Rate of renewals from total premiums with respect to policies whose conclusion date is in 2018**	**Rate of renewals from total premiums with respect to policies whose conclusion date is in 2017**
Compulsory motor insurance	**71.3%**	**69.7%**	69.0%
Motor property insurance	**68.9%**	**70.1%**	73.9%
Apartment insurance	**86.4%**	**86.2%**	83.3%

- Presented below are data regarding premiums (NIS in thousands) which were paid by customers during the reporting year, according to the number of years of seniority in Clal Insurance (according to the policy acquisition and renewal date, **in the compulsory motor insurance branch**[61]**:**

	Premiums, NIS in thousands			**Proportion of total sales**		
Number of insurance years (years of seniority)	**2019**	**2018**	**2017**	**2019**	**2018**	**2017**
First insurance year (no seniority)	149,872	154,759	206,077	32.59%	33.16%	43.61%
Second insurance year (one year of seniority)	90,530	133,060	90,540	19.68%	28.51%	19.16%
Third insurance year (two years of seniority)	98,443	59,218	53,114	21.40%	12.69%	11.24%
Over three years of seniority	121,167	119,688	122,815	26.34%	25.64%	25.99%

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[59] For details regarding the Commissioner's announcement dated December 8, 2020, regarding the Company's status as a company without a control core, see Note 1(a) and 1(b) to the Company's financial statements. With respect to the reporting year, the evaluation also included Mr. Moshe Terry, who serves as the trustee for IDB Development for the purpose of exercising the authorities which are vested in him by virtue of the means of control.

[60] The rates are presented in terms of gross premiums.

[61] For details regarding premiums which were collected by Clal Insurance in the non-life insurance segment during the reporting year, see Note 5(d) to the financial statements.

Total	**460,012**	**466,725**	**472,546**	**100.00%**	**100.00%**	**100.00%**

- Presented below are data regarding premiums (NIS in thousands) which were paid by customers during the reporting year, by number of years of seniority in Clal Insurance (according to the policy acquisition and renewal date), **in the motor property insurance branch**:

	Premiums, NIS in thousands			**Proportion of total sales**		
Number of insurance years (years of seniority)	**2019**	**2018**	**2017**	**2019**	**2018**	**2017**
First insurance year (no seniority)	224,741	246,089	289,064	33.19%	34.50%	39.77%
Second insurance year (one year of seniority)	145,110	168,268	149,220	21.43%	23.59%	20.53%
Third insurance year (two years of seniority)	101,774	96,224	79,226	15.03%	13.49%	10.90%
Over three years of seniority	205,511	202,720	209,330	30.35%	28.42%	28.80%
Total	**677,136**	**713,301**	**726,840**	**100.00%**	**100.00%**	**100.00%**

- Presented below are data regarding premiums (NIS in thousands) which were paid by customers during the reporting year, by number of years of seniority in Clal Insurance (according to the policy acquisition and renewal date), **in the apartment insurance sub-branch**:

	Premiums, NIS in thousands			**Proportion of total sales**		
Number of insurance years (years of seniority)	**2019**	**2018**	**2017**	**2019**	**2018**	**2017**
First insurance year (no seniority)	42,466	39,805	38,693	15.86%	14.77%	14.27%
Second insurance year (one year of seniority)	27,338	26,402	27,603	10.21%	9.79%	10.18%
Third insurance year (two years of seniority)	22,117	24,150	24,838	8.26%	8.96%	9.16%
Over three years of seniority	175,863	179,216	180,018	65.68%	66.48%	66.39%
Total	**267,758**	**269,573**	**271,152**	**100.00%**	**100.00%**	**100.00%**

* Details regarding customer renewals do not include data regarding policies which were sold through mortgage banks (old portfolios) which entered run off beginning in 2005.

7.4. Other

7.4.1. Draft circular regarding certificates of insurance

In December 2019, the circular regarding certificates of insurance (hereinafter: the "**Circular Regarding Certificates of Insurance**"), entered into effect, which regulates the conduct of insurance companies upon issuance of certificates of insurance, and dictates the obligatory wording of such certificates. The circular regarding certificates of insurance determines, inter alia, that an insurance company will not issue an approval or an undertaking pertaining to the policy except in accordance with the provisions of the circular, and in accordance with the wording of the approval which was attached as an annex to the circular.

According to the Company's estimate, the circular regarding certificates of insurance will result in increased operational efficiency on all matters associated with the issuance of certificates of insurance, and lead to standardization and certainty on all matters associated with the scope of insurance coverage.

The Company's estimate in connection with the provisions of the circular regarding certificates of insurance constitutes forward looking information, which is based on the information which is available to the Group as of the reporting date. Actual results may differ from the forecasted results, which depend, inter alia, on the conduct of policyholders, entities requesting approval and competitors.

8. Health insurance segment

8.1. Products and services

8.1.1. Description of the insurance branches and the insurance coverages included in the segment

8.1.1.1. Illness and hospitalization branch

In Israel, there are several layers providing illness and hospitalization coverage: The basic health basket which is provided to the country's citizens by virtue of the National Health Insurance Law (the "**Basic Basket**"); additional services which are provided by the health funds in accordance with the provisions of the National Health Insurance Law (hereinafter: the "**Additional Services**" or the "**Additional Health Services**"); and insurance policies sold by the insurance companies.

The Group offers to its policyholders a variety of insurance coverages in the illness and hospitalization branch, which include compensation or indemnification to policyholders with respect to medical expenses in case of harm to health due to an illness or accident. Some of these products are substitute, supplement and expand the coverages and services which are given in the basic basket and/or the additional services.

The illness and hospitalization branch includes the following primary sub-branches which are proposed by the Company:

- Illness and hospitalization insurance.
- International travel insurance.
- Personal accidents insurance.

8.1.1.2. Long-term care branch

Long-term care insurance provides solutions for situations in which the policyholder is defined as requiring long-term care, according to the definition of the insurance event in the policy, i.e., anyone who cannot independently perform part of the activities of daily living, and therefore requires assistance or supervision. A policyholder with mental incapacity is also considered as requiring long-term care.

A person requiring long-term care who resides at home, and who fulfills certain criteria (including, inter alia, health and economic criteria), may be entitled to receive services from the National Insurance Institute, including treatment hours at home, in accordance with the provisions of the National Insurance Law (Combined Version), 1995.

The Ministry of Health also participates in assisting the funding of residence in a long-term care institution among the long-term care institutions which are recognized by it for this purpose, for any person requiring long-term care who requires assistance in financing such residence.

The long-term care branch includes insurance coverages which are paid, in addition to the payments or services which are given by the state, as specified above, as individual insurance and as collective insurance (currently mostly for health fund members), in which, upon the occurrence of an insurance event, the insurance company undertakes to insurance company in funding the long-term care hospitalization or to compensate the policyholder. The policies provide insurance benefits for a defined period, or for the entire lifetime.

Beginning in October 2019, Clal Insurance stopped marketing individual long-term care policies to new customers, inter alia, due to the announcement of reinsurers, regarding the discontinuation of their activity in the long-term care insurance segment in Israel. For additional details, see section 8.1.2.2 below. Additionally, as of the publication date of the report, Clal Insurance is not engaging in any new agreements regarding collective long-term care insurance. Additionally, beginning in January 2019, Clal Insurance discontinued its collective long-term care insurance coverage for the members of Maccabi health fund, and beginning in April 2019, Clal Insurance discontinued its collective long-term care insurance coverage for the members of Leumit health fund, due to the termination of Clal Insurance's engagement with those health funds in agreements for marketing collective long-term care policies. For additional details, see sections 8.1.2.2(b) and 8.1.2.2(c) below.

8.1.2. Details regarding the primary products and services included in the operating segment

Presented below is a description of the main coverages:

8.1.2.1. Illness and hospitalization branch

In the illness and hospitalization branch, Clal Insurance markets individual insurance and collective insurance.

- Individual insurance

Individual health insurance policies which were sold until the end of January 2016 are generally for an undefined period, regarding which, except for the cases specified in the policies and in the policies, only the policyholder is entitled to announce their termination.

In accordance with the Commissioner's directives, individual insurance in the health segment (excluding loss of working capacity, long-term care insurance, international travel, dental, and foreign employees and residents) which are sold from February 2016, are automatically renewed for all policyholders once every two years, and subject to the Commissioner's approval, the insurance company may update the tariffs and conditions in all individual health insurance policies, until the date of the next update of the tariff and/or conditions (hereinafter: the "**Date of the Change**"). An insurance company is obligated to notify all policyholders of the change around two months before the date, and to obtain their consent if the monthly premiums have increased, or if the scope of insurance coverage has been reduced, as an alternative to raising the premiums, as stated above, according to the cases and conditions which were determined by the Commissioner (hereinafter: the "**Policy Pricing Reform**").

It is difficult to estimate the impact of the policy pricing reform over the long term; however, in the short term, the update to the policies in accordance with the aforementioned reform resulted in a reduction of tariffs in Clal Insurance relative to the coverages which are included in the reform. Additionally, the Company estimates that periodically updating the policy terms, insofar as such updates are made, may affect the ability to maintain policyholders, and may increase policy cancellation rates, particularly among healthy policyholders.

The information presented on all matters associated with the possible implications of the policy pricing reform constitutes forward looking information, which is based on assumptions and estimates made by the Group, as of the reporting date. Actual implementation may differ from the forecast, and depends on a variety of factors, including the manner in which the policies are updated, according to the requirement and/or possibility to update them, over the years, and the operating expenses associated therewith, and also depends on the conduct of competing companies, distributing entities and the preferences of policyholders over time, as well as the combined impact of the policy pricing reform, together with the standard policy regulations, as defined below.

Additionally, in accordance with the Commissioner's directives, beginning in February 2016, an insurance company which markets individual policies in the illness and hospitalization branch and in the personal accidents branch will allow a potential policyholder to purchase a base plan, independently of their purchase of another, additional plan, or another base plan, unless the Commissioner has given advance written consent for the above. It was also determined that an insurance company will allow potential policyholders to purchase any of the following coverages as base plans: surgeries, transplants, drugs and critical illness. An insurance company may not make a discount in a certain plan conditional upon the purchase or holding of any other plan, and must obtain the policyholder's separate consent for the acquisition or cancellation of each of the plans.

- Collective insurance

Collective health insurance policies are generally for periods of several years, where in some of the policies, policyholders are entitled to acquire, at the end of the collective insurance period, individual policies without underwriting (“**Insurability**”).

The Control of Finance Services Directives (Insurance) (Collective Health Insurance), 2009 (hereinafter: the “**Collective Heath Regulations**” or the “**Directives**”), regulate collective insurance, and determine, inter alia, that the continuous renewal of collective insurance will be done only on the condition that one or more of the basic coverage chapters, as defined in the directives, which existed in the policy prior to its renewal, have not been canceled. It was further determined that the premiums cannot be raised, during the insurance period, or on the date of renewal of the collective insurance policy, at a rate or amount higher than that specified in the directives, unless the policyholder’s express consent has been received.

Insurance coverages in the illness and hospitalization branch

Presented below is a description of the characteristics of insurance coverages in the main products which are sold by the Group in the illness and hospitalization branch:

A. Illness and hospitalization insurance.

- In the illness and hospitalization branch, the insurance companies offer coverages which are divided into three types:
  - **Alternative insurance** - Insurance coverage which constitutes an alternative to the services which are given in the basic basket and/or for additional services.
  - **Additional insurance –** Coverage for services which, are their date of sale, are not included in the basic basket or in the additional services.
  - **Supplementary insurance** - Coverage which expands coverage given in the basic basket and/or in the additional services.
- **The basic insurance coverages in this sub-branch include:**
  - **Insurance for surgeries, transplants and special treatments** - Provides coverage to the policyholder with respect to private medical services. Within this framework, the insurant is given the right to choose the date of receiving the medical service, the identity of the attending physician and the medical institution. The aforementioned insurance coverage provides coverage for medical expenses, inter alia, in connection with surgery, transplants and/or special treatment overseas.

    Beginning in February 2016, all of the insurance companies in Israel are marketing a policy which includes standard insurance coverage for surgeries, alternatives to surgery, and consultations with specialized physicians regarding surgeries or regarding alternative treatments to surgery, all in Israel, the scope and terms of which were set forth in the Control of Finance Services Regulations (Insurance) (Terms of Insurance Contract for Surgeries and Alternative Treatments to Surgery in Israel), 2015 (hereinafter: the “**Standard Surgery Policy**” and the “**Standard Policy Regulations**”, respectively).

    In accordance with the Economic Plan Law (Legislative Amendments to Implement the Economic Policy for Budget Years 2015 and 2016), 2015 (hereinafter: the “**2015 Economic Arrangements Law**”), beginning in July 2016, the standard surgery policy which is marketed by all of the insurance companies in Israel includes coverage for surgeries which will only be performed by a service provider who has an arrangement with the insurer regarding the performance of the procedure (hereinafter: “**Arrangement Service Provider**”). It was further determined in the 2015 Economic Arrangements Law, in a standard manner for all insurance companies and health funds, that in general, except for an exclusion which was established with respect to insurers with low market shares (hereinafter: “**Insurers With Low Market Shares**”), the insurance company will pay in accordance with the standard policy for surgeries, with respect to a surgery, to the physician or to the medical institution in which the surgery was performed, according to an insurance arrangement only, and will not pay to the patient monetary reimbursement or payment for the surgery.

The existence of a standard surgery policy at an insurance company which allows the provision of service to policyholders through providers which have an agreement with the insurance company only, resulted in competition focused on price, service (including the available doctors, which will be determined in the arrangement), and the claim settlement method.

In February 2016, the Israel Medical Association filed a petition with the Supreme Court against the health chapter in the 2015 Economic Arrangements Law, in which, inter alia, it asserted that it restricts the access of patients to a variety of physicians, which constitutes a breach of Basic Law: Human Dignity and Liberty, since it denies citizens the possibility of choosing the best medical treatment, in their judgment. In May 2019, the Court dismissed the petition.

In accordance with the decision of the Price Committee from February 2018, and the application of Chapter F (Reporting of Prices and Profitability) of the Supervision of Products and Services Law, 1996, to the prices of privately funded surgeries, through the Supervision of Products and Services Pricing Ordinance, an obligation was imposed on the health fund and insurance companies which provide medical insurance, as well as surgical hospitals and clinics as the service providers, to submit data to the Ministry of Health regarding privately funded surgeries, in a predetermined format, for two years.

At this stage, the Company is unable to estimate the impact of the aforementioned report and the ensuing decisions.

- **Critical illness insurance** - Insurance coverage in which the policyholder, in case of the diagnosis of a critical illness insurance, is entitled to receive monetary compensation in a one-time amount.

- **Drugs insurance** - Insurance coverage for purchasing drugs which are not included in the national health basket.

- There are also additional coverages, which do not constitute basic plans, such as **ambulatory services** - services which provide medical treatment, in a hospital or a clinic, with no need for hospitalization.

B. International travel insurance

International travel insurance is comprised of a basket of insurance coverages which are intended for policyholders during their time spent abroad, including, inter alia, base coverage which primarily includes medical expenses that allows the purchase of various extensions (such as travel cancellation, travel shortening, pregnancy, personal accidents, baggage, winter sports). The insurance period in an international travel policy is specified in days, according to the period of the policyholder's stay abroad, or for the duration of all travel days in a single calendar year. International travel policies are sold by insurance agents, mostly sold by the direct sales unit, and through the health funds, with whom the agreement will soon conclude, and through whom most sales of international travel insurance are performed. The Company is working on the development of distribution channels for international travel insurance, inter alia, by expanding the marketing efforts through insurance agents and through digital means. The profitability in international travel policies is also affected by changes in exchange rates. For additional details, see section 8.3.2 below.

C. Personal accidents insurance

This sub-branch includes individual policies which grant entitlement to compensation in a one-time amount upon the occurrence of an insurance event, such as fractures, burns, disability and death due to an accident.

In accordance with the provisions of the circular entitled "**amendment to the provisions of the consolidated circular - volume 6, parts 2, 3 and 4 - disclosure and reporting to holders of health insurance policies**" (hereinafter: the "**Disclosure And Reporting Circular**"), during the period from September 2018 to September 2020, monthly text messages will be sent to policyholders informing them of the monthly payment to the insurance company with respect to personal accidents policies. The requirement to send monthly text messages, as stated above, resulted, during the period from the application date of the aforementioned obligation until the publication date of the report, in increased cancellation rates.

For details regarding the determination with respect to the marketing of personal accidents policies, see Note 42(d)(1) to the financial statements.

In February 2020, an “amendment to the provisions of the consolidated circular - volume 6, part 3, chapters 2, 3 and 4 - personal accidents insurance - second draft” was published (hereinafter: the “**Draft Circular Regarding Personal Accidents**”), which includes provisions which are intended to regulate the process of sale and insurance coverage in the personal accidents branch. The principal provisions proposed in the draft circular regarding personal accidents include: determining a basic level for the policy, to include covers for death, disability, hospitalization, convalescence days, fractures and burns, whereby an insurance company will be entitled to propose extensions to the basic layer, with the Commissioner’s approval. Permission was also given to continue marketing plans which include coverage for accidental death only, or coverage for accidental disability only. The draft established a standard and broad definition of an “accident”; It was determined that the insurance period in personal accidents policies will not exceed two years, except with respect to accidental death or accidental disability plans only, which are sold as an extension of life insurance - risk only, in which case the insurance period is the same as the insurance period in the base policy. Transitional provisions were established which will apply for a period of two years after the application date, according to which insurance companies will be required to send to insurance applicants, at the end of a telephone sale process, a message including an explanation regarding the insurance, in which the insurance applicant will be required to actively approve their consent to join the insurance, the imposition of an obligation on insurance companies to maintain an internal monitoring mechanism regarding the method of addition to personal accidents insurance, with an emphasis on certain population groups which were defined in the draft, and the imposition of an obligation on insurance companies to notify current personal accident policyholders, by SMS, of the option to transfer to personal accident policies according to the new format. In the draft, it was proposed to set forth unique and restrictive provisions regarding the addition of policyholders to personal accidents policies; a mechanism for the settlement of disability claims in personal accidents insurance, including a provision stipulating that the insurance company will not reject an opinion which has been determined for the policyholder on behalf of the National Insurance Institute, or a medical opinion which has determined a certain disability grade for the policyholder, without having conducted an examination of the policyholder by an specialized physician on its behalf; and a provision stipulating that the insurance company will not approve a claim from a policyholder with a disability grade which is less than the determined disability grade, except based on the determination of a specialized physician who has examined the policyholder. In accordance with the personal accidents draft circular, insofar as it will be accepted, it will enter into effect on July 1, 2020, and will apply, in general, to individual or collective personal accidents insurance policies which will be commenced or renewed beginning on the application date and thereafter, excluding certain provisions, regarding which it is proposed to determine that they will not apply, inter alia, to students personal accident insurance and collective personal accidents insurance, as applicable.

The Company is evaluating the implications of the draft circular regarding personal accidents, which, insofar as it is published, as currently phrased, is expected to impose difficulties on sale processes of personal accident policies, including regarding the possibility of continuing to market the policies according to the current format, which may affect the policy period, the scope of insurance coverage given thereunder, and may increase claim settlement costs.

The Company’s estimate regarding the impact of the draft circular regarding personal accidents constitutes forward looking information, which is based on preliminary estimates, and its actual implementation may differ, inter alia, depending on the final wording of the circular, if and insofar as it is published, the conduct of Clal Insurance and competing entities, and the pricing method of these products.

8.1.2.2. Long-term care branch

In the long-term care branch, policies are marketed in which, upon the occurrence of an insurance event, the Company undertakes to participate in the financing of residence in a long-term care institution, or to compensate the policyholder in a predetermined amount. The policies provide insurance benefits for a defined period, or for the entire lifetime.

In accordance with the Commissioner’s directives on the matter, as expressed in the circular regarding the “preparation of long-term care insurance plan” (the “**long-term care Circular**”), an insurance event which is due to a situation wherein the individual is unable to perform at least 3 of 6 activities which are defined in the circular (getting up and lying down, getting dressed and undressed, bathing, eating and drinking, continence and mobility) will entitle the policyholder to no less than 50% of the monthly insurance benefits, and an insurance event which is situation a situation of mental incapacity" (as defined in the circular), will entitle the policyholder to receive 100% of the monthly insurance benefits. The insurance benefits are paid beginning at the end of the waiting period, for the entire lifetime of the policyholder, or for a period of several years, as defined in the policy, and so long as the policyholder continues to require long-term care. The waiting period may be a several months or several years, depending on the product purchased by the policyholder.

As of the reporting date, as a result of the combination of regulatory directives from recent years, as specified below, as well as market conditions and business considerations, Clal Insurance discontinues the marketing of long-term care policies - both individual long-term care policies and collective long-term care policies, including within the framework of collective long-term care insurance for health fund members whose activity has been transferred from the Company to other insurance companies, and excluding long-term care policies within the framework of the realization of contractual obligations towards policyholders.

At this stage, the Company is unable to predict future developments in this segment, which is affected, inter alia, by regulatory changes, positions of reinsurer, approval of new tariffs by the Commissioner, and market conditions.

The information presented on all matters associated with future developments in the long-term care insurance segment constitutes forward looking information, which depends on various factors, including the long term effects of the reforms in the long-term care branch, the conduct of Clal Insurance and competing entities, the conduct of reinsurers, and the Commissioner's policy regarding changes in the terms and/or tariffs of the long-term care product.

During the reporting year, the "**amendment to the provisions of the consolidated circular - volume 6, part 3 - long-term care insurance**" (hereinafter: the "**Circular**" or the "**Circular Regarding the Settlement of long-term care Claims**") entered into effect, which includes provisions regarding claim settlement in long-term care insurance, which are intended to ensure a claim settlement process which is as fast as possible, fair, and which requires minimum hassle for policyholders, and whose provisions also apply to policies which were sold in the past, and the claims under which were submitted after the date of the circular's entry into effect.

The circular established, inter alia, provisions with respect to the order of actions and timetables which will apply to the insurer in the claim settlement process; Imposition of an obligation on the insurer to appoint a representative on its behalf, to serve as the contact person vis-à-vis the policyholder; And the establishment of restrictions in cases where investigations can be made, and regarding the methods used to make them. Inter alia, it was determined that an investigation will only include documentation of the policyholder's actions as they occurred, and that, within the framework of a decision to reject a claim, which also relies on findings which came up in the investigation, the insurer is required to attach to its decision also the date and location of the investigation, as well as a picture from the investigation, which allows verification of the policyholder's identity.

The circular also specifies the cases in which the insurer may refer the policyholder for the performance of functional evaluations, and it was further determined that if the insurer has a functional evaluation which was performed by the National Insurance Institute, or by another insurer, it will be considered as constituting sufficient information for the purpose of describing the performance of the actions specified therein. The provider of the functional evaluation will be chosen by the insurer randomly and cyclically from among the list of providers with whom the insurer has engaged. Appeals by insurance companies against the results of the functional evaluation will be performed through a determining provider, and only based on information which contradicts the results of the functional evaluation which was performed, and which it did not have previously. The entry into effect of the provision stipulating that insurers are obligated to create a database of providers which will perform the functional evaluations, in accordance with the rules specified in the circular, was deferred by the Commissioner to an unknown date. The described processes, provisions and restrictions set forth in the circular with respect to the settlement of long-term care claims are expected to have an impact on the claim settlement process in its entirety, both from the operational perspective, and on all matters associated with claim settlement and the tools which will be available to the insurer to ascertain its liability, and as a result, are expected to increase claim settlement costs. At this preliminary stage of adoption of the provisions of the circular which entered into effect, the Company is unable to estimate the full impact of the aforementioned provisions, which could be significant over time. For additional details, see section 10.16(b)(1) below and Part B of the Report - Board of Directors' Report, section 3.1.3.

The information presented on all matters associated with the possible implications of the claim settlement circular, as described above, constitutes forward looking information, which is based on assumptions and estimates made by the Group, and actual results may differ significantly from the forecast, due to, inter alia, the preliminary stage of implementation of the circular's provisions, and the fact that some of its provisions have not yet entered into effect, and also depends, inter alia, on the manner of actual implementation, and the implications of the long-term care claim settlement process, including with respect to claims which will be settled after the application date, based on policies which were marketed in the past.

A. Individual long-term care insurance

Individual insurance policies in the long-term care branch are insurance policies which are purchased privately by policyholders. The insurance period in such policies is for the entire lifetime, where the maximum period of entitlement to receive insurance benefits is in accordance with the type of policy which was acquired (several years to entire lifetime). There are long-term care insurance policies which are supplementary to long-term care insurance acquired by a policyholder (generally through health funds or collective insurance), which provide insurance benefits only after the end of a waiting period of 36 or 60 months.

There are fixed premium long-term care policies which grant the policyholder the right, in cases where he stops paying the premiums, for any reason whatsoever, under certain conditions, to accrue settlement values, which allow him to receive reduced insurance benefits in case of a claim, in accordance with his age, the premium payment period, and the premium amount which was paid by him. When the settlement values are lower than a certain limit which was determined by the Commissioner, the policyholder receives, instead of the settlement values, a one-time amount. Additionally, until 2013, individual long-term care policies were also sold at variable premiums, without settlement values. In accordance with the Commissioner's directives, beginning in 2013, in addition to fixed premium policies, only policies with premiums linked to the CPI's increase of up to 4% per year can be sold, in which the price is fixed no later than age 65 ("**Restricted Variable Rate Premium**").

Further to that stated in section 8.1.3.2 below, regarding Clal Insurance's decision to reduce the sales of individual long-term care insurance, in order to reduce the exposure to that segment, which is exposed to significant risks, including exposure to regulatory changes, significant gaps between the terms of insurance coverage and the expectations of policyholders, and complex claim settlement processes, Clal Insurance decided, in October 2019, to discontinue the marketing of the individual long-term care policies in Clal Insurance to new customers, inter alia, in light of the announcement of reinsurers regarding the discontinuation of their activity in the in the field segment in Israel.

Until the foregoing date, during the reporting year, the long-term care policies which were marketed by Clal Insurance were mostly with fixed premiums, while others were with restricted variable rate premiums. Until 2007, Clal Insurance also marketed long-term care insurance with fixed premiums, which included a mechanism for linkage to investment portfolio returns, in a manner whereby positive returns, beyond the minimum returns determined in the policy, increased the amount of the monthly stipend to which the policyholder is entitled upon the occurrence of the insurance event. Returns lower than the minimum returns defined in the policy entitle Clal Insurance to increase the insurance premiums, in a manner whereby the amount of the monthly stipend to which the policyholder is entitled upon the occurrence of the insurance event will not be reduced. Since 2007, long-term care policies with this mechanism are no longer sold by the Group.

B. Collective long-term care insurance (excluding collective long-term care insurance for health fund members)

In recent years, the Commissioner has published various directives, in which he regulated the conclusion of collective long-term care insurance activities, under the previously implemented framework, and the conclusion of which was eventually scheduled for December 31, 2017 (hereinafter: the "**Conclusion Date**"). Additionally, in 2017, directives of the Commissioner entered into effect with respect to the framework for collective long-term care insurance policies which will be sold beginning from the conclusion date (hereinafter: the "**New Framework**"). In accordance with the new framework, it was determined, inter alia, that the insurance period will be no shorter than 5 years, and no longer than 8 years; the type of premium which can be collected from a policyholder is the fixed premium or increased premium (variable up to 4% per year, and only until age 65); a policyholder in collective long-term care insurance will accrue settlement values from age 40 onwards, which will be determined according to the age when the policyholder first joined the insurance, where upon renewal of the collective insurance at another insurer, the reserves will be transferred between insurers; when exercising the continuity right of a policyholder aged 40 or older, for a individual framework long-term care policy, the premium of the continuing policy will be no higher than the premium which that policyholder was required to pay with respect to the collective long-term care insurance before the transition to the continuing policy. To the best of the Company's knowledge, policies according to the new framework are not common on the market.

As of the publication date of the report, Clal Insurance does not engage in collective long-term care insurance under the new framework, and accordingly, most of the collective policies in which Clal Insurance was engaged in the past, under frameworks other than the new framework, concluded; however, during the reporting year, the above did not have a significant impact on the Company, inter alia, in light of the fact that, during the years preceding the publication of the aforementioned provisions, the Company worked to reduce its activities in collective long-term care insurance.

C. Collective long-term care insurance for health fund members

In 2018, Maccabi and Leumit health funds published new tenders for the selection of an insurer in a new framework of engagement, such that the winning insurer will bear 20% of the risk (as opposed to the situation whereby Clal Insurance bore the entire insurance risk). In accordance with the notices given by the funds, Clal Insurance did not win the tender. Therefore, beginning on January 1, 2019, Clal Insurance ceased being the insurer of Maccabi health fund, and beginning on April 1, 2019, Clal Insurance ceased being the insurer of Leumit health fund.

The termination of the engagement with Maccabi and Leumit health funds is expected to result in a gradual decrease of the direct expenses with respect to the discontinued activity, over a period of 3 years. Total direct expenses in 2018 with respect to the Maccabi and Leumit transactions amounted to a total of approximately NIS 18 million. Additionally, indirect expenses which had been attributed to the Maccabi and Leumit transactions, in the amount of approximately NIS 25 million, were re-allocated in 2019 to the various activities, mostly in the health segment. This allocation also affected the cash flow forecast, and increased the insurance reserves for 2018 in the individual health branch (which are calculated using the gross premium reserve method), in the amount of approximately NIS 14 million.

In 2018, the impact of the Maccabi and Leumit health funds transaction on the results for 2018 amounted to loss of approximately NIS 94 million and of approximately NIS 8 million, respectively. The main components of loss in 2018 from the Maccabi and Leumit health funds transaction were due to the deficiency of investment income required to cover the increase in insurance liabilities, and the update to the actuarial model in the long-term care branch, inter alia, in light of the negative development in claims, and the implications due to the publication of the amendment to the provisions of the consolidated circular regarding the settlement of long-term care claims.

During the reporting period, the impact of the Maccabi and Leumit health funds transaction amounted to loss of approximately NIS 52 million and loss of approximately NIS 1 million, respectively. During the current quarter, the Maccabi and Leumit health funds transaction resulted in profit of approximately NIS 1 million and NIS 3 million, respectively.

The conclusion of the engagement with Maccabi and Leumit health funds is expected to result in a gradual reduction of total claims and of direct expenses with respect to the concluded activity, over three years after the conclusion date of the insurance period, and in the re-allocation of indirect expenses. As of the reporting date, Clal Insurance is continuing to receive claims with respect to past periods, including at a higher rate than it initially predicted, and disputes sometimes arise vis-à-vis the health funds and/or the new insurer, regarding the correct date for attributing the initial occurrence of the insurance event.

The information presented on all matters associated with the possible future implications of the conclusion of Clal Insurance's activity as a provider of long-term care insurance to members of Maccabi and Leumit health funds constitutes forward looking information, which is based on assumptions and estimates made by the Group as of the publication date of the report, and actual results may differ.

8.1.3. Main markets, trends and changes in supply and demand

8.1.3.1. Illness and hospitalization branch

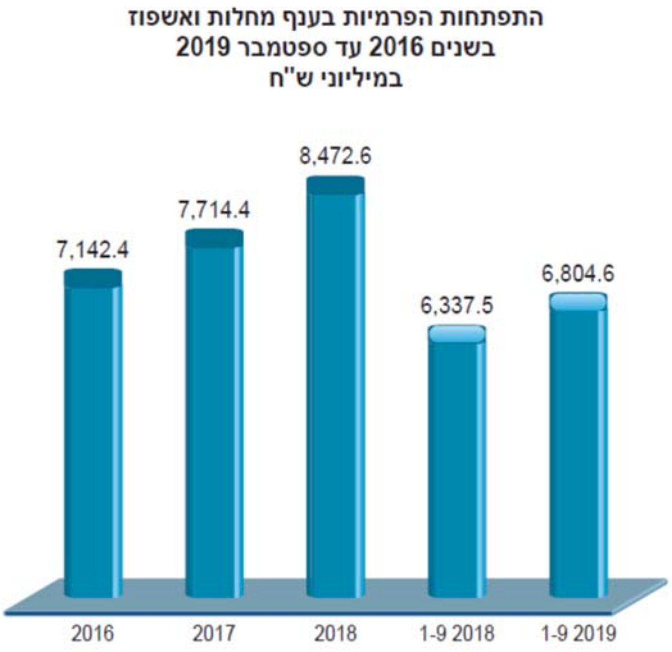
In recent years, the illness and hospitalization branch has been a developing branch, due, inter alia, to the following facts: the gap between the scope of health services provided by the state in the basket of basic health services, and citizens' need for improved health services; technological improvements in the field of medicine; Increased life expectancy and improved quality of life, which require expensive medical resources, such as advanced drugs and medical treatments; the additional health services, which are subject to change, which do not necessarily sufficiently address various issues such as transplants and drugs; and increased consumer awareness in the field of health, including awareness regarding the need for available service and by choice, the need for medical services which are not included in the basic health basket, and the additional services of health funds.

In accordance with the Commissioner's publications as of September 30, 2019, the market volume, in terms of gross premiums in the illness and hospitalization branch in the first nine months of 2019, amounted to approximately NIS 6.8 billion, as compared with approximately NIS 6.3 billion in the corresponding period last year. Premiums in the illness and hospitalization branch in the first nine months of 2019 constituted approximately 13.0% of total premiums in the entire insurance market in Israel, as compared with approximately 12.6% in the corresponding period last year.

In January to September 2019, an increase of approximately 7.4% occurred in the market volume, in terms of gross premiums of illness and hospitalization insurance, in the insurance market in Israel relative to the corresponding period last year, as compared with an increase of approximately 9.8% in the total scope of the aforementioned premiums in 2018, relative to 2017.

In recent years, sales of illness and hospitalization insurance have been on an uptrend, inter alia due to public awareness, and the reasons specified in section 8.1.2.1 above.

Development of premiums in the illness and hospitalization branch in Israel from 2016 to September 2019
NIS in millions



The scope of premiums in the illness and hospitalization insurance branch reflects the premiums which are paid with respect to all policies in effect which were sold over the years, and the changes therein do not necessarily indicate a change in supply and demand during the reporting year.

For details regarding the possible implications of the sale of standard surgery policies by all of the insurance companies, and the Commissioner's directives regarding the method for sale of health policies from February

2016, including with respect to the insurance period, which is automatically renewed every two years, see sections 8.1.2.1(a) and 8.1.2.1 above.

8.1.3.2. Long-term care branch

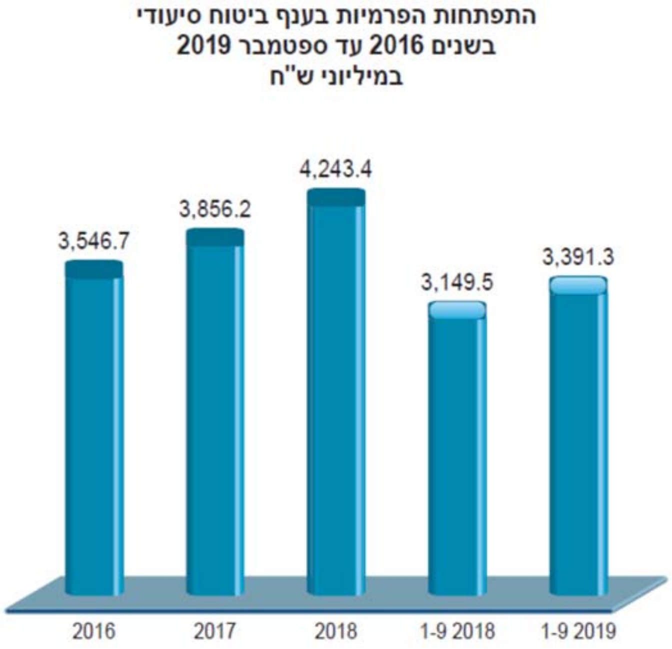
The long-term care branch has undergone significant changes in recent years, which are as a result, inter alia, of regulatory changes, significant differences between the terms of insurance coverage and policyholder expectations, and complex claim settlement processes. In recent years, a decrease has occurred in sales of individual long-term care insurance by Clal Insurance (which includes individual long-term care policies, as part of the realization of the continuity rights of policyholders in concluded long-term care collectives), due, inter alia, to its decision to reduce its exposure to this segment, which is exposed to significant risks, as stated above.

Further to the foregoing, in October 2019, Clal Insurance decided to discontinue the marketing of the individual long-term care policies in Clal Insurance to new customers, inter alia, in light of the announcement of reinsurers regarding the discontinuation of their activity in the long-term care insurance segment in Israel. To the best of Clal Insurance’s knowledge, in general, insurance companies in Israel discontinued, during the reporting year, the marketing of individual long-term care policies to new customers.

In accordance with the Commissioner’s publications as of September 30, 2019, the market volume in terms of gross premiums in the long-term care branch in the market, in the first nine months of 2019, amounted to approximately NIS 3.4 billion, as compared with approximately NIS 3.1 billion in the corresponding period last year. Premiums in the long-term care branch in the first nine months of 2019 constituted approximately 6.5% of total premiums in the insurance market in Israel, as compared with approximately 6.3% in the corresponding period last year.

In January to September 2019, an increase of approximately 7.7% occurred in the scope of gross premiums in long-term care insurance in the insurance market in Israel, as compared with the corresponding period last year, as compared with an increase of approximately 10.0% in the scope of premiums in long-term care insurance in the insurance market in Israel in 2018, relative to 2017.

Development of premiums in the long-term care insurance branch from 2016 to September 2019
NIS in millions



The scope of premiums in the long-term care insurance branch reflects the premiums which are paid with respect to policies in effect which were sold over the years, and where the changes therein do not necessarily reflect the change in supply and demand during the reporting year.

Some of the branches in the segment are characterized by the accrual of significant reserves for long periods, and therefore, the profitability in the segment is affected, inter alia, by investment income held against insurance liabilities.

8.1.4. Material expected changes in the Company's share in the main markets, with respect to the main products and services and the mix thereof, in consideration of, inter alia, the demand and seniority of current products

In accordance with the Commissioner's publications with respect to the data for the nine month period ended September 30, 2019, the Group is the fourth largest in the health segment, the fourth largest in the illness and hospitalization branch, and the fourth largest in the long-term care branch.

The health insurance market is a developing market, and the Company is a central player in this market. However, in light of the fact that the market has been subject to comprehensive regulation in recent years, in light of recent regulatory changes, and possible future changes, it is not currently possible, at this stage, to predict the full impact of the changes on the segment in general, and on the Company's future share in particular.

Additionally, due to the conclusion of the engagements with Maccabi and Leumit health funds, the Company's share in the long-term care branch decreased.

For details regarding the regulatory encouragement of increased competition in the illness and hospitalization insurance segment, see the obligation to sell policies with a standard wording, in accordance with the standard policy regulations, in section 8.1.2.1(a) above, the existence of a calculator for the comparison of health insurance on the website of the Commissioner, as specified in section 8.3.1 below, and the publication of statistical data with respect to the method for service and claim settlement, as specified in section 8.3.1 below. For details regarding the regulatory encouragement for insurers with small market shares, see the 2015 Amendments to the Economic Arrangements Law, as specified in section 8.1.2.1(a) above. Due to the provisions of the disclosure and reporting circular, the use of digital means for transferring information to policyholders was increased, in order to make information regarding their insurance products available to them, including updating policyholders by text message regarding the expiration of discounts and insurance price increases, and routine updates to holders of personal accident policies, within the framework of a transitional provision, as specified in section 8.1.2.1(c) above. For details regarding additional regulatory changes which are intended to affect the pricing of the policies, and the flexibility in the selection and cancellation thereof, see the Commissioner's directives, which are described in section 8.1.2.1 above.

The Company's estimate constitutes forward looking information, which is based on the information which is available to the Company as of the reporting date. Actual results may differ from the estimated results, and depend, inter alia, on the long term effects of the aforementioned regulatory changes, on the business results of Clal Insurance, on the conduct of competitors and distributing entities, and the preferences of policyholders.

8.1.5. New products

There were no material changes to the products during the reporting period.

8.2. Restrictions, legislation, standardization and special constraints which apply to the operating segment

The activity in this segment is subject to the provisions of the law which apply to insurers engaged in the segment, and to the Commissioner's directives which are published from time to time. From time to time, the Commissioner publishes circulars that relate to insurance coverages that are included in policies in the segment.

The activity in this segment requires a license, in accordance with the Insurance Law, and is overseen by the Capital Markets, Insurance and Savings Authority in the Ministry of Finance.

For details regarding the summary of additional final provisions of the law, which were published during the reporting year and thereafter, and a summary of the draft provisions of the law which were published, which apply to the operating segment, beyond the provisions of the law which were specified in this chapter above, see also section 10.2 below.

8.3. Competition

8.3.1. Competitive conditions in the segment and names of competitors in the segment

According to the Group's estimate, the main competitors in the segment are divided into two main groups:

- The insurance companies, most of which operate in the segment.
- Alternatives are available to some of the coverages in the illness and hospitalization branch, within the framework of the additional services of health funds.

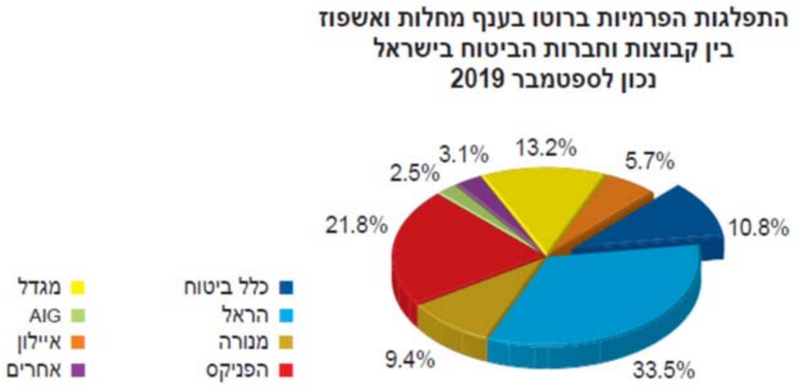
The competition between the insurance companies in the segment is focused on the extent of correspondence to the policyholder's needs and wishes, and on service, claim settlement and tariffs.

As part of the Commissioner's policy in recent years, significant reforms were promoted which involve the reduction of tariffs, transparency and increased competition. These reforms affect, and will continue to affect, in the coming years, the health insurance segment, and the profitability thereof. For additional details, see section 2.5.2 above.

Total gross premiums in the illness and hospitalization branch in the Group amounted, in the first nine months of 2019, to approximately NIS 733 million, and constituted, in accordance with the Commissioner's data, approximately 10.8% of the activity in this branch in the insurance market in Israel. In the corresponding period last year, total gross premiums amounted to approximately NIS 705 million, and constituted approximately 11.2% of the activity in this branch in the insurance market in Israel.

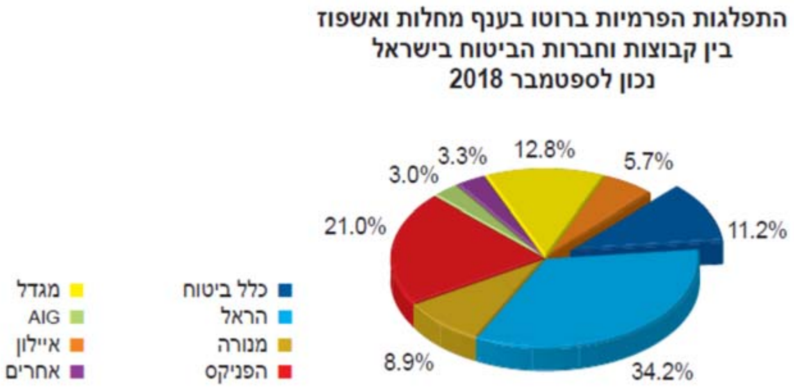
According to the Group's estimate, the significant competitors in the segment are Harel Group, Phoenix Group and Migdal Group.

Distribution of gross premiums in the illness and hospitalization branch among insurance groups and companies in Israel as of September 2019



Dark blue – Clal Insurance
Light blue – Harel
Beige – Menorah
Red – Phoenix
Yellow – Migdal
Light green – AIG
Orange - Ayalon
Purple – Others

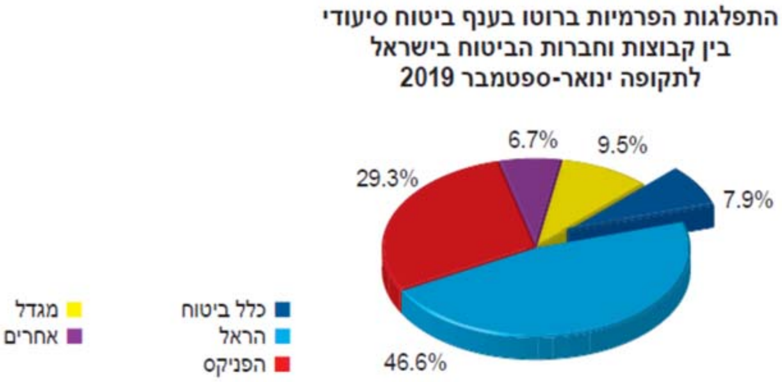
Distribution of gross premiums in the illness and hospitalization branch among insurance groups and companies in Israel as of September 2018



Dark blue – Clal Insurance
Light blue – Harel
Beige – Menorah
Red – Phoenix
Yellow – Migdal
Light green – AIG
Orange - Ayalon
Purple – Others

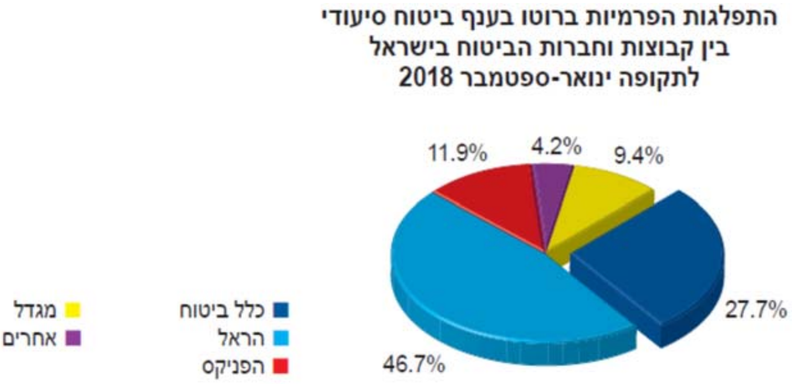
Total gross premiums in the long-term care branch in the Group amounted, in the first nine months of 2019, to approximately NIS 266 million, and constituted, in accordance with the Commissioner's data, which are published on the website of the Capital Markets, Insurance and Savings Division, approximately 7.9% of the activity in this branch in the insurance market in Israel. In the corresponding period in 2018, total gross premiums amounted to approximately NIS 874 million, and constituted approximately 27.7% of the activity in this branch in the insurance market in Israel.

Distribution of gross premiums in the long-term care insurance branch among insurance groups and companies in Israel for the period January - September 2019



Dark blue – Clal Insurance
Light blue – Harel
Red – Phoenix
Yellow – Migdal
Purple – Others

Distribution of gross premiums in the long-term care insurance branch among insurance groups and companies in Israel for the period January - September 2018



Dark blue – Clal Insurance
Light blue – Harel
Red – Phoenix
Yellow – Migdal
Purple – Others

According to the Company's estimate, the competition in the health segment is expected to increase in the coming years, as a result of the combined future impact of the regulatory reforms which are unique to the segment, as specified above, and also as a result of industry-wide regulatory provisions, including the provisions of the circular regarding the "**Collection of statistical information regarding claim settlement and the method used to handle requests to withdraw and transfer funds**", after which comparative figures were published on the website of the Capital Markets, Insurance and Savings Authority, regarding the service level indicator of insurance companies.

Additionally, with the aim of improving the market, the competition therein, and the transparency thereof, and to help policyholders choose the most appropriate insurance for them, a calculator is available on the Authority's website for the comparison of health insurance, which is intended to allow the comparison of the main coverages sold in health insurance policies (transplants, drugs and surgeries), among all insurance companies which market those coverages. The purpose of the calculator is to increase competition in the market, and to allow policyholders to compare the tariffs which are offered to new health insurance policyholders, as stated above. During the year preceding the reporting year, an **amendment to the addition to insurance circular** entered into effect, whose purpose is to require that the adjustment of insurance, according to the needs of the insurance applicants as part of the process of marketing insurance policies, address the insurance products which they already have at all insurance companies, through an online interface operated by the Ministry of Finance (the "**Insurance Mountain**").

Furthermore, the information which is required for submission to policyholders was expanded, including during the insurance period, regarding the price of insurance, as part of the disclosure and reporting circular, as specified in section 8.1.2.1(c) above. The aforementioned regulatory reforms, including the publication of the aforementioned information, and/or parts thereof, may affect the competition in the segment, and will constitute an additional measurement tool in the policyholder's selection of the insurance product.

During the year preceding the reporting year, the Antitrust Authority commenced a joint evaluation of the market for individual health insurance, which is intended to evaluate the competitive conditions in the segment. The Company is unable to predict the conclusions of the aforementioned evaluation, nor its implications.

Clal Insurance is unable to estimate, at this stage, the impact of the aforementioned provisions on the Company's market share in the segment, particularly in the long term, which depends, inter alia, on the conduct of competing entities, the preferences of policyholders, and the business decisions which will be made accordingly.

8.3.2. Methods for dealing with competition

The Group deals with competition in this operating segment on several levels:

- Development of modern, innovative solutions which provide high-quality solutions for policyholders' needs.
- Appropriate pricing of products, in consideration of all of the influencing factors, including distribution and sale commissions, operating costs, policy resiliency and the cost of risk.
- The existence of high-quality information regarding past experience, which serves as the basis for risk management.
- Reinsurance contracts and distribution of risks, in collaboration with reinsurers, in a manner which allows finding appropriate solutions for the various types of consumers.
- Provision of rapid, effective, professional, fair and high-quality service, both to agents in terms of operations, and to policyholders in terms of claims handling and service.
- The ability to adjust to changing market conditions, and to the uncertainty due to expected regulatory changes, which pertains, is, to the aspects of operations, product adjustment and profitability.
- Improvement of service to customers and agents - inter alia, by operating systems which allow generating policies at the agent's office, and technological improvements to interfaces vis-à-vis agents, and by providing advanced digital services to customers, such as the service "Clal Express", which was launched by Clal Insurance during the reporting period, which allows the Company's international travel insurance customers to receive immediate payment in case of medical expenses and luggage delays abroad, and which allows video calls with a physician in the Hebrew language.

8.3.3. The main factors affecting the Company's competitive position include:

- Many years of experience in the field of health insurance;
- The Group's reputation in the segment;

- Long term relationships with agents marketing the Group's products.
- Direct distribution network;
- The variety of health products which are sold under one roof;
- The service given by the Company to customers and agents, and the claim settlement method.
- Competitive barriers - for details regarding the lifting of barriers to entry to the market, see section 10.3.1.2 below.

8.4. Customers

The main types of customers in the health insurance segment are collectives and individual policyholders.

8.4.1. Illness and hospitalization[62]

Presented below is the distribution of gross premiums (NIS in thousands) by types of customers in the illness and hospitalization segment, for the years 2018 and 2019:

NIS in thousands	Gross premiums for 2019	Proportion of total gross premiums for 2019	Gross premiums for 2018	Proportion of total gross premiums for 2018
Collectives*	195,694	19.9%	206,195	22.1%
Individual policyholders	788,556	80.1%	725,433	77.9%
Total	**984,250**	**100%**	**931,628**	**100%**

* Includes sales of international travel insurance at the health funds.

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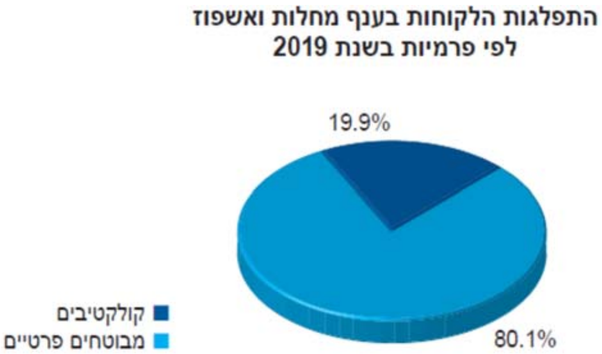
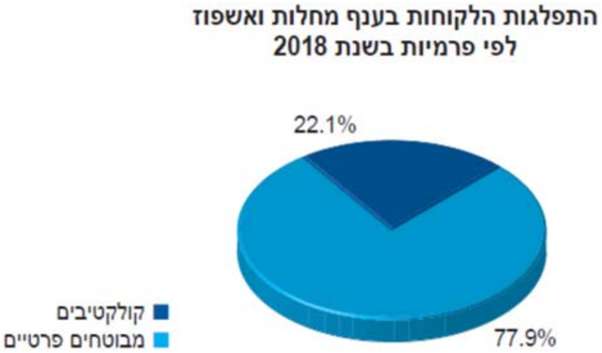
[62] The scope of premiums in the illness and hospitalization insurance branch reflects the premiums which are paid with respect to all policies in effect which were sold over the years, and changes therein do not necessarily indicate the change during the reporting year.

Distribution of customers in the illness and hospitalization branch by premiums in 2019



Dark blue – collectives
Light blue – Individual policyholders
Distribution of customers in the illness and hospitalization branch by premiums in 2019



Dark blue – collectives
Light blue – Individual policyholders

8.4.2. Long-term care[63]

_______**Presented below is the distribution of gross premiums (NIS in thousands) by types of customers in the long-term care segment, for the years 2018 and 2019:**

NIS in thousands	Gross premiums for 2019	Proportion of total gross premiums for 2019	Gross premiums for 2018	Proportion of total gross premiums for 2018
Collectives[64]	78,832	22.8%	919,513	78.2%
Individual policyholders	266,421	77.2%	256,634	21.8%
Total	**345,253**	**100%**	**1,176,147**	**100%**

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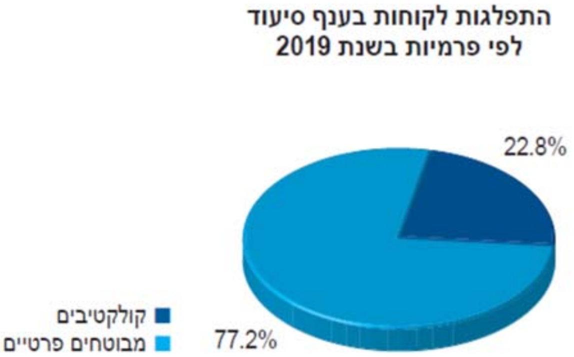
[63] The scope of premiums in the long-term care insurance branch reflects the premiums which are paid with respect to all policies in effect which were sold over the years, and change therein do not necessarily reflect the change during the reporting year.

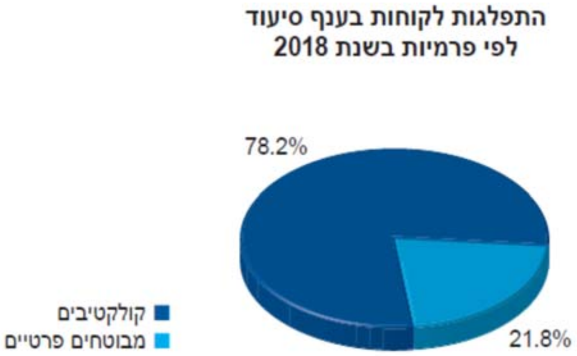
[64] Includes health fund policyholders.

Distribution of customers in the long-term care branch by premiums in 2019



Dark blue – collectives
Light blue – Individual policyholders

Distribution of customers in the long-term care branch by premiums in 2018



Dark blue – collectives
Light blue – Individual policyholders

The cancellation rate (including cancellation, reduction or non-renewal of policies) per year from policies which are in effect at the start of the year, in terms of premiums, in the long term individual illness and hospitalization branch (illness and hospitalization sub-branch only) amounted to approximately 12.6% during the reporting year, as compared with approximately 12% in 2018.[65]

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[65] In accordance with the provisions of the Commissioner's circular, the cancellation rate is calculated by dividing the premium amount which was charged in the last month of the year, by the premium amount which was charged in the last month of the previous year. The calculation only refers to policies which commenced before the current year, after neutralization of the increase in tariffs.

The cancellation rate (including settlement, cancellation, reduction or non-renewal of policies) for the year, from policies in effect at the start of the year, in terms of premiums, in the individual long-term care branch, during the reporting year, amounted to approximately 4.6%, as compared with 4.7% in 2018.[66]

The Group is not dependent on any single customer or on a limited number of customers in the health insurance segment, the loss of which would significantly impact the operating segment.

The Group has no single customer whose income in the segment constitutes 10% or more of the Group's total income in the consolidated reports.

Clal Insurance insures, from time to time and in the ordinary course of business, member companies of the IDB Group (which constitute policyholders in collective insurance policies) in policies in the segment. The Company's income in the health insurance segment from member companies of the IDB Group from premiums in the ordinary course of business does not exceed 5% of the Company's total income in the segment in 2019. For the sake of caution, despite the fact that the IDB Group includes a large number of companies, all of the member companies of the IDB Group were addressed, for this purpose, as a single entity.[67]

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[66] See footnote 64 above.

[67] For details regarding the Commissioner's announcement dated December 8, 2020, regarding the Company's status as a company without a control core, see Note 1(a) and 1(b) to the Company's financial statements. With respect to the reporting year, the evaluation also included Mr. Moshe Terry, who serves as the trustee for IDB Development for the purpose of exercising the authorities which are vested in him by virtue of the means of control.

Part III - Additional Information Regarding Branches Which Were Not Included in the Operating Segments

9. Additional information regarding other operations which were not included in the operating segments

The Group has several activities which were not included in the aforementioned operating segments, as well as activities which were discontinued and/or and which are in runoff, and which do not constitute a significant business component, according to the organization attribution presented below:

9.1. Clal Agency Holdings

Clal Agency Holdings (1998) Ltd. is a wholly owned subsidiary of the Company, which concentrated the holding of the Group's insurance agencies. For additional details, see section 10.8 below.

9.2. Financing activities

During the reporting year, several processes were completed with the intention of completing the elimination of the finance activity, which was mostly in run-off in recent years, as specified below: (A) Merging the activity of the mortgage unit (which operated through Clal Finance) and the consumer credit activity (which operated through Clal Finance Consumer Credit Ltd.) with and into Clal Insurance; and (B) Transferring the Group's holdings in Clal Finance Business Credit Ltd. and in Clal Factoring and Finance Ltd., which are in the run-off stages of their activity, from Clal Finance to direct holding by the Company.

9.3. Michlol

In 2018, an agreement was signed between Clal Insurance and Michlol Urban Real Estate Renewal Solutions Ltd. (hereinafter: "**Michlol**"), according to which Clal Insurance provided a credit facility and Sale Law guarantees to Michlol, for the purpose of its activity (hereinafter: the "**Credit Facility Agreement**"). Michlol is a private company founded in 2018, which is engaged in the provision of financing to entrepreneurs in various real estate projects, and particularly projects in the segment of residential property and urban renewal. In March 2020, and in accordance with the terms of the credit facility agreement, Clal Insurance exercised an option to acquire 20% of Michlol's share capital, and additionally, Clal Insurance signed an amendment to the credit facility agreement, in which changes were made to the terms of the credit facility, and it received an additional 8% of Michlol's share capital. Upon the receipt of the shares, Clal Insurance sold, at a price which was determined in a valuation, all of the shares to Clal Finance Ltd. (hereinafter: "Clal Finance"), a wholly owned subsidiary of the Company, which was previously an inactive company. Michlol also allocated to Clal Finance 7% of Michlol shares, in accordance with Michlol's value according to a valuation which was prepared. Accordingly, as of the reporting date, Clal Finance holds approximately 35% of Michlol's share capital, and Clal Insurance is continuing to provide credit and Sale Law guarantees to Michlol, under the credit facility agreement.

Part IV - Additional Information on the Level of the Corporation - Matters Pertaining to the Activities of the Group as a Whole

10. Additional information on the level of the corporation

10.1. General environment and the impact of external factors on activities

For details regarding a description of trends, events and developments in the Group's macro-economic environment, which currently affect or are expected to affect on the Group, see the specific reference under the various operating segments, and Part B of the Report - Board of Directors' Report, section 2.

10.2. Restrictions and supervision of the corporation's activities

The Group's activities in the various segments are subject to the general provisions of the law and also to the provisions of the law which apply to each operating segment, as described above.

Along with the general laws, insurance and pension savings activities in Israel, which is the main component of the Group's activities, are subject to unique laws which apply to the branch, including the Insurance Law, the Insurance Contract Law, 1981, the Provident Funds Law, the Pension Advice Law and regulations enacted pursuant thereto, and also to principle rulings of the courts, which affect activities in insurance and pension savings in Israel, including as regards the interpretation of the aforementioned laws and regulations.

Clal Insurance holds an insurer license, and Clal Credit Insurance holds an insurer license for its relevant fields of activity. For details regarding the permit for control of the Group's institutional entities, see Notes 1(a)-(b) and 16(e)(8) to the financial statements. Clal Pension and Provident Funds and Atudot Havatika have an insurer license in the pension insurance branch, in accordance with the Insurance Law, and Clal Pension and Provident Funds has approvals for the management of the provident funds which are managed by it.

The member companies in the Group are overseen by various oversight authorities, including the Commissioner, who oversees the activities of the institutional entities and the insurance agencies in the Group. Additionally, the Company and Clalbit Finance are overseen by the Israel Securities Authority. Additionally, in recent years, new enforcement / reporting authorities have been conferred upon additional regulatory authorities, including the Competition Authority (formerly known as the Antitrust Authority), and the Privacy Protection Authority. Member companies in the Group are exposed, from time to time, to administrative enforcement proceedings and to the imposition of fines by various regulators. For additional details, see Note 42(d) to the financial statements. The Group's member companies are also exposed to class actions on various matters arising from the provisions of the law, which apply to the institutional entities, including those which are included in this chapter, and those which are included in other chapters in the report regarding the description of the corporation's business. For details regarding class actions which were filed against institutional entities in the Group, see Note 42(a) to the financial statements.

As part of its enforcement plans, the Company has conducted surveys of compliance gaps since 2012, gradually and in different segments, in which gaps are identified which the Company then works to resolve, within the framework of action plans which are determined by it.

Presented below is a summary of the provisions of the law and the final circulars which were published during and after the reporting year, as well as a summary of drafts which were published by the Commissioner, which apply to the activities of the Group's member companies and which are material to their activities, in addition to the laws specified in the description of the operating segments, and additional sections above and below. For details regarding the regulatory restrictions which apply to the Group's institutional entities, in connection with the capital requirements and the requirements regarding the control of the Company, and for details regarding industry-wide decisions of the Commissioner, see Notes 16(d) and (f) and Note 42(d) to the financial statements.

10.2.1. Board of directors of institutional entities

Further to the consolidated circular regarding the board of directors of institutional entities, in which it was determined, inter alia, that joint board meetings may not be held between the institutional entity and other corporations, except for joint meetings with an institutional entity's parent company, or with an institutional entity controlled by it or by the institutional entity, for the purpose of training or exclusively for the purpose of presentation of issues which will be published by the Commissioner, in June 2019, an "announcement regarding issues for discussion in joint meetings" was published, which includes a list of issues regarding which the Board members of an institutional entity and its committees will be entitled to hold joint meetings with the board members of the institutional entity's parent company, or of an institutional entity controlled by the parent company, or controlled by the institutional entity, and its committees, except if there is a suspected conflict of interest or suspected real harm to the independent of the board's discussion.

The Company worked to implement the provisions that were issued in a notice regarding the board meetings (for additional details, see section 11.3.9 below).

10.2.2. Circular regarding customer service in institutional entities

In July 2019, an amendment was published to the circular regarding customer service in institutional entities, which is intended to improve the quality of service given to customers of institutional entities. The circular sets forth, inter alia, provisions regarding details of which must be included in notices sent by an institutional entity to customers (including notices regarding financial charges); a requirement to provide human telephone response to customers within 5 minutes after the routing process; A requirement stipulating that an institutional entity must respond to the customer using the means of communication by which the customers contacted it, unless requested otherwise by the customer; and a requirement to document telephone calls with customers. The amendment also includes the possibility of deviating from the waiting time by a maximum of 10%, out of all inquiries which were received, according to an annual average (in a transitional provision, approval was given for a deviation of up to 15% until December 25, 2022).

The circular regarding customer service in institutional entities is expected to have operational consequences with respect to the customer service processes in the Group's institutional entities, for the purpose of complying with the arrangements which were determined in the circular, and the institutional entities are preparing for its implementation, which may involve operational difficulties.

10.2.3. Provisions regarding the implementation of a Solvency II-based solvency regime

In March 2020, the Commissioner published an outline for implementation of the provisions of Solvency II, according to the European framework (hereinafter: the "**Outline**"), and a draft amendment to the consolidated circular regarding the instructions for implementing the Solvency II-based economic solvency regime for insurance companies (hereinafter: the "**Draft Amendment**"), further to the consultation paper regarding the implementation of the transitional provisions under the economic solvency regime (the "**Consultation Paper**"), which was published in November 2019, and a circular regarding the quantitative impact study to evaluate adjustments to the Solvency II-based economic solvency regime for insurance companies (the "**Quantitative Impact Study**"), which was published in January 2020.

According to the draft amendment, an insurance company may, with the Commissioner's approval, adopt different distribution provisions than the existing ones (which address a gradual increase of the capital requirements until December 2024). The alternative distribution provisions allow gradual linear distribution, until December 31, 2032, of the increase in economic insurance reserves (including the risk margin) on retention, calculated as of December 31, 2019, vs. the accounting reserves on retention as of that date, with reference to certain tax reserves, and subject to the restrictions which were specified in the draft.

The draft amendment also includes various adjustments to the solvency regime, mostly with reference to the calculation of the capital requirements. The main adjustments which were made include easements with respect to market risk components, including a potentially significant reduction in the stock scenario, which can be applied to 75% of the total investment in shares held against investment-linked liabilities, and other investments which meet the specified conditions for recognition as long term held shares; expansion of the reduction in the amount of the scenario for investments in infrastructure; and expansion of recognition through means of risk mitigation for investment-linked liabilities. Additional adjustments were also made to other components of the calculation which the Company does not expect will have a significant impact on the results.

According to the outline, the Authority intends to work towards applying the directives regarding the economic solvency regime according to the framework which was adopted in Europe, by July 2020. Regarding the reporting and publication of the economic solvency ratio, it was determined in the outline that the date for publication of the economic solvency ratio report as of December 31, 2019, will be August 31, 2020 (instead of May 31, 2020), and that insurance companies will be exempt from the requirement to calculate and report the economic solvency ratio as of June 30, 2020.

In addition to the foregoing, the Commissioner announced, as part of the outline, that in 2020 the Authority intends to publish draft directives regarding the implementation of the own risk and solvency assessment (ORSA), which are based on the provisions of the current European Directive on the subject.

It is noted that, in accordance with the Insurance Law, the Commissioner is entitled to issue instructions to insurers regarding their required equity, in addition to the minimum required equity pursuant to the Insurance Law, and following consultation with the Finance Committee.

If and when the draft circular becomes a final circular, the required solvency ratio, in consideration of the distribution provisions, is expected to improve relative to the ratio which would have been calculated according to the current framework, which will be published by August 2020.

10.2.4. The Concentration Law

The Law to Promote Competition and Reduce Concentration, 2013 (the "**Concentration Law**") was published in December 2013, and is intended to reduce the level of concentration in the Israeli economy, through several central processes, including, inter alia, the imposition of restrictions on incorporation through a pyramid structure, the imposition of increased corporate governance rules on pyramid companies, creating a separation between holdings of significant real operations and of significant financial operations, and establishing a "insurer with no controlling shareholder" mechanism.

In accordance with the provisions of the Concentration Law, a pyramid holding structure is restricted to two tiers only[68].Notwithstanding the foregoing, the transitional provisions determined that a company which was a second tier company at the time of the law's publication, and for as long as it remains as such, is entitled to continue holding control of an other tier company until six years after the publication date (December 2019), if it held control of that company before the publication date. until December 9, 2019, IDB Development was considered a first tier company, the Company was considered a second tier company, and Clalbit Finance – a reporting corporation controlled by Clal Insurance – was considered an other tier company, as these terms are defined in the Concentration Law. After the submission date of the Commissioner's announcement dated December 9, 2019, the Company is no longer considered a "second tier company", and Clalbit Finance is no longer considered an "other (third) tier company", as these terms are defined in the Concentration Law.

In accordance with the provisions of the Concentration Law, beginning on December 10, 2019, a significant real corporation, or the controller of such a corporation, may not hold control of a significant financial entity, and may not hold over 10% of a certain type of means of control in the aforementioned entity, and may not hold over 5% of a significant financial entity which has no controlling shareholder.[69]

Beginning in May 2015, a list of the concentration entities has been published in the Official Gazette from time to time, as well as a list of the significant real corporations and a list of the significant financial entities. In accordance with the provisions of the Concentration Law, the following will be considered as a concentration entity, inter alia: a significant financial entity, a significant real corporation, and any entity which belongs to a business group (a corporation, an entity holding control of a corporation, and a corporation under the control of any of the above), which includes a significant financial entity or a significant real corporation. Until the receipt of the Commissioner's notice, and in light of IDB Development's holdings, the Group's member companies which are not institutional entities were also included in the list of concentration entities, and were classified as significant real corporations. After the receipt of the Commissioner's announcement, and in accordance with the lists which were published in February 2020, these companies are included on the list of concentration entities, but are no longer classified as significant real corporations.

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[68] A "tier company" is a company or foreign company which constitute a reporting corporation, excluding companies which were excluded in accordance with the definitions of the Concentration Law. The terms "tier company", "second tier company" and "q" are as defined in the Concentration Law.

[69] The Concentration Law also prescribes that an institutional entity's holdings in a certain type of means of control of a significant real corporation may not exceed 10%.

Clal Insurance and additional institutional entities in the Group are included in the list of significant financial entities.

Accordingly, the Company is entitled to hold the means of control of institutional entities in the Group, and officers in the Company and in member companies in the Group which are not institutional entities may be appointed as directors in the Group's financial entities.

For additional details regarding the status of control, see Notes 1(a) and 1(b) to the financial statements.

10.2.5. The Insolvency and Economic Rehabilitation Law Memorandum, 2018

For details regarding the Insolvency and Economic Rehabilitation Law Memorandum, 2018, see section 10.5.5.1 below.

10.3. Barriers to entry and exit

10.3.1. Presented below are details regarding the main barriers to entry in the Company's main operating segments:

10.3.1.1. Licensing obligation and permit requirement

(A) The engagement in insurance requires a license, in accordance with the Insurance Law and the Provident Funds Law, and is overseen by the Capital Markets, Insurance and Savings Authority in the Ministry of Finance. Clal Insurance and Clal Credit Insurance hold insurer licenses in accordance with the Insurance Law. In the non-life insurance segment, a company which is active in the credit and foreign trade risks insurance branches must engage in that branch exclusively.

(B) A managing company of an annuity paying provident fund is also required to receive an insurer license in accordance with the Insurance Law, and the aforementioned insurer license will be considered as a managing company license with respect to all of the provident funds which are managed by it. As part of the products reform, it was determined that a managing company to which an insurer license has been given, as stated above, is currently entitled to manage all types of provident funds (both paying and non-paying), excluding insurance funds. A managing company may manage one comprehensive new pension fund which is entitled to designated bonds, one new general pension fund which is not entitled to designated bonds, one old pension fund and provident funds. A managing company is entitled to engage in the management of provident funds only. A managing company may engage in another segment which pertains to a pension product that was approved by the Commissioner, subject to the approved terms, provided that the engagement is regulated in accordance with the provisions of the Provident Funds Law, the Insurance Law or the Pension Advice Law.

(C) Additionally, any provident fund which is managed by a managing company requires approval for the management of a provident fund, which must be renewed annually. Also life insurance products which are managed as provident funds (insurance funds) require approval which is renewable on an annual basis.

Clal Pension and Provident Funds and Atudot Havatika hold an insurer license in the pension fund branch, in accordance with the Insurance Law, as well as approvals for the management of the provident funds which are managed by it.

(D) The holding of more than five of a certain type of means of control of an institutional entity is conditional upon the receipt of a permit for the holding of means of control from the Commissioner, and the control of an institutional entity or insurance agency also requires a permit from the Commissioner, inter alia, in accordance with the provisions of the policy document regarding control of an institutional entity, from December 2014, which were published by him. For details on this matter, see Note 1(b)(2) to the financial statements. For details regarding the status of the control of the Company, see section 2.2 above and Notes 1(a) and 1(b) to the financial statements. For details regarding the "policy regarding the issuance of a permit for the holding of the means of control of an institutional entity without a controlling shareholder to entities which manage customers funds", which allows, under certain conditions, certain entities to receive a permit for holding which will not exceed 75%, see section 10.5.5.3 below. The Company's control permits, and the methods for the regulation thereof, may affect, from time to time, the ability to implement changes to the required regulatory permits.

In January 2020, the "**draft policy regarding control of a corporate agent**" was published, which is intended to describe the Commissioner's policy regarding the evaluation of requests for permits for control of a corporate agent, the Commissioner's considerations in evaluating those requests, and the method for submission of such requests. The draft determines that the evaluation of the requests will include taking into account, inter alia, considerations involving the petitioner's control over the corporate agent through the insurer / the insurer's parent company, or the insurer's status as a company without a controlling shareholder, as well as considerations of competition, and considerations of the public interest. Discussions are being held between the institutional entities and the Commissioner in connection with the provisions of the draft. At this preliminary stage, prior to the publication of the final version of the provisions, the Company is unable to predict the consequences of the draft.

For details regarding the restrictions on control and holding which were determined by virtue of the Concentration Law, inter alia, regarding the separation between the holding of significant real operations and significant financial operations, see section 10.2.4 above.

10.3.1.2. Capital requirements

For the purpose of engagement in insurance operations, member companies of the Company's group are required to fulfill capital requirements. For details regarding the regulatory capital requirements which apply to member companies in the Group, and the companies' fulfillment thereof, see Notes 16(d) - (f) to the financial statements.

In April 2018, the **Control of Financial Services Regulations (Insurance) (Minimum Equity Required to Receive Insurer License), 2018**, were published (hereinafter: the "**Minimum Equity Regulations**"), which canceled the **Control of Financial Services Regulations (Insurance) (Minimum Equity Required of Insurer), 1998**, which had been in effect until that date. The aforementioned regulations include the determination of the minimum equity required to receive a license in branches featuring long insurance periods and claim periods (the life, long term health and liabilities branches), in the amount of NIS 15 million (as compared with a total of NIS 52 million, which was required until then) and the minimum Tier 1 capital required to receive a license in branches featuring short insurance periods and claim periods (non-life insurance and short term health insurance), in the amount of NIS 10 million (as compared with a total of NIS 59 million, which was required until then).

The Regulations have increased, and are expected to increase in the future, competition in the insurance market, due to the reduction of the equity requirement required to receive an insurance company license and the activity of new companies in the market. The Company is unable to predict the full implications of the regulations at this stage.

For details regarding the entry of new competing companies into the non-life insurance segment, see section 7.2.1 above.

The information presented on all matters associated with the possible implications of the Minimum Equity Regulations constitutes forward looking information, which is based on the Company's estimates and assumptions, and actual results may differ significantly from the forecast, inter alia, due to the uncertainty regarding the actions which will be taken by competing entities in the market, and the entry of new entities.

10.3.1.3. Scope of activity

In order to cover the high fixed costs associated with the Group's activity, a large scope of activity is required, and particularly in the long-term savings segment.

10.3.1.4. Additional barriers

(A) The ability to acquire adequate protection from reinsurers.

(B) Organizational, automational and operational infrastructure, in consideration of the complexity of some of the products and of their operation, as well as regulatory changes.

(C) A broad and skilled distribution network.

(D) In recent years, the Authority performed several actions in an effort to lessen the barriers to entry in the segment. For additional details, see section 6.2.1(a) above regarding the default pension fund and the conclusion of the collective arrangement with employers, and section 10.3.1.2 above regarding the minimum capital requirements.

10.3.2. Presented below are details regarding the main barriers to exit in the Company's various operating segments:

In the long-term savings products branch, in some of the products in the non-life insurance branch, in the long-term care branch and in some of the products in the illness and hospitalization branch, the discontinuation of operations in long tail claim policies may take many years, until all of the claims are settled with respect to policies which were sold in the period prior to the discontinuation of the operation, and until all of the rights of policyholders and/or members have been exercised (run off), a period during which the Company was required to bear all of the associated risks and operating costs, or until the operation has been sold.

The Commissioner has the authority to order an insurer that wishes to liquidate or dissolve its insurance business operations to act in a certain way regarding the dissolution of its business operations, and also has the authority to petition the Court with a motion requesting that the liquidation be implemented by the Court or under its supervision.

10.4. Critical success factors

Success factors which are common to all of the Group's operating segments

According to the Group's estimate, the critical success factors which are common to all of the Group's operating segments include:

- The mix of the policyholder portfolio, retention of the portfolio and recruitment of new policyholders and members, while maintaining profitability:
- The ability to adjust to changing market conditions, regulatory changes, competitive conditions and reduced profitability, including by way of changes in products, marketing, service, pricing, the amount of management fees, and adjustment of the level of expenses;
- The quality and professionalism of underwriting and claim settlement, including broad claims;
- Service quality and the option to provide, on the level of the Group, combined solutions for all of the customers' needs, while creating a synergy between the Group's member companies; During the reporting year, a significant improvement was recorded in the quality service given by the Group to its customers;
- The ability to develop and implement advanced digital tools in case of sale and service;
- Efficiency and quality of operations, and quality of IT and automation systems;
- Investment income, returns in managed portfolios, the state of the capital market and interest terms;
- The ability to achieve and maintain a capital level and capital ratio which support the Group's activities and growth;
- Actuarial ability to support the business policy, to perform high-quality, current pricing, and to conduct high-quality calculations regarding the required reserves;
- Perception of the brand among the Company's customers as leading, relevant and innovative;
- Retention and development of high-quality human resources;

- The ability to develop and maintain the distribution channels, including by recruiting and maintaining high-quality agents, and ensuring high satisfaction among agents regarding the service which is given to them by the Company, and by developing new distribution channels, according to the trends in the branch, the needs of customers and profitability considerations;

- The quality of reinsurance agreements, and the stability of the system of relationships with the reinsurers over the years;

- Quality of risk management, control, measurement and internal control.

10.5. Investments

10.5.1. Assets managed in the Group

Presented below are details regarding the types of assets which are managed in the Group:

A. **Nostro assets of the institutional entities in the Group (Clal Insurance, Clal Pension and Provident Funds, Atudot Havatika, Clal Credit Insurance, as well as the Company's assets)** - (A) Assets held against equity and other liabilities; (B) Assets held against liabilities in non-life insurance; (C) Assets held against liabilities in non-investment-linked life insurance; and (D) Assets held against non investment-linked liabilities in long-term care, health and loss of working capacity insurance.

The insurance companies in the Group bear the risks associated with the nostro assets. However, some of the liabilities in life insurance with respect to guaranteed return policies are backed by designated bonds. See section 6.1.1.2 above.

B. **Assets of investment-linked liabilities in Clal Insurance** - Assets held against liabilities in life insurance and in long-term care and loss of working capacity insurance with respect to investment-linked coverages of various types. The returns which are achieved in connection with these assets are included in the calculation of the liabilities with respect to those policies. In general, the calculation of policyholders' rights is performed after deducting management fees and expenses, in accordance with the policy provisions. For details regarding the Company's income from management fees, see Note 30 to the financial statements.

The nostro assets and assets for investment-linked contracts of the Group's insurance companies which are managed by the Group are listed in the balance sheets of the insurance companies.

C. **Provident funds and pension funds -** Assets of the pension funds and provident funds which are managed by the managing companies in the Group (Clal Pension and Provident Funds and Atudot Havatika) - the assets of members of pension funds and provident funds are managed in trust by managing companies. The returns, after deducting management fees and expenses, in connection with the assets of the pension funds and provident funds are charged to the members. The assets of pension funds and provident funds are not recorded in the balance sheets of the managing companies, excluding the assets of Bar Gemulim Provident Fund Ltd., which includes a guaranteed return track ("**Bar A**") under which Clal Insurance guarantees returns to its members. Some of the assets of members in the comprehensive pension fund which is managed by Clal Pension and Provident Funds and Atudot Havatika are backed by designated bonds. For details on this matter, see section 6.1.1.2 above.

For details regarding the distribution of managed assets in each of the institutional entities in the Group, see section 10.5.6 below.

D. Some of the long-term savings products which are managed in the Group are subject to a commitment to guaranteed returns, or a guarantee in the amount of the nominal deposits.

Some of the Group's savings products include a commitment to guaranteed returns. Presented below are details regarding the material guaranteed return liabilities of the Group's member companies, as stated above:

- In policies which were sold until the end of 1990, returns for policyholders in life insurance policies with a savings component were determined as a guaranteed rate ("**Guaranteed Return Policies**").

The rate was changed according to the policy type and issuance date. The commitment to a rate of return is primarily backed by designated bonds, the balance of invested assets in accordance with the restrictions specified in the Investment Regulations. For additional details, see section 6.1.1.2 above.

- In most of the savings policies which were sold by Clal Insurance since 1991, the returns are credited to the policyholder in accordance with the results of the investment portfolio, after deducting management fees and expenses ("**Investment-Linked Policies**"). However, in a small part of the policies, returns are guaranteed at a rate which is guaranteed to policyholders, without the backing of designated bonds, for a period of 10 years after the joining date. For additional details, see section 6.1.1.2 above.

- As part of the acquisition of the provident fund Bar A, Clal Insurance accepted an obligation to minimum guaranteed annual returns for all assets invested in Bar A (real net returns of 5.5%, in accordance with the terms specified in the fund regulations). This undertaking is backed by an undertaking of the Accountant General for real guaranteed returns at a rate of 5.95% per year, on 89% of the assets, while the other assets are invested in accordance with the Investment Regulations. For additional details, see Note 39(d)(1)(c) to the financial statements.

- Additionally, in some of the funds which are managed by Clal Pension and Provident Funds, Clal Insurance and/or Clal Pension and Provident Funds provided guarantees with respect to members who joined the funds by certain dates and with respect to deposits which were deposited by those members by certain dates, as specified in the fund regulations, guaranteeing that the amount which will be paid to members will be no less than the amount of deposits which were paid by those members, or on their behalf, subject to the terms set forth in the regulations of the aforementioned funds. Over the years, the aforementioned guarantees were discontinued with respect to funds which were deposited, from a certain date and thereafter. Significant negative returns may result in paid charges by virtue of the guarantee. In consideration of the cumulative returns in the aforementioned funds as of the reporting date, particularly from the date of discontinuation of the guarantee, the exposure to such payment is estimated as low. The Company is unable to estimate, at this stage, the extent of the exposure due to the price declines in the first quarter, after the reporting date. For additional details, see Notes 1(d) and 43(k) to the financial statements, and Part B of the Report - Board of Directors' Report, section 3.1.

  The Company's estimate with respect to the aforementioned guarantees constitutes forward looking information, which is based on the information which is available to Clal Insurance and Clal Pension and Provident Funds as of the reporting date. Actual results may differ from the estimated results, and depend, inter alia, on the development of market conditions, members' accrual, and the achieved returns.

  Most of the assets which are held against guaranteed return liabilities are managed within the framework of the nostro portfolio.

10.5.2. Total managed assets for the nostro portfolio and for members/policyholders of the Group's institutional entities, as of December 31, 2019 (NIS millions):[70]

Institutional entity	Nostro	Investment-linked funds
The Company	678 (1)	
Clal Insurance	33,616	72,050

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[70] The Group also has available cash balances which are mostly used for operating purposes, in immaterial amounts.

Clal Credit Insurance	299	-
Clal Pension and Provident Funds - pension funds [2]	129	66,571
Clal Pension and Provident Funds - provident funds [2]		37,044[3]
Atudot Havatika [4]	32	11,550
Total	**34,754**	**187,215**

[1] The Company's assets are invested in liquid assets, inter alia, until the needs of the Company and its subsidiaries have been clarified, including with respect to the capital regime (see Note 16).

[2] Data regarding the equity of the aforementioned managing companies of provident funds and pension funds are audited.

[3] Including provident funds owned by Clal Insurance, and including guaranteed return provident funds.

[4] The data refer to all of the fund assets, and are not consolidated.

10.5.3. Investment management of institutional entities

A. Investment management companies

The investment activities of the Group's institutional entities are performed through Canaf, which is a subsidiary of Clal Insurance. Canaf manages the nostro funds of the insurance companies and the managing companies in the Group, and manages the investments of assets of investment-linked liabilities and assets of members of pension funds and provident funds in the Group.

Canaf has separate (designated) investment teams for the management of nostro funds and the management of members' funds, which are assisted by the various adjunct units in the Group: research, strategy, credit, private investments, real estate, treasury, middle office, legal, control and investment accounting.

Additionally, some of the foreign investing activities are performed with the assistance of external consultants and investment managers.

B. Investment management policy

The funds of the Group's institutional entities are managed subject to the provisions of the Investment Regulations and the Commissioner's directives, as applicable, in accordance with the general investment policy which is determined by the Board of Directors of the insurer and/or the managing company, and in accordance with the instructions and supervision of separate, independent investment committees in accordance with the companies and the types of managed funds. The Company's Board of Directors approves the general investment policy for the managed portfolios. As part of the above, the Board of Directors approves exposure frameworks to the various investment channels, in each of the managed portfolios, as well as the hierarchy of authorities for the approval of various investments. As part of the general investment policy, the Board of Directors instructs the investment committees to determine a specific investment policy in accordance with the general investment policy which is determined by the Board of Directors, for each of the various institutional entities and investment tracks, in consideration of, inter alia, the restrictions which apply to the track in accordance with the law and/or in accordance with the policy terms and/or in accordance with the provident fund regulations, and in consideration of the specific characteristics of the tracks, including the expected development of the assets portfolio, expected cash flows and average lifetime, early redemption risks, and more. The investment committees establish the detailed investment policy, as stated above, for each fund and track separately.

As part of the investment policy, the Board of Directors and investment committees also approve a credit policy for the purpose of managing the credit assets of the managed portfolios. The credit policy includes the determination of work processes, hierarchy of authorities and exposure policy in the credit portfolio, with reference, inter alia, to the maximum exposure limits to a single borrower, to a group of borrowers, to a particular branch, etc.

The investment policy for managed portfolios is evaluated on a routine basis as part of the discussions of the investment committees. Additionally, the middle office, control and risk management units routinely supervise the investing activities, with an emphasis on the scopes of activities, the exposure rates in each type of investment channel, the fulfillment of the restrictions of the investment and credit policy, and the provisions of the law.

The nostro portfolios are managed in a manner which will allow servicing of the Company's liabilities, in consideration of, inter alia, the average lifetime of the liabilities, the linkage basis, the currency, the accounting reporting rules and the timing of cash flow in the short term. The investment policy is based on an evaluation of the overall correspondence and management of the risk, relative to the Company's capital.

The members' portfolios are managed, inter alia, in light of long term considerations, in order to achieve maximum returns for members, in consideration of the risk level of the various investment assets, and considerations involving the portfolios' liquidity.

For details regarding the distribution of managed assets in each of the Group's institutional entities as of December 31, 2019, see section 10.5.6 below.

In accordance with the Commissioner's directives, the Group's institutional entities publish their declarations regarding the investment policies of members and policyholders funds on their websites.

Declarations regarding the specific investment policy for 2019 and 2020 were published in January 2019 and January 2020, respectively, on the Company's website, at: https://www.clalbit.co.il/clalins/channelsdonation/Pages/default.aspx.

C. Investment committee, credit sub-committee and internal credit committee

Investment committees - In accordance with the Insurance Law, Clal Insurance has two investment committees: an investment committee for the investment of funds to cover investment-linked liabilities, and an investment committee for the investment of the equity and other liabilities of the insurer, and for the investment of funds to cover insurance liabilities which are non-investment-linked liabilities ("**Nostro**"). Clal Credit Insurance has a separate nostro investment committee.

Each of the managing companies in the Group (Clal Pension and Provident Funds and Atudot Havatika) has an investment committee for the management of members' funds and a nostro investment committee. Additionally, during the reporting year, an investment committee was added for the Company as well.

The composition of the investment committee regarding the investment of funds to cover investment-linked liabilities, and regarding the investment of members' funds of Clal Pension and Provident Funds, is identical, and since May 2019, the committees convene jointly for the presentation of the relevant issues, while resolutions are passed separately by each committee.

The investment committees each determine, separately and independently, an investment policy as part of the overall investment policy which was approved by the Board of Directors, approve transactions in accordance with the hierarchy of authorities which was determined by the Board of Directors, and fulfill additional roles, in accordance with the provisions of the law. As part of the foregoing, the investment committees determine the strategy and the specific investment policy in the asset portfolios. Additionally, the investment committees supervise the implementation of the policy, and adjust the structure of the portfolio in accordance with market conditions, within the framework of the investment policy.

The implementation of the guidelines of the investment committees and the actual performance of investments is performed in a separately and distinct manner by the relevant investment managers.

As of the publication date of the report, the investment committee of Clal Insurance in the nostro portfolios is comprised of Board members of the Group and the CEO of Clal Insurance, and convenes at least once per month. The investment committees in members' portfolios include a majority of external members, and convene at least once every two weeks.

Additionally, in accordance with the provisions of the law, a member may not be appointed, and may not serve as a member of the investment committee, if his roles or other activities create, or may create, a conflict of interest, or have the potential to detract from his ability to serve as such a member and with respect to an external representative in an investment committee, or anyone who is a relative of the controlling shareholder, or anyone who has, or whose relative, partner, employer, or direct or indirect superior, or any corporation of which he is a controlling shareholder, on the appointment date on during the two years preceding the date of the appointment, an affinity with the Company, to the Company's controlling shareholder, or to a relative of the controlling shareholder, as of the date of the appointment, or to another corporation ("Affinity" - as defined in section 240(b) of the Companies Law).

Members' investment committee - In September 2017, the **Draft Control Financial Services Regulations (Provident Funds) (Investment Committee), 2017**, was published. The draft includes several changes on matters associated with the composition, appointment, qualifications and work methods of committees for the investment of members' funds, as compared with the law which currently applies, including a demand for all members to be external representatives; some of the preconditions for qualification for appointment as an investment committee member were changed; provisions were determined which are intended to ensure the independence of an investment committee member; rules were established regarding the prohibition of cross-tenure in an institutional entity and in a financial entity; It was determined that a search committee will be created which will recommend to the Board of Directors candidates for the candidate of investment committee member; It was determined that the appointment term of an investment committee member will be 6 years, and that the member cannot be re-appointed, and additionally, provisions were determined regarding the work methods of the investment committee, and it was further determined that the boards of directors of institutional entities which belong to the same group of investors will be entitled to appoint a investment committee for members' funds, which will serve jointly for all of the institutional investors which belong to the same group of investors. The members of the investment committees of Clal Insurance and of Clal Insurance and Clal Pension and Provident Funds are appointed by the relevant boards of directors, according to the recommendation of a search committee which was appointed by the Board of Directors, and which is comprised of the chairman of the board, and two outside directors.

Nostro investment committee - In February 2018, **a draft circular was published regarding non-investment-linked investment committees**. The draft circular regulates various aspects pertaining to the work method of a nostro investment committee, including on the following subjects: the number of members; Minimum conditions for qualification; Functions and work methods of the committee. The identification and screening of candidates for the nostro investment committee is done by the Board of Directors, with the members being appointed external representatives from among the outside directors who held tenure in the Company, or external representatives.

Credit sub-committee: In accordance with the Commissioner's directives, the investment committees, with the approval of the boards of directors of the Group's institutional entities, appointed a joint credit sub-committee for the Group's institutional entities (the "**Credit Sub-Committee**").

The credit sub-committee is comprised of members who have proven expertise and experience in the credit segment. The credit sub-committee includes external representatives only.

The credit sub-committee is responsible for overseeing the implementation of the policies determined by the Board of Directors and the investment committees regarding the provision of credit, for approving the provision of credit in accordance with the hierarchy of authorities, and for reaching decisions regarding the methods used to handle troubled debts, in accordance with the hierarchy of authorities.

Internal credit committee - In accordance with the Commissioner's directives, the institutional entities in the Group appointed an internal credit committee which is comprised of managers in Canaf, whose functions include: approving the extension of private loans from the nostro assets, providing recommendations regarding the provision of private loans, and the handling thereof, and approval of immaterial amendments to private loans, in accordance with the hierarchy of authorities.

10.5.4. Restrictions, legislation, standardization, circulars and special constraints which apply to investment management in the institutional entities

The investment management of institutional entities is subject to the provisions of the law which apply to insurers and to pension funds and provident funds, including the Commissioner's directives, as published from time to time.

As part of the above, the investment activity is primarily subject to the Investment Regulations, to Chapter 4 of the consolidated circular - management of investment assets (the "**Consolidated Circular**") and to the provisions of the circular regarding investment rules which apply to institutional entities (in this section: the "**Circular Regarding Investment Rules**"). The Investment Regulations, the consolidated circular and the circular regarding investment rules regulate most of the provisions of the law which apply to the investments of an institutional entity.

10.5.4.1. The Investment Regulations, the consolidated circular and the investment rules (in this subsection: the "Provisions Of The Law") -

The provisions of the law establish the regulatory framework which applies to the investments of an institutional entity, and refer, inter alia, to the following subjects: **A.** Restrictions on exposure to a single corporation and a group of corporations, cumulative exposure to the five largest corporations and the five largest groups of corporations, as defined in the Regulations; **B.** Foreign investment in countries with a credit rating of (BBB-) or higher, or in OECD member countries; **C.** Restrictions regarding the holding of the means of control of a corporation - up to 20%, excluding partnerships and real estate corporations, regarding which permission is given for a holding rate of up to 49%, subject to certain restrictions, and according to the cumulative maximum scope which was set forth in law; **D.** A quantitative restriction regarding investment in land rights, out of the total assets of the institutional entity - up to 15%; **E.** A restriction regarding the rate of holding in marketable bond series - up to 25% of each series; **F.** Definition of related parties to the institutional entity, and imposition of restrictions on investments in such entities; **G.** Restriction on the provision of unrated loans; **H.** Regarding nostro portfolios - a requirement for the establishment of rules pertaining to the management of assets held against liabilities, including regarding the degree of correspondence between the average lifetime, liquidity rate and linkage terms of the investment assets, and the characteristics of the liabilities; **I.** Establishment of rules to correct active and passive exceptions from the provisions of the investment regulations, reports and sanctions.

10.5.4.2. Restrictions on holding, on the performance of investments, and on the method of approving investments-

In accordance with various laws, the Group's holdings in various corporations - both holdings in the nostro portfolio, and holdings for other parties (such as funds of investment-linked policies, provident funds and pension funds) - are included together with the holdings of the Group's controlling shareholders[71], directly and/or indirectly, in those corporations ("**Aggregate Holding**"). Due to the current restrictions on holding in the law, with respect to corporations with certain operating segments (such as banking corporations, insurers, communication companies) and/or with respect to holdings in corporations which are related parties of the Group, the aforementioned aggregate holding may be restricted, and the Group may sometimes be prevented from increasing its holdings in the securities of those corporations, and may sometimes also be required to sell existing holdings, including out of the Group's holdings on behalf of other parties.

Additionally, in accordance with the provisions of the **Law to Promote Competition and Reduce Concentration, 2013**, an institutional entity's holdings in a certain type of means of control of a significant real corporation may not exceed 10%. As of the publication date of the report, this provision does not have a significant effect on the investment activities of the Group's institutional entities.

Restrictions on investment in related parties - in light of the change in the Company's status, which became a company without a control core, and due to the fact that institutional entities have different characteristics, which not every public company has, and whose existence justifies different treatment, inter alia, in light of the fact that the institutional entities manage members' funds, the Company adopted a policy regarding the identification and approval of transactions with related parties in the Company, which applies, inter alia, to the Company's interested parties, directors, and other entities, which included the determination of procedures for

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[71] For details regarding the status of the control of the Company, see Note 1(a) and 1(b) to the financial statements.

the approval of transactions with and investments in related parties and limits on exposure to related parties were also determined. For additional details regarding the status of the control of the Company, see Notes 1(a) and (b) to the financial statements. For additional details regarding the related parties policy, see Part D of the Report - Additional Details Regarding the Corporation, section 13(g).

10.5.4.3. Parliamentary committee for investigation of the conduct of financial systems in credit arrangements to large business borrowers

On July 5, 2017, the Knesset plenum approved the establishment of a parliamentary investigation committee led by the Chairman of the Economy Committee, Mr. Eitan Cabel, which will discuss the conduct of the financial system in the allocation of credit to large business borrowers since 2003. On January 6, 2019, the committee concluded its discussions, and on that date, the Company's representative appeared before it as well. After that date, the Company received demands for the submission of supplementary information. On April 15, 2019, the committee published its recommendations, which were intended for the conduct of supervisory entities. The recommendations did not include concrete recommendations towards institutional entities, including the Group's institutional entities.

The main recommendations included a recommendation to form a joint parliamentary committee, to include the economic committee and the finance committee, which will also be entitled to receive confidential information which will be submitted to it, despite the confidentiality provisions which are prescribed in financial laws.

At this stage, the Company believes that the findings of the committee's investigation will not have significant implications for the Company.

10.5.5. Presented below are details regarding the final material provisions of the law which were published during and after the reporting year, as well as the summary of material drafts which were published by the Commissioner, which apply to institutional entities in connection with the management of their investments:

10.5.5.1. The Insolvency and Economic Rehabilitation Law Memorandum, 2018

In March 2018, the Knesset passed the **Insolvency and Economic Rehabilitation Law, 2018** (the "**Law**"), which entered into effect in September 2019, and which is intended to re-formalize laws regarding insolvency and rehabilitation and recovery proceedings. The provisions of the law come in place of a series of legal provisions which until now have regulated insolvency laws. The law regulates, inter alia, the following subjects: (1) the definition of a corporation's insolvency; (2) The opportunities for entry into processes involving the rehabilitation and/or liquidation of a corporation; (3) The distribution of considerations between the various creditors; (4) Restriction of the power of floating charge holders, in a manner whereby they will be entitled to receive repayment of only 75% of the debtors which are subject to the floating charge, such that the unsecured creditors will receive greater repayment of the debt to them; (5) Prospective cancellation of some of the obligations; (6) The establishment of a special duty of care for directors and CEO's, in a situation where the Company is in a state of economic insolvency, but has not yet been declared as such in legal terms. (7) Establishment of provisions which confer upon the Court the authority to order a provider which provided, prior to the issuance of an order to initiate proceedings against the corporation, or shortly before the aforementioned date, even if it has already discontinued such provision, a critical service or product to a corporation undergoing recovery.

The Company estimates that the provisions of the law may have various implications on all matters pertaining to its fields of activity, including on all matters associated with loans which are given by institutional entities in the Group, and primarily including loans secured by pledges, inter alia, due to the prejudice caused to the rights of secured creditors in favor of unsecured creditors under the provisions of the law, and the increased insurance exposure, as an insurer offering various products.

The Company's estimates in connection with the implications of the law constitutes forward looking information, which is based on the Group's estimates and assumptions as of the publication date of the report. The changes, and the actual implications thereof, may differ from the forecast, due to the fact that the law is still in the initial stages of implementation, and the Company is unable to estimate its full effects, which depend, inter alia, on the interpretation and orders of the courts, and on competitive conditions in the market.

For the Company's financial information in the life insurance branch, see also Note 20 to the financial statements.

10.5.5.2. **The Draft Control of Finance Services Regulations (Provident Funds) (Direct Expenses Due To Performance Of Transactions) (Transitional Provision), 2019** (hereinafter: the "**Expense Regulations**") determine the types of expenses which can be charged to members, and apply a cumulative quantitative annual restriction of 0.25% of the assets on the amount of expenses which can be charged to the members, with respect to some of the expense items which are included in the Expense Regulations.

In November 2019, the Commissioner published draft regulations which extended the transitional provision set forth in Regulation 3A by another two years, such that it will remain in effect until December 31, 2021.

In December 2019, the Commissioner published a clarification regarding the extension of the validity of legislation with respect to the dispersal of the 22nd Knesset, which includes, inter alia, the extension of the Expense Regulations by three months, beginning on the date of convention of the 23rd Knesset.

According to the Company's estimate, insofar as the transitional provision is not extended, the matter could have significant implications for the Company.

10.5.5.3. Opinion paper regarding "collaboration between investors in institutional entities outside of the field of competition"

In June 2019, the Competition Authority published an opinion paper on the subject of "collaboration between investors in institutional entities outside of the field of competition", which addresses, inter alia, and in particular, collaborations between institutional entities which hold the shares of a particular corporation, on all matters pertaining to the decision making process in the general meeting of that corporation. In accordance with the opinion paper, such collaboration may give the institutional entities more significant influence over the corporation's activities, relative to separate and independent activities. In accordance with the opinion paper, the Authority will allow collaborations which do not constitute a restrictive arrangement, subject to the conditions and circumstances specified in the opinion paper.

Collaborations covered under the opinion paper are restricted to fields outside of the field of competition. In other words, in cases where there are competitive ties between the activities of the investee corporation and the institutional entity, the collaboration will not be included under the opinion paper.

At this stage, the provisions regarding disclosure do not have significant implications on the Company's business activities.

10.5.5.4. Opinion paper regarding collaborations between credit providers in debt settlement

In December 2019, the Competition Authority published an opinion paper regarding collaborations between credit providers with respect to debt settlements. In accordance with the opinion paper, when it is highly likely that the borrower will not unable to repay its debts without a debt settlement, a collaboration between the credit providers will be allowed, subject to the terms specified in the opinion paper.

At this stage, the provisions regarding disclosure have no significant implications on the Company's business activities.

10.5.5.5. The Draft Control Financial Services Regulations (Provident Funds)(Participation of Managing Company in General Meeting)(Amendment), 2019, and a draft amendment to the consolidated circular - provisions regarding voting by an institutional investor in a corporation's general meeting

In May 2019, the Commissioner published the **Draft Control of Financial Services Regulations (Provident Funds)(Participation of Managing Company in General Meeting)(Amendment), 2019** (hereinafter: the "**Voting Regulations**"), and a draft amendment to the consolidated circular: Provisions regarding votes by an institutional investor in a corporation's general meeting (hereinafter: the "**Drafts**"). The main proposed changes to the drafts include the following: (A) Erasing the section which allows an institutional investor to engage with a professional entity regarding votes in general meetings. (B) A demand to approve the institutional investor's investment committee by a majority of the external representatives, in case of a vote in a corporation without a controlling shareholder. (C) Determining that the deciding entity in the institutional investor regarding voting in meetings will be the entity who is professionally subordinate to the institutional investor's investment committee only, and who is not involved in the investment of the institutional entity's funds which are held against non-investment-linked liabilities

Additionally, in December 2019, Entropy Financial Research Services Ltd. (hereinafter: "**Entropy**"), which advises the Company, announced that it was discontinuing the provision of consulting services, and would continue offering auxiliary services only, for voting in meetings.

The Company is studying the provisions of the drafts and Entropy's announcement, and is preparing to update the method of action in voting in meetings, and as part of the above, inter alia, the Company is evaluating offers for the receipt of auxiliary services, and is evaluating its voting policy.

According to the Company's estimate. At this stage, the provisions will not have significant implications.

10.5.5.6. Policy regarding the issuance of a permit for the holding of the means of control of an institutional entity without a controlling shareholder to entities which manage customers funds

In July 2019, the Authority published a "**policy regarding the issuance of a permit for the holding of the means of control of an institutional entity without a controlling shareholder to entities which manage customer funds**", in which conditions were established which, when fulfilled, will allow the issuance of a holding permit (for holdings exceeding 5% of a certain type of means of control) for institutional entities, mutual funds or ETF's which have requested a permit for holding an institutional entity without a controlling shareholder. According to the aforementioned policy, such a permit may be given in cases where the holding rate of the entity receiving the holding permit does not exceed 7.5% of the means of control of an institutional entity without a controlling shareholder, provided that its holdings which are not for its customers are less than 5%.

A similar arrangement with respect to the holding of means of control is also possible in accordance with a permit which was given by the Bank of Israel with respect to banking corporations (however, this permit is also possible with respect to banks which have a control core). Accordingly, in June 2019, the Group's institutional entities received (for members' and policyholders' portfolios only) a permit from the Bank of Israel for holding of up to 7.5% of the shares of several banking corporations and Isracard Ltd., and a permit for holding 10% of Max It Finance Ltd. (formerly Leumi Card Ltd.). For details regarding permits which were received for holding the Group, see Note 40(a)1 to the financial statements.

According to the assessment of the Group's institutional entities, at this stage, the provisions of the policy should not have significant implications for the Group's institutional entities, in their role as investors, and in light of the status of the holdings in the Company, as specified in Notes 1(a) and (b) to the financial statements, the Company is unable to assess the possible effects of the aforementioned arrangements with respect to the holding of its shares.

10.5.5.7. The Commissioner's position - investment in InsurTech companies

In January 2020, the Commissioner published a position regarding investment in InsurTech companies, which is intended to reduce barriers to investment of insurance companies in initiatives and in the development of infrastructure in the InsurTech branch. The position includes guidelines regarding the provision of approval for the control, or holding of the means of control, of an InsurTech corporation at a rate exceeding 20%, which primarily determine that the investment must be made using the insurer's nostro funds only, and that the total sum of the insurer's investment in the InsurTech corporation may not exceed the lower of either NIS 100 million, or 1% of the insurer's assets, after deducting assets held against investment-linked liabilities.

At this stage, the Company is unable to estimate the effects of the position paper. The matter depends, inter alia, on business decisions which may be reached on the matter in the future.

10.5.5.8. The Commissioner's directives in light of the coronavirus outbreak

In March 2020, due to the coronavirus outbreak, the Commissioner published a series of steps to life barriers in the capital market, with the aim of protecting savers' funds and improving liquidity on the stock exchange, including:

(A) **Draft transitional provision**: The Commissioner's announcement regarding the approval of investments in special cases, which mostly determines that an institutional entity will be entitled to invest up to 49% in marketable bonds which are not bonds of the Israeli government, or in marketable securities of an issuer, instead of maximum holding of up to 25%, as currently prescribed in law. According to the draft, the aforementioned approval will expire by September 30, 2020, or by the expiration date of the State of Emergency Regulations (Limit on Number of Employees Due to the Novel Coronavirus Outbreak), 2020.

(B) **The draft policy regarding the issuance of a permit for the holding of an institutional entity's means of control to entities managing customer funds,** which primarily includes an extension of the policy regarding the provision of a permit for the holding of an institutional entity's means of control, at a rate of up to 7.5%, to entities managing customer funds, including for insurers which have a controlling shareholder. In accordance with the draft, this policy will be re-evaluated in the future.

(C) Draft amendment to the provisions of the consolidated circular regarding the holding of over 20% of a corporation's means of control, according to which an institutional investor which has became the controlling shareholder of a borrower corporation, or a holder of over 20% of a borrower corporation's means of control, due to a debt settlement, subject to the fulfillment of the conditions specified in the draft, will be allowed to continue controlling or holding at that rate.

(D) **The draft amendment to the provisions of the consolidated circular regarding expenses due to investment in ETF's**, according to which an institutional investor will be entitled to, subject to the fulfillment of several conditions, to collect from the assets of provident funds which are managed by it, or from funds held against investment-linked liabilities, the management fees which are collected by an ETF manager, at a rate which will not exceed 0.1% of the ETF's asset value, provided that the total rate with respect to the investment in ETF's, as stated above, does not exceed 5% of the limit on direct expenses, as specified above.

According to the assessment of the Group's institutional entities, insofar as the Commissioner's aforementioned directives enter into effect, they will not have significant implications for the Group's institutional entities.

For additional details regarding the implications of the coronavirus outbreak, see Notes 1(d) and 43(k) to the financial statements, and Part B of the Report - Board of Directors' Report, section 3.1.

10.5.6. Managed investments

For details regarding the impact of investment income on the Company's profits, see Part B of the Report - Board of Directors' Report, section 3.1.4.

10.5.6.1. Distribution of managed assets in Clal Insurance as of December 31, 2019

	Assets held against investment-linked insurance liabilities	Nostro - assets held against liabilities in non-life insurance, health and equity[72]	Nostro - assets held against liabilities in life and health insurance (long-term care and critical illness)
Cash and cash equivalents	9.10%	8.47%	3.33%
Marketable government bonds	20.73%	27.19%	3.39%
Marketable corporate bonds	16.57%	13.37%	3.62%
Stocks and other marketable securities	34.62%	11.54%	3.75%

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[72] Not including long-term care and critical illness.

	Assets held against investment-linked insurance liabilities	**Nostro - assets held against liabilities in non-life insurance, health and equity[72]**	**Nostro - assets held against liabilities in life and health insurance (long-term care and critical illness)**
Designated bonds	0.00%	0.00%	59.69%
Deposits and loans	6.62%	13.81%	16.70%
Others (*)	12.36%	25.62%	9.52%
Total assets	**100.00%**	**100.00%**	**100.00%**

* Primarily includes non-marketable corporate bonds, investment funds and land rights.

10.5.6.2. Distribution of managed assets in Clal Credit Insurance as of December 31, 2019:

	Nostro - assets held against liabilities in non-life insurance and equity	**Assets held against investment-linked insurance liabilities**	**Nostro - assets held against liabilities in life insurance**
Cash and cash equivalents	6.72%	-	-
Marketable government bonds	44.11%	-	-
Marketable corporate bonds	16.82%	-	-
Stocks and other marketable securities	5.65%	-	-
Deposits and loans	23.85%	-	-
Others (*)	2.85%	-	
Total assets	**100.00%**	-	-

* Primarily includes non-marketable corporate bonds, investment funds and land rights.

10.5.6.3. Distribution of assets of pension funds managed by the managing companies (Clal Pension and Provident Funds and Atudot Havatika) in the Group as of December 31, 2019

	Meitavit Atudot New Fund	**Meitavit Atudot Supplementary Fund**	**Atudot Havatika**
Cash and cash equivalents	5.64%	6.83%	2.26%
Marketable government bonds	5.94%	29.84%	13.48%
Marketable corporate bonds	9.28%	21.23%	11.98%
Stocks and other marketable securities	34.48%	33.56%	15.50%
Designated bonds	29.50%	0.00%	38.92%
Deposits and loans	5.48%	3.79%	6.87%
Others (*)	9.68%	4.75%	10.99%
Total assets	**100.00%**	**100.00%**	**100.00%**

* Primarily includes non-marketable corporate bonds, investment funds and land rights.

10.5.6.4. Distribution of assets of pension funds managed by the Clal Pension and Provident Funds as of December 31, 2019:

	Provident fund for compensation	**Study funds**	**Central provident funds**

	Provident fund for compensation	Study funds	Central provident funds
Cash and cash equivalents	5.04%	7.09%	6.93%
Marketable government bonds	27.83%	23.63%	29.08%
Marketable corporate bonds	19.19%	15.03%	19.78%
Stocks and other marketable securities	23.20%	34.74%	31.57%
Deposits and loans	16.53%	10.24%	6.02%
Other investments (*)	8.21%	9.27%	6.62%
Total assets	**100.00%**	**100.00%**	**100.00%**

* Primarily includes non-marketable corporate bonds, investment funds and land rights.

10.5.7. Investments in investee companies

During the reporting year, the Company had no material investments in investee companies and/or partnerships and/or enterprises which are not subsidiaries. For details regarding the policy regarding the evaluation of significance for the purpose of classifying investment transactions, which was adopted by the Company, see Part D of the report - Additional Details Regarding the Corporation, section 13(f). For details regarding the Michlol transaction, and the expansion of the activities of Clal Finance Ltd., see section 9.3 above.

10.6. Reinsurance

Reinsurance is a means used by an insurance company to hedge its risks and to protect capital. Through reinsurance, the insurance company shares its risks with additional insurance companies, reduces its exposure (particularly to accumulated damages in case of a catastrophic event, such as natural disasters, earthquake, fire, etc.), and allows the expansion of the scope of insurance liabilities which it can accept upon itself.

The engagement in reinsurance does not exempt the insurance company from its obligations towards the policyholders, and the settling of accounts vis-à-vis the reinsurers takes place throughout the years of insurance exposure. The stability of reinsurers is therefore important.

The main types of reinsurance contracts include:

1. **Treaty** - An agreement with a reinsurer in which the reinsurer undertakes to participate in the risks, generally in a particular branch.
2. **Facultative insurance** - An agreement with a reinsurer with respect to specific business (mostly at large business customers), in which the liability limits exceed the limits of the treaty, or where, for other reasons, the Company chooses to prepare it in that framework.

The aforementioned agreements can be with one reinsurer or several reinsurers.

Additionally, reinsurance contracts can be segmented according to the risk distribution method:

1. **Proportional reinsurance** - The reinsurer's participation in the risk is defined in advance, according to its relative share in the premiums, and it participates according to its proportional rate in the payment of damages. There are two main types of proportional reinsurance:
    - **Quota share treaty**: A proportional reinsurance agreement in which the reinsurers agree to accept a fixed rate of all insurance of a certain type which the direct insurers have accepted upon themselves. The reinsurer receives a proportional part of the relevant premiums which are received by the direct insurer, and divides the damages and expenses by the same ratio, up to the determined amount, and in accordance with the contract terms.
    - **Surplus treaty**: A proportional reinsurance agreement in which the direct insurer bears a fixed amount which it determines (retention), and the reinsurer bears the multiplies of the fixed amount up to an agreed-upon limit. The Company's participation rate is determined according to the proportion of the

retention out of the insurance amount, and accordingly, the premiums and claims are divided between the Company and the reinsurer.

In general, with respect to a proportional reinsurance agreement (treaty or facultative), a commission is received from the reinsurers according to an agreed-upon rate of the premiums to the reinsurers.

2. **XOL (Excess of loss) non-proportional reinsurance** - A non-proportional reinsurance agreement according to which the reinsurer accepts responsibility for the level which was agreed upon in advance, and participates in the payment of the damages only if the damage has reached the level at which it participates. In agreements of this kind, the division of risk is non-proportional, and the participation of the reinsurer is conditional upon the amount of damages, up to the limit which was determined, if any.

The **catastrophe risk** of Clal Insurance is a non-proportional reinsurance agreement which Clal Insurance purchases in order to protect its retention (in addition to the existing coverage in proportional reinsurance), based on an evaluation of the expected damage on retention, of a given probability, to which Clal Insurance may be exposed due to a catastrophic event.

With respect to non-proportional reinsurance contracts, a commission is generally not received from reinsurers, excluding in facultative insurance policies of the XOL ("Excess Of Loss") types.

10.6.1. Policy regarding reinsurance

In accordance with the Commissioner's circular on the subject of "Management of the exposure to reinsurers" from December 7, 2003, at least once per year, the Board of Directors is required to discuss and determine the policy regarding exposure and the insurer's preparations to manage the exposure and the control thereof, to a single reinsurer and to a group of reinsurers which are economically linked (hereinafter, jointly: "**Reinsurers**"). The Board of Directors is required to hold the discussion after having ascertained the quality of the tools which are available for the insurer to manage and control the exposure to reinsurers.

The policy regarding the exposure to reinsurers will include, inter alia, the policy regarding the management of exposure to reinsurers in the life, non-life and health branches, as well as the definition of the maximum framework for exposure to reinsurers, according to the parameters which will be determined by the Board of Directors. The aforementioned parameter may be a qualitative parameter, such as the reinsurer's international rating.

The Board of Directors will oversee the implementation of the policy which determined and will handle exceptional events.

The boards of directors of the Group's institutional entities approve, once per year, the reinsurance policy in accordance with the Group's operating segments, based on the recommendations which were formulated by the management of each institutional entity / division, and the recommendations of the risk management unit. As part of the above, each year, the retention policy for the various branches is determined, and the various types of reinsurance arrangements are evaluated. With respect to the exposure to reinsurers, the policy of the Group's insurance companies include minimum demands for the selection of reinsurers which address, inter alia, the financial rating and other qualitative parameters, including with respect to past experience, where in the insurance branches in which the exposure to reinsurers is long term, a higher minimal financial rating is required. The policy also includes a maximum exposure framework, which determines the maximum rate of exposure to a single reinsurer and/or to a group of reinsurers and/or to a rating group of reinsurers, out of the Company's capital. Additionally, the policy establishes restrictions on potential exposures to reinsurers and to groups of reinsurers, in case of an earthquake event, by MPL[73]. The policy establishes mechanisms for the management and control of the exposure to reinsurers, including reports to the boards of directors of the relevant institutional entities, regarding the fulfillment of the aforementioned restrictions.

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[73] Maximum probable loss, with the determined probability, calculated using models.

In non-life insurance business operations, the Group's proportional and facultative reinsurance contracts in the various insurance branches are generally prepared on an annual basis, according to the underwriting year (in which the policy was issued), with different reinsurers. The relative share of each reinsurer in each one of the reinsurance branches may change from year to year and from branch to branch, in accordance with the Group's business policy and the characteristics of the business which it aims to insure. In general, non-proportional treaties are prepared on an annual basis, according to the year of the event (when the damage occurred).

In **life insurance and health insurance business operations,** which cover risk of death, loss of working capacity, disability, critical illness, long-term care and medical expenses, and which are characterized by long term policies, the engagement with reinsurers is done throughout the entire period of the policies which were sold during the reinsurance agreement period, excluding catastrophe risk agreements, which are prepared on an annual basis, according to the year of the event.

The Company's ability to engage in reinsurance treaties, and the terms of such engagements, also depend on the market conditions, on the capacity of the reinsurers which meet the minimum conditions specified by the Group with respect to the relevant risks, and on the reinsurer's willingness to accept those risks.

During the reporting year, the Group did not enter into any exceptional reinsurance transactions.

For additional details, see Note 39(f)(8) to the financial statements.

For details concerning the risk factors arising from the entry into agreements with reinsurers, see section 10.16(b)(4) below.

10.6.2. Reinsurance in the non-life insurance segment

10.6.2.1. Main types of reinsurance arrangements in the segment

In the liabilities branches, such as employers' liability, professional liability, product liability and third party liability, protection against exposure is implemented by means of non-proportional reinsurance contracts, to protect against large claims.

In the compulsory motor insurance branch, Clal Insurance hedges against the exposure through proportional and non-proportional reinsurance treaties.

In general, the exposure of Clal Insurance in the property and loss of profit branches, and in guarantee activities (including sale and performance guarantees), is protected through proportional reinsurance contracts. In the property and loss of profit branches, a non-proportional reinsurance contract is also acquired for catastrophe coverage (shared by all of the property branches), which provides protection for the share of Clal Insurance on self retention in the damages due to a catastrophic event (including an earthquake), see section 10.6.7 below.

In certain insurance branches, specific (facultative) reinsurance is acquired instead of, or in addition to, the coverage under the treaty, while maintaining fulfillment of the retention levels determined by the Company.

A significant part of the operations of Clal Credit Insurance is protected by proportional reinsurance. Additionally, Clal Credit Insurance acquires non-proportional reinsurance as coverage against default by a group of debtors.

10.6.2.2. Commission structure in the non-life insurance segment

_______In proportional insurance, commissions are received from reinsurers. These commissions are primarily calculated according to a certain rate of the premiums to reinsurers. There are two main types of commissions" fixed commissions, according to a flat rate of the premiums, or sliding scale premiums, according to the profitability in the portfolio. In general, agreements in the non-life insurance segment do not include profit commissions, except for a few agreements which include a profit commission that is based on the reinsurer's rate of profitability in that specific agreement.

_______In general, the agreements are renewed each year, with no commitment to renew them, and without the agreements including an mechanism for settling accounts between the different underwriting years. The settling of accounts with respect to a specific underwriting year may include the reimbursement or receipt of an additional commission, in parallel with the recoding of the development in business results in accordance with the current estimates as of the reporting date (in progressive commission agreements the repayment, if required, is up to the amount of the minimum determined commission).

Commissions are not received from reinsurers in non-proportional insurance, except for excess of loss facultative reinsurance.

Reinsurers whose share in premiums in the segment constituted more than 10% of total reinsurance premiums in the segment in the reporting year

Name of reinsurer	S&P rating as of the date of as of the publication date of the report	Premiums recorded in favor of the reinsurer (NIS in thousands) in 2019	Proportion of total premiums to reinsurers for the operating segment in 2019
Munich Re	AA-	163,272	14.4%
Swiss Re	AA-	146,940	13.0%

10.6.2.3. Changes to reinsurance arrangements in the non-life insurance segment

During the reporting year, no material changes occurred in reinsurance arrangements in the non-life insurance segment.

10.6.3. Reinsurance in the long term savings segment

10.6.3.1. Main types of reinsurance contracts in the long term savings segment

A. Proportional contracts of various types protect the exposure of Clal Insurance in most business segments in the life insurance branch.

B. An excess of loss non-proportional contract, which protects the Group's member companies from catastrophe events, with respect to risks of death, loss of working capacity, and disability.

10.6.3.2. Description of the commission agreements in the life insurance segment

Regarding some of the proportional reinsurance contracts, the reinsurers pay commissions to the Company according to a rate of the premium which was transferred to the reinsurer in the first year, or over a longer period. In addition to the reinsurance commissions which are paid out of the premiums, as stated above, the reinsurers pay, under some of the agreements with respect to life insurance, a profit commission which is calculated as a proportional part of the profit from the insurance business operations which are covered through reinsurance.

The calculation of the profit commission for a particular reinsurance contract (in accordance with all of the policies which are included in the treaty period) also includes taking into account loss, if any, from previous years, and a profit commission is only received if the profit exceeds the loss. It is hereby clarified that insofar as an amount is paid with respect to a profit commission, and in the future there is loss with respect to that contract, the Company will not be obligated to repay the amounts which were received, and the matter will be reflected only in the offsetting upon calculation of a future profit commission, if any.

Reinsurers whose share in premiums in the segment constitute more than 10% of total reinsurance premiums in the segment during the reporting year

Name of reinsurer	S&P rating as of the publication date of the report	Premiums recorded in favor of the insurer for 2019 (NIS in thousands)	Proportion of total premiums to reinsurers for the operating segment in 2019
Swiss Re	AA-	70,588	51.77%
Munich Re	AA-	43,319	31.77%
Gen Re	AA+	18,051	13.24%

10.6.3.3. Changes in reinsurance arrangements in the life insurance segment

During the reporting year, no material changes occurred in the reinsurance arrangements in the long term savings segment.

10.6.4. Reinsurance in the health insurance segment

10.6.4.1. Main types of reinsurance in the health and long-term care insurance segment

Part of the Group's exposure in health policies with respect to particular risk components is covered under quota share treaties. With respect to long-term care insurance products, quota share proportional reinsurance is available for individual policies which were sold as such until July 2004, and from June 2014 until the end of 2019 (for details regarding the discontinuation of sales of individual long-term care policies, see section 8.1.3.2 above). Additionally, quota share proportional reinsurance was purchased in connection with the liability of Clal Insurance to cover claims of members of Maccabi and Leumit health funds, within the framework of the collective long-term care insurance for the fund members in Clal Insurance, and which has concluded as of the publication date of the report. For details regarding the conclusion of the collective long-term care insurance for the health fund members in Clal Insurance, and the liability of Clal Insurance for of Clal Insurance to cover claims which are submitted after the conclusion of the aforementioned insurance period, see section 8.1.2.2(c) above.

The Group also has protection for accumulated damages, in non-proportional contracts, with respect to personal accidents policies, international travel personal accidents, long-term care and critical illness policies, within the framework of catastrophe coverage. The scope of the acquired protection is based on internal studies conducted by the Company.

10.6.4.2. Description of the commission structure in the health insurance segment

In some insurance contracts, a commission is paid by the reinsurers to the Group with respect to health insurance products of various kinds, which are covered by proportional reinsurance, which is calculated as a rate of the premiums transferred to the reinsurer. In most cases, this commission is paid only in the first year after the sale.

In addition to the reinsurance commissions which are paid out of premiums, as stated above, in some of the reinsurance contracts, the reinsurers pay the Group with respect to the aforementioned reinsurance, a profit commission which is calculated as a proportion of the profit from the insurance business operations which are covered by the reinsurance. For details regarding the calculation of the profit commission, see section 10.6.3.2 above.

In excess of loss non-proportional insurance contracts, a commission is not received from reinsurers.

Reinsurers whose share in premiums in the segment constitute more than 10% of total reinsurance premiums in the segment during the reporting year

Name of reinsurer	S&P rating group as of the publication date of the report	Premiums recorded in favor of the insurer for 2019 (NIS in thousands)	Proportion of total premiums to reinsurers for the operating segment in 2019
Swiss Re	AA-	34,975	54.93%
Munich Re	AA-	12,335	19.37%
Scor	AA-	10,539	16.55%

10.6.4.3. Changes in reinsurance arrangements in the health insurance segment

During the reporting year, no material changes occurred in reinsurance arrangements in the health insurance segment.

10.6.5. Coverage restrictions and limits

10.6.5.1. Restrictions or limits on coverage in the non-life insurance segment

In most proportional insurance contracts in property branches, the reinsurers restricted the cumulative scope of coverage to determined events, and particularly, to earthquakes. In the property contracts of most reinsurers, the limit per earthquake event is 4% to 5% of their proportional part in the insurance amount, and with respect to the total exposure limit which was determined in the contracts. For additional details, see section 10.6.7 below.

In contracts which protect the Group's retention against catastrophic events in the property insurance segment, the reinsurers limited their liability to a certain coverage ceiling, beyond which the liability applies to Clal Insurance.

In excess of loss contracts, the Company did not reach the determined limits in the reporting periods, and it has no outstanding claims in a scope which comes close to the determined limits.

10.6.5.2. Restrictions or limits on coverage in the long term savings segment

No material restrictions or coverage ceilings apply to the reinsurer's participation in proportional treaty claims.

It is noted that as of the preparation date of the reports, in cases where coverage limits were determined in reinsurance agreements, in general, the Company does not cover amounts which exceed the coverage limit without facultative coverage.

In a contract which protects the Group's retention against catastrophe events in the long term savings segment, there is a coverage limit, and damages above this limit are returned to the Company's responsibility.

10.6.5.3. Restrictions or limits on coverage in the health insurance segment

_______In some quota share proportional insurance contracts in the long-term care and critical illness branch, certain restrictions apply regarding the conditions of participation or regarding the coverage limit with respect to the reinsurer's participation in claims, in a cumulative amount per policyholder. It is noted that, in general, policies which are issued by the Company are within the framework of the aforementioned coverage limits. Certain treaties also include clauses regarding the terms of participation. As of the reporting date, the stipulations have not been fulfilled, and the Company does not expect them to be fulfilled.

10.6.5.4. Restrictions by virtue of laws and/or treaties

For several years, the reinsurers have been trying to include in the reinsurance agreements a clause which makes their contractual debts subordinated to legal restrictions by virtue of various state and/or international laws and/or treaties, which will be in effect from time to time, such as sanctions on Iran, avoidance of financing of terrorism, etc. (hereinafter: the "**Sanctions Clause**").

Clal Insurance clarified to the reinsurers that it objects to the inclusion of a sanctions clause in the sanctions contracts in a manner which reduces their obligation to pay in branches wherein it cannot include a corresponding clause vis-à-vis the policyholders. As of the preparation date of the report, the contracts with reinsurers do not include the aforementioned sanctions clause in branches where the Company cannot include corresponding coverage vis-à-vis the policyholders. However, the reinsurers repeatedly clarify that a restriction on payment may materialize as a result of the aforementioned legal restrictions.

10.6.6. Material changes in reinsurance arrangements which pertain to the period after the reporting date

no material changes occurred in the reinsurance arrangements during the period subsequent to the reporting date.

It is noted that, from time to time, the Company makes adjustments to the details of insurance arrangements, including with respect to the amount of commissions, the coverage limits and the retention amounts and rates, based on an analysis of past results and the assessment of risk, including with reference to changes in products, in the market and in the regulations.

10.6.7. Exposure of reinsurers to an earthquake in Israel

The main catastrophe event to which the Group is exposed is an earthquake in Israel, and the main exposure to this risk exists with respect to the property branches which constitute a part of non-life insurance.

As of December 31, 2019, the amounts of property insurance in Israel, which include earthquake coverage, amount to approximately NIS 418 billion (gross). Clal Insurance is covered, with respect to the aforementioned property insurance, by proportional reinsurance on a quota share or surplus basis. Some of the relative reinsurance contracts include coverage limits for individual events (see details below).

With respect to catastrophic events, Clal Insurance purchased, or the property branches, beyond the coverage under the proportional reinsurance contracts (contractual and/or facultative) with respect to the cumulative retention, reinsurance on an excess of loss basis, in a defined amount with respect to the exposure due to such event, based on the estimate of Clal Insurance regarding the damage which is expected to occur due to a catastrophe with a certain probability.

The acquisition of reinsurance with respect to a catastrophic event is based on assessments of the risk, based on details and updated information regarding the exposures of Clal Insurance through designated international software program, which are based on quantitative models for the assessment of catastrophe risks. According to this evaluation, which was last performed in 2019, the scope of coverage acquired by Clal Insurance protects it from events whose estimated probability of occurrence, according to some of the models, is lower than once every 250 years, and is even lower than once every 1,000 years, according to some of the models.

Based on the above analysis, Clal Insurance bases the acquisition of catastrophe protection on a maximum probable loss (MPL) rate which ranges from 1.5% to 3.15% of the insurance amount, according to the insurance branches and the characteristics of the policyholder's property. With respect to the reporting year, Clal Insurance purchased protection for the cumulative retention against catastrophe with a weighted MPL of approximately 2.2% of the non-life insurance amount in apartment and property insurance.

As a result of the aforementioned reinsurance arrangements, in case of a catastrophe event in Israel, which causes gross damage to insured property in Clal Insurance in a gross amount of up to NIS 10.1 billion (which is the expected damage, in accordance with the estimate described above), the maximum damage amount borne by Clal Insurance on retention (including the purchasing cost of reinstatement) will be approximately NIS 45 million. If the damage amount is higher than the aforementioned amount, Clal Insurance will bear part of the damages above the aforementioned amount, in accordance with the quota share contracts and the relevant surpluses.

It is noted that the Group also acquired catastrophe reinsurance with respect to **life and health insurance**, and an earthquake in Israel may activate this reinsurance as well. The scope of coverage which was purchased with respect to these products is based on internal studies which were performed by the Company regarding the impact of various scenarios, including an earthquake in Israel, insurance liabilities which cover cases of death or physical injury, which are covered under life and health policies. It is noted that the exposure to earthquake risk in Israel, as estimated with respect to this insurance, is of significantly lower scopes relative to the exposure to insurance in the property branches which are referenced by the data presented in this section and in Note 39(e2) to the financial statements.

The reinsurers of Clal Insurance which participate in the exposure, in non-life insurance, to an earthquake event in Israel are rated according to the following table:

Exposure of reinsurers to an earthquake (NIS in thousands) for 2019:

S&P rating group as of the publication date of the report	Forecast regarding exposure to earthquake, non-proportional	Forecast regarding exposure to earthquake, proportional	Forecast regarding exposure to earthquake	Proportion of total
A- and higher	829,440	9,312,246	10,141,686	**100.00%**
BBB- to BBB+	-	-	-	-
Lower than BBB- or unrated	-	-	-	-
Total	**829,440**	**9,312,246**	**10,141,686**	**100.00%**

Reinsurers whose exposure to earthquake risk exceeds 10% of the total exposure to earthquakes (NIS in thousands) for 2019:

Name of reinsurer	S&P rating group as of the publication date of the report	Forecast regarding exposure to earthquake,	Forecast regarding exposure to earthquake,	Forecast regarding exposure to earthquake	Proportion of total

		non-proportional	**proportional**		
Swiss Re	AA-	157,248	1,509,647	1,666,895	**16.4%**
Munich Re	AA-	157,248	1,132,277	1,289,525	12.7%

Exposure of reinsurers to an earthquake (NIS in thousands) for 2018:

S&P rating group as of the publication date of the report	**Forecast regarding exposure to earthquake, non-proportional**	**Forecast regarding exposure to earthquake, proportional**	**Forecast regarding exposure to earthquake**	**Proportion of total**
A- and higher	937,000	8,736,052	9,673,052	**100.00%**
BBB- to BBB+	0	0	0	0.00%
Lower than BBB- or unrated	0	0	0	0.00%
Total	**937,000**	**8,736,052**	**9,673,052**	100.00%

Reinsurers whose exposure to earthquake risk exceeds 10% of the total exposure to earthquakes (NIS in thousands) for 2018:

Name of reinsurer	**S&P rating group as of the publication date of the report**	**Forecast regarding exposure to earthquake, non-proportional**	**Forecast regarding exposure to earthquake, proportional**	**Forecast regarding exposure to earthquake**	**Proportion of total**
Swiss Re	AA-	178,030	1,364,878	1,542,908	16.0%
Munich Re	AA-	178,030	987,099	1,165,129	12.0%

* The amounts presented in the above tables include exposure in lower amounts with respect to insurance for international businesses ("**Incoming Business**") which are covered by Clal Insurance.

Summary reinsurance results in non-life insurance for the years 2017 to 2019[74]

Reinsurance premiums in 2019 (NIS in thousands)	**Compulsory motor insurance branch**	**Motor property insurance branch**	**Property and others insurance branch**	**Liabilities insurance branch**	**Total**
Earthquake and natural risks	-	570	247,307	-	247,877
Reinsurance, proportional	282,848	96,732	301,212	36,764	717,556
Reinsurance, non-proportional	5,273	469	87,567	75,674	168,983
Total	**288,121**	**97,771**	**636,086**	**112,438**	**1,134,416**

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[74] Profit and loss results of reinsurance only, according to operating segments in non-life insurance, including credit insurance, as reflected in the Company's reports to the Commissioner.

premiums					
Reinsurance results	(104,940)	(297)	145,195	(155,153)	(115,195)

Reinsurance premiums in 2018 (NIS in thousands)	Compulsory motor insurance branch	Motor property insurance branch	Property and others insurance branch	Liabilities insurance branch	Total
Earthquake and natural risks	-	555	246,603	-	247,158
Reinsurance, proportional	273,252	-	315,363	32,046	620,661
Reinsurance, non-proportional	8,229	1,395	47,499	87,518	144,641
Total premiums	**281,481**	**1,950**	**609,465**	**119,564**	**1,012,460**
Reinsurance results	(26,522)	2,254	205,397	7,290	188,419

Reinsurance premiums in 2017 (NIS in thousands)	Compulsory motor insurance branch	Motor property insurance branch	Property and others insurance branch	Liabilities insurance branch	Total
Earthquake and natural risks	-	539	199,816	-	200,355
Reinsurance, proportional	207,576	-	303,891	37,937	549,404
Reinsurance, non-proportional	12,694	1,878	22,728	74,420	111,720
Total premiums	**220,270**	**2,417**	**526,435**	**112,357**	**861,479**
Reinsurance results	(60,588)	2,325	37,139	(66,546)	(87,670)

Explanations regarding the reinsurance results in non-life insurance:

- **Compulsory motor insurance branch -** The Company has had a proportional treaty since underwriting year 2017. The change for the worse in the profitability of reinsurers during the reporting year reflects a significant change for the worse in the development of the actuarial model, in light of the Company's accumulated claims experience.

- **Property and others insurance branch** - The deterioration in profitability during the reporting year relative to last year was mostly due to the development of large claims, as compared with the positive development of large claims in the year preceding the reporting year. The change for the worse in the development of claims during the reporting year was slightly offset by the increase in earned premiums, due to the growth of the portfolio.

- **Liabilities insurance branch** - The change for the worse in the profitability of reinsurers during the reporting year was mostly due to the change for the worse in the development of claims, as compared with the improvement last year, which was due to the decrease in the development of large claims.

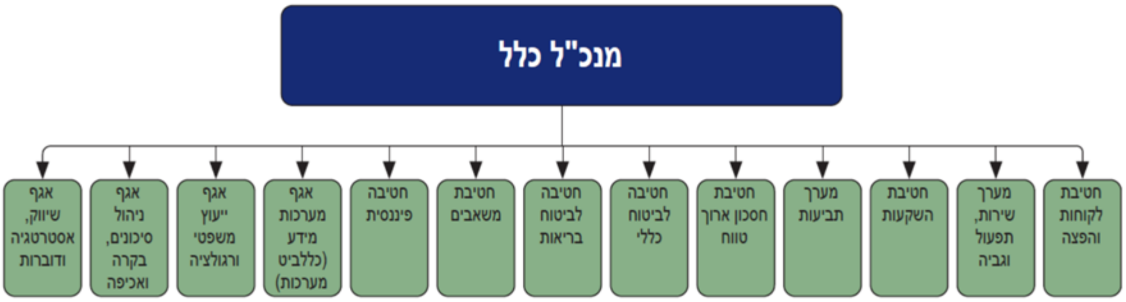
For additional details regarding reinsurance, see Note 39(f)(8) to the financial statements.

10.7. Human capital

10.7.1. Diagram of the Group's organizational structure

The diagram presented below reflects the functional-organizational relationships, as of the date of this report, of the various senior position holders, which is not necessarily identical to legal relationships.

CEO of Clal												
Marketing, Strategy and Spokesmanship Department	Risk Management, Control and Enforcement Department	Legal Counsel and Regulation Department	Information Systems Department (Clalbit Systems)	Financial Division	Resources Division	Health Insurance Division	Non-Life Insurance Division	Long Term Savings Division	Claims Unit	Investment Division	Service, Operations and Collection Unit	Customers and Distribution Division



The Group's organizational structure is based on operations through nine units / divisions whose managers, together with the managers of the information systems, risk management, legal counsel, marketing, strategy and spokesmanship divisions, constitute the management of Clal Insurance, as follows:

A. Four operational units: (1) The customers and distribution division, which concentrates the Group's sales activities, including vis-à-vis the Group's agents, and the direct sales activities; (2) The service, operations and collection unit, which concentrates the service, operations and collection activities vis-à-vis agents and customers; (3) The investments division, which concentrates the investing and credit provision activities in the Group; (4) The claims unit, which concentrates the handling of claims by policyholders and members in all insurance and pension branches.

B. Three business divisions: (1) The long term savings division; (2) The non-life insurance division; and (3) The health insurance division; which are professional divisions that guide the operational entities in their segments.

C. Six headquarters units: (1) The resources division, which concentrates the management of human resources, payroll and logistics in the Group; (2) The finance division, which concentrates all of the financial and actuarial activities in the Group; (3) The information system division; (4) The legal consulting and regulation division; (5) The risk management, control and enforcement division; (6) The marketing, strategy and spokesmanship division.

D. The Group owns insurance agencies in the long term savings segment and in the non-life insurance segment.

E. The internal audit division, which is subordinate to the Chairman of the Board.

10.7.2. The Group's workforce

Presented below are data regarding the Group's workforce as of December 31, 2019 and 2018, in accordance with the organizational structure:

Units	Number of employees 31.12.2019	Number of employees as of December 31, 2018
Headquarters and central service entities (1)	757	797
Health division	61	50

Long term savings division	196	206
Non-life insurance division	130	131
Claims unit	377	388
Service, operations and collection unit	1,195	1,268
Customers and distribution division	901	838
Investments division	167	173
Finance division	295	306
Clal Agencies	449	455
Total (2)	4,528	**4,612**

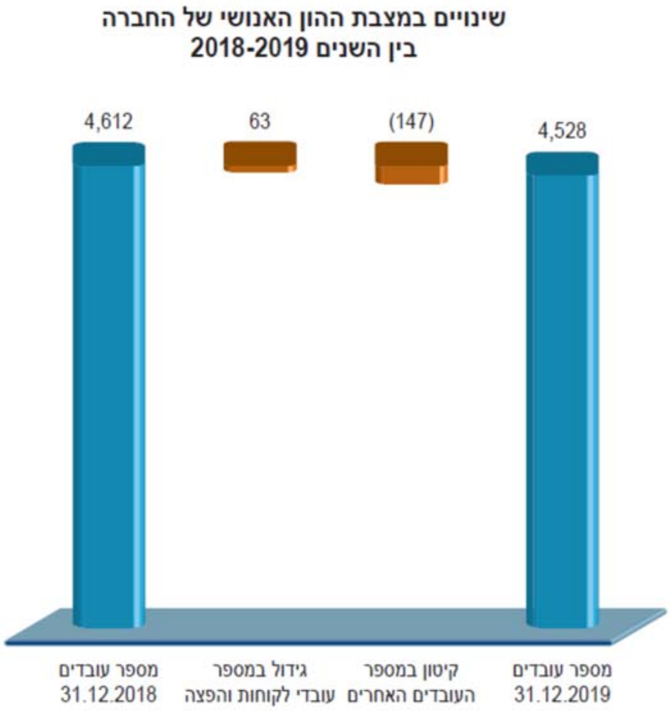
The change in workforce during the reporting year was mostly due to the strengthening of sales values, and on the other hand, company-wide increased efficiency. The Company also conducted a voluntary retirement process, according to which an additional approximately 37 employees will retire in early 2020.

1- They mostly include employees of the resources division, the information systems division (Clalbit), the legal consulting and regulation division, the risk management, the control and enforcement unit, the marketing, strategy and spokesmanship division, and the internal audit division.

2- Including approximately 130 and approximately 166 provider employees in the years 2019 and 2018, respectively.

Presented below is a diagram reflecting the changes which have occurred in the Company’s workforce during the years 2018-2019

Changes in the Company’s workforce in the years 2018-2019



Total employees as of December 31, 2018	Increase of total employees in the customers and distribution division	Decrease of total other employees	Total employees as of December 31, 2019

Out of the workforce described above, the Group’s senior management (primarily division, department, and headquarter unit managers) includes 14 managers, as well as the Company’s CEO (who also serves as the CEO of Clal Insurance) and the Group’s Internal Auditor.

Corporate officers in the Company include the Company’s CEO, Legal Counsel, Financial Division Manager, Resources Division Manager, Investment Division Manager and Risk Management Unit Manager[75][76], who hold the rank of Executive VP. All of the Company’s corporate officers also serve as corporate officers in Clal Insurance. Additionally, in Clal Insurance, which serves as the Group’s primary business arm, individuals serving as corporate officers also include the Long Term Savings Division Manager, the Non-Life Insurance Division Manager, the Health Insurance Division Manager, the Customers and Distribution Division Manager, the Service, Operations and Collection Unit Manager, the Claims Unit Manager, the Information Systems Division Manager, and the Marketing, Strategy and Spokesmanship Division Manager.

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[75] In February 2020, the Chief Risk Officer announced the conclusion of her tenure. The conclusion date of her tenure has not yet been determined.

[76] In accordance with a resolution of the Company’s Board of Directors on August 20, 2018.

For details regarding corporate officers in the Company, see Part D of the report - Additional Details Regarding the Corporation, section 18. For additional details regarding the employment terms of the Company's CEO, see Note 40(b)(5) to the financial statements, and for details regarding the compensation terms of corporate officers, see section 10.7.5(c) below.

The Company has no material dependence on any particular employee.

10.7.3. Benefits and terms of employment agreements

Types of agreements and compensation method -

On January 2, 2014, Clal Insurance, Clal Pension and Provident Funds, Clal Credit Insurance, Clalbit Systems and Clal Finance signed a collective agreement between them and the Histadrut New General Federation of Labor (the "**Histadrut**"), the employee committee in the Group. On December 22, 2015, the collective agreement was amended in a manner which applied its provisions also to some employees of Canaf (the agreement, including the addendum to the agreement, shall hereinafter jointly be referred to as: the "**First Collective Agreement**"). The first collective agreement applies to most of the employees of the aforementioned companies, except for employees in specific positions which were defined in the agreement, and managers of a rank which was defined in the agreement. On July 4, 2017, a new collective agreement was signed between Clal Insurance, Clal Pension and Provident Funds, Clal Credit Insurance, Clalbit Systems, Clal Finance and Canaf and the Histadrut employee committee in the Group (the "**New Collective Agreement**"), which extended the first collective agreement for a period of 4 years, from January 1, 2017 to December 31, 2020 subject to the changes which were implemented. For details, see Note 24(d) to the financial statements.

Additionally, on March 29, 2018, an annex to the new collective agreement was signed, which applied the provisions of the agreement to some employees of HaClal HaRishon, excluding managers of a specified rank, subject to certain agreed-upon changes. It is noted that HaClal HaRishon was merged into Clal Insurance in 2019, and became the Private Customers Division, and the provisions of the annex to the agreement continue to apply to the division's employees.

As of December 31, 2019, the Group has around 677[77] employees who are not subject to the new collective agreement, including senior members of management, and who are employed in accordance with personal work agreements, which define their employment terms, including the base salary, social benefits and fringe benefits.

Provisions with respect to termination of employer - employee relationships -

With respect to the employees to whom the new collective agreement applies (excluding hourly employees in HaClal HaRishon division, and employees of the sales to customer agents department (Clal Vision) who are in a trial period) - an arrangement applies in accordance with section 14 of the Severance Pay Law, 1963, with respect to their entire employment period.

For additional details regarding the provisions with respect to the termination of employer - employee relationships for the Group's employees, see Note 24 to the financial statements.

Additional terms and benefits -

The practice of the Group's member companies is to provide, from time to time, arrangements for the acquisition of insurance products and services for their employees, including, inter alia, elementary insurance, pension products and health and life insurance.

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[77] Not including employees of providers.

The Company has a collective health insurance policy for employees who chose to join this insurance for payment.

The Group allows employees to receive loans in accordance with defined internal policies and in accordance with the provisions of the law, in consideration of, inter alia, the employee's seniority and salary.

For details regarding the employment terms (including compensation) of the five highest compensation recipients among the executive corporate officers in the Group (including the Chairman and the Company's CEO), and the highest compensation recipients during the reporting year, and for details regarding the salary which was paid to the directors in the Company, see Part D of the report - Additional Details Regarding the Corporation, section 11.

10.7.4. The corporation's investments in continuing education and training

As part of the Group's overall strategy regarding the development of human capital as a central asset, the Group invested, in 2019, a great deal of resources in professional education and training activities, in enforcement and compliance, and in the development of managerial skills in the organization. This year as well, the Group focused on improving service quality and skill services to the Company's customers and agents, in improving professionalism and insurance knowledge in all segments of insurance, and in establishing implementation processes for the information systems which support the business core and improving middle management skills.

These training sessions were intended, inter alia, to adjust the performance of the Group's employees and managers to market changes and developments, to an advanced service standard, and to regulatory requirements.

10.7.5. Executive salary and compensation policy

Beginning in September 2013, the Company is required to approve, once every thee years as a minimum, a compensation policy for corporate officers in accordance with the Companies Law (Amendment No. 20), 2012. Additionally, the institutional entities in the Group are subject to the Commissioner's circular regarding the compensation policy in institutional entities from April 2014, as amended in October 2015 and in July 2019 (hereinafter, jointly: the "**Compensation Circular**").

The Company's compensation policy is intended to help realize the Company's objectives and work plan in the long term, inter alia, in order to recruit and maintain high-quality executives with specific and unique specializations, who are capable of leading the Company to business success and of dealing with the successes which the Company faces, to employ motivated corporate officers, to achieve a high level of business performance without taking unreasonable risks, and to create an appropriate balance between the various compensation components, fixed vs. variable, short term vs. long term, and cash compensation (including fringe benefits) vs. capital compensation. The compensation policy establishes rules, criteria and benchmarks which will be used to determine the terms of tenure and employment of the Company's corporate officers, in accordance with the specific characteristics of the operation for which the relevant corporate officer is responsible, and in accordance with their experience, qualifications and performance in the position, in accordance with and subject to the legal restrictions specified above and below.

A. The compensation circular and the compensation policy in institutional entities

The compensation circular determines, inter alia, that an appropriate ratio will be determined between the fixed compensation component and the variable compensation component, in a manner whereby the rate of the annual variable component will not exceed 100% of the annual fixed component, subject to the exceptions which will be determined (which pertain to a one-time business event which is not repeated each year, and which does not apply to a broad group of senior position holders), according to which it will be possible to determine that the rate of the annual variable component will not exceed 200% of the fixed component, save with respect to the CEO. It was also determined that any payment of a variable component will be subject to deferral arrangements, such that at least 50% of the variable component will be deferred and distributed according to the straight line method over a period of no less than three years. The circular sets forth various arrangements in connection with the allocation of shares or stock-based instruments, in connection with retirement bonuses and other issues. The circular entered into effect in July 2014 (hereinafter: the "**Application Date**"), and established transitional provisions regarding the adjustment of compensation agreements which were approved prior to the publication date of the draft circular (December 25, 2013), and after that date.

In October 2015, an amendment was published to the compensation circular, in which supplementary provisions to the compensation circular were determined, which determine, inter alia, restrictions regarding the compensation of directors who are not outside directors, a prohibition against the payment of a variable component to directors, and provisions regarding the method used to determine the compensation paid to the Chairman of the Board. Additionally, the provisions of the amendment determine that an institutional entity may not bear the employment costs of an employee due to his tenure in another corporation, and will ensure that an employee does not receive compensation due to his employment in the institutional entity from another entity, and also expand the circumstances for the repayment of variable compensation which is given to a senior position holder.

In July 2019, an additional amendment was published to the compensation circular, following the enactment of the Executive Compensation Law, as defined below, and the easements which were determined therein with respect to public companies and banks. The amendment to the compensation circular included various easements, including the option to apply an immaterial change (as defined in the compensation policy) to the compensation terms of an officer, with the CEO's approval, and without the approval of the Board of Directors; easements regarding the definition of senior position holders; easements regarding the obligation to distribute the variable component, including the severance package component, under certain conditions which were defined in the amendment to the compensation circular, and addition of a possibility to grant a "retention bonus" to "key employees", as defined in the amendment to the compensation circular.

B. Executive Compensation Law

In April 2016, the Compensation for corporate officers in Financial Corporations Law (Special Approval and Non-Permissibility of Expenses for Tax Purposes due to Exceptional Compensation), 2016 (hereinafter: the "**Executive Compensation Law**"), was published, which is intended to restrict and reduce the salary of senior corporate officers in financial entities.

The law defines a corporate mechanism for the approval of agreements involving the provision of compensation to an employee of a financial corporation (financial entity or entity controlling or controlled by the financial entity) for which the projected expense, as calculated on the date of approval in accordance with generally accepted accounting principles, is expected to exceed NIS 2.5 million, and also determines that an agreement of this kind will not be approved unless the ratio between the expected expense with respect to the aforementioned compensation, and the expected expense with respect to the lowest compensation paid by the corporation to an employee of the corporation (including contract employees), directly or indirectly, in the year preceding the date of the agreement, is less than 35 (the "**Ratio Limit**").

In accordance with the mechanism specified in the law, the employment terms of the aforementioned employee will be presented for approval to the compensation (or audit) committee, the Board of Directors (by a special majority of outside directors), and the general meeting of that company, and in a public company, also by a special majority of minority shareholders in the general meeting. Additionally, the cost of salary of an employee in a financial corporation which exceeds NIS 2.5 million will not be permitted for deduction for tax purposes by the Company. The aforementioned cost is after deducting accounting expenses recorded due to the allocation of shares or the right to receive shares, and after deducting the "excess cost of salary" (the difference between the cost of salary and NIS 2.5 million, if the cost of salary exceeds NIS 2.5 million).

In accordance with transitional provisions, six months after the publication date of the law, i.e., beginning on October 12, 2016, its provisions apply to engagements which were approved before the publication of the law. Such engagements which were not approved in accordance with the Executive Compensation Law are not valid.

C. Compensation policy

On September 19, 2019, the Board of Directors of Clal Insurance and the Board of Directors of the Company approved, following the recommendation of the Compensation Committee, a compensation policy, in accordance with the provisions of the compensation circular, including the amendments to the compensation circular, amendment 20 to the Companies Law, and the Executive Compensation Law. The compensation policy was approved by the shareholders' meeting on October 27, 2019. This policy replaced the compensation policy of the Company and the compensation policy of the Group's institutional entities, which were in effect until the aforementioned date, and it will be in effect during the years 2020-2022.

The policy update was intended, inter alia, to adjust the compensation policy, inter alia, to the provisions of the law which apply to institutional entities, and particularly, to the July 2019 amendment to the compensation circular, as stated above. The proposed compensation policy also amends, adds to and supplements the Company's compensation policy, regarding issues and subjects which, with the passage of time since the adoption of the Company's compensation policy, have been found deficient, or alternatively, are inconsistent with the spirit of the times and the conventional market practice at the present time.

Presented below are details regarding main amendments to the Company's compensation policy:

1. Directors' compensation - in accordance with the compensation policy, the salaries of outside directors, independent directors, and other directors in the Company (excluding the Chairman of the Board), who hold office from time to time, will be the maximum compensation which may be paid, including with respect to expertise, as determined by in accordance with the Compensation Regulations, as updated from time to time. For details regarding the update to directors' fees, see Part D of the report - Additional Details Regarding the Corporation, section 11(b).

2. Update to the minimum conditions for payment of variable component - in accordance with the compensation policy, the conditions are cumulative: non-fulfillment of suspending circumstances in connection with any of the liability certificates which have been issued by Clalbit Finance which are recognized as Tier 2 capital or as Tier 2 hybrid capital in accordance with the solvency circular; Fulfillment of the solvency ratio of Clal Insurance, as required in accordance with the provisions of the regulatory arrangement (including the distribution period), including equity transactions which were performed prior to the publication date of the aforementioned ratio, whereby the Board of Directors is entitled to determine the fulfillment of the aforementioned minimum condition if it believes that the non-fulfillment of that condition was due to a significant exogenous event, which affected the entire insurance branch in Israel;

   The compensation committee and the Board of Directors are also entitled to determine the conditions of the variable component which is paid in cash with respect to each year, in accordance with the provisions of the compensation policy. Notwithstanding the foregoing, the compensation committee and the Board of Directors will not approve variable compensation which is conditional on the targets of the compensation plan, rather it will be approved given the absence of loss in the year for which variable compensation is given.

3. Distribution of variable bonus - In accordance with the compensation policy, and in order to substantiate the variable component which is paid in cash from a long term perspective, 50% of the total variable compensation of the corporate officer will be deferred for payment in subsequent years, and will be paid only in case the Company has fulfilled the conditions for its release which have been determined in the compensation policy of the Group's institutional entities, as it stands from time to time. It was further clarified that the distribution rate of the variable compensation may change insofar as the compensation circular allows it, and in accordance with the policy. Accordingly, in 2020, the conditions for release were fulfilled, and bonuses were released which had been spread out with respect to the years 2015 and 2017, whose payment was deferred to subsequent years.

   It is noted that the compensation policy of the Group's institutional entities specifies that each deferred component of variable compensation will be paid to officers, or will be exercisable by officers, as applicable, only in case, on the vesting date, Clal Insurance fulfilled the minimum solvency ratio, as defined in the compensation policy, as required on the first payment date of the variable component. In case Clal Insurance has not fulfilled the aforementioned ratio, the vesting of part of the relevant deferred bonus will be deferred to the next date when Clal Insurance fulfills that ratio, according to the last known ratio which Clal Insurance has published, including any equity transactions which have been performed as of the publication date.

   Approval was also given to apply the aforementioned rules regarding distribution and release also to parts of the variable bonus which were distributed in the past, but which have not yet been paid, as part of the compensation policy, with respect to corporate officers in the Company, including the CEO. During the reporting year, the minimum conditions for the release of deferred bonuses with respect to previous years were fulfilled, and accordingly, the deferred payments were paid to the relevant senior position holders. It is noted that the aforementioned deferred and unpaid bonus amounts were provided, in their entirety, in the Company's financial statements, in the years for which they were granted, as applicable.

4. Qualitative annual bonus - in accordance with the provisions of the updated compensation circular, the compensation policy determines that the compensation committee and the Board of Directors will be entitled to approve, for any of the officers, with respect to the bonus year, a personal qualitative bonus,

which will not exceed 3 months' base salary[78], for each of the officers. It is hereby clarified that the qualitative personal bonus is in addition to the annual bonus to which the officer will be entitled. The aforementioned easement was due, inter alia, to the easements which were approved with respect to Amendment 20 to the Companies Law, and the updated compensation circular, and in light of the fact that the bonus in question is discretionary, which in any case is not contingent upon conditions. As part of the approval of the Company's compensation policy in the shareholders' meeting, approval was given for the aforementioned amendment also with respect to the qualitative personal bonus for 2019, insofar as it will be approved as a variable annual bonus, as stated above.

5. Immaterial change to the compensation of officers - in accordance with the updated compensation circular, the compensation policy determines that an immaterial change to the compensation of officers will not require approval from the compensation committee and Board of Directors, if it has been approved by the CEO, and complies with the compensation policy.

It is noted that the Group has many position holders who are not considered senior position holders, as defined in the compensation circular, whose annual bonus is dependent on their fulfillment of personal, predetermined compensation benchmarks for each year.

It is further noted, with respect to certain provisions which are required by virtue of the compensation circular with respect to institutional entities only, that principles only were determined in the Company's compensation policy, and such provisions were set forth in the compensation policy documents of the Group's institutional entities, which apply to all employees of the Group's institutional entities, according as it stands from time to time.

For the avoidance of doubt, the compensation policy will not prejudice the rights which have accrued with respect to periods before the date of its approval, and that subject to the transitional provisions which were determined in the compensation circular and in the amendment to the compensation circular, so long as they remain in effect, the compensation policy will not adversely affect any engagements and/or other rights of the employees in connection with their tenure and employment in the Company. Additionally, the compensation policy does not specify the actual employment terms, but rather the approved framework according to which such rules will be determined.

The Company's compensation policy is attached as an annex to this part of the periodic report.

For the link to the Company's website where the policy documents are available, see https://www.clalbit.co.il/clalins/reward_policy/Pages/default.aspx.

The Company's corporate officers are entitled to letters of exemption, indemnification and corporate officers' insurance. For details, see Part D of the periodic report - Additional Details Regarding the Corporation, section 23.

D. Adjustment of existing agreements to the compensation circulars and to the Executive Compensation Law

Provided that the compensation policy does not prejudice rights which have accrued with respect to previous periods, and subject to the transitional provisions which were set forth in the compensation circulars and in the Executive Compensation Law, the Company worked to adjust the compensation agreements of corporate officers and senior position holders, in accordance with the restrictions of the compensation circulars and the restrictions of the Executive Compensation Law.

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[78] "Base salary" - The cost of all of the fixed compensation components, with respect to a certain year. Including components associated with salary such as a vehicle, telephone, reimbursement of expenses, social benefits and fringe benefits, vacation days, convalescence pay, sick days, etc.).

E. **Implications**

The entry into effect of the compensation circular and the amendments thereto, the Executive Compensation Law and the compensation policy of the Company and of the Group's institutional entities, as updated with respect thereto, affected the compensation structure of the Group's corporate officers and managers, and the possibility of recruiting senior position holders. The salaries of the Company's CEO and Chairman of the Board became fixed salaries only. Additionally, during the period which passed since the entry into effect of the Executive Compensation Law, an allocation of options to senior position holders, including corporate officers, was not performed. It is not possible to estimate all of the possible long-term implications of the Executive Compensation Law on the employment market in the financial segment.

10.7.6. Capital compensation plans for employees

- On December 6, 2012, the Company's Board of Directors adopted a compensation plan for employees and corporate officers for 2013 (hereinafter: the "**2013 Plan**"), according to which the Company will be entitled to allocate to employees and corporate officers in the Group up to 2,400,000 warrants for the acquisition of ordinary company shares with a par value of NIS 1 each.

  The total number of warrants which were allocated according to the 2013 plan (to specific employees, including the Chairman and the CEO at that time) is 2,575,000. As of March 18, 2020, 69,656 warrants are held by the trustee for specific employees (all exercisable), and 246,332 warrants are held in the register of warrants, and may be designated, in the future, to specific employees, approximately 1,619,334 warrants were exercised into Company shares, and the remaining warrants expired and can no longer be allocated.

  On December 17, 2015, the Company's Board of Directors resolved not to allocate to employees, in accordance with the 2013 plan, 35,000 unregistered which are held in the register of warrants, and to delete them from company's register of securities. For additional details, see Notes 41(a)(1), 41(b), 41(c) and 41(d) to the financial statements.

- In accordance with the employment agreement of Mr. Danny Naveh, the Company's Chairman of the Board, the Company's Board of Directors approved, on June 5, 2013, an allocation of 175,000 warrants, in 3 tranches, for the acquisition of ordinary company shares with a par value of NIS 1 each to the Chairman of the Company's Board of Directors. As of the publication date of the report, all of the warrants expired, without having been exercised by the Chairman. For additional details regarding the Chairman's compensation plan, see Note 40(b)(4) to the financial statements.

- On March 24, 2015, the Company's Board of Directors adopted a performance-dependent compensation plan for employees and corporate officers for 2015 (hereinafter: the "**2015 Plan**"), according to which the Company will be entitled to allocate to employees and corporate officers in the Group warrants for the acquisition of ordinary company shares with a par value of NIS 1 each.

  On June 22, 2015, the Company's Board of Directors resolved to adopt several amendments to the plan, and to publish an outline referring to the allocation of up to 435,000 warrants, which will be offered by virtue thereof, in accordance with a performance-dependent plan, to employees and corporate officers of the Company and/or of companies under its control. All of the warrants according to the aforementioned outline were allocated.

- On December 17, 2015, the Company's Board of Directors resolved to publish an additional outline pertaining to the allocation of up to 35,000 warrants which will be offered by virtue thereof, in accordance with a performance-dependent plan, to corporate officers in the Company and/or in companies under its control. The warrants were allocated according to the aforementioned outline.

- As of the publication date of the report, the total number of warrants which were allocated according to the 2015 plan (to specific employees) is 470,000 warrants. 227,566 warrants are held by the trustee for specific employees, and 185,322 are held in the register of warrants, and may be designated, in the future, to specific employees. Around 13,665 warrants were exercised into Company shares.

  As of December 31, 2019, approximately 142,231 warrants are exercisable.

For additional details regarding the 2015 plan, see Notes 41(a)(2), 41(b), 41(c) and 41(d) to the financial statements.

10.8. Marketing and distribution

The Company's marketing and distribution units are concentrated in the customers and distribution division, which coordinates the Group's sales activities, including both the activities vis-à-vis the Group's agents, and the direct sales activities.

The division is comprised of 4 units / departments:

- Business unit - This unit concentrates the Group's entire activity in the long term savings segment, life insurance segment, health insurance segment and non-life insurance segment, vis-à-vis the insurance agents in the sales and agent service departments, in order to concentrate, in a single unit, the entire set of relationships vis-à-vis the insurance agent, and the associated activity.

  As part of the above, the Company operates through three regions: the Haifa and Northern region, the Central region and the Jerusalem and Southern region, where it maintains a sub-branch in Beer Sheva.

- The Group's agencies - The Group's sales activities are also performed through agencies which are under the Company's control. These insurance agencies are controlled by Clal Agency Holdings (1998) Ltd. ("**Clal Agencies**"), a wholly owned subsidiary of the Company (hereinafter: the "**Group's Agencies**"). The Group's agencies are engaged in the provision of insurance business agency services in all operating segments, and in the performance of transactions with pension products. The activities of the Group's agencies are mostly concentrated in two agencies: Tmura Insurance Agency (1987) Ltd. (hereinafter: "**Tmura**"), which operates in the long term savings and health branches, and Batach Thorne Insurance Agency Ltd. (hereinafter: "**Batach**"), which is primarily engaged in non-life insurance.

- **Private customers division** - In 2019, the merger of HaClal HaRishon was completed, which was a wholly owned (100%) auxiliary corporation of Clal Insurance, with and into Clal Insurance, and it is currently operating under the Private Customers Division. The Private Customers Division concentrates the direct sales activity of the risk and non-life insurance products, through telemarketing salespeople and salespeople in the field. The division mostly engaged, during the reporting year, in sales of life insurance (risk), health insurance, including international travel insurance and motor insurance, to customers who, in general, do not interact with the Group through insurance agents.

- Customer relations department - which concentrates both the retention activities in the long term savings, life insurance and health insurance segments, and the direct sales activities by license holders in the pension, finance (provident/study/private savings), risk and health segments, vis-à-vis employers and customers which, in general, do not work with the Group through insurance agents in the relevant products. This department includes the activities of pension license holders who are employed by the Group's institutional entities, and allows synergistic activities, based on a broad perspective.

- Financial unit - engaged in the sale of products of a financial nature, including provident funds, study funds, and individual savings policies. This unit is also responsible for the contact with the banking system in the pension advice segment and for the contact with employers in connection with central severance pay funds.

10.8.1. Marketing and distribution methods and commission structure in the various segments:

10.8.1.1. Long term savings

Marketing and distribution methods in the long term savings segment

The distribution of products in the segment is implemented by insurance agents, including by the Group's agencies, and through pension advisers in the banks, and directly.

A. Sales through agents and agencies

- During the reporting year, the trend of combined marketing (life insurance, pension and provident) through insurance agents continued, including marketing through "arrangement managers", including Tmura, which are large insurance agencies which also provide clearing services for employers, in connection with the separation of pension provisions for institutional entities, and for the various products. The insurance agents receive various services to support their routine activities from the Group's institutional entities.

- Changes in the long term savings segment may have an impact on the activities of agents and arrangement managers in the coming years, inter alia, due to the following: (1) The combination of the intense competition in the markets and new legal provisions which have been published over the years in the segment, and which have caused a gradual decrease in management fees. For details regarding the provisions of the law which are expected to have an impact on the management fees which are collected by the Group's institutional entities, see section 6.2.1 above; **(2)** Regulatory encouragement of pension products (with respect to trends in supply and demand during the reporting year, see section 6.1.4.2 above); **(3)** Changes to the arrangements regarding compensation paid to agents by the institutional entities, including the reform of disconnecting the link between the distribution commission and the management fees (for details regarding the amendment to the Control Law regarding the calculation of distribution commissions from management fees, see this section 10.8.1.1 below), including the Authority's determination, as part of the approval of tariffs for risk policies, regarding the mechanism for reimbursement of commissions on risk policy cancellations in the first years after their purchase, see section 6.1.4.1 above; **(4)** The expansion of the activities of the pension clearing house and the employers interface, including clearing of funds and provision of feedback, which may facilitate, over the long term, the activities of agents (including arrangement managers), inter alia, in connection with the provision of service, the sale of additional products, and the performance of transfers, as well as the activities of operating entities. For details regarding the expansion of the activities of the clearing house, see section 6.2.1(d)(1) above.

- During the year preceding the reporting year, an amendment to the explanatory document circular entered into effect, pertaining to the explanatory document which a license holder is required to submit to the customer when giving a recommendation regarding their pension savings, which included expansion of the list of cases in which the license holder is required to fill out a full explanatory document when giving recommendations to a customer (the "**Amendment To The Justification Circular**"). Additionally, in June 2019, a draft amendment to the explanatory document circular was published, in which it was proposed to determine that pension advisers will be entitled to submit to their customers a explanatory document regarding pension advice, which will not be restricted to the uniform standard document which was determined for pension agents.

  The amendment to the justification circular, which follows prior amendments to the aforementioned circular containing various provisions regarding expansion of the information and details concerning the considerations which the license holder must submit to the customer when giving a recommendation, has implications for the customer service process, in terms of prolonging the process, increasing the expense associated with the process, and imposing difficulties on the possibility of retaining customers, in the aforementioned cases.

  The Company's estimate in connection with the amendment to the explanatory document circular constitutes forward looking information, which is based on the information that is available to the Company as of the reporting date. Actual results may differ from the estimated results, and depend, inter alia, on the conduct of distributing entities, and on the conduct of members and policyholders.

- During the reporting year, the circular regarding customer service of agents and advisors was published, in which it was determined, inter alia, that a license holder will establish a service charter pertaining to its customers' rights in connection with the receipt of service from it, including response times to customer inquiries, which must be within a reasonable period of time after the time of the customer inquiry, and the establishment of an obligation for the license holder to conduct a service inquiry with the customer, in order to evaluate the correspondence of the pension product to the customer's needs, each time the license holder is informed, including by the institutional entity, that a change has occurred in the customer's situation, and at least once every two years.

  According to the Company's estimate, as of the present date, the agent service circular had no significant implications on the Group's institutional entities; however, the foregoing may change, over the long term, due to the manner of implementation of the circular's provisions by the license holders, which could also indirectly affect, from an operational and business perspective, the institutional entities themselves.

The Company's estimate in connection with the circular regarding customer service of agents and advisors constitutes forward looking information, which is based on the information that is available to the Company as of the reporting date. Actual results may differ from the estimated results, and depend, inter alia, on the conduct of license holders with respect to the service charter for their customers.

- As of the publication date of the report, the Group is engaged in the segment through 2,409 insurance agents[79], as compared with 2,134 insurance agents in 2018. Most of the agents also engage with other insurance companies, and the Group's member companies do not have any insurance agent whose scope of activities in this segment exceeds 10% of the Group's scope of activities in the segment.[80]

- Approximately 13% of total premiums in the life insurance branch which were collected by Clal Insurance during the reporting year are due to the activities of the Group's agencies, similarly to 2018.

- Approximately 12.9% of total contributions in the pension branch which were collected by Clal Insurance during the reporting year are due to the activities of the Group's agencies, similarly to 2018.

- Approximately 16.4% of total contributions in the provident branch which were collected by Clal Insurance during the reporting year are due to the activities of the Group's agencies, as compared with approximately 15.7% in 2018.

B. Sales through pension advisors

- During the reporting year, most of the banks continued distributing provident funds and pension funds. Clal Pension and Provident Funds is engaged in distribution agreements with most of them. As of the publication date of the report, the banks have not yet begun advising regarding insurance products. It is noted that the directive regarding the **prohibition against the calculation of distribution commissions linked to the rate of management fees which are collected from members** (in accordance with the provisions of the amendment to the law regarding the calculation of distribution fees), in combination with the distribution agreements vis-à-vis the banks, which define a fixed commission for the bank with respect to each customer brought by an agent, have led to a situation in which the income from some of the members of Clal Pension and Provident Funds do not correspond to the Company's expenses in connection with those members.

- As of the publication date of the report, customers who have significant accrued savings in provident and study fund products receive consulting through the banks; however, on all matters associated with the distribution of pension funds, the activities of banks are immaterial.

C. Direct sales

- Some of the products in the segment are marketed through direct sales to customers by the Group's employees who hold pension marketer licenses.

- The direct sales activities in the segment include: (A) Sales of pension products, with an emphasis on marketing pension arrangements in organizations which are generally not lenders in agents on their behalf; (B) Contact with the banking system in the pension advice segment, mostly with respect to provident and study fund products; (C) Telemarketing and frontal sales of risk products. The Company also has collaborations with selected agents, in which the Company's employees sell to customers who have been referred by the agent, in his name and with his permission, the Company's risk products.

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[79] Including agents who made sales in 2019 in an amount exceeding NIS 10,000.

[80] Excluding an agency wholly owned by the Group, as specified below.

- Following the conclusion of the agreements, which allowed the addition of members to pension savings products through a collective arrangement (in accordance with the provisions of the default fund circular, presented section 6.2.1(a) above), in March 2019, all of the agreements which had allowed the addition of members to pension savings products through collective arrangements concluded, and from that date onwards, the addition of members to pension savings products through collective arrangements is no longer permitted, but rather only through a personal process of addition, or through the institutional entity winning a tender of the employer, which will be conducted in accordance with the rules specified in the default funds circular. This change required the Company to market the pension savings products through the provision of personal pension advice / marketing, or through direct addition to the institutional entity, which includes, in some cases, the provision of discounts on management fees, in order to encourage joining in this way.

  The regulatory restrictions which were imposed on employers in connection with the addition of members through collective arrangements, and the conclusions of the arrangements which had been in effect, resulted, during the reporting year, in the direction of new applicants towards select pension funds, and in increased burden and expense in the process of adding members to the pension fund of Clal Pension and Provident Funds. On the other hand, the activities which were performed for the individual addition of members, and changes in the regulations which apply to the managers insurance product, which caused a decline in new sales of that product, resulted in the referral of new applicants towards the pension funds, at the expense of their addition to managers' insurance, and resulted, during the reporting year, in an increase of new member deposits to the pension funds, including the pension funds which are managed by Clal Pension and Provident Funds, albeit at a scope which did not match the decrease in the sales volume of Clal Insurance's managers insurance products (for additional details, see section 6.1.4.1 above).

  The information presented on all matters associated with the possible implications of the default agreements reform constitutes forward looking information, which is based on assumptions and estimates made by the Group, as of the reporting date. Actual implementation may differ from the forecast, and depends, inter alia, on decisions which will be reached by the Group's institutional entities, on competing entities, and on employers and customers, on all matters associated with the method of joining.

- The engagement for the sale of products in the segment to self-employed members is performed on an individual basis.

- The Company operates a customer service center which provides direct support to customers, as well as a customer retention unit.

- The Company works vis-à-vis external consultants who are recruited by public companies and entities, for the purpose of publishing tenders and conducting negotiations regarding the selection of the pension insurer and determining the terms of the pension arrangements of their employees.

D. Mortgage banks - risk

The Company engaged in agreements for the provision of insurance services through mortgages with some of the mortgage banks which are under their control of insurance agencies. During the reporting year, the Group continued marketing risk policies to mortgage buyers, by an insurance agency which is owned by a bank, and also through insurance agents, and continued marketing such policies to support mortgages from Clal Mortgages.

<u>**Commission structure in the long term savings segment**</u>

A. Insurance agents

Presented below are details regarding the structure of commissions paid to agents during the reporting year:

- **Life insurance branch**

The commissions which are paid to agents in the life insurance branch with respect to policies which were sold until 2004, are as follows:

- **Renewal commissions**: Commissions at a fixed or variable rate of the paid premiums, which are paid for a limited period, on an ongoing basis.

- **Collection fees**: Commissions at a fixed rate of the paid premiums which are paid throughout the entire lifetime of the policy as fronting fees.

- **Special commissions - First year commissions**: Upon the sale of the policy, or with respect to it, a one-time payment in cash and/or in cash equivalents may be paid, in accordance with specific agreements with agents, which are generally dependent upon the new output with respect to the first year of the policy sale.

Beginning in 2004, the commission structure in the life insurance branch is as follows:

- **Renewal commissions**: The commission is generally paid with respect to the sale of risk products and certain profile policies which were sold in the past, at a fixed or variable rate of the paid premiums, which are paid for a limited period, on an ongoing basis. In risk products, after a period of 15 years, the commission rate decreases significantly.

- **Commissions for management fees from deposits**: A commission which is paid with respect to the savings component in the policy, throughout the entire policy lifetime, at a rate which is derived from the management fees which are collected from the premium, and in accordance with the product type, with respect to products which were sold until April 2017 (see below).

- **Commissions for management fees from accrual**: A commission derived from the management fees which are collected from the balance of savings in the policy. In general, Clal Insurance discontinued paying commissions for management fees from accrual with respect to policies which were sold during or after 2013, in most products.

- **Commissions from accrual**: With respect to certain profile products which were marketed in the past, and with respect to one-time deposits in individual savings policies, commissions from accrual are paid.
- **Special commissions: first year commissions** - Commissions which are paid on a one-time basis, with respect to new output, in the first year of the policy lifetime, in cash and/or cash equivalent, whose rate or amount is determined according to specific agreements with agents, and at times, for fulfillment of sales targets, and **management commissions** - commissions derived from the premiums and paid with respect to new output in the first years of the policy lifetime, for a limited period with respect to policies which were sold in the past.

  Following the amendment to the law regarding the calculation of distribution commissions, as specified in this section 10.8.1.1 below, which entered into effect in April 2017, the Group's institutional entities worked to adjust the compensation model for agents, in accordance with the legislative amendments. With respect to customers who joined the products from the aforementioned date onwards, commissions are not paid as a proportion of the management fees which are collected from the customers (with respect to individual products, commissions from accrual are paid instead of commissions derived from management fees, and with respect to profile products for salaried employees and the self-employed, renewal commissions are paid out of the routine deposits, instead of commissions out of management fees from deposits, and additionally, with respect to the aforementioned products, first year commissions are paid which are not derived from the management fees).

  For details regarding changes to the tariffs of the Group's risk policies, including the establishment of a mechanism for the reimbursement of commissions on policy cancellations, in a manner whereby the cancellation thereof, in the first years after their purchase, will lead to a gradual repayment of sale commissions, see section 6.1.4.1 above.

In collective insurance, the agent commission is determined in negotiations with the agent regarding each transaction separately, in accordance with the law. The commission rate paid by an insurer to an insurance agent with respect to a collective life insurance policy may not exceed 5% of the gross premiums.

Commission rates to third parties in the life insurance branch[81]

	2019	2018	2017
The average commission rate out of insurance in the life insurance branch, with respect to the various products, which are attributable to agents	9.69%	**10.33%**	**9.95%**
Average rate of commissions from new annualized premiums in the life insurance branch, with respect to different products[82]	36.62%	**27.41%**	**30.17%**

- **Pension funds branch**
  - **Current commissions from contributions** - Clal Pension and Provident Funds pays commissions to insurance agents with respect to pension product sales. In the comprehensive pension fund, these commissions were in the past generally paid as a rate of the contributions, according to a specific agreement between the agreement and the Company, in consideration of the total management fees which are collected from customers. With respect to pension products which are marketed from April 2017 onwards, these commissions are paid as a rate of the deposit, and not as a rate of the management fees which are collected from customers (for details regarding the reform on this matter, see this section 10.8.1.1 below).
  - For details regarding the payment of special commissions with respect to new annualized first deposits of contributions to the comprehensive pension fund, see the description of special commissions in the life insurance branch above.

Commission rates to third parties in the pension fund branch[83][84]

	2019	2018	2017
Rate of commissions paid to insurance agents with respect to pension products	1.7%	**1.7%**	**2.3%**

Provident funds branch

- **Commissions for management fees from accrual** - with respect to provident products which were marketed until 2017, the commissions with respect to provident product sales are generally paid to the insurance agents as a rate of the accrual of members.
- **Commissions from accrual** - with respect to provident products which are marketed from 2017 onwards, commissions are paid as a rate of the accrual, and not out of the management fees which are

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[81] During the reporting year, the rate was affected, inter alia, by the reform regarding the separation of commissions from management fees, as specified in section 10.8.1.1 below.

[82] Commission with respect to current new business, after neutralizing first year commissions with respect to transfers to non-recurring payments. The figures for 2017-2018 were restated accordingly.

[83] Not including payment to a license holder in accordance with the Distribution Regulations.

[84] See footnote 80 above.

collected from the customer (for details regarding the reform on this matter, see this section 10.8.1.1 below).

- For details regarding the payment of **special commissions** with respect to new first deposits (including one-time deposits which are due to the transfer of accrued balances) of contributions to provident funds which are managed by Clal Pension and Provident Funds, see the description of special commissions in the life insurance branch above.

Commission rates to third parties in the provident fund branch [85]

	2019	2018	2017
Rate of commissions paid to insurance agents with respect to provident products	0.4%	**0.4%**	**0.4%**

In consideration of the complexity of the framework for the payment of commissions to insurance agents, as specified above, discussions are held, from time to time, between certain agents and the Group's institutional entities, regarding the method for payment and calculation of commissions, which conclude, in a significant part of cases, with arrangements which take into account mutual offsets between the parties.

- Presented below is a description of the regulatory provisions which were published in the reporting year and in the preceding years, and which may affect the payment of commissions to pension marketers, agents and arrangement managers in the long term savings segment:

  - In April 2017, the amendment to the Control of Financial Services (Provident Funds) (Amendment No. 20) Law, 2017, entered into effect, in which it was determined that a distribution commission should not be calculated by linkage to the rate of management fees which are collected from the member (the "**Legislative Amendment Regarding The Calculation Of Distribution Commissions**").

    The disconnection of commissions from management fees leads to an inability to link the institutional entity's income to its expenses, and therefore increased the trend of declining management fees in the pension market, and the amount of transfers performed therein. Due to the complexity of the legislative amendment regarding the calculation of distribution commissions, at this stage, it is not possible to estimate the full implications of the aforementioned amendment, which are expected to be identified over time, and which depend, inter alia, on the arrangements which will be determined vis-à-vis distributing entities, on the arrangements regarding management fee which will be determined with customers over time, on the conduct of competitors, distributing entities and customers, and on the ability to link income to expenses over time.

    For details regarding sale through pension advisors, see section 10.8.1.1(b) above.

    The information presented on all matters associated with the possible implications of the position paper and the amendment to the law regarding the calculation of the distribution commission constitutes forward looking information, which is based on assumptions and estimates made by Clal Insurance and Clal Pension and Provident Funds as of the publication date of the report. Actual implications may differ significantly from the estimated implications, and largely depend on the variables specified above.

  - Further to the clarification which was published by the Commissioner in February 2018, regarding the pension marketing process upon the addition of members to a pension product (hereinafter: the "**Clarification Regarding The Pension Marketing Process**"), which primarily involves a provision

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[85] See footnote 82 above.

stating that an insurance agent who performs a transaction with a pension product on behalf of a customer (including addition to a pension product) is obligated to perform a pension marketing process as determined in the provisions of the Law as a condition for the payment of a commission; In November 2018, and following a hearing which was held before the Supreme Court, regarding a petition which was filed on the matter, inter alia, by the Association of Insurance Brokers and Agents in Israel, the Commissioner published a clarification stating that the clarification regarding pension marketing will only apply to the addition of savers to a pension product which were performed as from February 2018, and that the Commissioner does not intend to exercise enforcement authorities with respect to distribution commissions which were paid the clarification.

The Company is implementing the clarification provisions regarding the pension marketing process, which affects the engagements of institutional entities and employers with insurance agents, and the payments to them, mostly in the pension segment, in which the standard practice was to add customers through collective arrangements, and together with the regulatory restrictions which were imposed on employers in connection with the addition of members through collective arrangements, resulted, during the reporting year, in a decrease in the scope of new members joining the pension fund which is managed by Clal Pension and Provident Funds through collective addition, and is expected to affect the future addition of members to the pension products of the Group's institutional entities. At this stage, it is not possible to estimate the full impact of the clarification, which could be significant, and which depend, inter alia, on the commercial relationships with marketing entities, on the conduct of competing entities, employers and customers, and on the combined impact of the provisions of the clarification, as well as additional directives, including the provisions regarding the default fund circular, and the provisions regarding the consolidation of inactive accounts in pension funds (see sections 6.2.1(a) and 6.2.1(b) above).

The information presented on all matters associated with the possible implications of the clarification regarding the pension marketing process constitutes forward looking information, which is based on assumptions and estimates made by the Group's institutional entities as of the publication date of the report. Actual implications may differ from the estimated implications, and depend, inter alia, on the choices of institutional entities regarding the distribution channels, on commercial relationships with marketing entities, on the conduct of competing entities, employers and customers, and on the combined impact of the clarification directives, together with additional directives.

B. Payment to pension advisors

- The distribution commission rate paid to pension advisors was determined in the **Control of Financial Services Regulations (Provident Funds) (Distribution Commissions), 2006** (the "**Distribution Regulations**"), which determine that a pension adviser, and with respect to study funds also an investments adviser, is entitled to receive distribution commissions from an institutional entity with respect to the distribution of provident funds, pension funds and study funds, due to deposits to the provident fund, at an annual rate of 0.25% out of the total sum available to the customer in the provident fund, except with respect to accrued funds which are due to deposits which were performed until December 31, 2005, into provident funds which were defined in the aforementioned regulations, in which case, the commission rate which the adviser is entitled to receive from the institutional entity will be 0.1% instead of 0.25%, provided that the pension adviser receives standard compensation from all of the product producers.

  _In March 2017, a draft of the distribution regulations was published, in which it is proposed to allow a pension adviser to sign distribution agreements with a managing company under different conditions with respect to give different product groups (annuity paying provident fund and provident fund for savings; provident fund for compensation; personal provident fund for severance pay; study fund; and provident fund for investment).

  _Insofar as the provisions of the draft amendment to the distribution regulations will be accepted and will become binding, the possibility of compensating license holders who market pension products through non-monetary benefits, such international travel, will be disallowed.

  _Additionally, insofar as the draft amendment to the distribution regulations, according to its current version, becomes binding, it may, on the one hand, result in the opening of an additional marketing channel for insurance products and provident funds for investment, while on the other hand, it may result in changes to the scope of producers' acquisition expenses, and may affect the profitability rate of the products, including products which were sold in the past, due to the fact that the structure of distribution commissions which will be paid to pension advisors (primarily in banks), with respect to each product group, does not distinguish between products which were sold in the past, and new products. As a result, an impact on profitability is expected in cases where the insurance product was marketed previously by an insurance agent, in light of the structure of the commissions which were paid to the insurance agents, which is based on the increased payment of commissions in the first years of the policy's lifetime, and reduced payment in later years, and in light of the agreements vis-à-vis insurance agents with respect to the portfolios which they manage. Additionally, the draft does not take into account, with respect to insurance products which were sold in the past, the rate of management fees which the policyholder effectively pays to the institutional entity, as determined with it in the agreement.

  _For additional details, see section 10.8.1.1(b) above.

  _The information presented on all matters associated with the draft amendment to the distribution regulations constitutes forward looking information, which is based on assumptions and estimates made by the institutional entities in the Group, as of the publication date of the report. Actual implications may differ significantly from the estimated implications, and are largely dependent upon the final version of the regulations, as published.

10.8.1.2. Non-life insurance

Marketing and distribution methods in the non-life insurance segment

The Group markets its products in the non-life insurance segment both through insurance agents, including the Group's agencies, and directly.

A. Insurance agents

The insurance agents are the central distribution channel in the segment to end customers, i.e., policyholders. Insurance agents generally engage with several insurance companies. As of the publication date of the report, the Group operates in the non-life insurance segment through approximately 1,450 active insurance agents[86].

The Group has no insurance agent whose scope of activities in this segment exceeds 10% of the scope of activities in the non-life insurance segment.

The rate of sales through insurance agents in this segment, out of the total sales in the non-life insurance segment during the reporting year, was approximately 89.15%, as compared with approximately 90.2% in 2018.[87]

Out of the total premiums in the non-life insurance segment in Israel, approximately 4.4% are due to activities of the Group's agencies, as compared with approximately 4.3% in 2018.

B. Direct sales

Some of the products in the segment are marketed through direct sales, without going through insurance agents. The direct activity is primarily vis-à-vis large business customers. The Company directly markets, inter alia, compulsory motor and motor property insurance policies, apartment insurance policies, and guarantee policies, and also, through Clal Credit Insurance, credit and foreign trade risks insurance. During the reporting year, the Private Customers Division continued its direct sales of insurance policies, mostly through the digital platform, to customers who, in general, do not engage with the Group through agents, and continued developing the Company's collaborations with select agents, in which the Company's employees sell to customers who have been referred by the agent, through their name and with their permission, motor insurance.

The rate of direct sales in this segment out of total sales in the non-life insurance segment in 2019 is approximately 10.85%, as compared with approximately 9.8% in 2018.

C. Mortgage banks

The Company engaged in agreements for the provision of insurance services through mortgages with some of the mortgage banks which are under their control of agencies.

<u>Commission structure in the non-life insurance segment:</u>

A. Commission structure

For insurance agency services, Clal Insurance pays to the insurance agents commissions in cash and/or cash equivalents. The commission amount is generally determined as a rate of the net premium (excluding fees), and is fees conditional upon the scope of the agent's sales, activity and/or profitability.

In general, in collective insurance, the agent commission is determined in negotiations with the agent regarding each transaction separately.

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[86] Including agents who made sales in 2019 in an amount exceeding NIS 50,000.

[87] This figure includes sales which were performed by Batach Thorne Insurance Agency Ltd., which is an agency owned by the Group.

With respect to some of the aforementioned commissions, advance payments are made to agents from time to time.

B. Average commission rate

	2019	2018	2017
Average rate of commissions out of total gross premiums in the non-life insurance segment[88]	13.9%	**14.2%**	**14.8%**

10.8.1.3. Health insurance

Marketing and distribution methods in the health insurance segment

The distribution of products in the segment is performed by both agents and insurance agencies, including the Group's agencies, and directly.

A. Distribution through agents and agencies

During the reporting year, individual health insurance policies of Clal Insurance were mostly marketed by insurance agents.

As of the publication date of the report, the Group operates in the health insurance segment through approximately 1,163 insurance agents.[89]Most of the agents also have engagements with other insurance companies.

Out of the total premiums in the health insurance segment which were collected by the Company during the reporting year, approximately 4.3% are due to the activities of the Group's agencies, as compared with 4.2% in 2018.

The Group does not have any insurance agent whose scope of activities in this segment exceeds 10% of the Group's scope of activities in the health insurance segment.

B. Direct distribution

Some of the products in the segment are marketed through direct sales to private customers, or to private customers through employers.

The distribution of products in the segment is also performed through the Private Customers Division and through the Company's collaborations with selected agents, in which the Company's employees sell to the customers who have been referred by the agent, in his name and with his permission, health products of the Company.

Commission structure in the health insurance segment

In long term individual insurance, the commissions are generally paid as follows:

Routine commissions - Commissions which are derived from the premiums and paid throughout the entire policy lifetime, on a routine basis.

For details regarding the payment of **special commissions** with respect to new annualized premiums in health insurance, see the description of special commissions in the life insurance branch above. Advance payments were made to agents with respect to some of the commissions.

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[88] Not including commissions which were paid by Clal Credit Insurance or premiums which were collected by it.

[89] Including agents who made sales in 2019 in an amount exceeding NIS 10,000.

	2019	2018	2017
Average rate of commissions out of total gross premiums in the various products in the segment	31%	**30%**	**29%**

In collective insurance, the agent commission is determined in negotiations with the agent regarding each transaction separately.

10.8.2. Dependence on distribution channels

The Company is dependent on the direct distribution channel and on the distribution channel through agents and arrangement managers. However, the Company is not dependent on any particular distribution entity (any particular marketer or agent) in either of the aforementioned distribution channels.

10.9. Suppliers and service providers

The Group's member companies acquire products and services from a large number of suppliers and service providers. Expenses in connection with suppliers and service providers include, inter alia, the following:

A. Direct expenses in connection with claims which are directly charged to the cost of insurance claims, including payments to assessors, loss adjusters, legal service providers, investigators, damage repair services, medical services, etc., as well as payments to entities which provide associated coverages to policyholders ("**Riders**").

   For details regarding marketing and distribution, see section 10.8 above.

B. Expenses in connection with operating services for the operation of provident funds which are managed by Clal Pension and Provident Funds. For details regarding Clal Pension and Provident Funds' engagement with the aforementioned provider, see section 10.17.2 below.

C. General expenses of the Company to various providers, including: rent and office maintenance, payroll processing services, vehicle leasing services, advertising services, telecommunication and postal services, operating services, legal collection, audit services, communication and data communication services, professional consulting, maintenance, licensing and leasing of hardware and software, automation services and depreciation. These expenses are charged to indirect claim settlement expenses, marketing expenses, other acquisition expenses, and other general and administrative expenses (for additional details, see Note 35 to the financial statements).

D. There are also additional expenses which are discounted for assets in the financial statements, and which include, inter alia, automation, construction and equipment expenses.

For details regarding Clalbit Systems, a wholly owned subsidiary of the Company, which is responsible for the provision of automation services to the Group's member companies (and which acquires services in the automation segments), and regarding the Group's expenses with respect to automation during the reporting year, see sections 10.10.3.1 and 10.10.3.2 below, and Note 35 to the financial statements.

There is no primary provider upon which the Company is unambiguously dependent, save for Sapiens Technologies (1982) Ltd. ("**Sapiens**"), with whom Clal Pension and Provident Funds engaged in an agreement for the acquisition of a system for the management of members' rights in pension funds, and for the provision of development and maintenance services for the system. During the reporting year, the Group paid to Sapiens a total of approximately NIS 22 million with respect to the aforementioned development and maintenance services, as compared with a total of approximately NIS 40 million in 2018. However, due to the nature of circumstances, within the framework of the work done by providers in the Group, in certain cases, the providers gain unique know-how, or provide services which sometimes create a dependence on them for the Company, for a short period, due, inter alia, to the need to create the projects and/or to perform services in the determined timeframe in accordance with regulatory requirements. For details regarding suppliers, as stated above, with whom Clal Pension and Provident Funds engaged, see section 10.17.2 below.

10.10. Property, plant and equipment

Presented below are data regarding the Company's property, plant and equipment which primarily includes rented and owned buildings, furniture, office equipment and IT equipment.

10.10.1. Data regarding rented and owned buildings for self use, in square meters, for the years 2018 and 2019

		As of December 31, 2019		**As of December 31, 2018**	
Company / Unit	**Location**	**Owned area (square meters)**	**Rented area (in square meters)**	**Owned area (square meters)**	**Rented area (in square meters)**
Clal Insurance	Tel Aviv [1]	-	35,196	-	34,912
	Petach Tikva (2)	-	5,678	-	2,093
	Haifa (3)	2,618	-	2,618	-
	Jerusalem	-	1,627	-	1,627
	Beer Sheva	-	1,290	-	1,290
	Herzliya (4)	-	250	-	250
Clal Credit and Finance (5)	Tel Aviv	-	972	-	1,273
Clal Pension and Provident Funds	Tel Aviv	-	4,045	-	3,973
	Petach Tikva	-	1,251	-	1,686
	Jerusalem	-	73	-	73
	Beer Sheva		810		735
HaClal HaRishon	Petach Tikva (2)	-	-	-	3,150
Clalbit Systems	Tel Aviv	-	8,057	-	8,057
Agencies under control (6)	Throughout Israel	1,027	3,555	1,027	3,555
Total		3,645	62,804	3,645	62,674

Excluding parking lot areas.

1. Including areas of Canaf and of Clal Mortgages (in 2019, Clal Mortgages was merged into Clal Insurance).
2. HaClal HaRishon was merged into Clal Insurance in 2019.
3. 78 square meters, leased to Clal Pension and Provident Funds.
4. Backup site for the Group's IT systems (there is also a backup site in Greece, in an immaterial area).
5. Clal Credit Insurance (in 2018, also including the field of Clal Mortgages, which was merged into Clal Insurance in 2019).
6. Including Batach and Tmura.

Regarding which are held employed through rental, the rental periods vary from building to building, where the largest rental period is until 2030, with respect to the Company's offices in Kiryat Atidim (for details, see section 10.17.1(a) below). In some of the rental agreements, the Company has the option to extend the rental period.

Data regarding buildings which constitute a part of the nostro investment portfolio of Clal Insurance, in square meters, for the years 2019 and 2018*

Place	Designation	As of December 31, 2019	As of December 31, 2018
Gush Dan area	Offices and commercial	33,168	37,038
North	Trading	3,108	3,108
HaSharon area	Offices and commercial	20,040	20,040
Haifa	Offices	3,096	3,096

England and Scotland	Offices	10,296	12,547
Jerusalem	Offices and commercial	8,905	6,219
United States	Offices, commercial and multifamily	34,551	34,551
Total		**113,164**	**116,599**

* Additionally, there are holdings in these assets and/or other assets, out of funds managed for others (members and/or policyholders) in the Group - see Note 10 to the financial statements.

10.10.2. Leasehold improvements, furniture and office equipment

In general, the leasehold improvements, furniture and office equipment which are used in the main site and in the end units are owned by the Group.

10.10.3. IT equipment and peripheral equipment

10.10.3.1. IT systems of the Group in Israel

The Group's information systems are critical to the management of its business affairs, and the Group considers some of them as strategic assets. The Group's member companies own a wide variety of IT equipment, including servers, infrastructure and communication equipment, terminals and other peripheral equipment. The Company also has a wide variety of ownership rights and/or usage rights with respect to various software programs, including self-developed software programs.

For the purpose of its various operations, the Group uses the IT systems, inter alia, for the purpose of fund management (including funds of the Group's customers), management of customers and their rights, as well as back office systems, organizational systems and decision support systems.

The activities in the IT department are done through Clalbit Systems, which is a wholly owned subsidiary of the Company. Clalbit Systems Ltd. is responsible for providing IT services to the Group's member companies, and as of the reporting date, does not provide services to companies outside of the Group. Clalbit Systems engages with external providers for the performance some services.

the Group has a backup site which is intended to allow the continued activity of the Group's critical IT systems in times of emergency. There is also a third site abroad, which is used for data backup only.

10.10.3.2. The Group's investments in IT systems

The Group is working to develop and upgrade the IT systems, from time to time, in accordance with its needs and the needs of the Group's member companies. Presented below is a description of the material activities which were performed in the Group's IT systems during the reporting year, some of which are also expected to continue after the reporting year.[90]

Life insurance systems -

In the life insurance segment, Clal Insurance works through two main core systems of a previous technological generation, which were developed many years ago. The functional redundancy of these systems increases operating and maintenance costs in this segment, and places burdens on the adjustment of the systems to all of

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[90] Some of the services for the core systems are performed by external providers (provident fund operating services, which also include automation of the activity, are performed through Bank Leumi; and maintenance and development services for the pension activity management system are given by Sapiens Technologies (1982) Ltd.).

the Company's needs, including on all matters associated with external data and regulatory interfaces, the requirements for which have been expanded in recent years. For details regarding these requirements, see section 6.2.1(d) above. In recent years and during the reporting year, the Company has been working (including through the designated "Road Map" project) to expand and improve the core systems of the life insurance branch, in a manner which will increase the efficiency of the current core systems, and is taking supplementary control and operational actions, in order to ensure the adequacy of the supported processes.

In light of the complexity, limitations and redundancy of the aforementioned systems, the Company performed a comprehensive evaluation of the long term processes which are required for implementation in the future, for the purpose of improving its automational capabilities, inter alia, on all matters associated with the management of members' rights. As part of the foregoing, in 2019 a feasibility evaluation was conducted regarding a long term project which is intended to reduce the redundancies between the systems, and the performance of adjustment for an innovative automation system in the Company. The Company is continuing to evaluate various considerations associated with the execution of the projects, which will be presented for discussion in the future.

In recognition of the importance of having efficient and modern automation systems, the Company has prioritized this issue, and in recent years, the Company has invested hundreds of millions of NIS in upgrading and improving the automation systems in the long term savings segment. For additional details, see Note 6 to the financial statements.

According to the Group's estimate, its current IT systems will serve the Group's needs for the upcoming period. In light of the multiple changes to the regulatory directives which apply to the activities of the Group's institutional entities (inter alia, as specified above), which create material changes and significant and frequent reforms in insurance activities in general, and in the long term savings segment in particular, the Group is currently in an ongoing process of adjusting its IT systems to the regulatory directives and to the changes and reforms implemented therein, of upgrading its IT systems which supported its operations to advanced systems, and ensuring compliance of the IT systems with the terms of the products offered by the Company (such as insurance policies and regulations of pension funds and provident funds).

According to the Group's estimate, the process adjusting the IT systems in accordance with the regulatory directives, and of upgrading the IT systems which support its operations, in a manner which will ensure support for all of the Group's products in the long term savings segment, will continue in the coming years, and will involve significant costs and operational preparations on the part of the institutional entities in the Group. The development requirements are derived both from the requirements of the business operations and regulatory directives.

Digital segment -

The Group has set for itself the goal of continuing to promote digital innovation, with an emphasis on providing information, performing actions independently in the Company's digital channels (agents, customers, employers) and sales. The Group believe that the investments in automation and digitization will result, over the long term, in increased efficiency and will meet customer requirements. For additional details, see section 10.18 below.

During the reporting year, the Group launched advanced digital tools, including in the claims and sales departments ("Clal Express" (see section 8.3.2 above) and "Digital Apartment" (see section 7.1.5 above)). According to the Company's estimate, the integration of digital tools into the Company's activity is expected to improve the process of making information and services accessible to customers, and to improve the customer experience, increase competition and, over the long term, possibly also result in increased operational efficiency.

During the period after the reporting year, the Group launched the application "Clal Emergency Button", an advanced and innovative application which allows policyholders to receive urgent assistance and immediate response from relevant service providers in the fields of motor, apartment and international travel insurance, to submit claims through a rapid digital process, to view the current information in their personal file, and to perform actions.

For details regarding automation expenses in the Group, see Note 35 to the financial statements. For details regarding the scope of acquisitions and self-development, and the amortization of software programs and computers, see Notes 6(a) and 8(a) to the financial statements.

10.10.3.3. Management of cybersecurity risks in the Company

- The Company is working to implement the cybersecurity policy which was approved by the Company's Board of Directors.
- The cybersecurity protections which are implemented by the Company are designated in accordance with the risk assessment which is relevant to the Company, and include: evaluations regarding employee recruitment processes, and engagement with providers; increasing employee awareness; physical security measures; network protection; protection of systems and applications; permission compartmentalization processes, separation of responsibilities, and monitoring and control tools.
- On all matters pertaining to the receipt of outsourcing services, the Company implements a structured risk management process, including an undertaking by the provider to meet the information security requirements which were determined by the Company, and additionally, the Company performs, from time to time, information security audits at the aforementioned providers.
- From time to time, the Company tests the resiliency of the security apparatus, with the assistance of entities specialized in the performance of penetration tests and security surveys.

For additional details regarding the Group's exposure to cybersecurity risks, see section 10.16(c)(6) below.

10.11. Seasonality

10.11.1. Long term savings

In general, income from premiums in life insurance, and income from management fees in pension funds and provident funds, are not characterized by seasonality, and therefore, seasonality is not a factor with respect to claims.

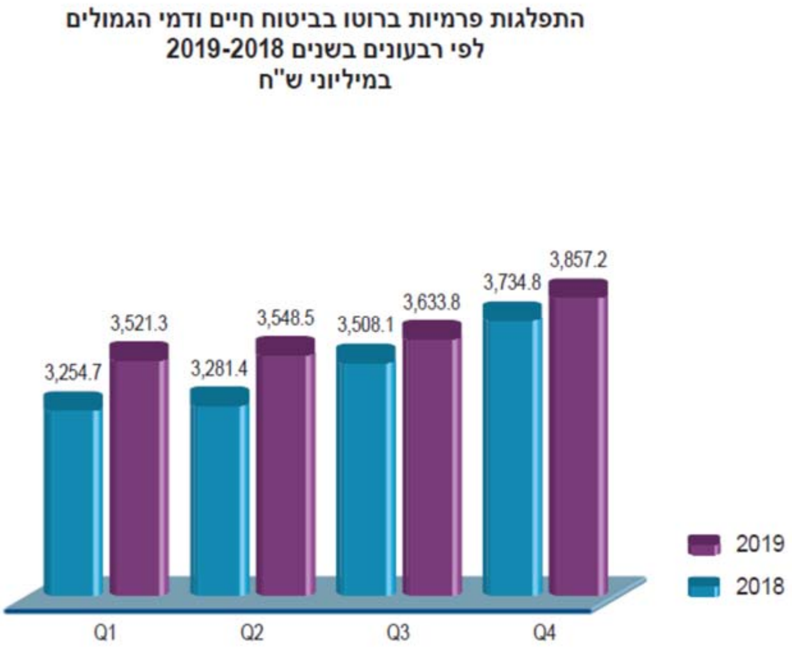
However, due to the timing of the end of the tax year, a certain degree of seasonality exists with respect to deposits from premiums/benefits contributions to pension savings products in December, since substantial amounts are deposited during that month by employees and self-employed persons who initiate deposits that are not in the framework of their salary, with the intention of making full use of the tax benefits, as well as by employers completing obligations in respect of the tax year or making one-time deposits, usually in respect of seniority severance pay debts. There are also certain months, which vary from year to year, in which the scope of premiums/contributions could be higher, this being mainly due to one-time payments made by employers to workers, in respect of which contributions are provided.

Presented below is the distribution of the gross premiums and contributions in the long term savings division over the last two years, by quarters (NIS in thousands):

2019	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Premiums and contributions, NIS in thousands	3,521.3	3548.5	3,633.8	3,857.1	14,560.7

2018	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Premiums and contributions, NIS in thousands	3,254.7	3,281.4	3,508.1	3,734.8	13,778.9

Distribution of gross premiums in life insurance and contributions
By quarters in 2018-2019
NIS in millions



10.11.2. Non-life insurance

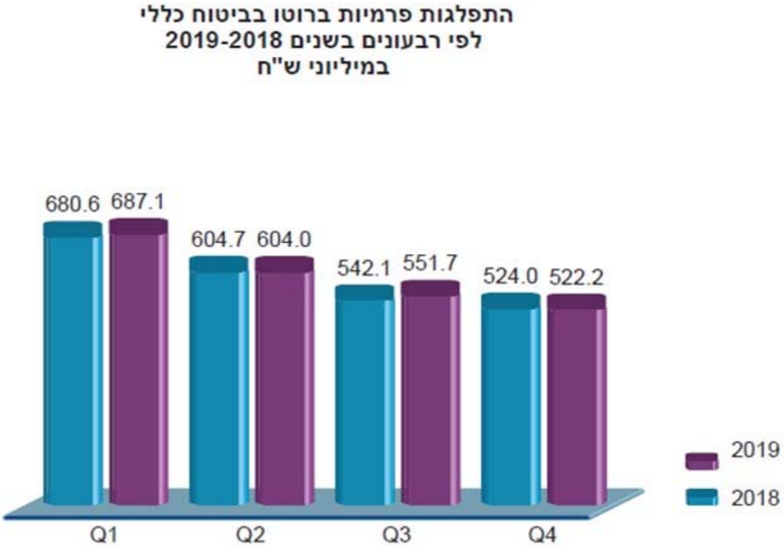
In general, income from premiums in the non-life insurance segment does not feature clear seasonality. However, premiums in the first quarter of the year are higher than premiums in other quarters, mainly due to renewals of insurance contracts by business policyholders, and to renewals of large vehicle fleets at the start of the calendar year, which have a certain degree of seasonality. The effect of this seasonality on reported income is neutralized by the unearned premium reserve.

There is no clear seasonality in the other expense components, such as claims, and in other income components, such as income from investments. However, it should be noted that in the winter season, a marked increase in claims is sometimes seen in the first or fourth quarters of the year, or in both of them, mainly in the property branches, and as a result, a reduction occurs in the reported income for the period.

Presented below is the distribution of gross premiums in the non-life insurance division over the last two years, by quarters (NIS in thousands):

2019	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**	**Total**
Premiums, NIS in thousands	687,056	604,008	551,722	522,178	2,364,964
2018	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**	**Total**
Premiums, NIS in thousands	680,597	604,709	542,118	523,954	2,351,378

Distribution of gross premiums in non-life insurance
By quarters in 2018-2019
NIS in millions



10.11.3. Other operating segments

The health insurance segment is not characterized by seasonality. In the international travel insurance sub-branch, there has been an increase in the scope of policies sold to international travelers during the summer and holiday periods. However, the above had no significant effect on the distribution of total premiums in the health segment during the calendar year.

10.12. Intangible assets

10.12.1. Intellectual property

The name "Clal" is registered as a trademark under the name of IDB Development. The Group uses, for the purpose of its operations, the names and logos of the Group's member companies, most of which are not registered as trademarks.

The Group's member companies use, for the purpose of their operations, software programs which are owned by member companies in the Group and/or for which usage licenses were acquired. For additional details, see section 10.10.3.1 above.

The Company develops, through its employees and through providers, software programs for self use to which it owns copyrights.

The Company owns internet domains.

For additional details regarding intangible assets, see Note 6 to the financial statements.

10.12.2. Databases

_______The Group's member companies have databases which include, inter alia, data regarding customers, agents and service providers, which are used, inter alia, for marketing activities, using advanced software programs (CRM), which allow segmentation of the data in various ways. The Company's marketing strategy is based on the databases, which are critical to the management of the Company's business affairs.

_______The Group works on a routine basis to register its databases in Israel in the records of the Registrar of Databases, in accordance with the provisions of the law. Some of the databases are currently in registration processes and/or evaluation and preparation for the purpose of registration.

_______The Protection of Privacy Regulations (Information Security), 2017 prescribe, inter alia, that upon the occurrence of a severe security event, the database owner is required to inform the Registrar of the matter immediately, including regarding the steps which were taken following the event, and that the Registrar will be entitled to instruct the database owner to announce the event, with respect to information which may be harmed as a result. The Privacy Protection Authority also published examples of severe security events which must be reported to the Authority, as stated above. The Company is working to implement the provisions of the regulations which apply to it, and as part of the above, it reported, during the reporting year, specific events which had been identified.

10.13. Legal proceedings

Material legal proceedings are currently pending against the Group, including motions to approve class actions pursuant to the Class Action Law. For details regarding claims which are not in the ordinary course of business, including class actions which have been approved for filing as class actions; pending motions to approve class action status for material claims; motions to approve class action status for material claims which were dismissed during the reporting year; material class actions which concluded during the reporting year and until the publication date of the report; immaterial class actions; and material claims against the Group which are not in the ordinary course of business, see Note 42(a)-(c) to the financial statements.

For details regarding legal risk factors in connection with class actions, see section 10.16(b)(5) below.

For details regarding the exposure to the risk associated with class actions, see Note 42(a) to the financial statements.

For summary details regarding the Company's exposure to legal proceedings, see Note 42(c) to the financial statements.

10.14. Financing

10.14.1. Rating

For details regarding the ratings of member companies in the Group and regarding liability certificates which were issued as of the publication date of the report, see Note 25(d) to the financial statements.

10.14.2. Credit

For details regarding deferred liability notes which constitute Tier 2 capital for the purpose of the economic solvency regime, see Note 25(b) to the financial statements. For details regarding the restrictions on the recognition of the liability certificates as Tier 2 capital for solvency purposes, see Part B of the Report - Board of Directors' Report, section 3.2.3.

10.14.3. Raising of sources to funds the operation of the Company's business

Clal Insurance may be required, in the coming year, to raise sources by way of an issuance and/or exchange (through Clalbit Finance), subject to developments regarding its capital status, the capital target which will be determined by the Board of Directors, regulatory developments, and the Commissioner's approval, if and insofar as required.

The Company and Clalbit Finance published shelf prospectuses during the reporting year.

The information presented on all matters associated with the raising of funds to cover the Company's routine business operations in the coming year constitutes forward looking information, which is based on the Company's estimates and assumptions as of the publication date of the report. Actual implementation may differ significantly from the forecast, inter alia, due to regulatory requirements which will be determined, the state of capital markets, the business position of the subsidiaries in the Group, actions taken to optimize the capital and debt management in the Group, and the materialization of the risk factors specified in section 10.16 below.

10.15. Taxation

For a description of the taxation arrangements which apply to the Group, see Note 23 to the financial statements.

10.16. Discussion regarding risk factors

This section, which discusses the risk factors with respect to the Company, also includes forward looking information. Forward looking information is uncertain information regarding the future, which is based on information which is available to the Company as of the reporting date, and which includes the Company's estimates and intentions as of the reporting date. Actual results may differ significantly from the results forecasted or implied based on such information, inter alia, due to changes in the business environment any other party in risk factors, including future risk factors.

The institutional entities are obligated to appoint a Chief Risk Officer. For a description of the responsibilities of the Group's Chief Risk Officer, and for details regarding the risk management policy and regarding risk management processes and methods in the Group, including a description of the work process and the methods used to identify the risks and controls which exist in the Group's member companies, see Note 39 to the financial statements.[91]

Presented in the following table are risk factors, according distributed by macro risks, branch-specific risks and risks which are unique to the Group, as well as details regarding the risk factors.

Risk factors	**Risk factor's impact on the Group**		
	Significant impact	**Medium impact**	**Limited impact**
A. Macro risks			
Economic downturn in Israel	X		
Overall market risk	X		
Specific market risks:			
Interest rate risk	X		
Credit margin risk		X	
Inflation risk		X	
Exchange rate risk		X	
Stock price risk	X		
Other assets price risk		X	
International economic downturn and price drops in capital markets	X		
Credit risks	X		
B. Branch-specific risks			
Insurance risks	X		
Portfolio retention	X		
Catastrophe risks:			
Earthquake in Israel		X	
Terror attack and/or war in Israel		X	

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[91] In February 2020, the Chief Risk Officer announced the conclusion of her tenure. The conclusion date of her tenure has not yet been determined.

Stability of reinsurers		X	
Strategic risks:			
Changes in legislation and regulations	X		
Competition risks	X		
Availability of reinsurers		X	
Legal risks	X		
C. Risks on the level of the Group			
Regulation	X		
Liquidity risk			X
Risks associated with the pricing and assessment of insurance liabilities		X	
Operational risks	X		
Information system risks	X		
Cybersecurity risks		X	
Reputation risk	X		
Engagements with external providers		X	

The impact of the foregoing risk factors is based on the judgment of group management, based on the information which is available as of the estimation date, refers to each risk independently, and takes into account the estimated probability of the materialization of each risk and its potential results. The estimation of the extent of the risk factors' impact refers to the direct implications on the Group, and does not take into account indirect effects.

A. Macro-economic risks

(1) Economic downturn in Israel

The Group is materially exposed to the state of the Israeli economy, and a downturn in the Israeli economy could affect the scope of the Group's business, particularly in the long term savings segment, including: a reduction in the volume of savings made by the public; possible arrears in contributions and an increase in withdrawals; an increase in the number of people who are laid off and unemployed, and a reduction in wages, which may result in an increased number of cancellations, and in a decline in the premiums and contributions collected by the institutional entities in the Group, as well as in an increase in the scope of claims. Additionally, as a result of an economic downturn, as stated above, the risk associated with the Group's exposure to entities in Israel through its investments and through certain insurance activities may increase (see credit risks and market risks below).

(2) Overall market risk

The prices of assets and returns in the capital markets in Israel and around the world very significantly affect the Group's business results. The Group's self investment ("**Nostro**") portfolio, as well as the asset portfolios of members and policyholders in investment-linked policies, provident funds and pension funds ("**Portfolios Managed for Others**") are invested in various assets, in Israel and abroad, and their value is subject to volatility which is due, inter alia, to changes in interest rates, in inflation rates, in foreign currency exchange rates, in prices of stocks and other assets, and in credit margins in the market.

The Group is exposed to losses with respect to changes in these risk factors, as a result of their impact on the value of the assets in the Group's nostro portfolio. The materialization of market risks and market conditions characterized by low rates of return may cause non-achievement of the returns which were used to price the products and to calculate the insurance liabilities, and as a result, may lead to harm to the Group's business results.

The Group is exposed to overall market risk, including indirectly, as a result of the impact on the Group's profits on returns which are achieved in portfolios managed for others. Within the framework of the Group's activities with respect to the management of these funds, the Group's member companies collect fixed management fees from the accrual, the scope of which may be harmed as the scope of managed assets decreases, as a result of negative returns and/or a decrease in the scope of deposits and/or redemptions and/or transfers.

In accordance with the provisions of the law, in some of the investment-linked policies which were sold in the years 1991 to 2003 (hereinafter: "**Profit-Sharing Policies**"), Clal Insurance collects, in addition to fixed management fees, also variable management fees, which are calculated as a proportion of the real returns of the investment portfolio, after deducting fixed management fees and direct expenses due to the performance of transactions (hereinafter in this section: the "**Addition**"). The addition is calculated on an annual basis, according to positive or negative values. In accordance with the provisions of the law, insurers may only collect a positive addition; however, in the calculation of each positive addition, the negative addition which accrued in previous periods will be included. The aforementioned addition affects the Group's profitability. For details regarding the quantitative impact of the exposure to market risks which is due to the management of such funds as of December 31, 2019, see Note 39(c)(1) to the financial statements. Since the calculation of variable management fees in a given calendar year is conducted on a cumulative basis, management fees are collected or returned throughout the year from/to policyholders, according to the returns which were charged for the quarter, which may result in a great deal of fluctuation in income from management fees from quarter to quarter.

(3) Specific market risks

Full correspondence does not exist between the assets in the nostro portfolio and the liabilities held against them, in terms of cash flows, linkage basis and currency. Complete symmetry does not exist between the accounting treatment of liabilities and assets, and a difference exists between the accounting principles and the rules of the economic solvency regime. For this reason, the economic equity, accounting equity, solvency ratio and comprehensive income of the Group are exposed to changes in risk factors, of which the main ones are specified below. The capital requirements which apply to the Group's insurance companies in accordance with the economic solvency regime are based on economic principles. It is noted that the types of risks which will be specified below also exist in portfolios managed for others in Otzma, since they are not necessarily identical to those described regarding the nostro portfolios.

A. Interest rate risk - From an economic perspective, the Group's main exposure is to an interest rate decrease and the flattening of the interest rate curve, due to the fact that the average lifetime of its liabilities is significantly longer than the average lifetime of its assets. An interest rate decrease may also lead to adversely effects and volatility in the solvency ratio of Clal Insurance. In the current interest rate environment, the Group is also exposed from an accounting perspective to losses in case of an interest rate decrease, primarily due to the impact of such changes on the calculation of the reserves, inter alia, with respect to the discount rates which are used in the calculation of the liability adequacy test (LAT), the calculation of the K factor, and the calculation of pension reserves, in a scope which may exceed the capital gains which will be created in that scenario with respect to assets which are sensitive to interest rates (see Note 39(e)(e1) to the financial statements). However, the Group may also be exposed to certain scenarios involving interest rate increases, due to the relatively long average lifetime of the assets, in consideration of the long term nature of most of the liabilities, due to the fact that, in accordance with the currently practiced accounting method, in certain scenarios involving changes to interest rates, there is not necessarily full correspondence between the change in the market interest rate and the discount rate which is used to discount the various insurance liabilities. It is noted that, in the long term, the Group's is also exposed to an ongoing low level of interest rates, with an emphasis on the index-linked interest rate, which may make it difficult to achieve the guaranteed rate of return for guaranteed-return products, and to achieve the returns that were used to price other insurance products, and to require a renewed evaluation of the actuarial assessment of the Group's insurance liabilities (see Note 39(c)(2) and Note 43(a) to the financial statements).

B. Credit margin risk - The Group is exposed to the risk of loss due to the effects of changes in the credit margin in the market, on the value of marketable debt assets, and due to a certain effect on the calculation of part of the insurance reserves.

C. Inflation risk - The Group is exposed to increases in the inflation rate, due to the fact that the majority of the Group's insurance liabilities are adjusted on a quarterly basis to the inflation rate, while the assets held against them are not necessarily CPI-linked. Additionally, due to the fact that the collection of variable management fees in the profit-sharing portfolio depends on the real returns which were achieved, an increase in the inflation rate may reduce the Group's income from management fees. Additionally, some of the Group's financial debt is CPI-linked, and increases in the inflation rate will result in an increase in the Group's financing expenses.

D. Exchange rate risk - The Group is exposed to changes in foreign currency rates, primarily with respect to the foreign investment portfolio, which is not fully hedged against changes in exchange rates.

E. Stock price risk - The Group is exposed to changes in the prices of marketable stocks which are characterized by high potential volatility, both in the nostro portfolio and in portfolios managed for others. In light of the scope of the exposure of the profit-sharing portfolio to volatility, the volatility in stock prices may significantly affect the scope of variable management fees collected by Clal Insurance.

F. Other assets price risk - The Group is exposed to alternative investments, which include investments in real estate and in real estate funds, in investment funds, in non-marketable shares and in additional investment instruments. These assets are exposed to changes in their value, which may result, inter alia, from changes in capital markets in Israel and around the world, changes in prices of commodities and real estate, and specific business risks. Due to the nature of these investments, the response time the responsibility of changes in their value may be long, and this factor may increase the intensity of price risk.

For details regarding sensitivity tests to market risks, see Note 39(c)(2) to the financial statements.

(4) International economic downturn and price drops in capital markets

The Group is exposed to harm to the value of its investments in financial assets in international capital markets, and in other assets abroad. A global economic downturn could also affect the results of Clal Credit Insurance, which insures the debts of debtors in various countries, who are affected by the economic situation in those countries. Additionally, the stability of the reinsurers with which the Group engaged may be reduced as a result of price drops in international capital markets, or an economic downturn in the countries where they operate.

(5) Credit risks

The Group is exposed to the possibility of financial loss as a result a decrease in credit quality and insolvency of borrowers and other debtors, both through its exposure to financial assets, and through insurance operating segments of the Group which include policies in accordance with the Sales Law and credit insurance, and as a result of its exposure to other debtors, including agents, employers and policyholders. With respect to its holdings in debt assets, the Group is exposed to decreased asset value as a result harm to the debtor's financial stability (including debt settlements) and/or as a result of the increase in the credit margin in the market.

Additionally, an increase in business insolvency cases in Israel may also affect the scopes of claims in the directors and officers liability insurance branch, in which the Group operates (see section 7.1.2c above), the scope of employers' debts with respect to non-transfer of payments to pension insurance for their employees, which requires the Group's institutional entities to initiate collection proceedings, and the insurance risks in the operations of Clal Credit Insurance (see section 10.16(b)(1) below).

Within the framework of its assets portfolio, the Group is exposed to various market branches, of which the primary ones are the banking and finance branch (which also includes exposure through deposits), the infrastructure and energy branch and the real estate branch in Israel. The exposure to the banking segment and to the financial segment is also due to the fact that the Group holds most of its assets and of its customers' assets in accounts at banks, financial institutions and brokers in Israel and abroad, and receives clearing services through banks. The Group is also exposed to reinsurers (see section 10.16(b)(4) below). Despite the fact that the Group is working to increase the distribution where possible, the exposure to the banking segment in Israel is characterized by exposure to a relatively small number of counterparties with high ratings, as a result of the concentration-oriented structure of the branch in Israel. A deterioration in financial stability, non-fulfillment of the liabilities of those entities, or an insolvency event in any of the aforementioned entities, may have a significantly adverse effect on the Group's business results.

For additional details concerning credit risks, see Note 39(f) to the financial statements.

B. Branch-specific risks

(1) Insurance risks

In the insurance operations, the Group is primarily exposed to risks associated with changes in risk factors, as compared with the actuarial assumptions, and to risk of a single large damage or to the accumulation of damages due to a catastrophic event.

The actuarial models which are used by the Group's insurance companies to price products and to estimate of insurance reserves which they hold, are mostly based on the assumption that past behavior patterns and past claims will represent future occurrences. Changes in the risk factors which affect the prevalence and severity of events, as compared with the estimates in the actuarial model, may significantly affect the Group's business results and economic solvency ratio:

In non-life insurance business operations, the main insurance risks are due to the difference between the risk at the time of pricing and at the time of the estimation of insurance liabilities, and their actual occurrence. The gaps may be due to incidental changes in insurance business results, and to changes in the average cost of claims and/or in the prevalence of claims due to various factors. In particular, in the liabilities branches, there is significant uncertainty regarding the cost of claims, inter alia, due to the existence of time gaps between the event date, the disclosure date and the payment date (long tail claims).

In credit insurance business operations, the main insurance risks are credit risks, due to the ability of debtors to service their liabilities, and also depending on the state of the economy. Foreign trade risks insurance also involves foreign political risk. Additionally, catastrophic events such as war, lockdown or strike involve credit risks, due to their impact on the ability of debtors to service their liabilities.

In life and health insurance business operations, the main risk factors include demographic risks, such as changes in the mortality rates, changes in morbidity and disability, and medical developments, as well as risks pertaining to the conduct of policyholders (for sensitivity tests regarding the actuarial assumptions, see Note 39(e)(e1) to the financial statements). In life insurance specifically, an increase in life expectancy and/or an increase in the rate of policyholders who withdraw, as an annuity, the funds which accrued in the insurance funds which are managed by the Group and which have a guaranteed life expectancy annuity factor, and/or changes in the choices of policyholders with respect to the annuity receipt track, among the tracks which are available in the policies, may result in the need to increase its insurance liabilities, and primarily in insurance funds in which the annuity factor was determined based on mortality tables which are different from the current or future mortality tables. Additionally, there is the risk that the level of expenses throughout the lifetime of the portfolio will be higher than the estimate, inter alia, due to changes in the conduct of members or policyholders, the scope of realizations of the option to transfer the accrued amounts in the fund or in the policy, and regulatory changes. In the health and long-term care insurance branches specifically, and in coverages with respect to loss of working capacity, the main risk is increase in morbidity and disability rates which affect the number of claims, the duration thereof, and the cost thereof. Such an increase may also be affected by changes in the interpretation of the insurance event by the regulator and/or by the courts. An additional risk factor is the realization rate of the option for continuity without underwriting in collective insurance policies, where a risk exists that the option may be used by policyholders with greater insurance risk.

(2) Portfolio retention level

The change in the portfolio retention rate, which depends on the cancellation, suspension and transfer rates, constitutes a significant insurance risk in the life and health insurance business operations, due to the fact that the profitability in this segment is based on a margin in premiums (positive or negative) and the collection of management fees throughout the lifetime of the policy (for sensitivity tests regarding the assumptions with respect to cancellations, see Note 39(e)(e1)(c) to the financial statements). The portfolio retention rate also constitutes a significant risk in pension fund and provident fund management business operations. It is noted that the cancellation of the policies also causes the write off of deferred acquisition costs with respect to those policies.

(3) Catastrophe risks

The Group is exposed to the risk that a single event with great impact (a catastrophe), such as an earthquake, natural disasters, war, terror attack or epidemic, will result in a significant accumulation of damages.

- **Earthquake in Israel** - The most significant catastrophic event to which the Group is exposed in Israel is an earthquake, primarily due to its exposure in the property insurance and life and health insurance branches.
- **Risks of war and terror attack in Israel** - The Company is exposed to an event of this kind primarily in life and health insurance.

Clal Insurance acquires partial protection against the accumulation of insurance events, including, inter alia, against earthquakes, natural disasters, and war and terrorism damages. The scope of acquired coverage is based on model-based assessments and/or on studies concerning the extent of damages expected to result from a catastrophic event, and there is no certainty regarding the materialization of the associated forecasts. In the event that actual damages are higher, the Group will bear the excess damage, which may be significant. For details regarding the scope of the protection which is acquired against catastrophic events, see section 10.6.7 above.

(4) Stability of reinsurers

The insurance companies in the Group insure some of their business operations in reinsurance through foreign reinsurers. However, the reinsurance does not release the direct insurers from their obligation towards their policyholders according to the insurance policies. The Group is exposed to risks which are due to uncertainty regarding the ability of reinsurers to pay their share in the insurance to the Group's member companies. Despite the fact that the exposure of the Group's member companies is backed by reinsurance which is distributed between various reinsurers, and the main exposures are to reinsurers with high international ratings, the collapse of one of the large reinsurers with which the Company has engaged could have a significant impact on the Group. The Group has very significant exposure in case of a catastrophic event simultaneously with the collapse of a large reinsurer which insures the Company against an event of this kind. However, the probability of the materialization of an event of this kind is estimated to be low, due to the fact that the two events have low probability, and the factor linking them is not high. For details regarding the exposure of the Group's member companies to reinsurers, see Note 39(f)(8) to the financial statements.

(5) Strategic risks

The Group is exposed to changes in its operating environment, which may affect its business operations, and particularly:

- Changes in legislation and regulation - The Group is exposed to changes in legislation and regulation which pertain to its operating segments, some of which constitute significant reforms. In particular, some of the regulatory changes which were implemented in recent years, and those which are proposed, some as non-final drafts, may constitute a threat on components in the branch's business model. Additionally, changes in legislation and in regulation, including circulars, determinations in principle, position papers and directives which the Commissioner is authorized to impose in connection with changes in policy terms, including tariffs, may affect the Company also when approving new products, and with respect to products which were sold in the past, including by way of cancellation and replacement of products, by way of retroactive application, and also due to their impact on the interpretation of agreements which were signed in the past. For details regarding the known regulatory changes which may affect the Group, see, inter alia, sections 6.1.4.1, 6.2.1(a), 6.2.1(b), 6.2.1(c), 6.2.1(d) 6.2.1(g)(2), 6.2.2(d), 6.2.2(f), 7.1.1.1(c)(1), 7.1.1.1(d)(1), 7.1.1.1(d)(2), 7.1.1.2(a), 8.1.2.1(c), 8.1.2.2, 10.2, 10.3.1.2, 10.8.1.1 and 10.8.1.1(b) above, as well as Note 42(d) to the financial statements.
- Competition risks - The Group is exposed to a high level of competition in all of its operating segments, including as a result of structural changes in the market, including the introduction of new competing entities and the distribution channels. The increased competition is also affected by the aforementioned regulatory changes, which may harm the Group's profitability, both due to their direct effect on the profitability of the products and services in which the Group is engaged, and due to increased operating, marketing and distribution costs. For additional information, see sections 6.3, 7.2 and 8.3 above.
- Availability of reinsurers - The Group's continued activity in various insurance segments, in which it relies on reinsurance coverage, is exposed to reinsurers' offering of those reinsurance policies which meet the minimum conditions which the Company has determined, which depends, inter alia, on the willingness of reinsurers to share the risk, and on the appropriate capacity and price.

- Legal risks - The complexity and scope of the Group's operations, and particularly, the long validity period of the insurance agreements, create significant exposure to legal risks which may arise due to deficiencies in legal documents, including policies and reinsurance contracts, to operational deficiencies in the implementation of agreements, and to changes over time in interpretation or in the determination of standards of conduct, including with respect to products which were sold many years ago, including through retrospective application. Additional risks are due, inter alia, to legal precedents pertaining to the payment of claims, and which may increase the amount of claims which the Group's member companies will be required to pay, and the instructions and determinations of the Commissioner. All of the above may expose the Group to material claims which are not in the ordinary course of business, and which may affect the operations and/or financial results of the Group's member companies, or the need to increase the insurance liabilities.

  In particular, the Group has significant exposure to class actions and derivative claims, both those for which legal proceedings have been initiated, and those regarding which the potential exposure to the filing of a class action or a derivative claim was brought to the attention of the Group's member companies through self-disclosure and/or through inquiries by customers or third parties, by various means, and those regarding which the Group's member companies is unaware, as stated above. In recent years, an increase has occurred, both in the number of motions to approve class actions, and in the number of claims approved by the court as class actions. (For details regarding the exposure to class actions and derivative claims, see Notes 42(a) and 42(b) to the financial statements.)

C. Risks on the level of the Group

Presented below are details regarding the risks which may materialize on the level of the Group without materializing simultaneously in all or most the companies operating in the same branch:

(1) Regulation

The Group's activities are subject to many provisions of the law, and to the oversight of regulatory entities. The ability of the Group's institutional entities and agencies to operate in its areas of activity is conditional upon the holding of the licenses and permits which are required in order to engage in those areas of activity, including compliance with regulatory capital requirements, including the economic solvency regime. For details, see section 10.3.1.2 above. Additionally, significant operations in the Group are subject to specific and complex regulations. In particular, the insurance and long term savings operations are subject to various regulatory provisions, which change from time to time, with respect to products which were sold over many years, and which have long insurance coverage periods and/or savings periods. Non-fulfillment of regulatory requirements may result in sanctions including, inter alia, revocation of licenses and permits, and financial sanctions against the Group, and orders of reimbursement, including as part of audits by supervisory entities or complaints or defects which have been identified, and may serve as the basis for lawsuits filed against it. **For additional details, see Note 42(d) to the financial statements.** Changes to the Company's control structure, which during the reporting year became a company without a control core, as specified in Notes 1(a) and 1(b) to the financial statements, may affect the composition of the Company's various organs. Possible regulatory changes, insofar as any will be implemented, and possibly even within the framework of the Company's control permits, may moderate this effect. Additionally, future changes in the control of the Company may harm the Group's reputation, the availability of financing sources and the rating of Clal Insurance. The existence of clauses regarding a change in control in certain agreements of the Group's member companies vis-à-vis third parties, including reinsurers, may require, upon the fulfillment of the aforementioned circumstances involving a change in control, negotiations with those third parties in order to keep the agreements in effect.

For additional details regarding the permits for the control of the institutional entities which are under the Company's control, and regarding the status of the permits for the control of the Company and of its institutional entities as of the reporting date, see Notes 1(a), 1(b) and 16(e)(8) to the financial statements.

(2) Liquidity risks

The Group is exposed to risks due to the uncertainty regarding the date when the Group's member companies will be required to pay financial liabilities, claims and other benefits to other policyholders and creditors, relative to the scope of funds which will be available for this purpose at that time. The possible need to raise sources unexpectedly and in a short time may require significant realization of assets under pressure conditions, and the sale thereof at prices lower than the market prices. In the Group's insurance activities, liquidity risk is not estimated to be material due to the high scope of liquid assets in the nostro portfolio, the high scope of current incoming cash flows from premiums, and the fact that the payment of claims is conditional upon the fulfillment of insurance events. However, liquidity risk may increase upon the materialization of a significant catastrophic event.

(3) Risks associated with the pricing and assessment of insurance liabilities

The Group is exposed in its insurance activities to **model risk** - The risk that the wrong model will be chosen for pricing and/or for the evaluation of insurance liabilities; **Regarding parameter risk** - the risk of the use of incorrect parameters in models, and **regarding underwriting risk** - the risk of the use of incorrect pricing due to deficiencies in the underwriting process.

(4) Operational risks

The Group is exposed to operational risks, i.e., the risk of loss due to the inadequacy or failure of internal processes. people or systems, or due to external events. The Group's exposure is due to processes which include, inter alia, processes involving purchasing, payroll, investment, collection, policy production, policy operation and long term savings, including the implementation of changes thereto, and the attribution of funds to the product's various components and layers, and processes involving activities vis-a-vis insurance agents, employers, salary bureaus, pension clearing house, institutional entities, claim payments, manual operations, data entry into the information systems, production of reports, calculation of reserves, contractual engagements with foreign entities, including foreign brokers and clearing houses, and engagements with reinsurers and service providers. Inter alia, the Group is exposed to operational risks also with respect to negligence by its employees, agents and third parties operating on its behalf, and with respect to malicious actions which may lead to claims in material scopes against the Group and/or to damages in material scopes for the Group. The Group is also exposed to fraudulent actions on the part of its customers and additional entities with which it works. These exposures to operational risks are due, inter alia, to the complexity of the products and services which are currently marketed by the Group, and which were marketed by it in the past, and to the complexity of regulation which applies to its operations, which increase the risk that a dispute may arise with a customer regarding the interpretation or implementation of the provisions of the law or of an agreement, or to a malfunction in the operation of the products and services. This exposure is greater in long term products, and particularly in life insurance products, due to the high operational complexity of the products, and due to the fact that they are exposed to frequent regulatory changes. In this regard, it is noted that the routine activities involving the cleansing of data regarding members' rights in the long term savings segment may lead to operational implications and to additional monetary implications, which the Group is unable to fully estimate (for details, see section 6.2.2 above). Additionally, the process of implementing the provisions of the law regarding the method for depositing of payments in provident funds, which includes an interface with many factors, is highly complex, and involves significant operational difficulties in the short term, although, in the longer term, it is expected to reduce the operational risks associated with the relevant activity (for details, see section 6.2.1(d)(2) above). In light of the scope of activities of the Group, which currently manages, as of December 31, 2019, assets in the amount of approximately NIS 220 billion, of which approximately NIS 188 billion are assets managed for others (see Part B of the Report - Board of Directors' Report, section 3.2.1), and despite the steps taken by it to identify the risks and to determine adequate controls and risk mitigation actions, the scope of its exposure to operational risks of the type specified above is significant.

(5) Information system risks

A significant part of the Group's activities is based on various information systems. Information systems support the management processes, including the calculation of the rights of the Group's customers. The absence of sufficient infrastructure and/or deficiencies and/or failures in the computerized information systems may cause significant damage to the Group's operations. As specified in section 10.10.3.2 above, the IT systems are subject to an ongoing process of adjustment to the frequently changing regulatory directives, in order to ensure the compatibility with the Group's products. A malfunction in information systems and/or information systems which do not comply with the regulatory directives and/or the absence of full compatibility between the IT systems and the terms of the products or the performed actions may expose the Group to non-fulfillment of the regulatory provisions, to errors in data interfaces, and to errors in the operation of products which are marketed by the Group, and which were marketed in the past.

(6) Cybersecurity and information security risks

The Group is exposed to cybersecurity risks, primarily with respect to the large scope of sensitive information which is at its disposal, and with respect to the large scope of funds which it manages. Such risks include, inter alia, the risk of financial damage, disruption of the adequate and continuous operation of work processes, the availability, completeness and confidentiality of its information, and harm to its reputation, as a result of unauthorized use of its information assets and/or deficiencies in its information security system and/or actions performed by hostile entities, including with respect to the debts which apply to the Company by virtue of regulatory directives, and enforcement measures which were conferred therein. For details regarding the management of cybersecurity risks in the Company, see section 10.10.3.3 above and section 10.12.2 above.

(7) Reputation risk

The Group's reputation serves as a critical component in its ability to operate in all of its operating segments. Therefore, the Group is exposed to risk of harm to its business position, as a result of harm to the Group's image and reputation as perceived by policyholders, members, institutional entities, investors, debt holders, business partners, supervision entities, agents, distribution entities, media and others, inter alia, due to the public mood, and criticism by any of the aforementioned entities regarding its method of conduct, including in connection with the settlement of claims. In this regard, it is noted that Clal Insurance and bonds which were issued by Clalbit Finance are rated by rating companies (see Note 25(d) to the financial statements) and the reduction of the rating given to Clal Insurance and/or to bonds which were issued by Clalbit Finance may significantly harm their activities.

(8) Engagements with external providers

Within the framework of its activities, the Group enters into agreements with various suppliers and service providers, including regarding the operation of provident funds, payroll management, loss adjusters, garages, plumbing service providers, medical service providers, legal service providers, IT service providers, and others. The Group is exposed to risk of harm to reputation and profitability as a result harm to the quality of services which will be provided to it or to its customers, in case the service quality given by those providers is in adequate, and is also exposed to the risk associated with the difficulty in finding an alternative provider, if necessary.

10.17. Material agreements and collaboration agreements

10.17.1. Presented below is a description of the material agreements to which the Company is party, or which pertain to the Company

(A) **Agreement for the rental of areas with Atidim - Science Based Industries Ltd. -** On March 12, 2013, the Company engaged in a binding memorandum of understanding with Atidim - Science Based Industries Ltd., according to which the Company rents, on its own behalf and on behalf of the Group's member companies, office areas with an area of approximately 47,000 square meters (including 24 floors), a lobby floor, warehouses and approximately 1,000 underground parking spaces, in Atidim Tower in Ramat HaHayal, Tel Aviv. The agreement between the parties is in effect for a period of approximately 24 years, with one exit station after around 16 years.

(B) Collective agreement with the Histadrut Worker's Committee in the Group - On July 4, 2017, a new collective agreement (the "**Agreement**") was signed between the Company's subsidiaries: Clal Insurance, Clal Pension and Provident Funds, Clal Credit Insurance, Clalbit Systems, Clal Finance and Canaf (hereinafter: the "**Companies**") and the Histadrut New General Federation of Labor and the employee committee in the Group, which extended the first collective agreement which was signed in the Group (on January 2, 2014) for a period of 4 years, from January 1, 2017 to December 31, 2020, subject to the agreed-upon changes. On March 29, 2018, the companies, HaClal HaRishon (which was merged during the reporting year into Clal Insurance, and became the Private Customers Division), the Histadrut Worker's Committee in the Group signed an annex to the collective agreement was signed, which applied the provisions of the agreement to some employees of HaClal HaRishon, excluding managers of a specified rank, subject to certain agreed-upon changes. For additional details regarding the agreement and the annex to the agreement, see section 10.7.3 above and Note 24(d) to the financial statements.

(C) **Agreement for the acquisition of systems for automating the management of pension operations** - In January 2015, Clal Pension and Provident Funds began operating the pension operations through the Nissan system, a system for the management of members' rights, and also launched a commission payment system module, which were purchased from Sapiens. Sapiens also provides maintenance services for the system. The agreement is renewed automatically once per year, subject to Clal's right not to extend it, by giving advance notice. For additional details regarding the agreement with Sapiens, see section 10.9 above.

10.17.2. Presented below are details regarding significant agreements which are immaterial and to which the Company is party, or which involve the Company

Agreement for the receipt of routine operating services of provident funds - In June 2016, Clal Pension and Provident Funds engaged in an operating agreement with Bank Leumi and Leumi Capital Market Services Ltd. (hereinafter, jointly: "**Bank Leumi**"), according to which Bank Leumi will provide to Clal Pension and Provident Funds operating services with respect to the provident funds which are managed by it. In accordance with the agreement, with respect to the operation of the provident funds, a consideration will be paid to Bank Leumi according to an annual rate out of the fund assets, and with respect to the operation of the study fund, a consideration will be paid to Bank Leumi in a fixed monthly amount. The agreement period will be 5 years, and Clal Pension and Provident Funds will be entitled to terminate the agreement by providing notice 6 months in advance, and Bank Leumi will be entitled to terminate the agreement by providing notice 12 months in advance. Since January 2018, Bank Leumi has operated all of the provident funds which are managed by Clal Pension and Provident Funds. The replacement of Bank Leumi, without an advance preparation period, could temporarily adversely affect the provision of services in the funds which it manages, until an alternative provider has been found.

10.17.3. Presented below is a description of the collaboration agreements to which the Company is party or which pertain to the Company

Collaboration and shareholders agreement with Atradius Insurance Group - Clal Insurance engaged with Atradius Group, the owner of 20% of the shares of Clal Credit Insurance, in an agreement which regulates the business collaboration with it as a strategic partner, and sets forth the relationship between the parties as shareholders in Clal Insurance (hereinafter: the "**Agreement**"). On October 29, 2015, the parties and Clal Credit Insurance signed an amendment to the agreement, and an extension thereof for an additional three years until December 31, 2018. On June 13, 2018, the parties signed a letter waiving their right to terminate the agreement with reference to the renewal period beginning on January 1, 2019, and the extension of the agreement for 3 additional years, until December 31, 2021. The agreement establishes the right of Clal Credit Insurance to receive from Atradius Group professional assistance and information regarding foreign debtors and credit risks (hereinafter: "**Right to Receive Information**"), and formalizes the collaboration between the parties. Additionally, it was determined in the agreement that Atradius Group is entitled to be a leading reinsurer of Clal Credit Insurance, subject to the fulfillment of market conditions and the receipt of a minimum rating (hereinafter: the "**Reinsurance Right**"), and is also entitled to appoint a director in Clal Credit Insurance, who will have veto rights with respect to certain resolutions, as specified in the agreement. Additionally, in accordance with the agreement, Clal Insurance has right of first refusal towards Atradius Group for the acquisition of its shares in Clal Credit Insurance, Atradius Group has the right to join the sale of shares of Clal Credit Insurance by Clal Insurance, under identical conditions as those of Clal Insurance, while Clal Insurance will be entitled to add Atradius Group to the sale of all of its shares in Clal Credit Insurance to a third party, in accordance with the conditions which were determined in the agreement. The agreement is in effect for 3 years, and is renewed automatically every 3 years, unless one of the parties to the Agreement has notified the other party 6 months before the end of the relevant period, regarding its desire to terminate the Agreement, or in case of termination of the agreement by one of the parties due to a fundamental breach by the other party. In case of termination of the agreement by Atradius Group, option will have the option to acquire from Atradius Group its shares in Clal Credit Insurance at a price which reflects market value. In case of the termination of the agreement by Clal Insurance, Atradius Group will be obligated to acquire, and Atradius Group will be obligated to sell, its shares in Clal Credit Insurance, at a price which reflects market value. In case of a fundamental breach of the agreement by Clal Insurance, Atradius Group will have the option to sell to Clal Insurance its shares in Clal Credit Insurance, at a price which reflects market value. In case of a fundamental breach of the agreement by Atradius Group, Clal Insurance will have the option to acquire from Atradius Group its shares in Clal Credit Insurance at a price which reflects market value.

It was further determined that if Clal Credit Insurance cancels the right of reinsurance, then without the act constituting a fundamental breach of the agreement, Atradius Group will be entitled to choose one of the following two options: (A) cancellation of the right to receive information, or (B) termination of the agreement, in which case, Clal Insurance will acquire the shares of Atradius Group in Clal Credit Insurance at a price which reflects market value. It was further determined that if Atradius Group cancels the right to receive information, then without the act constituting a fundamental breach of the agreement, Clal Insurance will be to choose from among the following two options: (A) cancellation of the right of reinsurance, or (B) termination of the agreement, in which case, Clal Insurance will acquire the shares of Atradius Group in Clal Credit Insurance at a price which reflects market value.

10.18. The Group's vision, goals and business strategy

The Group's vision - The Group strives to be the leading group in the insurance and long-term savings market in Israel, while strengthening its financial soundness and maximizing value for its shareholders. The Group does so through growth and business expansion, improving the expense structure, maintaining the high level of service to agents and customers, innovating with respect to products and services, maintaining and cultivating human capital, and strengthening its position among all interested parties.

Business strategy - During the reporting year, the Company adopted a three-year strategic plan for sustainable accelerated growth and for increased operational efficiency, and is working on implementing it, as specified below. The purpose of the plan is facilitate the Group's handling of challenging market conditions, which include a complex and frequently changing competitive environment, the development and introduction of new competitors and distribution channels, frequent regulatory changes, a low interest rate environment for years, with significant consequences for Clal Insurance, and increasing capital requirements.

Main tasks in the implementation of the business strategy:

- Growth in new business revenue and profitability: Focusing on growth of new business through its various distribution channels, with an emphasis on the agents channel, including digital support for the distribution channels, and providing tools to realize the sales potential to existing and new customers, and retaining those customers.
- Growth in the financial segment: The Group considers the financial segment to be a major growth engine for the coming years, and continues to offer a wide variety of products and savings tracks to meet the needs of its customers, while evaluating possibilities for growth and possible acquisitions of additional financial activities.
- Limiting the increase of expenses to support the cost/income ratio: In the challenging competitive and regulatory environment, which is affecting the decline in premiums and management fees, the Company has set a goal of increasing operational efficiency and reducing its current expenses, in parallel and in a manner which will allow it to increase revenue and growth.
- Leading investment management: Leading returns for the Group's customers, in various investment channels, through Canaf, which performs the Group's investment management activities, and which is one of the largest extra-banking institutional investors in Israel, while maintaining appropriate risk levels, based on a long term approach.
- Innovation and digitization: Leading the sector in processes of digital transformation innovation, for customers, agents, employers and operators. The development of advanced digital tools in the service and sales segment, the development of advanced data infrastructure which will allow the Group to maximize its sale opportunities, and to increase operational efficiency.
- Improving service: Continued activity on improving service and improving the satisfaction of customer and other interested parties.
- Maintaining and improving financial soundness and the solvency ratio: Improvement of the Group's overall financial management and risk management, inter alia, by developing quantitative benchmarks, and incorporating them into the management of its business affairs, and particularly, in order to support the maintenance of an adequate economic solvency ratio, in consideration of the challenges which are due to the portfolio's past exposures, the low interest rate environment, and regulatory effects.
- Improving the Company's position vis-à-vis all interested parties, inter alia, by strengthening the brand and its value in the eyes of the public, boosting organizational connectedness, and increasing the sense of pride among the Group's employees.

The information presented on all matters associated with the strategic plan, as specified below, constitutes forward looking information which is based on the Group's estimates, intentions and strategy, as specified below, which reflect its policy and intentions as of the publication date of this report, and which are based on current estimates regarding the Group's operating segments and the Group's position as of the publication date of the report, and may change, entirely or partially, from time to time. There is no certainty regarding the realization of the Group's intentions or of this strategy.

The goals described below may not be realized in the future, or the Group may decide not to implement the aforementioned strategy, in whole or in part, due, inter alia, to the following reasons: changes in economic profitability, changes in the business environment, changes in competitive market conditions and changes in the markets themselves, regulatory changes, changes in the capital market in Israel and around the world, and due to the other risk factors which apply to the Group's activities, as specified in section 10.16 above and in Note 39 to the financial statements.

Part V - Corporate Governance

11. Corporate governance

The following sections are provided in this part of the Company's periodic report for 2019 in accordance with the Commissioner's directives regarding the description of the corporation's business for insurance companies; however, some of the information which is included herein is provided in accordance with the Securities Regulations, insofar as it is relevant.

11.1. Outside directors

In October 2019, the general meeting extended the tenure of Mr. Sami Moualem as an outside director in the Company, for an additional (second term). During the reporting year, no changes occurred to the identity of outside directors currently holding office in the Company.

For details regarding the aforementioned outside directors, see Part D of the report - Additional Details Regarding the Corporation, section 17.

For details regarding the method for appointment of directors in the Company, see Note 1(b)(4) to the financial statements.

11.2. Directors with accounting and financial expertise

For a list of directors with accounting and financial expertise, and for details regarding their education, experience, qualifications and knowledge, based on which the Company's Board of Directors considers the aforementioned directors as possessing accounting and financial expertise, see Part D of the report - Additional Details Regarding the Corporation, section 17.

11.3. Internal auditor

11.3.1. Details of the Internal Auditor

- Name: Eran Shachaf.
- Tenure commencement date: April 1, 2014.
- The Internal Auditor fulfills the conditions prescribed in section 3(a) of the Internal Audit Law, 1992 (hereinafter: the "**Internal Audit Law**").
- The Internal Auditor complies with the provisions of section 146(b) of the Companies Law, and with the provisions of section 8 of the Internal Audit Law.
- The Internal Auditor has no business relations with the Company or with any entity which is related thereto.
- The Internal Auditor is an employee of Clal Insurance and serves as an Internal Auditor in the Company, in Clal Insurance and in additional member companies in the Group.
- For details regarding the auditor's holdings in the Company's securities, see section 11.3.11 below.

11.3.2. Appointment method

The Internal Auditor was appointed in November 2013 by the Company's Board of Directors and Clal Insurance, further to the recommendation of the Audit Committee of the Company and Clal Insurance, and his tenure began in April 2014. The appointment of the Internal Auditor was done in light of his education, and the obligations and responsibilities of the Internal Auditor in accordance with the law in the Company and in Clal Insurance, in consideration of, inter alia, the Company's size, type, scope of activities and complexity. The authorities of the Internal Auditor are set forth in a positions and authorities document, which was last approved on December 22, 2019 and on December 30, 2019 by the Audit Committee and Board of Directors of the Company and of Clal Insurance, respectively.

11.3.3. Identity of the Internal Auditor's supervisor

In accordance with the provisions of section 148 of the Companies Law, the individual in the organization who supervises the Internal Auditor is the Chairman of the Company's Board of Directors.

11.3.4. Work plan

- The internal audit operates in accordance with a multi-annual work plan (for a period of 4 years), and in accordance with an annual work plan which is derived therefrom.
- The determination of audit subjects significantly depends on the risk level inherent in each audited operating segment, and on the probability of the materialization of the risk. The determination of the audit subjects and the frequency of audits therein is based, inter alia, on a risk survey which was performed by the internal audit unit in 2017, in which an emphasis was placed, inter alia, on the financial scope of the activity regarding which an audit is proposed, and on the exposure to operational, regulatory and other risks which are inherent in each operation. The internal audit unit's work plan for 2020 includes a task involving the performance of a risk survey, for the purpose of creating an updated multi-annual work plan.
- When determining the Internal Auditor's work plan, the Internal Auditor consults with the Chairman of the Board, the Audit Committee Chairman, the Company's CEO and members of management.
- The Internal Auditor submits the work plan to the Company's Audit Committee for approval, in accordance with the provisions of section 149 of the Companies Law.
- The work plan allows the Internal Auditor to exercise discretion regarding deviations from the plan, in cases such as regulatory changes, specific requirements of the Commissioner, changes in work processes or changes in the organizational structures which are relevant to the activities on which an audit was planned in accordance with the work plan, as approved by the Audit Committee. In case of an insignificant deviation from the work plan, the Internal Auditor is not subject to additional approvals, but submits updates to the Audit Committee regarding those changes.
- The internal audit unit evaluated certain aspects associated with the performance of material transactions within the framework of various audit reports. It is noted that the internal audit unit did not perform, during the reporting year, an internal audit of the processes which were implemented in the Company in order to identify, evaluate and approve transactions with interested parties which constitute material transactions, as defined in the fourth addendum to the Securities Regulations (Periodic and Immediate Reports), 1970. An audit of this kind was conducted in 2018.
- The Internal Auditor was invited to all meetings and attended most meetings of the Board of Directors and the Audit Committee, including meetings which included discussions regarding material transactions.

11.3.5. Audit of investee companies

The internal audit unit's work plan for 2019 also addressed the activities of subsidiaries, and particularly, material investees of the Company in Israel, as specified below:

Clal Insurance, Clal Credit Insurance and Clal Pension and Provident Funds.

The aforementioned investee corporation did not have an additional internal auditor during the reporting year.

It is noted that Atudot Havatika has a separate internal auditor, whose activity is not associated with the Group's internal audit division.

11.3.6. Scope of employment

The Internal Auditor is employed by the Company in a full time position. The Internal Auditor was responsible, during the reporting year, for the internal audit departments in the Company's investee companies, excluding Atudot Havatika, as stated above. The scope of the audit in the investee companies is derived from the unique characteristics of the activity of each investee company, and from the scope of its activities relative to the scope of the Group's activities.

Presented below is the scope of internal audit work hours which were performed regarding the activity of the Company and of its investee companies during the reporting period:

Company name	Hours worked	Additional internal auditor	Outsourcing	Total
Clal Insurance[92]	30,800		200	31,000
Clal Credit Insurance	1,200			1,200
Clal Pension and Provident Funds	10,700		100	10,800
Atudot Havatika		1,270		1,270
Agencies under the Company's control	1,000			1,000
Total:	**43,700**	**1,270**	**300**	**45,270**

The total scope of audit work hours in the Group in 2019 (including 1,270 audit hours of Atudot Havatika) amounted to a total of approximately 45,270, approximately 2,030 hours less than the total scope of hours in the Group in 2018. Atudot Havatika has an additional, separate Internal Auditor, whose activity is not associated with the Group's internal audit division.

11.3.7. Performance of audits

- The audit is performed in accordance with professional internal auditing guidelines, and in accordance with the guidelines set forth in the regulation codex of the Authority of Capital Markets, Insurance and Savings, volume 5, part 1, chapter 8 (formerly institutional entities circular 2007-9-14).
- The Company's Board of Directors is satisfactorily convinced that the internal audit unit is working in accordance with the requirements which were determined in the aforementioned guidelines, inter alia, based on various issues which were presented to the Board of Directors and/or to the Audit Committee for approval, including the letter of authorities for the internal audit unit, qualifications, and the resources of the internal audit unit, and routine maintenance and monitoring of the Internal Auditor's independence.

11.3.8. Access to information

As part of the work done by the internal audit unit, any document or information requested by the Internal Auditor and required for the performance of his responsibilities were presented to him. No restrictions were imposed on the work of the internal audit unit, and as part of the foregoing, the Internal Auditor was given free, continuous and immediate access to the Company's information systems and financial data.

11.3.9. Reports of the Internal Auditor

- The Internal Auditor's reports are submitted in writing to the Audit Committee.
- The internal audit reports are presented, on a routine basis, to the CEO of the audited company, for the purpose of holding a discussion regarding the findings of the audit, before presenting them t the relevant Audit Committee. The audit reports are available to all of the Board members.

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[92] The figure includes 100 audit hours in Clalbit Finance.

- Presented below are the dates when discussions were held regarding the Internal Auditor's findings in the Company's Audit Committee, including a summary of the audit activity during the reporting period, if not they did not include a discussion of the audit reports themselves:

  In the Company – January 20, 2019, February 17, 2019, March 17, 2019, April 16, 2019, July 31, 2019, October 29, 2019, and December 22, 2019.

  In Clal Insurance – January 20, 2019, February 17, 2019, March 17, 2019, April 16, 2019, May 30, 2019, June 13, 2019, July 7, 2019, August 8, 2019, September 12, 2019, October 24, 2019, November 17, 2019 and December 22, 2019.

- The audit reports are rated by the internal audit department by level of severity. It is noted that some of the internal audit reports are submitted for review to the Audit Committee members for information purposes only, and are not discussed in the committee's meetings, in cases where the audit report is rated by the audit report unit with a relatively low severity level, in a manner which does not require presenting the report for discussion. It is emphasized, also with respect to the internal audit reports which are presented for information purposes only, that each of the Audit Committee members has the possibility of requiring that a specific discussion be held regarding the findings and recommendations which are included in the report.
- It is noted that, in light of the Commissioner's announcement from June 2019, entitled "announcement regarding issues for discussion in joint meetings", which includes a list of issues which the members of an institutional entity's Board of Directors and board committees may discuss in joint meetings with board members of the institutional entity's parent company, the Company's Audit Committee began conducting separate meetings. As part of the above, the Audit Committee determined that it will discuss the audit reports which are unique to the Company, and it will also be informed regarding processes which are intended to ensure adequate corporate governance, adequate processes and sufficient resources in the Group, and it will also be informed, on a quarterly basis, of significant audit reports (as defined by the Audit Committee), following a discussion thereof by the Audit Committee of Clal Insurance, plus recommendations for implementation. At the request of the Company's Audit Committee, it is receiving the agendas and background materials of Clal Insurance's Audit Committee.

11.3.10. Board of directors' assessment of the Internal Auditor's work

In the opinion of the Company's Board of Directors, the scope, nature of continuity of the activities and work plan of the internal audit unit are reasonable in light of the circumstances, and are sufficient to achieve the goals of internal auditing in the Company and in the subsidiaries.

11.3.11. Compensation

- The Internal Auditor is employed as an employee of Clal Insurance, with the status of Executive VP, in a full time position, and receives a monthly salary, including social fringe benefits.
- The Internal Auditor has a personal compensation plan with respect to the distribution of an annual bonus, as part of the general compensation policy adopted by the Company. The personal compensation plan of the Internal Auditor is based, inter alia, on the Company's profit, professional targets associated with the internal audit work plan, including in accordance with the assessment of the Audit Committee and the assessment of the chairman of the Company's Board of Directors regarding the Internal Auditor's work. The targets are approved on an annual basis by the Compensation Committee, Audit Committee and Board of Directors, as is the fulfillment thereof. For additional details, see the annex regarding the compensation policy.

- The total compensation to the Internal Auditor in 2019 amounted to approximately NIS 1.27 million.

- Over the years 2013 and 2014, 26,000 non-marketable warrants exercisable into ordinary company shares were allocated to the Internal Auditor as part of the 2013 warrants plan, which applies to corporate officers and employees in the Company and in the Group's member companies. As of the present date, he has 4,334 warrants, following the expiration of some of the warrants. For additional details, see Note 41(a)(1) to the financial statements.

- On March 12 and 26, 2020, the Audit Committee and Board of Directors evaluated the correspondence of the compensation received by the Company's Internal Auditor in 2019, as specified in this section above, to the terms of the Company's compensation policy, and found that the compensation corresponds to the terms of the Company's compensation policy.

The compensation policy of the Group's institutional entities applies to the Internal Auditor. For details regarding the policy, see section 10.7.5 above.

In light of the foregoing, in the assessment of the Board of Directors, the employment terms of the Internal Auditor are reasonable and fair, and reflect the Internal Auditor's fulfillment of his personal targets, and his contribution to the Company. The Board of Directors found that the compensation which was given to the Internal Auditor, as specified in Regulation 21 of the Securities Regulations, corresponds to the compensation policy of the Company and of the institutional entities.

In this regard, it is noted that, in light of the market crisis due to the coronavirus outbreak, which took place after the reporting period, the Company decided to postpone the decision regarding the provision of variable bonuses to a later date, and at this stage, it included a collective provision in the Company's books with respect to those bonuses, whose maximum amount, with respect to a particular officer, will not exceed 3 monthly base salaries, in accordance with the Company's compensation policy, in light of the fact that the conditions for receiving variable compensation have not been met in accordance with the Company's compensation policy, and therefore, only the discretionary bonus component may possibly be granted. The granting of bonuses is subject to the approval of the Group's competent organs, which is uncertain.

It is hereby clarified that the aforementioned resolution of the Board of Directors included taking into account all of the foregoing.

In light of the Board of Directors' impression regarding the personal integrity of the Internal Auditor and the quality of his work, and in light of the fact that the fixed salary constitutes the main component of the Internal Auditor's compensation package, the Company's Board of Directors believes that there is no concern regarding a conflict of interests in that the Internal Auditor was given warrants in the past, and that, as part of his compensation plan, he may receive variable compensation, and the foregoing does not affect the internal audit work.

In light of the foregoing, the Company's Board of Directors believes that the compensation given to the Internal Auditor does not affect his professional judgment.

11.4. Auditor's Report

11.4.1. Details Regarding the Auditing Firms

- **Kost Forer Gabbay & Kasierer** - Tenure commenced in 1978. Name of responsible partner: Tel Hai Zion, C.P.A. (since April 2019).
- **Somekh Chaikin** - Tenure commenced in 1998. Name of responsible partner: Avraham Fruchtman, C.P.A.

11.4.2. Payments to the auditors

NIS in thousands, excluding VAT

	2019				**2018**			
	Audit and tax services	**Audit-related services**	**Other services**	**Total**	**Audit and tax services**	**Audit-related services**	**Other services**	**Total**
The Company	100	-	-	100	100	-	-	100
Clal Insurance and	5,323	221	1,003	6,547	3,811	726	1,062	5,599

subsidiaries								
Clal Agency Holdings and subsidiaries	136	-	-	136	136	-	-	136
Other companies	50	-	-	50	32	-	-	32
Total companies	**5,609**	**221**	**1,003**	**6,833**	**4,079**	**726**	**1,062**	**5,867**

11.4.3. Auditors' work hours

	2019				**2018**			
	Audit and tax services	**Audit-related services**	**Other services**	**Total**	**Audit and tax services**	**Audit-related services**	**Other services**	**Total**
The Company	494	-	-	494	496	-	-	496
Clal Insurance and subsidiaries	22,590	635	3,748	27,102	18,875	2,151	3,540	24,566
Clal Agency Holdings and subsidiaries	797	-	-	797	839	-	-	839
Other companies	291	-	-	129	209	-	-	209
Total companies	**24,172**	**635**	**3,748**	**28,522**	**20,417**	**2,151**	**3,540**	**26,108**

* The amounts include a solvency audit.

The overall scope of work hours of the auditors in the Group in 2019 amounted to 28,522 work hours, as compared with 26,108 hours in 2018.

The professional fees of the accountants with respect to the audit services were determined by the Board of Directors, in accordance with the recommendation of the Audit Committee. The professional fees with respect to the audit services were determined following negotiations with the auditors, in which the scope and complexity of the audit were evaluated, with reference to the auditor's salary, according to the conventional practice in the branch. The professional fees with respect to services which are not associated with auditing were determined primarily in accordance with the type of work, the scope of work hours and the audited subject.

11.5. The corporation's donations

As part of its social activities, in 2019, the Group donated a total of approximately NIS 3 million in Israel, in accordance with the defined strategy: support for entities and associations working to support special needs groups, including population groups affected by illness, disabled population groups, with an emphasis on supporting children and youths, including by encouraging education. For example, Nahar HaYarden Association, which manages a unique camp for children dealing with chronic, genetic, or life-endangering illnesses. The Company emphasizes the involvement of employees in community activities, and contributes over one thousand volunteer hours, including, for example, managing the fundraising day of Pitchon Halev Association, which strives to break the inter-generational poverty gap in Israel, and each year assists around half a million people in Israel through the "7 Plan", which is designed for youths in the geographical periphery, and which accompanies them for 7 years, from the high school period until their paths in higher education and in post-military employment.

To the best of the Company’s knowledge, there are no ties between the associations to which the Group donated NIS 50,000 or more during the reporting year, and the Company, any director of the Company, the Company’s CEO, or anyone who was considered, as a precaution, as the Company’s controlling shareholder, or any relative thereof.

It is noted that the Company donated a total of approximately NIS 150 thousand to the organization “Kol Yachol”, which promotes the employment of persons with disabilities, through the IVN (Israel Venture Network) Fund. A business-social organization which is engaged in financing capability-building knowledge, and in providing tools and support to social ventures in Israel. It is noted that the Company has a collaboration with the organization Kol Yachol, with which it engaged in a framework agreement for the employment of persons with disabilities, through the centers of Kol Yachol, in an immaterial amount.

11.6. Effectiveness of internal control over financial reporting and disclosure -

11.6.1. The Securities Regulations

In December 2009, **The Securities Regulations (Periodic and Immediate Reports) (Amendment No. 3), 2009**, were published, which deal with the system of internal controls over financial reporting and disclosure in a corporation, which are intended to improve the quality of financial reporting and disclosure in reporting corporations.

In an amendment dated July 7, 2011, it was stipulated that a corporation which consolidates, or proportionately consolidates, a banking corporation or institutional entity, may choose to apply, with respect to the internal control over that banking corporation or institutional entity only, the framework for the evaluation of the effectiveness of internal control as set forth in the other legal provisions which apply to them in this regard, insofar as a framework of this kind exists for the quarterly report.

Accordingly, in addition to the executive certifications and the report regarding the effectiveness of internal control, which are provided as part of this quarterly report, executive disclosures and certifications are attached, which refer to the internal control in the consolidated institutional entities, which are subject to the Commissioner's directives.

11.6.2. The Commissioner's directives regarding internal control over financial reporting and disclosure

The Commissioner published, in recent years, several circulars (hereinafter: the "**Commissioner's Circulars**") which are intended to implement the provisions of Section 302 and Section 404 of the SOX Act in insurance companies, in managing companies of pension funds and provident funds, in pension funds, and in provident funds (hereinafter: the "**Institutional Entities**").

Accordingly, Clal Insurance and the consolidated institutional entities included the information subject to the provisions of the law, in reports filed by the dates set forth in the aforementioned provisions.

11.6.3. Section 302 and section 404 of the SOX Act - Management’s responsibility for internal control over financial reporting and disclosure

In accordance with the circulars published by the Commissioner, which are based on section 302 and section 404 of the **SOX Act**, and as described in the previous Board of Directors’ reports of Clal Insurance, Clal Insurance acted and routinely acts to implement the process required in accordance with the foregoing provisions, including an evaluation of the work processes and internal controls which are implemented, in accordance with the stages and dates set forth in the circulars. In accordance with foregoing, Clal Insurance adopted the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO), which constitutes a defined and recognized framework for the evaluation of internal control.

The management of Clal Insurance (the institutional entity), in collaboration with the CEO, the Executive VP of Clal Insurance, the Financial Division Manager and the Senior VP Comptrollership Division Manager of Clal Insurance have evaluated, as of the end of the period covered in this report, the effectiveness of the controls and procedures regarding disclosure of Clal Insurance. Based on this evaluation, the CEO, the Executive VP of Clal Insurance and Financial Division Manager and the Senior VP Comptrollership Division Manager of Clal Insurance have concluded that, as of the end of the aforementioned period, the controls and procedures involving the disclosures made by Clal Insurance are effective for the purpose of recording, processing, summarizing and reporting the information which Clal Insurance is required to disclose in the annual report, in accordance with the provisions of the law, and the reporting directives which were issued by the Commissioner, and by the date specified in those directives.

During the covered period ended December 31, 2019, no change took place in the institutional entity’s internal control over financial reporting which could have materially influenced, or which could reasonably have been expected to materially influence, the institutional entity’s internal control over financial reporting.

Executive certifications regarding the effectiveness of internal control over financial reporting and disclosure, with reference to the relevant processes, in accordance with the Commissioner’s circulars, are attached to the report.

Clal Insurance Enterprises Holdings Ltd.

Danny Naveh
Chairman of the Board of Directors

Yoram Naveh
Chief Executive Officer

March 26, 2020

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The Board of Directors' Report regarding the state of the corporation's affairs for the period ended December 31, 2019 (hereinafter: the "**Board of Directors' Report**") reviews the principal changes which occurred in the operations of Clal Insurance Enterprises Holdings Ltd. (hereinafter: the "**Company**") during 2019 (hereinafter: the "**Reporting Period**").

The Board of Directors' Report was prepared in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970; the Board of Directors' Report with respect to insurance business operations was prepared in accordance with the Control of Insurance Business Regulations (Particulars of Report), 1998, and in accordance with circulars issued by the Commissioner of the Capital Markets, Insurance and Savings (hereinafter: the **"Commissioner"**).

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1. Description of the Company's controlling shareholders

In the Commissioner's letter dated December 8, 2019, it was determined that there is no entity which holds, directly or indirectly, the Company's means of control.

For additional details regarding the change in the holding of the Company during the reporting period, see Note 1 to the financial statements.

2. Material developments and changes in the macroeconomic environment during the reporting year

The total impact of the market developments specified below on the Group's results during the reporting period was reflected, inter alia, in a decrease of the interest rates which are used to calculate insurance liabilities, and on the other hand, in increases in the capital markets. For additional details, see Note 43(a) to the financial statements.

Parameter	**Data for the period**
Developments in the Israeli economy and employment rate	GDP grew by approximately 3.5% in 2019, following growth of approximately 3.4% in 2018. In the fourth quarter of 2019, GDP increased by approximately 4.2% (in annual terms) according to the estimate for the fourth quarter which was published by the Central Bureau of Statistics. In accordance with the January 2020 forecast of the Bank of Israel's Research Division, GDP is expected grow by approximately 2.9% in 2020. For details regarding developments after the reporting date due to the coronavirus crisis, which could change the forecast regarding growth of GDP, see section 3.1 below. According to the workforce survey of the Central Bureau of Statistics as of December 2019 (published in January 2020): • Share of employed persons usually working full time out of total employed persons: 78.4% (as compared with 78.7% at the end of 2018). • The unemployment rate in the labor force among persons aged 25-64 was 3.1% (as compared with 3.7% at the end of 2018). • The workforce participation rate among persons aged 25-64 was 80.5% (similarly to the end of 2018). • The employment rate among persons aged 25-64 was 78% (as compared with 77.5% at the end of 2018).
Inflation data	In 2019, the consumer price index increased by approximately 0.6%, as compared with the increase of approximately 0.8% in 2018. The main positively affected item was housing (rent and maintenance), while on the other hand, there was a significant decline in fashion and footwear, fruits and vegetables, and home furniture. Subsequent to the reporting period, the Central Bureau of Statistics published the consumer price index for January and February, which decreased by approximately 0.4% and approximately 0.1%, respectively. The Bank of Israel's inflation forecast (since January 2020) for 2020 amounts to 1%.
Exchange rates	In 2019, the NIS gained vs. most currencies, and rose vs. the USD and the EUR by approximately 7.8% and approximately 9.6%, respectively. In the fourth quarter of 2019, the NIS rose vs. the USD and the EUR at a rate of approximately 2.2% and 0.6%, respectively. Balances of foreign currency at the Bank of Israel, as of the end of 2019, amounted to approximately USD 117.9 billion. The Bank of Israel began intervening in the foreign currency market at the end of the year, and made acquisitions with the intent of slowing down the NIS revaluation rate. The Bank also reported that it was able to make additional purchases, insofar as may be required, in order to mitigate large-scale effects, such as Israel's addition to the WGBI.
Development of the interest rate and yields	For details regarding the impact of the low interest rate environment, see Note 43(a) to the financial statements. The Bank of Israel interest rate is currently 0.25% as of the end of 2019. The Bank of Israel does not expect to change the interest rate, despite the low rate of inflation, and views the possibility of negative interest as an extreme solution.

2. Material developments and changes in the macroeconomic environment during the reporting period (Cont.)

Parameter	Data for the period				
Developments in the capital market in Israel and around the world (in terms of local currency)	**In percent**	**1-12**		**Q4**	
	Stock indices in Israel	**2019**	**2018**	**2019**	**2018**
	Tel Aviv 35	**15.0**	(3.0)	**4.2**	(10.9)
	Tel Aviv 90	**40.3**	(3.0)	**8.9**	(8.9)
	Tel Aviv 125	**21.3**	(2.3)	**5.5**	(10.2)
	Tel Aviv Growth	**26.1**	(15.6)	**5.7**	(12.4)
	Bond indices				
	Non-life	**8.7**	(1.5)	**0.9**	(1.6)
	Telbond CPI-linked	**7.3**	(0.7)	**0.0**	(2.1)
	Telbond NIS-linked	**8.6**	(4.3)	**1.3**	(3.0)
	Government CPI-linked	**10.3**	(1.4)	**0.9**	(1.6)
	Government NIS-linked	**8.3**	((1.2	**0.9**	(0.4)
	Global stock indices				
	Dow Jones	**22.5**	(6.2)	**5.7**	(12.5)
	NASDAQ	**35.6**	(4.5)	**11.6**	(18.1)
	Nikkei Tokyo	**18.2**	(12.1)	**7.3**	(15.9)
	CAC - Paris	**26.4**	(11.0)	**6.2**	(14.6)
	FTSE - London	**12.1**	(12.5)	**2.3**	(10.8)
	DAX - Frankfurt	**25.5**	(18.3)	**7.7**	(15.1)
	MSCI WORLD	**25.8**	(11.2)	**7.7**	(14.5)
	For additional details regarding financial investments in the Company, see Note 14 to the financial statements. For details regarding the effects on the financial results, see section 3 below.				

Parameter	Data for the period
Global economic developments	The global economy continued a trend of growth, although a trend of moderation has been apparent in the last months of 2019. For additional events after the reporting date, including, coronavirus outbreak, the coronavirus outbreak, see below. **USA** - In 2019, the American economy grew by approximately 2.3%, and in the fourth quarter, at a similar rate (in annual terms). The Federal Reserve implemented a policy of monetary expansion in 2019 (representing a change in direction vs. 2018), and during the year, the bank reduced the interest rate 3 times, to a level of 1.5%-1.75%, and worked to expand the balance sheet. It should be noted that 2019 was affected by the trade war, until the signing of the first stage agreement between the USA and China. On the other hand, the labor market presented a positive trend. **Europe** - In 2019, the European economy grew at a rate of 1.2%, and in the fourth quarter, at a rate of 0.9% (in annual terms). The weakness of the European economy in 2019 continued the trend from 2018 (in which the European economy grew by approximately 1.9%), and was due to several factors, including the reduced rate of global growth and the trade war, which resulted in a significant deceleration of growth in the German economy. During 2019, the Prime Minister of Great Britain, Boris Johnson, promoted Britain's departure from the EU, and on January 31, 2020, Britain left the EU. On the other hand, the labor market in Europe continued on a positive trend, as reflected in the decreased unemployment rate. With the aim of encouraging the economy, the President of the European Central Bank reduced the interest rate to 0.5%, and re-launched the quantitative easing program. **China** - The rate of growth in the Chinese economy is decelerating, and in 2019, the economy grew at a rate of 6.1%, in light of the structural changes due to the transition from an export economy to an economy driven by local demand, by the decrease in the scope of credit and the amount of money in the economy, as well as the trade war against the United States. In an attempt to prevent the continued decline of growth, and to support the economy, the government applied several expansive fiscal and monetary measures during 2019. As part of China's struggle against the customs which were imposed by USA on exports of Chinese goods, the CNY exchange rate was decreased to 7 CNY per USD. Additionally, during the year, the Americans and Chinese reached a "first stage" agreement in the trade talks, in which they agreed on Chinese purchases from Americans, although the main issues, including copyright protection and opening of the Chinese capital market, remained open, and will be discussed at a later stage.

After the reporting date, the coronavirus outbreak spread around the world and in Israel, which caused declines in capital markets in Israel and around the world. For additional details regarding the effects of the coronavirus pandemic on capital markets and economies, see section 3.1(c) below.

3. Board of Directors' Remarks Regarding the Corporation's Business Position

3.1 Financial information by operating segments (for details regarding operating segments, see Note 5 to the financial statements).

A. Reporting period

Gross premiums earned in the reporting period amounted to a total of approximately NIS 9,666 million, as compared with a total of approximately NIS 10,275 million in the corresponding period last year. The decrease in premiums was primarily due to the conclusion of the engagements with Maccabi and Leumit health funds in collective long-term care insurance, in which earned premiums in the corresponding period last year amounted to a total of approximately NIS 745 million and NIS 128 million, respectively, as compared with a total of approximately NIS 33 million with respect to the policies of Leumit Health Fund until the termination of the engagement during the reporting period. For additional details, see section 3.1.3 below. On the other hand, an increase was recorded in premiums relative to last year, mostly in life insurance, in the amount of approximately NIS 140 million, mostly due to an increase of non-recurring premiums.

Comprehensive loss after tax attributable to company shareholders during the reporting period amounted to a total of approximately NIS 338 million, as compared with comprehensive loss of approximately NIS 148 million in the corresponding period last year.

The loss during the reporting period was mostly due to the low interest rate environment, as well as changes in mortality assumptions, which were partly offset by changing other actuarial assumptions. The effects described above resulted in a net total increase of the insurance reserves in the amount of approximately NIS 1,607 million in life insurance and in long-term care insurance, as specified in the following table, as compared with a decrease of the reserves in the amount of approximately NIS 295 million in the corresponding period last year. The Company also performed, during the reporting period, an exchange of liability certificates for the purpose of extending the average lifetime of its liabilities, and as a result recorded prepayment costs in the amount of approximately NIS 65 million, which mostly including the acceleration of future financing expenses.

On the other hand, during the reporting period, an increase was recorded in capital market returns, which were higher than the returns in the corresponding period last year, as reflected in the increase of investment income, such that the financial margin in life insurance amounted to a total of approximately NIS 1,281 million, as compared with a total of approximately NIS 515 million last year, and investment income which was unallocated to segments amounted to a total of approximately NIS 534 million during the reporting period, as compared with a total of approximately NIS 29 million in the corresponding period last year. Additionally, during the reporting period, a benefit was recorded with respect to the impact of the Winograd committee's implications relative to last year, while during the corresponding period last year, an amortization of goodwill was recorded with respect to provident funds, as specified in the following table.

Return on equity in annual terms during the reporting period amounted to a negative rate of 6.9%, as compared with a negative rate of 2.9% in the corresponding period last year.

In the operating segments, other than the effects of the capital market, and the effects described above, a deterioration was recorded during the reporting period relative to the corresponding period last year, mostly in the long-term care branch of health insurance and in non-life insurance, due to the negative development in claims, which was reflected in the actuarial model, as specified in section 3.1.2 below.

3. Board of Directors' Remarks Regarding the Corporation's Business Position (Cont.)

3.1 Financial information by operating segments (Cont.)

A. The reporting period (Cont.)

The results during the reporting period and during the quarter, and in the corresponding periods last year, respectively, as specified below, include (inter alia) the following effects (for details regarding additional effects on the operating segments' results, see section D below).

	Year		Q4	
NIS in millions	2019	2018	2019	2018
Life insurance -				
Change in the discount interest rate used in the calculation of the liability to supplement the annuity and paid pension reserves	**(26)**	85	**22**	49
Change in pension reserves following the decreased forecast of future income (K factor)	**(805)**	135	**(110)**	16
Total effect of interest rate changes on the liability to supplement the annuity and paid pension reserves [1]	**(831)**	220	**(88)**	65
Change in mortality assumptions used in the calculation of paid pension liabilities and liabilities to supplement annuity reserves [2]	**(353)**	-	**-**	-
Change in other assumptions used in the calculation of liabilities to supplement annuity reserves [3]	**762**	-	**223**	-
Total effects on the liability to supplement the annuity and paid pension reserves	**(422)**	220	**135**	65
Liability adequacy test (LAT) [1][5]	**(648)**	75	**(149)**	29
Total life insurance	**(1,070)**	295	**(14)**	94
Non-life insurance - Impact due to the consequences of the Winograd and Kaminetz Committees [4]	**122**	52	**-**	23
Long-term care insurance in the health segment - Liability adequacy test (LAT) [5]	**(537)**	-	**(135)**	73
Amortization of goodwill - provident funds	**-**	(115)	**-**	-

Notes:

1. **Changes in main estimates and assumptions which were used to calculate liabilities due to the low interest rate environment**
   For details, see Note 39(e) to the financial statements,
2. **Change in mortality assumptions used in the calculation of paid pension liabilities and liabilities to supplement annuity reserves**
   In light of the trends indicated in the circular, with respect to the update to the series of demographic assumptions in life insurance, and the update to the mortality improvement model for insurance companies and pension funds, the Company increased its estimates regarding liabilities with respect to insurance contracts in the amount of approximately NIS 305 million, of which a total of approximately NIS 43 million was with respect to liabilities for paid pensions, and a total of approximately NIS 310 million was with respect to liabilities to supplement the annuity reserve (a total of NIS 353 million together), while on the other hand it also reduced, in the amount of approximately NIS 48 million, the additional provision in light of the liability adequacy test. For additional details, see Note 43(a) to the financial statements.
3. **Change in other assumptions used in the calculation of liabilities to supplement annuity reserves**
   During the reporting period, the Company updated various assumptions, inter alia, in light of the improvements to the model for determining the annuity withdrawal rate at retirement age, due to new studies which it conducted, in light of the accumulated experience on the subject, regarding the trend towards differing rates of annuity withdrawal, in accordance with retirement age, which was different than that determined in the annuity reserves circular. As a result, the Company reduced its estimates regarding the liabilities in the amount of approximately NIS 455 million, which includes a total of approximately NIS 539 million with respect to the liability to supplement the annuity reserve, and on the other hand, a total of approximately NIS 84 million representing the increased provision due to the liability adequacy test. Additionally, during the reporting period and during the current quarter, the Company updated the annuity withdrawal rate according to age, as well as the cancellation rate, including reference to the impact of the deficit of variable management fees. As a result, the Company reduced its estimates regarding the liabilities in the amount of approximately NIS 196 million, which includes a total of approximately NIS 223 million with respect to the liability to supplement the annuity reserve, and on the other hand, a total of approximately NIS 27 million representing the increased provision due to the liability adequacy test.

3. Board of Directors' Remarks Regarding the Corporation's Business Position (Cont.)

3.1 Financial information by operating segments (Cont.)

A. The reporting period (Cont.)

4. **Implications of the Winograd and Kaminetz Committees**
   In light of the ruling in which the Kaminetz Committee's main conclusions were adopted, and in which it was determined, inter alia, that the discount rate for tort compensation, which is used to discount insurance benefits for policyholders, will remain at a fixed rate of 3%, the Company reduced the liabilities with respect to insurance contracts during the reporting period, in the amount of approximately NIS 122 million, with no effect during the quarter. For additional details, see Note 43(a) to the financial statements.
5. **Investment policy with respect to managed assets against equity and insurance liabilities**
   During the reporting period, the Company's investment committee and Board of Directors approved and updated the investment portfolio management policy with respect to assets managed against capital and insurance liabilities in the life, health and non-life insurance segments, in consideration of the returns and lifetimes of the liabilities, and the required liquidity.
   Further to that stated in Note 3(d)1(d) to the financial statements, regarding the calculation of the excess fair value over the book value of the backing assets, as part of the liability adequacy test in accordance with the LAT circular, and in Note 39(e)(e1)(b)(1) to the financial statements regarding the discount rate, the foregoing updates resulted in a reduction, during the reporting period, in the amount of approximately NIS 293 million, of the provisions which were required due to the decreased interest rates (approximately NIS 206 million in life insurance, and approximately NIS 87 million in long-term care insurance in the health branch), with no effect during the quarter.

It is noted that as of the reporting date, the balance of the LAT provision amounts to approximately NIS 1,331 million (a total of approximately NIS 794 million in life insurance, and a total of approximately NIS 537 million in long-term care in the health segment). For additional details, see Note 43(a) and Note 39(e)(e1)(d) to the financial statements.

Economic solvency ratio report

In July 2019, approval was received from the Commissioner for conducting an initial audit on the data as of December 31, 2018, and accordingly, the provisions of the accounting solvency regime circular will no longer apply to the insurance companies in the Group. On July 15, 2019, Clal Insurance's economic solvency ratio for 2018 was published. For additional details, see section 3.2.3 below.

On November 28, 2019, Clal Insurance published the economic solvency ratio report as of June 30, 2019. For additional details, see section 3.2.3 below. It is noted that the report has not been audited or reviewed by the auditor.

Equity transactions performed by Clal Insurance from June 30, 2019 until the balance sheet date

In September 2019, Calbit Finance issued to the public, and in December, Clal Insurance extended the series of bonds (Series K), by virtue of the shelf prospectus which it published on August 29, 2019 (hereinafter: the "Bonds").

In the issuance, Clal Insurance raised:

A total of NIS 830,000 thousand par value of bonds (Series K). The principal will be repaid in a single payment on March 31, 2033. The principal and interest are not CPI-linked. The interest on the bonds (Series K) is paid each year in two semi-annual payments, beginning on March 31, 2020, on March 31 and September 30 of each calendar year from 2020 to 2033. The stated annual interest rate is 2.64%, and the effective annual interest rate is 2.79%, assuming early redemption. The issuance costs amounted to a total of approximately NIS 10 million.

3. Board of Directors’ Remarks Regarding the Corporation’s Business Position (Cont.)

3.1 Financial information by operating segments (Cont.)

A. The reporting period (Cont.)

The total consideration (gross) which was received by the Company following the issuance of the new bonds, as part of the aforementioned issuance, was deposited in Clal Insurance as a deferred deposit, with identical repayment and interest terms as those of the bonds. The bonds are recognized as Tier 2 capital in Clal Insurance, and have an equal status and equal repayment priority as deferred bonds which were issued by the Company and/or Clal Insurance which constitute Tier 2 subordinated capital, Tier 2 hybrid capital and Tier 3 hybrid capital, and as bonds which have been issued and/or will be issued by the Company and/or Clal Insurance which are of the Tier 2 equity instrument type, and are subordinate to the other liabilities of Clal Insurance, excluding the rights of creditors in accordance with Tier 1 capital.

In December 2019, NIS 698 million par value of outstanding liability certificates (Series C) which were listed on the stock exchange were exchanged, by way of an exchange offer, in consideration of the issuance of NIS 806 million par value of liability certificates (Series K), by way of extension of an existing series. The liability certificates (Series K) which were issued, as stated above, were recognized (subject to restrictions) as Tier 2 capital of Clal Insurance, instead of the liability certificates (Series C) which were exchanged, and which had been recognized as Tier 2 hybrid capital.

The terms of the liability certificates (Series C) are different from the terms of the liability certificates (Series K), and accordingly, were treated as an exchange of debt instruments with significantly different terms, in accordance with the definition provided in accounting standards, where the cost of their exchange amounted to a total of approximately NIS 65 million.

For additional details, see Note 25(b) to the financial statements.

Business strategy plan

Further to that stated in section 10.18 of Chapter A in the periodic report for 2019, the Company prepared a three-year business strategy program for sustainable accelerated growth and for increased operational efficiency, and is working to implement it.

B. Quarter

Gross premiums earned in the quarter amounted to a total of approximately NIS 2,425 million, as compared with a total of approximately NIS 2,627 million in the corresponding period last year. The decrease in premiums was primarily due to the conclusion of the engagement with Maccabi and Leumit health funds regarding collective long-term care insurance, as stated above. During the corresponding quarter last year, total gross premiums earned with respect to Maccabi and Leumit amounted to a total of approximately NIS 190 million and NIS 33 million, respectively.

Comprehensive income after tax attributable to company shareholders in the quarter amounted to a total of approximately NIS 35 million, as compared with comprehensive loss of approximately NIS 204 million in the corresponding period last year.

The transition to income during the quarter, relative to the corresponding period last year, was mostly due to the increase in capital market returns during the quarter, relative to the decline in capital markets in the corresponding period last year, such that the financial margin amounted to a total of approximately NIS 404 million, as compared with a negative financial margin in the amount of approximately NIS 20 million last year. Investment income which was not allocated to segments amounted to a total of approximately NIS 111 million during the reporting period, as compared with loss in the amount of approximately NIS 67 million in the corresponding period last year.

On the other hand, the results in the quarter were affected by the low interest rate environment, which led to an increase of the insurance reserves in the amount of approximately NIS 149 million in life insurance and in health insurance, as compared with a decrease of reserves in the amount of approximately NIS 167 million in the corresponding period last year.

Additionally, in the corresponding quarter last year, a benefit was recorded with respect to the impact of the Winograd committee’s implications, with no significant impact in the current quarter, as specified in the above table.

A change for the worse in non-life insurance claims was recorded in the operating segments in the current quarter, relative to the corresponding period last year, as specified in section 3.1.2 below.

Return on equity in annual terms[1] during the quarter amounted to a rate of 3.1%, as compared with a negative rate of return of 16.0% in the corresponding period last year.

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[1] Calculated by multiplying the profit in the quarter times 4.

3. Board of Directors' Remarks Regarding the Corporation's Business Position (Cont.)

3.1 Financial information by operating segments (Cont.)

C. Events after the balance sheet date

After the balance sheet date, and until the publication date of the report, several significant events occurred, including the following:

Following the outbreak of the coronavirus in China, and its spread to many other countries, economic activity has declined around the world, including in Israel (the "**Crisis**"). These changes have affected, and continue to affect, the Company's activity and profitability. Regulatory directives were also published which, insofar as they are accepted as final directives, will have a positive impact. Details regarding the events are provided below:

Capital markets

Subsequent to the reporting date, a significant decline was recorded in global and Israeli capital markets, due to the coronavirus outbreak. Declines in capital markets reduce the value of the assets which are managed by the Group's institutional entities, both on its own behalf (nostro), and on behalf of members and policyholders.

As of proximate to the publication date of the report, the Company recorded impairment with respect to marketable investments only, in the nostro portfolios, in the amount of approximately NIS 0.6 billion before tax. The Company is also exposed to the impairment of non-marketable investments, which at this stage cannot be quantified.

There was also a decrease in the value of assets managed by the Group through investment-linked policies, provident funds and pension funds, which is estimated at around 10%, and which is also expected to affect the scope of variable and fixed management fees collected by the Company from its managed assets. As of proximate to the publication date of the report, negative real returns were recorded in the profit sharing insurance policies which, until the loss has been recouped, will prevent the Company from collecting variable management fees in the amount of approximately NIS 0.7 billion before tax.

It is noted that the returns are not final, and the Company's results are affected by the returns of the non-marketable portfolio, the Group's other revenues, and expenses. Additionally, due to the sharp volatility of financial markets, the effects described above may change significantly, according to developments in the capital market.

Implications for the Group's business activities

Due to the crisis, the exposure to credit defaults in the credit insurance activity has increased, and a certain increase has occurred in the scope of member redemptions, and the Company estimates that a significant decline may occur in future deposits to long term savings products, in light of the significant decrease in the scope of employment in the economy, according to public reports. Redemptions and the decrease in the scope of deposits are expected to affect both the scope of variable and fixed management fees which the Company collects from its managed assets, and future premium revenue, and accordingly, the recoverability of the Company's intangible assets. The Company also granted a benefit to a considerable part of its policyholders who have been furloughed, in which free insurance coverage was given, in risk and loss of working capacity insurance, for a period of three months.

The prolongation and intensification of the coronavirus crisis around the world and in Israel may also cause significant harm to the Company's business operations, if the crisis deepens into a recession, both in the local market and in the global markets. This could adversely affect the stability of reinsurers, and could impair the value of other investment assets, and credit defaults in the credit insurance activity may increase. The consequences of the crisis may also lead to conflicting results in the life insurance segment, which means that the overall impact on this subject cannot be quantified. A certain decline in results is possible in health insurance, due to changes in the cost of claims, and due to the decline in the sale of international travel insurance, as well as a certain increase in the scope of claims with respect to these policies. In non-life insurance, the policies do not cover pandemic events, and there a certain decline may even occur in the scope and frequency of claims, due to the reduction in economic activity. On the other hand, the situation described above may result in a decline in the scope of premiums charged, mostly in the business insurance segments. The Company is evaluating its actions in a challenging and changing business environment, including in connection with covers which were sold and changes in demand which may result in the future.

3. Board of Directors' Remarks Regarding the Corporation's Business Position (Cont.)

3.1 Financial information by operating segments (Cont.)

Operational implications

On March 18, 2020, the Commissioner published an announcement regarding the transition of institutional entities to work in a reduced format, and on March 21, 2020, the State of Emergency Regulations (Limit on Number of Employees Due to the Novel Coronavirus Outbreak), 2020, were signed, which are intended to prevent the spread of the coronavirus and to protect public health, and dictate that, in general, no more than 30% of the workforce may be present at a workplace. However, the regulations do not apply to the entities specified therein, provided that those entities have reduced their activities to critical activities only. the Group's institutional entities are included on the list of entities which are not subject to the regulations, as well as entities which provide services or products for the purpose of allowing the continued proper operation of entities which were excluded from the scope of the directive. In light of the foregoing, and in light of the restrictions on movement and employment, the Group has begun working in a limited format, in which a considerable number of employees were placed on continuous leave, and were given the opportunity to use accumulated vacation days, or alternatively, to be furloughed. Additionally, other Company employees will be instructed to use vacation days, in accordance with the guidelines given by managers, and in accordance with the Company's needs, in a manner which reflects, on average, one weekly vacation day per employee. The Company is preparing for remote work, including for the provision of service by the operating teams during the crisis period, and particularly with respect to critical processes which were defined. However, the longer the situation continues, and/or the more severe the restrictions become, difficulties may arise in the ability to continue providing orderly service.

Additional implications affecting the Group's results

From the reporting date until proximate to the publication date, the interest rate curve increased both in the short term and, more moderately, in the long term. In addition to the impairment of marketable assets due to these changes, as described above, these changes also affect insurance liabilities, further to that stated in Note 39(e)(e1) and (e2). However, due to the fact that the change was not made in parallel, and due to effects in opposite directions on the calculation components, at this stage it is not possible to quantify the full impact of the change in the interest rate curve.

It is noted that, insofar as the changes proposed in the draft LAT circular (see Note 43(j) above) are adopted, which dictate retrospective adoption of the financial reports, the Company estimates, according to a preliminary estimate, and assuming that it will be possible to reduce the balance of the liability with respect to the liability adequacy test in life insurance, that the insurance reserves as of December 31, 2019 will decrease, and accordingly, equity will increase in the amount of approximately NIS 794 million before tax (a total of approximately NIS 520 million after tax), which will mostly be attributed to the reporting period. These changes are also expected to affect the sensitivity to changes in interest rates, relative to the current sensitivity, as specified in Note 39(c)(2) regarding risk management in the consolidated annual financial statements.

Regarding the solvency ratio of Clal Insurance as of December 31, 2019, which was scheduled for publication in May 2020, and which was expected to be negatively affected by the interest rate cut in the second half of 2019, the Company estimates that it will meet its capital requirements, taking into account the current distribution provisions.

Additionally, in light of the provisions of the draft amendment to the provisions of the economic solvency regime, which was published on March 19, 2020, and the Commissioner's letter which was published on that date, it is expected that if and when the draft circular becomes final, the required solvency ratio will improve relative to the ratio which would have been calculated according to the current format, and will be published until August 2020. For details, see Note 16(e)6(d) to the financial statements,

Regarding the solvency ratio in the period after the reporting date, at this stage, it is not possible to fully quantify these effects, due to the opposing effects of the different factors on the solvency ratio. The calculation which will take into account the above and other developments, and is expected to be calculated as of December 31, 2020, and to be published in May 2021, and by that date, the regulatory directives on this matter are expected to be clarified as well.

3. Board of Directors’ Remarks Regarding the Corporation’s Business Position (Cont.)

3.1 Financial information by operating segments (Cont.)

Summary

As of the reporting date, the Company is unable to estimate the total impact of all of the aforementioned events on the business activities of the Company and its subsidiaries, in the aforementioned respects, in a challenging business environment, or additional aspects of which it is not aware at the present time, or its results, since the event is ongoing, and is not under the Company’s control, including factors such as the continued spread of the virus, or the containment thereof, and the period of disruption to business activity could affect the Company’s medium term and long term preparations, including in connection with preparations for future sales. The Company is continuously monitoring developments in Israel and around the world, and is evaluating the implications for its activities and asset value, including with respect to the results for the first quarter of 2020, and the economic solvency ratio of Clal Insurance. The aforementioned uncertainty is affected, inter alia, by the fact that some of these regulatory directives are in stages of regulation or implementation, and there is no certainty regarding their final wording, if and insofar as they are accepted, and/or regarding their effects, including regarding the issues regulated therein, and whose full manner of implementation not yet been determined / clarified.
For details regarding sensitivity tests to market risks, see Note 39(c)(2) regarding risk management in the consolidated financial statements.

For details regarding the method used to collect variable management fees, see Note 3(n)(3)(a).

D. Additional primary details and additional primary effects, by segments

Presented below are details regarding comprehensive income (loss), distributed by segments:

		Year			Q4	
NIS in millions	Item	2019	2018	2017	2019	2018
Life insurance	3.1.1.1	**(442)**	144	267	**229**	(24)
Pension	3.1.1.4	**1**	(16)	11	**2**	(14)
Provident	3.1.1.3	**16**	(105)	(102)	**2**	1
Total long term savings division		**(425)**	23	177	**233**	(37)
Non-life insurance	3.1.2	**107**	47	62	**(77)**	(57)
Health insurance	3.1.3	**(452)**	(165)	184	**(91)**	(140)
Financing expenses	3.1.6	**212**	132	125	**101**	31
Other and items not included in the insurance branches	3.1.4	**488**	(34)	249	**99**	(76)
Total comprehensive income (loss) before tax		**(496)**	(261)	547	**62**	(341)
Taxes (tax benefit)		**(162)**	(117)	171	**26**	(138)
Total comprehensive income (loss) for the period, net of tax		**(334)**	(144)	376	**36**	(203)
Attributable to Company shareholders		**(338)**	(148)	370	**35**	(204)
Attributable to non-controlling interests		**4**	4	5	**1**	-
Return on equity in annual terms (in percent) *)		**(6.9)**	(2.9)	7.9	**3.1**	(16.0)

*) Return on equity is calculated by dividing the profit for the period attributable to the Company’s shareholders, by the equity as of the beginning of the period attributable to the Company’s shareholders.

3. Board of Directors' Remarks Regarding the Corporation's Business Position (Cont.)

3.1 Financial information by operating segments (Cont.)

3.1.1. Long-term savings

3.1.1.1 Life insurance operations

Life insurance	Year		Q4		Note
	2019	**2018**	**2019**	**2018**	
Gross premiums earned	**5,986**	5,846	**1,500**	1,515	The increase in premiums during the reporting period was due to the increase in non-recurring premiums.
Comprehensive income (loss)	**(442)**	144	**229**	(24)	**Reporting period** - The decrease in income and the transition to loss during the reporting period were primarily due to the increase of reserves during the reporting period due to the low interest rate environment and changes in mortality assumptions, which were partly offset by the change in other assumptions. The total sum of the aforementioned effects resulted in an increase of the reserves in the amount of approximately NIS 1,070 million, as compared with the release of reserves in the amount of approximately NIS 295 million in the corresponding period last year. On the other hand, during the reporting period, gross real returns were achieved in profit sharing policies at a rate of 12.59%, as compared with a negative rate of 1.13% last year, such that the financial margin amounted to a total of approximately NIS 1,281 million, as compared with a total of approximately NIS 515 million last year (out of this amount, during the reporting period, variable management fees were collected in the amount of approximately NIS 485 million, as compared with a total of approximately NIS 3 million last year). Quarter - The transition to profit in the current quarter was mostly due to the increase of gross real returns in profit sharing policies at a rate of 4.02%, as compared with a negative rate of 4.01% last year, such that the financial margin in life insurance amounted to a total of approximately NIS 404 million, as compared with the negative financial margin in the amount of approximately NIS 20 million last year (out of this amount, during the reporting period, variable management fees were collected in the amount of approximately NIS 194 million, as compared with repayment of management fees in the amount of approximately NIS 123 million last year). On the other hand, during the reporting period, the reserves increased due to the low interest rate environment, and actuarial assumptions changed in the amount of approximately NIS 14 million, as compared with the release of reserves in the amount of approximately NIS 94 million in the corresponding period last year, and the decrease in profit from risk.
The redemption rates of life insurance policies from the average reserve, in annual terms	**1.8%**	2.0%	**1.6%**	2.2%	
Investment income (loss) applied to policyholders after management fees	**6,115**	(711)	**1,838**	(2,300)	

3. Board of Directors' Remarks Regarding the Corporation's Business Position (Cont.)

3.1 Financial information by operating segments (Cont.)

3.1.1 Long-term savings (Cont.)

3.1.1.1 Life insurance operations (Cont.)

Presented below is a description of the main results in life insurance, by product types, according to the specification provided in Note 20 to the financial statements:

Life insurance	2019	2018	Note
Policies which include a savings component Which were sold until December 31, 1990			
Gross premiums earned	**201**	225	The decrease in premiums was primarily due to the development in the portfolio whose business was sold until the end of 1990.
Comprehensive income (loss)	**(466)**	179	The decrease in income and the transition to loss during the reporting period, relative to the corresponding period last year, were due to the increase of reserves during the reporting period, due to the low interest rate environment and changes in mortality assumptions, which were partly offset by the change in other actuarial assumptions. The net total of the aforementioned effects resulted in an increase of the reserves in the amount of approximately NIS 710 million, as compared with the release of reserves in the amount of approximately NIS 160 million in the corresponding period last year, as stated above. On the other hand, an increase was recorded in the financial margin during the reporting period, which amounted to a total of approximately NIS 334 million, as compared with a total of approximately NIS 78 million in the corresponding period last year (see Note 20).
Policies including a savings component which were sold from January 1, 1991 to December 31, 2003			
Gross premiums earned	**1,624**	1,668	
Comprehensive income (loss)	**73**	88	The decrease in income during the reporting period, as compared with the corresponding period last year, was mostly due to the increase of the liability to supplement annuity reserves with respect to the K factor in the amount of approximately NIS 805 million, as compared with a decrease of the liabilities in the amount of approximately NIS 135 million in the corresponding period last year. On the other hand, reserves with respect to changes in other actuarial assumptions decreased, and were partly offset by the change in mortality assumptions. The net total of the aforementioned effects resulted in a decrease of reserves in the amount of approximately NIS 445 million, with no effect in the corresponding period last year. Additionally, variable management fees increased to a total of approximately NIS 482 million, as compared with a total of approximately NIS 3 million in the corresponding period last year.
Sold since January 1, 2004			
Gross premiums earned	**3,453**	3,260	The increase in premiums in the policies was mostly due to the increase in non-recurring premiums.
Comprehensive income (loss)	**(108)**	(151)	The decrease in loss was mostly due to the decrease in operating expense and the increase in the financial margin, relative to the corresponding period last year.
Policies with no savings component			
Coverage for risk sold as a single (individual) policy			
Gross premiums earned	**629**	612	
Comprehensive income (loss)	**13**	20	The decrease in income during the reporting period, as compared with the corresponding period last year, was primarily due to the decrease in profit from risk.
Coverage for risk sold as a collective policy			
Gross premiums earned	**80**	82	
Comprehensive income (loss)	**46**	7	The increase in income during the reporting period, as compared with the corresponding period last year, was primarily due to the increase in profit from risk.

3. Board of Directors' Remarks Regarding the Corporation's Business Position (Cont.)

3.1 Financial information by operating segments (Cont.)

3.1.1.2 Data regarding premiums earned, management fees and financial margin[2]

	Year			Q4	
NIS in millions	**2019**	**2018**	**2017**	**2019**	**2018**
Variable management fees *)	**485**	3	352	**194**	(123)
Fixed management fees	**466**	433	410	**125**	111
Total management fees	**952**	436	761	**319**	(12)
Total financial margin and management fees	**1,281**	515	1,016	**404**	(20)
Current premiums	**5,283**	5,388	5,226	**1,324**	1,337
Non-recurring premiums	**703**	459	309	**176**	178
Total gross premiums earned	**5,986**	5,846	5,535	**1,500**	1,515
Current premiums	**80**	69	82	**20**	17
Non-recurring premiums	**1,105**	368	209	**604**	122
Total premiums with respect to pure savings	**1,185**	437	291	**624**	140

*) As of December 31, 2018, liabilities to policyholders with respect to variable management fees amounted to a total of approximately NIS 87 million, which was closed in 2019.

Details regarding the rates of return in profit-sharing policies

	Policies issued during the years 1992 to 2003 (Fund J)					
	Year			Q4		
	2019	**2018**	**2017**	**2019**	**2018**	**2017**
Real return before payment of management fees	**12.59**	(1.13)	8.50	**4.02**	(4.01)	2.70
Real return after payment of management fees	**10.44**	(1.70)	6.72	**3.33**	(3.80)	2.19
Nominal return before payment of management fees	**12.93**	0.05	8.82	**3.81**	(3.91)	2.80
Nominal return after payment of management fees	**10.78**	(0.52)	7.04	**3.12**	(3.70)	2.29

	Policies issued beginning in 2004 (New Fund J)					
	Year			Q4		
	2019	**2018**	**2017**	**2019**	**2018**	**2017**
Real return before payment of management fees	**12.53**	(1.71)	8.12	**3.88**	(4.30)	2.67
Real return after payment of management fees	**11.36**	(2.78)	6.93	**3.62**	(4.57)	2.39
Nominal return before payment of management fees	**12.87**	(0.53)	8.45	**3.68**	(4.21)	2.77
Nominal return after payment of management fees	**11.70**	(1.62)	7.25	**3.41**	(4.47)	2.49

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[2] The financial margin includes profit (loss) from investments charged to other comprehensive income, and does not include the Company's additional income charged as a percentage of the premium, and is calculated before the deduction of investment management expenses. The financial margin in guaranteed-return policies is based on income from actual investments for the reporting year, less a multiple of the guaranteed rate of return per year, times the average reserve for the year in the various insurance funds. Financial margin in investment-linked contracts is the total of fixed and variable management fees based on a reduction in the charging to savings in the Company's systems.

3. Board of Directors’ Remarks Regarding the Corporation’s Business Position (Cont.)

3.1 Financial information by operating segments (Cont.)

3.1.1. Long-term savings (Cont.)

3.1.1.3 Provident fund operations

	Year		Q4		
	2019	2018	2019	2018	Note
Comprehensive income (loss)	16	(105)	2	1	**Reporting period** - The transition to income during the reporting period was primarily due to the impairment of goodwill which was recorded last year, with no effect on the current period.
Contributions	2,194	1,816	670	595	The increase was due to the growth of routine deposits and of one-time deposits, in accordance with section 190.

3.1.1.4 Pension operations

	Year		Q4		
	2019	2018	2019	2018	Note
Comprehensive income (loss)	1	(16)	2	(14)	**Reporting period and quarter** - The transition to income in the reporting period and in the current quarter was mostly due to the increase in income from management fees from accrual, due to the continuous increase in managed assets, and due to the returns, which were higher this year than in the corresponding periods last year. Additionally, during the reporting period and during the current quarter, investment income was recorded, as compared with investment loss in the corresponding periods last year.
Contributions	6,165	5,891	1,610	1,540	

3.1.2 Non-life insurance - Presented below is the distribution of premiums and comprehensive income:

Non-life insurance	2019	2018	Q4 2019	Q4 2018	Note
Gross premiums	**2,365**	2,351	**522**	524	
Comprehensive income	**107**	47	**(77)**	(59)	Reporting period - the increase in income was primarily due to the decrease of the provision with respect to the implications of the Winograd committee in the amount of approximately NIS 122 million, as compared with a decrease of the provision in the amount of approximately NIS 52 million in the corresponding period last year. On the other hand, a change for the worse was recorded in the various branches, as specified below, which were partly offset by the increase in surplus investment income over the income required to cover the increase in insurance liabilities due to discounting and linkage, relative to the corresponding period last year. Current quarter - The increase in loss in the current quarter was mostly due to the decrease of the provision with respect to the implications of the Winograd committee in the amount of approximately NIS 23 million in the corresponding quarter last year, as compared with an immaterial decrease in the provision in the current quarter. Additionally, in the current quarter, a change for the worse was recorded in claims, as specified below, which was partly offset by the investment income, as stated above.
Motor property					
Gross premiums	**677**	713	**146**	149	**Reporting period** - The decrease in premiums was primarily due to the competitive conditions in the field, which resulted in erosion of the average premium.
Comprehensive income before tax	**36**	70	**(6)**	13	The decrease in income during the reporting period, and the transition from income to loss in the current quarter, reflect the erosion of average premiums, due to the competition in the segment.
Gross LR	**69%**	64%	**72%**	63%	
LR on retention	**67%**	64%	**69%**	63%	
Gross CR	**98%**	92%	**105%**	92%	
CR on retention	**97%**	92%	**106%**	92%	

3. Board of Directors' Remarks Regarding the Corporation's Business Position (Cont.)

3.1 Financial information by operating segments (Cont.)

3.1.2 Non-life insurance - presented below is the distribution of premiums and comprehensive income (Cont.)

	2019	2018	Q4 2019	Q4 2018	Note
Compulsory motor					
Gross premiums	**460**	467	**101**	99	
Comprehensive income (loss)	**90**	35	**(8)**	(1)	Reporting period - The increase in income during the reporting period was mostly due to the increase in excess investment income over the required income relative to last year. Additionally, during the reporting period, a decrease was recorded in the provision with respect to the Winograd committee's recommendation in the amount of approximately NIS 61 million, as compared with a decrease of the provision in the amount of approximately NIS 32 million in the corresponding period last year. These effects were partly offset by the change for the worse in claims, which was mostly reflected in the actuarial model during the reporting period, relative to last year. Current quarter - The increase in loss in the current period was due to the immaterial decrease in the provision with respect to the recommendation of the Winograd committee, as compared with a decrease of the provision in the amount of NIS 14 million in the corresponding quarter last year.
Property and others branches					
Gross premiums	**787**	728	**179**	163	
Comprehensive income (loss)	**(19)**	(3)	**(25)**	(12)	The increase in loss during the reporting period and in the current quarter, relative to last year, was mostly due to the change for the worse in claims in the personal accidents branch, which was reflected in the actuarial model
Gross LR	**57%**	44%	**77%**	57%	
LR on retention	**57%**	46%	**97%**	54%	
Gross CR	**86%**	76%	**108%**	90%	
CR on retention	**117%**	106%	**154%**	123%	
Credit insurance					
Gross premiums	**107**	110	**26**	28	
Comprehensive income	**31**	33	**6**	5	**Reporting period and current quarter** - An increase was also recorded in surplus investment income over the required income, which was offset due to the deterioration in claims during the reporting period relative to last year.
LR on retention	**30%**	18%	**27%**	22%	
CR on retention	**60%**	38%	**60%**	39%	
Liability branches					
Gross premiums	**334**	334	**71**	85	
Comprehensive income (loss)	**(30)**	(88)	**(44)**	(63)	Reporting period - the decrease in income was primarily due to the increase in surplus investment income over the income required to cover the increase in insurance liabilities due to discounting and linkage, and a decrease was also recorded in the provision with respect to the implications of the Winograd committee in the amount of approximately NIS 62 million, as compared with a decrease of the provision in the amount of approximately NIS 20 million in the corresponding period last year. These effects were partly offset by the change for the worse in claims in the employers' liability insurance sub-branch, which was reflected in the actuarial model, relative to corresponding period last year. In the current quarter - The decrease in loss was mostly due to the increase in investment income, as stated above, which were partly offset by the change for the worse in claims relative to last year in the employers' liability insurance sub-branch, and the immaterial change in the provision with respect to the Winograd committee's recommendations, as compared with a decrease of the provision in the amount of approximately NIS 9 million in the corresponding period last year.

3. Board of Directors' Remarks Regarding the Corporation's Business Position (Cont.)

3.1 Financial information by operating segments (Cont.)

3.1.3. Health insurance

	Year		Q4		
	2019	2018	2019	2018	Note
Gross premiums earned	**1,329**	2,107	**333**	530	**Reporting period and quarter** - The decrease in premiums was primarily due to the conclusion of the engagement with Maccabi and Leumit health funds regarding collective long-term care insurance. For additional details, see Note 43(f) to the financial statements. Gross premiums earned with respect to Maccabi and Leumit in the corresponding period last year amounted to a total of approximately NIS 873 million, as compared with approximately NIS 33 million with respect to Leumit only during the reporting period. During the corresponding quarter last year, total gross premiums earned with respect to Maccabi and Leumit amounted to a total of approximately NIS 223 million. In the current quarter, no premiums earned were recorded with respect to Maccabi and Leumit.
Comprehensive income (loss)	**(452)**	(165)	**(91)**	(140)	**Reporting period** - The increase in loss during the reporting period was mostly due to the increase of the provision with respect to the liability adequacy test (LAT), which affected comprehensive income in the reporting period in the amount of approximately NIS 537 million, with no effect on comprehensive income last year. This effect was partly offset by the increase in surplus investment income over the income required to cover the increase in insurance liabilities. **In the current quarter** - The decrease in loss relative to the corresponding quarter last year was due to the recording of an increase in surplus investment income over the income required to cover the increase in insurance liabilities, relative to the corresponding quarter last year. Additionally, in the corresponding quarter last year, a negative development in claims was recorded, which was reflected in the actuarial model. On the other hand, in the current quarter, a provision was recorded with respect to the liability adequacy test (LAT), which affected comprehensive income in the amount of approximately NIS 135 million, as compared with a decrease of the provision in the amount of NIS 73 million in the corresponding quarter last year.

	2019	2018	Note
Long-term care branch - comprehensive income			
Individual	**(406)**	(54)	The increase in loss during the reporting period was mostly due to a provision with respect to the liability adequacy test (LAT) in the amount of approximately NIS 515 million, with no effect in the corresponding period last year. This effect was partly offset by the increase in investment income relative to the corresponding period last year.
Collectives, including health funds	**(96)**	(130)	The decrease in loss during the reporting period, as compared with the corresponding period last year, was due to the decrease in loss with respect to the Maccabi and Leumit collectives, which amounted to a total of approximately NIS 53 million in the reporting period, as compared with loss in the amount of approximately NIS 102 million in the corresponding period last year. The loss during the reporting period also included a provision with respect to the liability adequacy test (LAT) in the amount of approximately NIS 22 million, with no effect in the corresponding period last year.
Illness and hospitalization branch - comprehensive income			
Long term	**35**	2	The increase in income was primarily due to the increase in investment income during the reporting period, relative to the corresponding period last year.
Short term	**13**	17	

For details regarding the publication of the results of new tenders for the selection of an insurer for collective long-term care insurance of the Maccabi and Clalit health funds, Note 43(f) to the financial statements.

Details regarding investment gains which were applied to policyholders in health insurance policies of the profit sharing nursing type:

	Profit sharing long-term care policies of the individual and collective types			
	Year		Q4	
NIS in millions	2019	2018	2019	2018
Investment income (loss) applied to policyholders	**147**	**(37)**	**58**	**(190)**

3. Board of Directors' Remarks Regarding the Corporation's Business Position (Cont.)

3.1 Financial information by operating segments (Cont.)

3.1.4. Other and items not included in the insurance branches

	Year		Q4		
NIS in millions	2019	2018	2019	2018	Note
Total comprehensive income (loss) before tax	**488**	(34)	**99**	(76)	**Reporting period** - The increase in income during the reporting period was mostly due to investment income in the amount of approximately NIS 534 million during the reporting period, as compared with investment income in the amount of approximately NIS 29 million in the corresponding period last year. **Current quarter** - The increase in income during the quarter was mostly due to investment income in the amount of approximately NIS 111 million during the reporting period, as compared with loss in the amount of approximately NIS 67 million in the corresponding period last year.

3.1.5 General and administrative expenses

General and administrative expenses during the reporting period amounted to a total of approximately NIS 891 million, as compared with a total of approximately NIS 910 million last year; while in the quarter, these expenses amounted to a total of NIS 227 million, as compared with a total of approximately NIS 234 million last year. The decrease in the reporting period and in the quarter was mostly due to the initial adoption of IFRS 16, the adoption of which included the transfer of some expenses to financing expenses. For additional details, see Note 3(s)(1).

3.1.6 Financing expenses in operations which are not allocated to segments

The Group's financing expenses are affected primarily by the change in the known consumer price index (see Note 2 to the financial statements) and by raisings and repayments of debt.

Financing expenses in the reporting period amounted to a total of approximately NIS 212 million, as compared with approximately NIS 132 million in the corresponding period last year. The increase in financing expenses during the reporting period was mostly due to the cost of an exchange of deferred liability notes in the amount of approximately NIS 65 million (which will mostly decrease financing expenses in the future), with no effect in the corresponding period last year (for additional details, see Note 25 to the financial statements), and the increase in total liability certificates relative to last year. The increase was also due to the initial adoption of IFRS 16, which resulted in an increase in financing expenses in the amount of approximately NIS 15 million. On the other hand, during the reporting period, an increase of 0.3% was recorded in the consumer price index, as compared with an increase of 1.2% in the corresponding period last year. During the quarter, financing expenses amounted to a total of approximately NIS 101 million, as compared with a total of approximately NIS 31 million in the corresponding period last year. The increase in financing expenses was mostly due to the cost of exchanging liability certificates, and the initial adoption of the standard, as stated above.

3. Board of Directors' Remarks Regarding the Corporation's Business Position (Cont.)

3.2 Principal data from the consolidated statements of financial position

3.2.1. Assets

NIS in millions	As of December 31 2019	 2018	Rate of change %
Other financial investments [1]	**32,362**	**31,502**	3
Assets managed for others (non-nostro) in the Group (NIS in millions):			
For investment-linked insurance contracts and investment contracts	**72,814**	**66,121**	10
For provident fund members [1]	**37,044**	**32,982**	12
For pension fund members *)	**78,120**	**66,025**	18
Total assets managed for others	**187,978**	**165,128**	14
Total managed assets	**220,340**	**196,630**	12
*) Out of this amount, total assets managed by Atudot Havatika	**11,550**	**10,028**	15

1. The consolidated financial statements do not include the assets managed in provident funds (except for a provident fund regarding which Clal Insurance accepted upon itself an undertaking to deliver minimum guaranteed annual returns) and pension funds. For additional details, see Note 3(a)(2) to the financial statements.
2. After the reporting date, markets began falling. For additional details, see section 3.1(c) below.

3.2.2. Financial liabilities

As of the balance sheet date, the Group has no balances of debt which are not for capital purposes in the insurance companies.

3.2.3. Capital and capital requirements

A. Capital requirements in accordance with the provisions for implementation of an economic solvency regime [1]

The insurance companies in the Group are subject to the provisions of the Solvency II-based economic solvency regime. In accordance with the Commissioner's directives, the insurance companies in the Group calculated the economic solvency ratio as of June 30, 2019 and December 31, 2018.

It is noted that the calculation of the economic solvency ratio is based on data and models which may differ from those used by the Company in the financial reports, and which are based, inter alia, on forecasts and assumptions which rely, for the most part, on past experience. In particular, and as specified in the economic solvency regime circular, the calculation of the economic solvency ratio is significantly based on the embedded value calculation model. In June 2019, Clal Insurance received the Commissioner's approval for the performance of an initial audit by an auditor[2] with respect to the data as of December 31, 2018, and accordingly, beginning with the financial statements as of June 30, 2019, Clal Insurance is required to comply with the provisions of the Solvency II-based economic solvency regime only, and it is not subject to the previous capital regime. For additional details regarding the capital requirements which apply to the Group's member companies, and regarding restrictions on dividends, see Note 16 to the financial statements.

On November 28, 2019, Clal Insurance approved and published the economic solvency ratio report as of June 30, 2019, which is published on the Group's website at https://www.clalbit.co.il/aboutclalinsurance/financialstatementsandpressrelease.
The Company is evaluating the above in light of the discussions regarding the Group's capital structure and strategy management.

3. Board of Directors' Remarks Regarding the Corporation's Business Position (Cont.)

3.2 Principal data from the consolidated statements of financial position (Cont.)

3.2.3. Capital and capital requirements (Cont.)

For additional information, including a general description of the economic solvency regime, the general underlying principles of the regime, the methodology for calculation of the economic balance sheet and of the solvency capital requirement, provisions with respect to the distribution period, a general overview of directives issued by the Commissioner of Capital Markets in connection with the economic solvency ratio report, definitions of key concepts, remarks and clarifications, see also sections A-F in Chapter 1 - background details and disclosure requirements, and sections 2a, 3a and 4a of the economic solvency ratio report of Clal Insurance as of December 31, 2018, available on the Group's website, at the same address.

The calculation which Clal Insurance conducted as of June 30, 2019 was not audited or reviewed.

Presented below are data regarding the solvency ratio and minimum capital requirement of Clal Insurance in accordance with the Solvency II regime.

1. **Solvency ratio -**

Equity for the purpose of the solvency capital requirement	As of June 30, 2019	As of December 31, 2018
NIS in millions	Unaudited and unreviewed	Audited
Without taking into account the provisions for the distribution period, and including adjustment of the stock scenario:		
Equity for the purpose of the solvency capital requirement	9,333	9,413
Solvency capital requirement	9,990	9,326
Surplus (deficit)	(658)	87
Solvency ratio	93%	101%
Significant events which occurred during the period between the balance sheet date and the reporting date, and which affected the Company's solvency ratio		
Issuance of Tier 2 capital *)	634	
Solvency ratio (without taking into account the provisions for the distribution period, and including adjustment of the stock scenario)	100%	

*) The amount presented above includes the consideration with respect to the issuance of NIS 830 million par value of bonds (Series K), and after deducting a total of NIS 196 million of issued capital, beyond the Tier 2 capital limit. For additional details, see Note 25(a) to the financial statements.

Fulfillment of milestones, in consideration of the provisions for the distribution period and the adjustment of the stock scenario: [3]		
Equity for the purpose of the solvency capital requirement	9,171	9,119
Solvency capital requirement	6,400	5,999
Surplus	2,771	3,120

3. Board of Directors’ Remarks Regarding the Corporation’s Business Position (Cont.)

3.2 Principal data from the consolidated statements of financial position (Cont.)

3.2.3. Capital and capital requirements (Cont.)

A. Capital requirements in accordance with the provisions for implementation of an economic solvency regime (Cont.)

2. Minimum capital requirement (MCR)

Equity for the purpose of the solvency capital requirement	As of June 30 2019	As of December 31 2018
NIS in millions	Unaudited and unreviewed	Audited 2)
MCR	1,632	1,620
Equity for the purpose of MCR	6,297	6,444

1. The capital requirement applies to Clal Insurance, including the consolidation of Clal Credit Insurance.
2. The audit of the solvency ratio calculations was conducted in accordance with International Standard for Assurance Engagements (ISAE) 3400, The Examination of Prospective Financial Information.
3. In accordance with the provisions during the distribution period, the solvency capital requirement as of June 30, 2019 and December 31, 2018 amounts to 70% of the solvency capital requirement calculated according to a stock scenario adjustment.

B. Developments after June 30, 2019

1. For details regarding the provisions regarding the implementation of the Solvency II-based solvency regime, see section 10.2.3 of the report regarding the description of the corporation’s business, and Note 16(e)6.

2. The solvency ratio report of Clal Insurance which is attached to this report is as of June 30, 2019. For additional details regarding the developments in the second half of 2019 and after the balance sheet date, see section 3.1C.

C. The Company’s capital target

In March 2020, Clal Insurance established a preliminary capital target for the solvency ratio, in accordance with the economic solvency regime, at a rate of 108%, which will be developed gradually to a rate of 118% in 2024. The Board of Directors of Clal Insurance also determined that the capital target will be evaluated from time to time, inter alia, in accordance with business and regulatory developments. It is hereby clarified that the determination of the aforementioned target does not guarantee that Clal Insurance will fulfill it at all times, and does not constitute an undertaking by Clal Insurance to distribute dividends.

It is further noted that insofar as the draft amendment referenced in Note 16(6)(d) to the financial statements enters into effect, it is expected to result in a re-evaluation of the capital target.

3.3. Financing sources

The Company considers it highly important to maintain and hold sufficient cash balances, in a manner that will allow it to repay its current liabilities, guarantees and letters of indemnity which it provided for the liabilities of wholly owned investee companies (see Note 39(d)(1) to the financial statements), and also to support, insofar as required, the capital needs of Clal Insurance and the liquidity needs with respect to the operations of other investee companies in the Group. Additional financing sources include, inter alia, dividend distributions from investee companies and the option to dispose investments in investee companies, debt raisings from the banking system and/or from the public, and capital raisings.

3. Board of Directors' Remarks Regarding the Corporation's Business Position (Cont.)

3.3. Financing sources (Cont.)

3.3.1. Liquid resources and credit facilities *)

The following are data regarding the principal liquid resources of the Company:

NIS in millions	Balance as of December 31, 2019	Proximate to the publication date of the report
Liquid resources of the Company (solo)	678 **)	643***)

*) As of the reporting period, the Company has no credit facilities.
**) For details regarding the capital raising which was performed by the Company in December, see Note ___.
***) After the reporting date, the Company invested in Michlol Ltd. through Clal Finance. For additional details, see Note ____.

3.3.2. Financing characteristics

A. The Company, due to its status as a holding company, evaluates, within the context of financing and liquidity, the value of its assets against its liabilities, as well as the existence of liquid resources available to it, and also evaluates the reasonable accessibility of those resources, as required to continue its operations.

B. The Company's operations (investments, general and administrative expenses and dividend distributions) are generally financed by dividends received from investee companies, by loans from banking corporations, and by considerations received from the sale of assets.

C. For details regarding the main financial movements in the Company (solo), see the interim cash flow data attributed to the Company itself (solo), which are included in the interim report.

D. For details regarding the Company's distributable earnings, which are adjusted to the Company's capital requirements, and regarding capital and capital requirements in the consolidated institutional entities and other companies in the Group, see Note 16 to the financial statements.

4. Exposure to and management of market risks

Effect of market risks on business results

The term "market risks" refers to the effect of changes in interest rates, inflation, foreign currency exchange rates, stock prices and other risk factors on the business results, equity, cash flows, and financial assets and liabilities of the corporation and its value.

The Group's business results are materially affected by changes in market risk factors. The sensitivity of operations to market risks is due both to the direct effect of these changes on the nostro investments of the institutional entities in the Group, and to the indirect effect of returns of funds of members and policyholders in investment-linked policies, provident funds and pension funds, which are managed by those entities, on the management fees which are charged by them. For details regarding the exposure to market risks and methods for the management thereof in all of the Group's operations, see Note 39 to the financial statements.

It is hereby clarified that in accordance with the Securities Regulations, sensitivity to changes in specific risk factors which refer to exposures to market risks in operations which are not performed by the insurance companies in the Group, i.e., financial exposures (assets and liabilities) with respect to the operations of the Company itself and of Clal Agencies, as well as exposures which are due to the balance of an operation which was performed in the past by subsidiaries of Clal Credit and Finance Ltd., a company wholly owned by the Company, an operation which the Company decided to gradually close down. The Company's sensitivity, in this activity, to changes in market risk factors, is negligible.

4. Exposure to and management of market risks (Cont.)

4.1 Individual responsible for the management of market risks in the corporation

The individual responsible for the management of market risks in the Company is Ms. Hila Conforti. Ms. Conforti holds a Master's degree in Economics, and has served as the Group's Chief Risk Officer since 2007. In February 2020, Ms. Hila Conforti announced the conclusion of her tenure as the Group's Chief Risk Officer. An employment conclusion date has not yet been determined.

4.2 Description of market risks and the corporation's policy regarding the management and oversight of market risks

The main risks to which the Group is exposed are risks associated with the insurance operation, which is the Group's main operation. For a description of these risks, and methods for the management and oversight thereof, on the level of the Group and on the level of the Company itself, see Note 39 to the financial statements.

Means of oversight and policy implementation

Oversight of the fulfillment of the Group's policy regarding the exposure to market risks is performed by the management and Board of Directors of each of the Group's member companies, with the assistance of the risk management unit, as applicable, and through data from their investment and accounting systems.
The Board of Directors believes that the quality of risk management in the Company is appropriate, in light of the circumstances.

4.3 Events subsequent to the reporting period

Subsequent to the reporting period, no events occurred which significantly affected the Company's exposure to market risks.

The Board of Directors would like to express its appreciation to the employees, managers and agents of the Group's member companies for their contribution to the Group's achievements.

Danny Naveh	**Yoram Naveh**
Chairman of the Board	**Chief Executive Officer**

Tel Aviv, March 30, 2020

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Auditors' Report

To the Shareholders of Clal Insurance Enterprise Holdings Ltd.

We have audited the attached consolidated statements of financial position of Clal Insurance Enterprises Holdings Ltd. (hereinafter: the "**Company**") as of December 31, 2019 and 2018, as well as the consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three 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.

We have conducted our audit in accordance with generally accepted auditing standards in Israel, including standards set forth in the Auditors' Regulations (Auditor's Mode of Performance), 1973. Pursuant to these standards, we are required to plan the audit and to perform it in order to obtain a reasonable measure of assurance that the financial statements are free of any material misrepresentation. Performing an audit includes testing, on a sample basis, the evidence provided to support the amounts and information presented in the financial statements. An audit also includes performing an evaluation of the accounting principles used, and of the significant estimates made by the Company's management, as well as an evaluation of the overall adequacy of presentation in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit, the aforementioned consolidated financial statements adequately reflect, in all material respects, the financial position of the Company and its consolidated companies as of December 31, 2019 and 2018, as well as their results of operations, changes in equity and cash flows for each of the three years in the period ended December 31, 2019, in accordance with International Financial Reporting Standards (IFRS), and in accordance with the disclosure requirements which were determined by the Commissioner of Capital Markets, Insurance and Savings, in accordance with the Control of Financial Services (Insurance) Law, 1981.

Furthermore, we believe that the aforementioned financial statements have been prepared in accordance with the provisions of the Securities Regulations (Annual Financial Statements), 2010, to the extent to which these regulations apply to a corporation which consolidates insurance companies.

Without qualifying our opinion, we hereby call the reader's attention to that stated in Note 42 to the consolidated 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 Internal Controls over Financial Reporting", the Company's internal controls over financial reporting as of December 31, 2019, and our report dated March 26, 2020 includes an unqualified opinion regarding the effective application of those controls.

Tel Aviv, March 26, 2020	Somekh Chaikin Certified Public Accountants	Kost Forer Gabbay and Kasierer Certified Public Accountants

Joint Auditors

Consolidated Statements of Financial Position as of December 31

NIS in thousands	Note	2019	2018
Assets			
Intangible assets	6	**1,297,627**	1,342,759
Deferred tax assets	23	**9,953**	6,554
Deferred acquisition costs	7	**2,021,204**	1,973,539
Property, plant and equipment	8	**219,785**	225,160
Right-of-use asset	27	**541,700**	-
Investments in investee companies accounted by the equity method	9	**183,649**	214,504
Investment property for investment-linked contracts	10,13	**3,097,370**	3,000,340
Other investment property	10	**1,250,039**	1,266,895
Reinsurance assets	17,18	**3,551,810**	2,979,379
Current tax assets	23	**282,539**	259,338
Other accounts receivable	11	**798,786**	1,213,327
Outstanding premiums	12	**700,148**	876,856
Financial investments for investment-linked contracts	13	**62,397,461**	58,185,233
Other financial investments:			
Marketable debt assets	14(a)	**5,935,408**	5,231,862
Non-marketable debt assets	14(b)	**22,469,858**	21,990,343
Stocks	14(d)	**1,357,758**	1,416,975
Others	14(e)	**2,598,556**	2,862,377
Total other financial investments		**32,361,580**	31,501,557
Cash and cash equivalents for investment-linked contracts	13,15(a)	**6,554,645**	3,648,899
Other cash and cash equivalents	15(b)	**2,558,717**	1,298,286
Total assets		**117,827,013**	107,992,626
Total assets for investment-linked contracts	13	**72,813,606**	66,121,248

The accompanying notes to the interim consolidated financial statements are an integral part thereof.

Consolidated Statements of Financial Position as of December 31

NIS in thousands	Note	2019	2018
Capital			
Share capital	16	**155,448**	143,382
Premium on shares		**1,636,478**	1,009,801
Capital reserves		**817,419**	587,118
Retained earnings		**2,571,083**	3,157,874
Total capital attributable to Company shareholders		**5,180,428**	4,898,175
Non-controlling interests		**52,869**	48,745
Total capital		**5,233,297**	4,946,920
Liabilities			
Liabilities with respect to non-investment-linked insurance contracts and investment contracts	17,19,20,21,22	**32,239,033**	30,646,995
Liabilities with respect to investment-linked insurance contracts and investment contracts	18,20,21,22	**71,833,004**	65,366,897
Deferred tax liabilities	23	**329,798**	401,903
Liabilities with respect to employee benefits, net	24	**96,269**	80,757
Lease liability	27	**591,263**	-
Other accounts payable	26	**3,269,153**	3,000,165
Current tax liabilities	23	**513**	5,290
Financial liabilities	25	**4,234,683**	3,543,699
Total liabilities		**112,593,716**	103,045,706
Total capital and liabilities		**117,827,013**	107,992,626

The accompanying notes to the interim consolidated financial statements are an integral part thereof.

March 26, 2020				
Approval date of the financial statements	**Danny Naveh Chairman of the Board**	**Yoram Naveh Chief Executive Officer**	**Eran Cherninsky Executive VP Finance Division Manager**	**Tal Cohen Senior VP Comptroller**

Consolidated Statements of Income for the Year Ended December 31

NIS in thousands	Note	2019	2018	2017
Gross premiums earned		**9,666,116**	10,275,018	9,729,203
Premiums earned by reinsurers		**1,264,885**	1,380,033	1,190,281
Premiums earned on retention	28	**8,401,231**	8,894,985	8,538,922
Income from investments, net, and financing income	29	**9,680,469**	1,244,869	6,234,548
Income from management fees	30	**1,409,977**	884,197	1,226,483
Income from commissions	31	**283,918**	291,346	267,113
Other income	32	**49**	75	3,558
Total income		**19,775,644**	11,315,472	16,270,624
Payments and changes in liabilities with respect to insurance contracts and investment contracts, gross		**18,764,911**	9,350,694	14,008,748
Share of reinsurers in payments and change in liabilities with respect to insurance contracts		**(1,316,678)**	(1,106,784)	(1,103,954)
Payments and changes in liabilities with respect to insurance contracts and investment contracts on retention	33	**17,448,233**	8,243,910	12,904,794
Commissions, marketing expenses and other acquisition costs	34	**2,000,103**	2,020,065	1,956,552
General and administrative expenses	35	**891,255**	910,230	872,061
Impairment of intangible assets	6	**17,241**	114,824	121,637
Other expenses	36	**9,629**	10,697	23,773
Financing expenses	37	**236,288**	157,931	134,455
Total expenses		**20,602,749**	11,457,657	16,013,272
Share in the results of investee companies accounted by the equity method, net	9	**(7,128)**	(25,668)	25,581
Income (loss) before taxes on income		**(834,233)**	(167,853)	282,933
Taxes on income (tax benefit)	23	**(280,588)**	(81,692)	75,247
Income (loss) for the period from continuing operations		**(553,645)**	(86,161)	207,686
Attributable to:				
Company shareholders		**(556,916)**	(91,445)	203,096
Non-controlling interests		**3,271**	5,284	4,590
Income (loss) for the period		**(553,645)**	(86,161)	207,686
Earnings (loss) per share attributable to Company shareholders:	38			
Basic earnings (loss) per share (in NIS)		**(9.94)**	(1.65)	3.66
Diluted earnings (loss) per share (in NIS)		**(9.94)**	(1.65)	3.65
Number of shares used to calculate earnings per share:	38			
Basic		**56,043**	55,577	55,447
Diluted		**56,043**	55,577	55,618

The accompanying notes to the interim consolidated financial statements are an integral part thereof.

Consolidated Statements of Comprehensive Income for the Year Ended December 31

NIS in thousands	Note	2019	2018	2017
Income (loss) for the period		**(553,645)**	(86,161)	207,686
Other comprehensive income:				
Components of other comprehensive income which, following initial recognition in comprehensive income, have been or will be transferred to profit and loss:				
Foreign currency translation differences for foreign operations applied to capital reserves		**(27,977)**	28,640	(31,982)
Foreign currency translation differences for foreign operations applied to profit and loss		**11,905**	92	-
Change, net, in the fair value of available for sale financial assets applied to capital reserves		**952,784**	116,209	521,858
Change, net, in the fair value of available for sale financial assets transferred to profit and loss		**(616,044)**	(287,850)	(245,258)
Impairment loss with respect to available for sale financial assets transferred to profit and loss		**33,450**	41,051	14,277
Other comprehensive income (loss) for the period which has been or will be transferred to profit and loss, before tax		**354,118**	(101,858)	258,895
Tax (tax benefit) with respect to available-for-sale financial assets		**126,539**	(44,646)	99,492
Tax (tax benefit) with respect to other components		**(3,651)**	6,574	(7,169)
Tax (tax benefit) with respect to components of other comprehensive income for the period which have been or will be transferred to profit and loss	23(d)	**122,888**	(38,072)	92,323
Other comprehensive income (loss) which, following initial recognition under comprehensive income, have been or will be transferred to profit and loss, net of tax		**231,230**	(63,786)	166,572
Components of other comprehensive income which will not be transferred to profit and loss:				
Actuarial gains (loss) from defined benefit plan		**(16,337)**	8,281	1,932
Tax (tax benefit) with respect to components of other comprehensive income which will not be transferred to the statement of income	23(d)	**(4,952)**	2,448	753
Other comprehensive income (loss) which will not be transferred to the statement of income, net of tax		**(11,385)**	5,833	1,179
Other comprehensive income (loss) for the period		**219,845**	(57,953)	167,751
Total comprehensive income (loss) for the period		**(333,800)**	(144,114)	375,437
Attributable to:				
Company shareholders		**(337,924)**	(148,477)	370,072
Non-controlling interests		**4,124**	4,363	5,365
Total comprehensive income (loss) for the period		**(333,800)**	(144,114)	375,437

The accompanying notes to the interim consolidated financial statements are an integral part thereof.

Consolidated Statements of Changes in Equity

	Attributable to Company shareholders									
NIS in thousands	Share capital	Premium on shares	Translation reserve	Capital reserve with respect to available for sale assets	Other capital reserves	Capital reserve from transactions with non-controlling interests	Retained earnings	Total	Non-controlling interests	Total capital
For the year ended December 31, 2019										
Balance as of January 1, 2019	143,382	1,009,801	(2,271)	448,369	180,329	(39,309)	3,157,874	4,898,175	48,745	4,946,920
Impact of the initial adoption of IFRS 16	-	-	-	-	-	-	(12,598)	(12,598)	-	(12,598)
Income (loss) for the period	-	-	-	-	-	-	(556,916)	(556,916)	3,271	(553,645)
Components of other comprehensive income (loss):										-
Foreign currency translation differences for foreign operations applied to capital reserves	-	-	(27,977)	-	-	-	-	(27,977)	-	(27,977)
Foreign currency translation differences applied to profit and loss	-	-	11,905	-	-	-	-	11,905	-	11,905
Change, net, in the fair value of available for sale financial assets applied to capital reserves	-	-	-	951,089	-	-	-	951,089	1,695	952,784
Change, net, in the fair value of available for sale financial assets transferred to profit and loss	-	-	-	(615,751)	-	-	-	(615,751)	(293)	(616,044)
Impairment loss with respect to available for sale financial assets transferred to profit and loss	-	-	-	33,441	-	-	-	33,441	9	33,450
Actuarial losses from defined benefit plan	-	-	-	-	-	-	(16,222)	(16,222)	(115)	(16,337)
Tax benefit (tax) with respect to components of comprehensive income (loss)	-	-	3,651	(126,057)	-	-	4,913	(117,493)	(443)	(117,936)
Other comprehensive income (loss) for the period, net of tax	-	-	(12,421)	242,722	-	-	(11,309)	218,992	853	219,845
Total comprehensive income (loss) for the period	-	-	(12,421)	242,722	-	-	(568,225)	(337,924)	4,124	(333,800)
Transactions with shareholders which were applied directly to capital:										
Exercise and expiration of warrants for senior employees	-	5,960	-	-	-	-	(5,960)	-	-	-
Issuance of share capital	12,066	620,717	-	-	-	-	-	632,783	-	632,783
Share-based payments	-	-	-	-	-	-	(8)	(8)	-	(8)
As of December 31, 2019	155,448	1,636,478	(14,692)	691,091	180,329	(39,309)	2,571,083	5,180,428	52,869	5,233,297

Consolidated Statements of Changes in Equity (Cont.)

	Attributable to Company shareholders								Non-controlling interests	Total capital
NIS in thousands	Share capital	Premium on shares	Translation reserve	Capital reserve with respect to available for sale assets	Other capital reserves	Capital reserve from transactions with non-controlling interests	Retained earnings	Total		
For the year ended December 31, 2018										
As of January 1, 2018	143,367	1,001,880	(24,429)	533,373	180,329	(39,309)	3,251,608	5,046,819	44,382	5,091,201
Income (loss) for the period	-	-	-	-	-	-	(91,445)	(91,445)	5,284	(86,161)
Components of other comprehensive income (loss):										
Foreign currency translation differences for foreign operations applied to capital reserves	-	-	28,640	-	-	-	-	28,640	-	28,640
Foreign currency translation differences for foreign operations applied to profit and loss	-	-	92	-	-	-	-	92	-	92
Change, net, in the fair value of available for sale financial assets applied to capital reserves	-	-	-	117,006	-	-	-	117,006	(797)	116,209
Change, net, in the fair value of available for sale financial assets transferred to profit and loss	-	-	-	(287,181)	-	-	-	(287,181)	(669)	(287,850)
Impairment loss with respect to available for sale financial assets transferred to profit and loss	-	-	-	41,012	-	-	-	41,012	39	41,051
Actuarial gains from defined benefit plan	-	-	-	-	-	-	8,252	8,252	29	8,281
Tax benefit (tax) with respect to components of comprehensive income (loss)	-	-	(6,574)	44,159	-	-	(2,438)	35,147	477	35,624
Other comprehensive income (loss) for the period, net of tax	-	-	22,158	(85,004)	-	-	5,814	(57,032)	(921)	(57,953)
Total comprehensive income (loss) for the period	-	-	22,158	(85,004)	-	-	(85,631)	(148,477)	4,363	(144,114)
Transactions with shareholders which were applied directly to capital:										
Exercise and expiration of warrants for senior employees	15	7,921	-	-	-	-	(7,936)	-	-	-
Share-based payments	-	-	-	-	-	-	(167)	(167)	-	(167)
As of December 31, 2018	143,382	1,009,801	(2,271)	448,369	180,329	(39,309)	3,157,874	4,898,175	48,745	4,946,920

The accompanying notes to the interim consolidated financial statements are an integral part thereof.

Consolidated Statements of Changes in Equity (Cont.)

	Attributable to Company shareholders								Non-controlling interests	Total capital
NIS in thousands	Share capital	Premium on shares	Translation reserve	Capital reserve with respect to available for sale assets	Other capital reserves	Capital reserve from transactions with non-controlling interests	Retained earnings	Total		
For the year ended December 31, 2017										
As of January 1, 2017	143,216	977,898	384	342,761	180,329	(39,309)	3,068,909	4,674,188	39,017	4,713,205
Income for the period	-	-	-	-	-	-	203,096	203,096	4,590	207,686
Components of other comprehensive income (loss):										-
Foreign currency translation differences for foreign operations applied to capital reserves	-	-	(31,982)	-	-	-	-	(31,982)	-	(31,982)
Change, net, in the fair value of available for sale financial assets applied to capital reserves	-	-	-	520,436	-	-	-	520,436	1,422	521,858
Change, net, in the fair value of available for sale financial assets transferred to profit and loss	-	-	-	(244,979)	-	-	-	(244,979)	(279)	(245,258)
Impairment loss with respect to available for sale financial assets transferred to profit and loss	-	-	-	14,246	-	-	-	14,246	31	14,277
Actuarial gains from defined benefit plan	-	-	-	-	-	-	1,929	1,929	3	1,932
Tax benefit (tax) with respect to components of comprehensive income (loss)	-	-	7,169	(99,091)	-	-	(752)	(92,674)	(402)	(93,076)
Other comprehensive income (loss) for the period, net of tax	-	-	(24,813)	190,612	-	-	1,177	166,976	775	167,751
Total comprehensive income (loss) for the period	-	-	(24,813)	190,612	-	-	204,273	370,072	5,365	375,437
Transactions with shareholders which were applied directly to capital:										
Exercise and expiration of warrants for senior employees	151	23,982	-	-	-	-	(24,133)	-	-	-
Share-based payments	-	-	-	-	-	-	2,559	2,559	-	2,559
As of December 31, 2017	143,367	1,001,880	(24,429)	533,373	180,329	(39,309)	3,251,608	5,046,819	44,382	5,091,201

The accompanying notes to the interim consolidated financial statements are an integral part thereof.

Consolidated Statements of Cash Flows for the Year Ended December 31

NIS in thousands	Annex	For the year ended December 31 2019	2018	2017
Cash flows from operating activities				
Before taxes on income	(A)	**3,061,668**	(550,845)	2,303,725
Income tax received (paid)		**65,312**	(72,799)	(115,122)
Net cash from (used in) operating activities		**3,126,980**	(623,644)	2,188,603
Cash flows from investing activities				
Consideration from disposal of property, plant and equipment		**284**	217	81
Consideration from disposal of intangible assets		**-**	-	1,107
Consideration from disposal of investments in other investee companies		**25,416**	50,090	24,082
Consideration from disposal of investment in available for sale financial assets by companies which are not insurance and finance companies		**14,413**	26,098	28,380
Investment in available for sale financial assets by companies that are not insurance and finance companies		**-**	(15,054)	(9,916)
Investment in shares and loans from investee companies		**(25,080)**	-	(34,050)
Investment in property, plant and equipment		**(35,674)**	(20,699)	(20,017)
Investment in intangible assets		**(201,735)**	(282,004)	(229,698)
Net cash used in investing activities		**(222,376)**	(241,352)	(240,031)
Cash flows from financing activities				
Issuance of share capital (after deducting issuance costs)		**632,783**	-	-
Repayment of liabilities to banks and others		**-**	-	(73,089)
Consideration from issue of deferred liability notes		**1,660,221**	-	-
Costs of issue and exchange of deferred liability notes		**(12,359)**	-	-
Repayment of deferred liability notes		**(787,372)**	(50,899)	(80,021)
Repayment of lease liability		**(67,473)**	-	-
Paid interest on deferred liability notes		**(113,682)**	(115,981)	(120,101)
Net cash from (used in) financing activities		**1,312,118**	(166,880)	(273,211)
Impact of exchange rate fluctuations on cash and cash equivalent balances		**(50,545)**	43,752	(84,062)
Net increase (decrease) in cash and cash equivalents		**4,166,177**	(988,124)	1,591,299
Cash and cash equivalents at beginning of year	(B)	**4,947,185**	5,935,309	4,344,010
Cash and cash equivalents at end of year	(C)	**9,113,362**	4,947,185	5,935,309

The accompanying notes to the interim consolidated financial statements are an integral part thereof.

Consolidated Statements of Cash Flows for the Year Ended December 31 (Cont.)

	For the year ended December 31		
NIS in thousands	**2019**	**2018**	**2017**
(A) Cash flows from operating activities before taxes on income [1] [2]			
Income (loss) for the period	**(553,645)**	(86,161)	207,686
Items not involving cash flows:			
The Company's share in the income of investee companies accounted by the equity method	**7,128**	25,668	(25,581)
Dividends received from investee companies accounted by the equity method	**14,492**	19,253	190
Changes in liabilities with respect to non-investment-linked insurance contracts and investment contracts	**1,592,038**	462,703	415,313
Change in liabilities with respect to investment-linked insurance contracts and investment contracts	**6,466,107**	2,020,818	6,070,286
Change in deferred acquisition costs	**(47,665)**	(28,965)	(21,210)
Change in reinsurance assets	**(572,431)**	(177,603)	(573,737)
Depreciation of property, plant and equipment and right-of-use assets	**92,775**	41,593	40,817
Amortization of intangible assets	**229,626**	216,174	220,604
Impairment of intangible assets	**17,241**	114,824	121,637
Loss from disposal of property, plant and equipment	**70**	98	16
Profit from right-of-use asset	**125**	-	-
Profit from disposal of shares in consolidated companies	**-**	-	(2,081)
Interest and linkage differences accrued with respect to deferred liability notes and lease liabilities	**148,489**	132,553	124,520
Interest accrued and revaluation of liabilities to banking corporations and others	**(123,959)**	118,418	8,332
Change in fair value of investment property for investment-linked contracts	**(20,135)**	(55,422)	(34,308)
Change in fair value of other investment property	**80**	(8,932)	(35,858)
Share-based payment transactions	**(8)**	(167)	2,559
Net loss (profit) from financial investments for insurance contracts and investment contracts, from and investment-linked contracts	**(5,867,076)**	1,985,142	(2,841,423)
Taxes on income (tax benefit)	**(280,588)**	(81,692)	75,247
Net loss (profit) from other financial investments:			
Marketable debt assets	**(114,175)**	(30,741)	44,413
Non-marketable debt assets	**(64,573)**	(266,560)	(15,742)
Stocks	**(184,131)**	(72,831)	(21,927)
Others	**(341,548)**	203,108	(258,674)
Financial investments and investment property for investment-linked contracts:			
Acquisition of investment property	**(131,994)**	(74,951)	(93,479)
Consideration from the sale of investment property	**55,099**	-	-
Acquisitions net of financial investments	**1,654,848**	(3,939,414)	(825,463)
Receipts (investments) from the sale of (investment in) available for sale financial assets and investment property in insurance business operations:			
Marketable debt assets	**(232,954)**	138,969	118,439
Non-marketable debt assets	**(418,175)**	106,440	(544,536)
Stocks	**266,691**	(28,711)	56,708
Others	**579,120**	(239,162)	(58,519)
Acquisition of other investment property	**(55,547)**	(29,545)	(26,447)
Consideration from the sale of other investment property	**54,901**	-	15,600

1) Cash flows from operating activities include cash flows with respect to acquisitions and net sales of financial investments and investment property derived from activities with respect to insurance contracts and investment contracts.

2) Cash flows from operating activities include cash flows with respect to received dividends and interest, as specified in Annex E.

The accompanying notes to the interim consolidated financial statements are an integral part thereof.

Consolidated Statements of Cash Flows for the Year Ended December 31 (Cont.)

	For the year ended December 31		
NIS in thousands	**2019**	**2018**	**2017**
(A) Cash flows from operating activities before taxes on income (Cont.)			
Changes in other items in the statement of financial position, net			
Securities held for trading by consolidated companies which are not insurance companies	**4,871**	3,605	8,953
Other accounts receivable	**441,073**	(706,238)	(214,885)
Outstanding premiums	**176,708**	16,986	(27,324)
Other accounts payable	**269,615**	(334,888)	381,992
Liabilities with respect to employee benefits, net	**(825)**	4,786	11,607
Total cash flows from operating activities before taxes on income	**3,061,668**	(550,845)	2,303,725
(B) Cash and cash equivalents at beginning of year:			
Cash and cash equivalents for investment-linked contracts	**3,648,899**	4,529,446	2,953,235
Other cash and cash equivalents	**1,298,286**	1,405,863	1,390,775
Balance of cash and cash equivalents at beginning of year	**4,947,185**	5,935,309	4,344,010
(C) Cash and cash equivalents at end of year:			
Cash and cash equivalents for investment-linked contracts	**6,554,645**	3,648,899	4,529,446
Other cash and cash equivalents	**2,558,717**	1,298,286	1,405,863
Balance of cash and cash equivalents at end of year	**9,113,362**	4,947,185	5,935,309
(D) Cash flows with respect to interest and dividends received, included under operating activities:			
Interest received	**2,177,448**	2,222,119	2,171,212
Dividend received	**479,198**	455,819	411,963
(E) Operations which are not associated with cash flows			
Investment in assets against other accounts payable	**-**	14,699	544,124

The accompanying notes to the interim consolidated financial statements are an integral part thereof.

Notes

Note 1: General

A. Reporting entity

Clal Insurance Enterprises Holdings Ltd. (hereinafter: the "**Company**") is a company registered in Israel, and incorporated in Israel, whose official address is 36 Raul Wallenberg Rd., Tel Aviv. The Company's securities are listed for trading on the Tel Aviv Stock Exchange.

The condensed consolidated financial statements as of December 31, 2019 (hereinafter: the "**Financial Statements**") include the statements of the Company and its subsidiaries (hereinafter, jointly: the "**Group**"), as well as the Group's interests in joint ventures and associates.

During the years 2013 to 2019, as a precaution, the Company considered IDB Development Corporation Ltd. ("**IDB Development**") as the Company's controlling shareholder.

On December 8, 2019, the Company received a letter from the Commissioner (the "**Commissioner's Letter**"), in which the Commissioner announced, inter alia, that in light of the changes which occurred in IDB Development's stake in the Company, the Commissioner evaluated the issue of the control of the Company. In accordance with the Commissioner's letter, as part of the aforementioned evaluation, the positions of the Ministry of Justice, the Israel Securities Authority and the Competition Authority were received as well. The findings of the aforementioned evaluation, which, according to the Commissioner's position, are based on the Company's representations, indicated that, as of the date of the letter, there is no entity which holds, directly or indirectly, the Company's means of control, in a manner which would create an obligation to obtain a permit for the control of the Company in accordance with section 32(b) of the Control of Financial Services (Insurance) Law, 1981 (the "**Insurance Law**"), and therefore, the Company is required to receive a permit for the control of Clal Insurance from the Commissioner. Discussions are being held between the Company and the Commissioner regarding the aforementioned control permit.

Accordingly, IDB Development is no longer considered the Company's controlling shareholder for the purpose of the provisions of the Companies Law, 1999, the provisions of the Securities Law, 1968, and the provisions of the Law to Promote Competition and Reduce Concentration, 2013 (the "Concentration Law"). Accordingly, the Company is no longer considered a "second tier company", and Clalbit Finance Ltd., a reporting corporation controlled by Clal Insurance, is no longer considered an "other (third) tier company", as these terms are defined in the Concentration Law, and the Company and additional real corporations in the Group, which are not institutional entities, are no longer considered significant real corporations.

B. Developments during the reporting period with respect to IDB Development's holdings in the Company

1. Appointment of a trustee for the controlling shareholder's holdings in the Company's shares

On August 21, 2013, in accordance with the Commissioner's demand, IDB Development submitted an irrevocable power of attorney to Mr. Moshe Terry, who was appointed by the Commissioner as the trustee for approximately 51% of the issued share capital and voting rights in the Company, which were held on the foregoing date by IDB Development (hereinafter: the "**Means of Control**"), and transferred the shares to the trust account, under the name of the trustee, for the purpose of exercising the authorities conferred by virtue of the means of control, in accordance with the provisions of the deed of trust, and with the aim of disconnecting the Company and the institutional entities in the Group from any possible influence due to the struggles for control of the IDB Group which took place during the relevant period.

The deed of trust which was signed by IDB Development formalizes the trustee's authorities. In accordance with the deed of trust, the trustee will exercise all of the authorities which are conferred upon him by virtue of the means of control in favor of IDB Development, and in accordance with the Commissioner's directives, insofar as any will be issued to him, from time to time, in order to ensure the proper management of Clal Insurance Company Ltd. (hereinafter: "Clal Insurance"), Clal Credit Insurance Ltd. and Clal Pension and Provident Funds Ltd. (hereinafter, jointly: the "**Clal Entities**"), including with respect to raising capital in favor of the Clal entities, in any manner considered appropriate in his judgment. The transfer of the means of control to the trustee will not prejudice the right of IDB Development to receive dividends from the Company, insofar as any dividend distribution will be decided upon. Additionally, in case of a sale, transfer or pledge of the means of control, the trustee will act in accordance with the instructions of IDB Development, provided that advance written approval has been received for this purpose from the Commissioner. The trusteeship will end on the date of the actual transfer by the trustee of all of the means of control, or upon the issuance of approval by the Commissioner. The Commissioner also formalized the trustee's activities in letters and guidelines.

During the period since the appointment of the trustee, clarifications were received by the Company from the Commissioner, regarding the relationship between IDB Development and its controlling shareholders, and the Company and entities under its control.

Additionally, during the period since the appointment of the trustee, various directives have been received from the Commissioner regarding the appointment of directors in the Group. For additional details, see section 4 below.

2. Establishment of an outline over time for the sale of IDB Development's control and holdings in the Company, legal proceedings, and implementation of the outline during the years 2017-2019

On December 30, 2014, a letter was received from the Commissioner, addressed to IDB Development and its controlling shareholders, which included, inter alia, an outline over time for the sale of IDB Development's control of and holdings in the Company, as specified below, as well as provisions regarding the continued tenure of the trustee.

On January 7, 2016, the Commissioner notified IDB Development and Mr. Eduardo Elsztain that from that date onwards, IDB Development was required to comply with the provisions of the outline, which requires, in general, the sale of means of control on the stock exchange or in over the counter transactions at a minimum rate of 5% in each four month period, up to the rate permitted by law for the holding of an insurer without a permit from the Commissioner, including through sale of the means of control on the stock exchange or in over the counter transactions.

Additionally, in accordance with the approval which was given by the Commissioner and the Court, approval was given for IDB Development to sell the shares by way of a "swap transaction", in which the sold shares will be sold in a full sale (without reservations, without conditions, and without right of recourse), by IDB Development to a third party, in a transaction which will be executed through a banking institution, in accordance with the price which was determined by agreement between IDB Development and the third party.

Accordingly, during the period from May 3, 2017 to August 30, 2018, IDB Development sold Company shares which together constituted approximately 25% of the Company's shares (5% on each of the dates), and engaged, in parallel with each sale, in a swap transaction with a banking institution, according to which, at the end of a period which will end no later than 24 months after the date of each sale transaction (the "**Swap Period**"), each of the swap transactions will expire, and a settling of accounts will be performed between IDB Development and the banking institution, with respect to the difference between the selling price of the sold shares to the relevant third party, and the value of the sold shares, as of the date of settling of accounts (which will be determined according to the price at which the sold shares will be sold on that date by the third party), where IDB Development and a related party thereof will be estopped from acquiring the sold shares. Additionally, on November 8, 2018, IDB Development reported that it had engaged in a swap transaction with a banking institution in connection with approximately 5% of the Company's shares, which were sold by Bank Hapoalim Ltd., in accordance with the same principles as those which applied in previous swap transactions which were performed by IDB Development with respect to the Company's shares which it held, as stated above.

As part of IDB Development's understandings vis-à-vis the Commissioner from December 18, 2018, IDB Development undertook to avoid, in the future, entering into any additional swap transactions beyond those which currently apply to the Company's shares, as specified above, and to avoid extending the existing swap transactions in connection with the Company's shares.

During the period from 2017 until the publication date of the report, shares in the Company were sold such that the holding rate of IDB Development decreased from approximately 55% of the Company's issued and paid-up share capital to a total rate (as of the publication date of the report, and following a share issuance which was performed by the Company in December 2019) of approximately 8.51% of the Company's issued capital[1] (approximately 8.49% fully diluted), of which approximately 3.51% is held through the trustee, and approximately 5.0% is held directly[1].

IDB Development also engaged in swap transactions with various banking institutions, with respect to shares in the Company which it sold to third parties (hereinafter: the "**Buyers**" and the "**Swap Transactions**", as applicable). During 2019 and until the reporting date, some of the swap transactions concluded, such that, as of the publication date of the report, their rate amounts to approximately 7.1% of the Company's issued capital. IDB Development clarified that, in accordance with the terms of the swap transactions, it is unaware of the buyers' identity[2].

To the best of the Company's knowledge, as of the publication date of the report, IDB Development is a private company wholly owned by Dolphin Netherlands B.V. ("**Dolphin Netherlands**"), a private company incorporated in the Netherlands, which is a corporation under the control of Mr. Eduardo Elsztain (through corporations under his control). IDB Development constitutes a reporting corporation, due to the fact that its bonds are listed for trading on the Tel Aviv Stock Exchange.
As of the publication date of the report, two entities have received a permit for holding means of control, as specified in Note 40(a)(1) below.

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[1] On November 19, 2019, IDB Development issued bonds (Series O), and pledged in favor of the holders of the aforementioned bonds approximately 4.09% of the Company's shares which are held by IDB Development (approximately 4.08% of the Company's shares (fully diluted), and as of the reporting date, approximately 5% are pledged in favor of the bondholders (Series O), as well as the cash proceeds from the additional shares of the Company which are held by the Trustee, as stated above (the "**Base Shares**"), instead of a lien on the aforementioned collateral in favor of the bondholders (Series K and Series M) of IDB Development, which were repaid in November 2019. The current total number of base shares is 3,382,243 Company shares (constituting approximately 5% of the Company's issued and paid-up capital).

[2] It is noted that IDB Development announced that, in accordance with legal position number 101-22, which was published by the Israel Securities Authority on February, 28, 2019 (the "Authority's Position"), and for the sake of prudence, it is considered (in accordance with the Authority's position) as holding approximately 44.3% (at that time) of the Company's issued and paid-up share capital, whereby, with respect to approximately 24% (at that time), IDB Development is considered as the holder jointly with third parties, whose identity is not known to it, in accordance with the terms of the swap transactions. The staff of the Israel Securities Authority clarified to the Company that, as stated in its position, the position entered into effect beginning on its date of publication, and therefore, it does not apply to existing transactions which have not yet concluded, and whose commencement date was before the publication date of the position.

3. Engagements of IDB Development with buyers:

On May 2, 2019, IDB Development engaged in agreements with two third parties which are unrelated to IDB Development (the "Buyers"), according to which each of the buyers will acquire Company shares in the Company 4.99% of its issued capital. Additionally, one of the buyers was given the option to acquire additional shares which constitute approximately 3% of the Company's issued capital. Additionally, IDB Development engaged in an agreement with a third buyer, which is unrelated to IDB Development, and which will acquire the shares through a special purpose company (a company wholly owned by Mr. Eyal Lapidot) (the "Lapidot"), according to which he will receive from IDB Development an option to acquire shares which constitute 4.99% of the Company's issued capital (and no less than 3% of its issued capital). It was further determined that the consideration with respect to the share options will be paid by Lapidot in a manner whereby 10% of the consideration will be paid in cash, and the remainder through a loan which will be provided to Lapidot (the "Seller's Loan").

The agreements with the buyers and the agreement with Lapidot (jointly: the "Buyers") include, inter alia, an undertaking not to sell the acquired shares during agreed-upon periods. The buyers declared and undertook towards IDB Development that no arrangements or understandings whatsoever exist between them and the other buyers, regarding the joint holding of the Company's shares which form the subject of the agreements.

In accordance with the seller's loan, the Company's shares which will be acquired as part of the exercise of the option will not be pledged in favor of IDB Development; however, Lapidot undertook to create a negative pledge in favor of IDB Development (in other words, the only activity of the abovementioned special purpose company will be to hold the Company's shares, that it will not engage in any other activity and/or transaction whatsoever, that it will not take any other loan or debt whatsoever, and that it will not sell and/or pledge and/or convey any other right to its shares and to the Company's shares which it will acquire during the loan period, except if determined otherwise in the agreement). Restrictions were also established with respect to the sale of Company shares which will be acquired as part of the exercise of the option, as stated above.

On June 16, 2019, Lapidot announced that he was exercising the option. On September 16, 2019, IDB Development announced that it had received a binding offer from a financial entity (the "**Offeror**"), according to which the offeror would acquire from IDB Development all of IDB Development's rights and obligations in connection with the seller's loan. On October 31, 2019, IDB Development entered into agreements for the execution of the transaction with the offeror and Lapidot, and on November 7, 2019, the transaction was closed, and 4.99% of the shares were transferred to a company owned by Lapidot. It is noted that Mr. Lapidot submitted a request to the Commissioner and the Company's Chairman of the Board to be appointed as a director in the Company.

4. Provisions regarding the appointment of directors in the Company

In the Commissioner's letter dated December 30, 2014, regarding the outline for the sale of IDB's control and holding of the Company (see section 1(b)(2) above), it was clarified, inter alia, that during the trustee's period of tenure, the appointment of directors in the Company and in Clal Insurance will be performed by the committee for the appointment of directors in an insurer with no controlling shareholder, as defined in the Control Law. Insofar as it will not be possible to appoint directors by the aforementioned committee, the appointment of directors in these companies will be performed by another committee, which will be appointed by the Minister of Finance or by the Commissioner, or by any other means, as instructed by the Commissioner.

During the period since the appointment of the trustee, various directives have been received from the Commissioner regarding the appointment of directors in the Group, including through a committee which was appointed for this purpose.

Directors and outside directors of the Company and of Clal Insurance were appointed, from time to time, in accordance with the appointed committee's recommendations.

In the Commissioner's letter dated December 8, 2019, in which it was determined that there is no entity which holds, directly or indirectly, the Company's means of control, the Commissioner determined, in consideration of the presumption which is prescribed in the definition of an "insurer", in accordance with section 31A of the Control Law, that the provisions of the Control Law regarding arrangements for the appointment of directors in an insurer with no controlling shareholder, apply both to the Company and to Clal Insurance[3]. In these circumstances, he considered it appropriate to determine, in the conditions of the permit for control of Clal Insurance, that without derogating from the provisions of any applicable law, the method for appointing directors in the Company and in Clal Insurance will be similar to the mechanisms currently prescribed in the Control Law regarding the appointment of directors in an insurer with no controlling shareholder, as specified below: a proposal to appoint directors in the Company and in Clal Insurance may be presented by anyone who is entitled to do so by law, and by the director appointment committee which was established in accordance with section 41m of the Control Law (the "Committee"), or, if a committee has not been appointed, or if the committee is unable to propose candidates for appointment, the Commissioner will establish an alternative mechanism for proposing directors, without prejudice to the right of another shareholder to propose candidates by law, insofar as any such right is available.

In February 2020, the general meeting of Clal Insurance approved an extension of the tenure of independent directors in Clal Insurance, in accordance with the recommendation of an internal search committee which is comprised of directors (mostly outside directors) that was created in accordance with the Board of Directors Circular[4].

5. Implications

As of the reporting date, the Company is unable to estimate the entire impact of the results of the aforementioned events on them, which may result in additional changes in the holding and control of the Company, and which may affect, inter alia, the reputation and ratings of the Company and of the Group's member companies.

Additionally, the transfer of the control in the Company to a third party may affect clauses in certain agreements of member companies in the Group with third parties (including reinsurers), which may require, upon the fulfillment of circumstances involving the above change in control, negotiations with these third parties in order to keep the agreements in force.

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[3] In accordance with the Commissioner's letter, according to the definitions presented in section 31A of the Control Law, both the Company and Clal Insurance are considered "insurers" for the purpose of evaluating the control of Clal Insurance.

[4] In accordance with the Commissioner's clarification, and in accordance with the provisions of section 5(3) of the circular, and notwithstanding the requirement in section 52 of the circular, which determines that the search committee is required, inter alia, to identify suitable candidates for appointment as independent directors, when renewing the tenure of a person who is serving as an outside director in the institutional entity, the search committee is entitled not to conduct a process of identifying additional candidates, in accordance with the provisions of section 52 of the circular, provided that the committee has evaluated the qualifications of the aforementioned director, and their suitability for the position, in accordance with section 52(b) of the circular.

Note 1: General (Cont.)

C. Definitions - in these financial statements:

The Company - Clal Insurance Enterprises Holdings Ltd.

The Group - The Company and its consolidated companies.

Consolidated Companies / Subsidiaries - Companies, including partnerships, whose reports are fully consolidated, directly or indirectly, with the Company's reports.

Investee Companies - Consolidated companies and companies, including partnerships or joint ventures, where the Company's investment in them is included, directly or indirectly, in the financial statements, according to the equity method.

Joint Arrangements - Arrangements in which the Group holds joint control, which was obtained through a contractual agreement which requires unanimous consent regarding activities which significantly affect the returns of the arrangement. Investments in joint arrangements are classified as joint operations or joint ventures, based on the rights and obligations of the parties to the arrangement. Joint ventures are any joint arrangements which are incorporated as a separate entity, and in which the Group has rights to the net assets of the joint arrangement.

Associate Companies - Associate companies are entities regarding which the Group has significant influence over the financial and operational policy, although control of them has not been obtained, and where the Company's investment in such companies is included in the Company's consolidated financial statements according to the equity method.

Interested Parties - As defined in paragraph (1) of the definition of an interested party in a corporation in section 1 of the Securities Law, 1968.

Related Parties - As defined in International Accounting Standard 24 (2009), Related Parties.

Member Companies of IDB Group - The term "Member Companies of IDB Group" in the financial statements refers to IDB Development and to those of its investee companies which are not the Company and its investee companies.

The Commissioner - The Commissioner of the Capital Markets, Insurance and Savings Authority.

The Control Law - The Control of Financial Services (Insurance) Law, 1981, including the amendments thereto.

The Capital Regulations - The Control of Financial Services Regulations (Insurance)(Minimum Equity Required of Insurer), 1998, including amendments enacted pursuant thereto, which were canceled in 2018. See Note 16(e).

The Investment Rules Regulations - The Control of Financial Services Regulations (Provident Funds) (Investment Rules Applicable to Institutional Entities), 2012, and directives issued by the Commissioner in accordance therewith.

Economic Solvency Regime - As defined in insurance circular 2017-1-9.

The Reserve Calculation Regulations - The Control of Financial Services Regulations (Insurance) (Calculation of Reserves in Non-Life Insurance), 2013.

Insurance Contracts - Contracts whereby one party (the insurer) takes a significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder in the event that a certain, pre-defined future event (the insurance event) occurs which adversely affects the policyholder.

Investment Contracts - Policies which do not constitute insurance contracts.

Investment-linked contracts - Insurance contracts and investment contracts in life insurance and long-term care insurance, where the insurer's liabilities, due to the savings component or risk of such contracts, are for the most part linked to the returns of the investment portfolio (profit sharing policies), in assets for investment-linked contracts.

Assets for Investment-Linked Contracts - Assets held against liabilities due to investment-linked contracts.

HETZ Bonds - CPI-linked government bonds which the state issues to insurance companies, and which back guaranteed-return policies.

Liabilities with Respect to Insurance Contracts - Insurance reserves and outstanding claims in the long term savings, non-life insurance and health insurance segments.

Reinsurance Assets - The share of reinsurers in payments and changes in liabilities with respect to insurance contracts.

Premiums - Premiums including fees.

Premiums Earned - Premiums attributable to the reporting period.

D. Events after the balance sheet date

After the balance sheet date, and until the publication date of the report, several significant events occurred, including the following:

Following the outbreak of the coronavirus in China, and its spread to many other countries, economic activity has declined around the world, including in Israel (the "**Crisis**"). These changes have affected, and continue to affect, the Company's activity and profitability. Regulatory directives were also published which, insofar as they are accepted as final directives, will have a positive impact. Details regarding the events are provided below:

Capital markets

Subsequent to the reporting date, a significant decline was recorded in global and Israeli capital markets, due to the coronavirus outbreak. Declines in capital markets reduce the value of the assets which are managed by the Group's institutional entities, both on its own behalf (nostro), and on behalf of members and policyholders.

As of proximate to the publication date of the report, the Company recorded impairment with respect to marketable investments only, in the nostro portfolios, in the amount of approximately NIS 0.6 billion before tax. The Company is also exposed to the impairment of non-marketable investments, which at this stage cannot be quantified.

There was also a decrease in the value of assets managed by the Group through investment-linked policies, provident funds and pension funds, which is estimated at around 10%, and which is also expected to affect the scope of variable and fixed management fees collected by the Company from its managed assets. As of proximate to the publication date of the report, negative real returns were recorded in the profit sharing insurance policies which, until the loss has been recouped, will prevent the Company from collecting variable management fees in the amount of approximately NIS 0.7 billion before tax.

It is noted that the returns are not final, and the Company's results are affected by the returns of the non-marketable portfolio, the Group's other revenues, and expenses. Additionally, due to the sharp volatility of financial markets, the effects described above may change significantly, depending on developments in the capital market.

Implications for the Group's business activities

Due to the crisis, the exposure to credit defaults in the credit insurance activity has increased, and a certain increase has occurred in the scope of member redemptions, and the Company estimates that a significant decline may occur in future deposits to long term savings products, in light of the significant decrease in the scope of employment in the economy, according to public reports. Redemptions and the decrease in the scope of deposits are expected to affect both the scope of variable and fixed management fees which the Company collects from its managed assets, and future premium revenues, and accordingly, the recoverability of the Company's intangible assets. The Company also granted a benefit to a considerable part of its policyholders who have been furloughed, in which free risk and loss of working capacity insurance coverage was given for a period of three months.

The prolongation and intensification of the coronavirus crisis around the world and in Israel may also cause significant harm to the Company's business operations, if the crisis deepens into a recession, both in the local market and in the global markets. This could adversely affect the stability of reinsurers, and could impair the value of other investment assets, and credit defaults in the credit insurance activity may increase. The consequences of the crisis may also lead to conflicting results in the life insurance segment, which means that the overall impact on this subject cannot be quantified. A certain decline in results is possible in health insurance, due to changes in the cost of claims, and due to the decline in the sale of international travel insurance, as well as a certain increase in the scope of claims with respect to these policies. In non-life insurance, the policies do not cover pandemic events, and there a certain decline may even occur in the scope and frequency of claims, due to the reduction in economic activity. On the other hand, the situation described above may result in a decline in the scope of premiums charged, mostly in the business insurance segments. The Company is evaluating its actions in a challenging and changing business environment, including in connection with covers which were sold and changes in demand which may result in the future.

Operational implications

On March 18, 2020, the Commissioner published an announcement regarding the transition of institutional entities to work in a reduced format, and on March 21, 2020, the State of Emergency Regulations (Limit on Number of Employees Due to the Novel Coronavirus Outbreak), 2020, were signed, which are intended to prevent the spread of the coronavirus and to protect public health, and dictate that, in general, no more than 30% of the workforce may be present at a workplace. However, the regulations do not apply to the entities specified therein, provided that those entities have reduced their activities to critical activities only. the Group's institutional entities are included on the list of entities which are not subject to the regulations, as well as entities which provide services or products for the purpose of allowing the continued proper operation of entities which were excluded from the scope of the directive. In light of the foregoing, and in light of the restrictions on movement and employment, the Group has begun working in a limited format, in which a considerable number of employees were placed on continuous leave, and were given the opportunity to use accumulated vacation days, or alternatively, to be furloughed. Additionally, other Company employees will be instructed to use vacation days, in accordance with the guidelines given by managers, and in accordance with the Company's needs, in a manner which reflects, on average, one weekly vacation day per employee. The Company is preparing for remote work, including for the provision of service by the operating teams during the crisis period, and particularly with respect to critical processes which were defined. However, the longer the situation continues, and/or the more severe the restrictions become, difficulties may arise in the ability to continue providing orderly service.

Additional implications affecting the Group's results

From the reporting date until proximate to the publication date, the interest rate curve increased both in the short term and, more moderately, in the long term. In addition to the impairment of marketable assets due to these changes, as described above, these changes also affect insurance liabilities, further to that stated in Note 39(e)(e1) and (e2). However, due to the fact that the change was not made in parallel, and due to effects in opposite directions on the calculation components, at this stage it is not possible to quantify the full impact of the change in the interest rate curve.

It is noted that, insofar as the changes proposed in the draft LAT circular (see Note 43(j) above) are adopted, which dictate retrospective adoption of the financial reports, the Company estimates, according to a preliminary estimate, and assuming that it will be possible to reduce the balance of the liability with respect to the liability adequacy test in life insurance, that the insurance reserves as of December 31, 2019 will decrease, and accordingly, equity will increase in the amount of approximately NIS 794 million before tax (a total of approximately NIS 520 million after tax), which will mostly be attributed to the reporting period. These changes are also expected to affect the sensitivity to changes in interest rates, relative to the current sensitivity, as specified in Note 39(c)(2) regarding risk management in the consolidated annual financial statements.

Regarding the solvency ratio of Clal Insurance as of December 31, 2019, which was scheduled for publication in May 2020, and which was expected to be negatively affected by the interest rate cut in the second half of 2019, the Company estimates that it will meet its capital requirements, taking into account the current distribution provisions.

Additionally, in light of the provisions of the draft amendment to the provisions of the economic solvency regime, which was published on March 19, 2020, and the Commissioner's letter which was published on that date, it is expected that if and when the draft circular becomes final, the required solvency ratio will improve relative to the ratio which would have been calculated according to the current format, and will be published until August 2020. For details, see Note 16(e)6(d) to the financial statements,

Regarding the solvency ratio in the period after the reporting date, at this stage, it is not possible to fully quantify these effects, due to the opposing effects of the different factors on the solvency ratio. The calculation which will take into account the above and other developments, and is expected to be calculated as of December 31, 2020, and to be published in May 2021, and by that date, the regulatory directives on this matter are expected to be clarified as well.

Summary

As of the reporting date, the Company is unable to estimate the total impact of all of the aforementioned events on the business activities of the Company and its subsidiaries, in the aforementioned respects, in a challenging business environment, or additional aspects of which it is not aware at the present time, or its results, since the event is ongoing, and is not under the Company's control, including factors such as the continued spread of the virus, or the containment thereof, and the period of disruption to business activity could affect the Company's medium term and long term preparations, including in connection with preparations for future sales. The Company is continuously monitoring developments in Israel and around the world, and is evaluating the implications for its activities and asset value, including with respect to the results for the first quarter of 2020, and the economic solvency ratio of Clal Insurance. The aforementioned uncertainty is affected, inter alia, by the fact that some of these regulatory directives are in stages of regulation or implementation, and there is no certainty regarding their final wording, if and insofar as they are accepted, and/or regarding their effects, including regarding the issues regulated therein, and whose full manner of implementation not yet been determined / clarified.
For details regarding sensitivity tests to market risks, see Note 39(c)(2) regarding risk management in the consolidated financial statements.

For details regarding the method used to collect variable management fees, see Note 3(n)(3)(a).

Note 2: Basis for Preparation of the Financial Statements

A. Preparation framework of the financial statements

The financial statements have been prepared by the Group in compliance with International Financial Reporting Standards (hereinafter: "**IFRS**"). These financial statements have also been prepared in accordance with the disclosure requirements issued by the Commissioner, in accordance with the Control Law, and in accordance with the disclosure requirements under the Securities Regulations (Annual Financial Statements), 2010, to the extent to which these regulations apply to a corporation which consolidates insurance companies.

B. Functional currency and presentation currency

The financial statements are presented in NIS, which is the Company's functional currency, and are rounded to the nearest thousand, unless stated otherwise. NIS is the currency which represents the primary economic environment in which the Company operates.

The following are details regarding changes that occurred in the consumer price index (hereinafter: the "**CPI**") and in the representative Euro, US Dollar (hereinafter: "**USD**") and Pound Sterling exchange rates:

	Index in lieu	Known index	Representative EUR exchange rate	Representative USD exchange rate	Representative GBP exchange rate
			%		
For the year ended December 31					
2019	**0.6**	**0.3**	**(9.6)**	**(7.8)**	**(4.9)**
2018	0.8	1.2	3.3	8.1	2.4
2017	0.4	0.3	2.7	(9.8)	(0.9)

	Representative EUR exchange rate	Representative USD exchange rate	Representative GBP exchange rate
As of December 31, 2019	**3.878**	**3.456**	**4.560**
As of December 31, 2018	4.292	3.748	4.793
As of December 31, 2017	4.153	3.467	4.682

C. Measurement basis

The financial statements were prepared on a historical cost basis, except for the following main assets and liabilities:

- Insurance liabilities.
- Financial instruments and derivatives which are measured at fair value through profit and loss.
- Financial instruments and derivatives which are measured at fair value through other comprehensive income.
- Investment property measured at fair value.
- Provisions.
- Deferred tax assets and liabilities.
- Assets and liabilities with respect to employee benefits.
- Investments in associate companies and joint ventures.

For details regarding the method used to measure these assets and liabilities, see Note 3 below, Summary of Significant Accounting Policies.

Note 2: Basis for Preparation of the Financial Statements (Cont.)

D. Operating cycle and reporting structure

The Group's ordinary operating cycle, which primarily includes financial institutions, cannot be clearly determined, and primarily exceeds one year, particularly with reference to the long term savings segment, the long-term care and long term health branches in the health segment, and the long tail non-life insurance branches.

The consolidated statements of financial position, which primarily include the assets and liabilities of consolidated insurance companies, were presented by order of liquidity, with no distinction made between current and non-current. This presentation conforms with the Commissioner's guidelines, and provides more reliable and relevant information.

E. Use of estimates and discretion

1. Discretion with significant impact

   As part of the process of applying the significant accounting policies in the Group on the following subjects, management exercised discretion which had a significant impact on the financial statements:

   Classification between insurance contracts and investment contracts - insurance contracts are contracts in which the insurer accepts a significant insurance risk from another party. Management considers, with respect to each individual contract, or with respect to a group of similar contracts, whether such products involve accepting significant insurance risk, and classifies them accordingly as either insurance contracts or investment contracts.

2. Critical estimates

   In preparing the financial statements in accordance with IFRS and in accordance with the Control Law, regulations enacted pursuant thereto, and directives of the Commissioner, company management is required to exercise judgment in making estimates, assessments and assumptions which affect the implementation of the accounting policy and the amounts of assets and liabilities, revenues and expenses. It should be clarified that actual results may differ from these estimates, inter alia, due to regulatory changes which were published, or which are expected to be published in the insurance, pension fund and provident fund segments, and regarding which there is uncertainty as to their manner of realization and implications.

   When formulating estimates which are used in the preparation of the Group's financial statements, management is required to make assumptions with regard to circumstances and events involving significant uncertainty. When applying judgment regarding the judgment estimates, group management relies on past experience, various facts, external factors and reasonable assumptions regarding future expectations, insofar as they are estimable, according to the appropriate circumstances for each estimate.

   The underlying estimates and assumptions are reviewed on an ongoing basis. Changes in accounting estimates are recognized for the period during which the estimates were updated, and for all other affected future periods.

   Presented below are the main assumptions made in the financial statements in connection with the uncertainty as of the reporting date and critical estimates which were calculated by the Group and where a significant change therein, particularly in light of the aforementioned regulatory changes, may result in a material adjustment to the book values of assets and liabilities in subsequent reporting periods:

   (A) Liabilities with respect to insurance contracts - Liabilities with respect to insurance contracts, and the evaluation of the adequacy of such liabilities, are primarily based on actuarial valuation methods and on the assumptions described in Note 39(e).

   The actuarial estimates and the various assumptions are primarily derived from past experience, and are based on the assumption that the behavior pattern and past claims represent future occurrences, while taking into account, as much as possible, regulatory and business changes. The actuarial estimates and assumptions are evaluated at least once per year. Variability in risk factors, in the frequency or severity of events, as well as changes in the legal situation, may materially affect the amount of liabilities with respect to insurance contracts. It is noted that the following changes, including, inter alia, changes in estimated life expectancy, in the rate of policyholders who choose the option to withdraw funds by way of a pension, in the selection of the various annuity tracks, in the morbidity rate, in the retirement age of policyholders and in the cancellation rate, may have a significant impact on the financial statements.

   For details regarding changes in the main assumptions which were used to calculate insurance liabilities in life insurance and health insurance, including the liability for supplementation of the annuity reserve, see Note 39(e)(e1)(d). For details regarding changes in the calculation of insurance liabilities in non-life insurance, see Note 39(e)(e2).

   For details regarding the sensitivity tests to insurance risk, see Note 39(e)(e1)(c).

Note 2: Basis for Preparation of the Financial Statements (Cont.)

E. Use of estimates and discretion (Cont.)

(2) Critical estimates (Cont.)

(B) Legal claims which are not in the ordinary course of business - Estimates regarding the chances of the legal claims which were filed against member companies in the Group rely on the opinion of legal advisors with respect to the final results of the proceedings. These opinions are based on their best professional judgment, in consideration of the current stage of the proceedings, in consideration of the amount of legal experience which has accumulated, if any, on the various subjects, and based on the estimate of the relevant companies regarding the amounts of the settlement arrangements, which the managements of the consolidated companies expect are more likely that not that to be paid by them. It is emphasized that the results of the claims, as determined in the Courts, may differ from the aforementioned estimates. The amounts of the provisions which were performed are based on an estimate of the risk level in each of the claims as of a date proximate to the publication date of the financial statements. On this matter, it should be noted that events which occur during litigation may require re-evaluation of this risk.

It is hereby emphasized that, in the attorneys' opinion, concerning the motions to approve class action status, the attorney's evaluation refers to the chances of the motion to approve class action status, and in some cases only, refers to the chances of the claim on the merits, in the event that it is approved as a class action. This is due, inter alia, to the current stage of the proceedings, and to the fact that the scope and content of hearing the claim on the merits, once granted class action status, will be affected by the Court's decision with respect to the granting of class action status, which usually refers to the causes of action that were approved or not approved, to reliefs that were approved or not approved, etc.

If the hearing of a legal claim (it is hereby clarified, for the avoidance of doubt, that the hearing of a claim does not include determinations regarding motions to recognize class actions and other interim motions) in a certain instance is determined against the Group's member companies, a provision will be recognized or updated in the financial statements which are published for the first time after the date of the determination, even if, in the opinion of group management, based on the opinion of its legal counsel, the result in an appeal to a higher instance will be different, and that at the end of the proceedings, the Group will not be charged (except in cases where the appeal is highly likely to be accepted).

In addition to the above claims, the Group's member companies are also exposed to unasserted claims / lawsuits which are due, inter alia, to the existence of doubt as to the interpretation of an agreement and/or a provision of the law and/or the manner of their implementation. Such exposure is brought to the attention of the Group's member companies in several ways, including, inter alia: through contact initiated by customers with entities in the Group, and especially as directed to the Group's ombudsman; though complaints submitted by customers to the Public Appeals Division in the Capital Markets, Insurance and Savings Authority of the Ministry of Finance; and through (non-class action) claims which are filed with the Court. These topics are brought to the attention of the Group's management if and insofar as the entities handling them recognize that the claims may have broad effects. In the assessment of risk due to unfiled claims / lawsuits, group management relies on internal estimates of the handling entities, and on its estimates, which include weighing the chances that a claim will be filed and the claim's chances of success, if and insofar as it is filed. Such estimates are based on cumulative experience with regard to the filing of claims, and on an analysis of the claims based on their own merits. Due to the nature of circumstances, actual results may differ from the estimates that were prepared in a stage prior to the filing of the claim, in light of the preliminary stage of the hearing of the legal claim.

For additional details, see Note 42(a)-(d).

(C) Impairment of non-financial assets, including goodwill - The estimated value in use of the asset or the cash generating unit, as applicable, for the purpose of performing an impairment test of non-financial assets or of goodwill, is based on past experience and on the best estimates of group management regarding the economic conditions which will prevail during the remaining useful lifetime of the asset or cash generating unit. Changes in the estimates which were used to determine the recoverable amount may result in the carrying of impairment loss.

For additional information, see Notes 3(k)(2) and 6(b).

Note 2: Basis for Preparation of the Financial Statements (Cont.)

E. Use of estimates and discretion (Cont.)

(2) Critical estimates (Cont.)

(D) Fair value estimates - See section 3 below.

(E) Determination of the recoverability of deferred acquisition costs - The recoverability of deferred acquisition costs is evaluated at least once per year, using working assumptions, for example, regarding life and long-term care insurance policies, regarding cancellation, mortality and morbidity rates, and other variables, as stated in Note 39(e). In the event that these assumptions are not realized, it may be necessary to accelerate the amortization, or even to write off the deferred acquisition costs.

(F) Deferred tax assets - Deferred tax assets are recognized with respect to losses transferred for tax purposes and temporary differences which have not yet been used, if a future taxable income is expected to arise against which they can be used. Management is required to use judgment in order to determine whether a deferred tax asset can be recognized, as well as the recognizable amount of the deferred tax asset, based on the existence, timing and amount of projected taxable income For additional information, see Note 23.

(G) Impairment of financial assets

1. Financial assets at amortized cost - The provision for doubtful debts with respect to non-marketable debt assets, including with respect to loans and receivables, including reinsurers, outstanding premiums and other debts, is determined on a specific basis, and also based on a collective assessment of groups with similar credit risk characteristics. For additional information, see Note 3(f) and (k)(1), and Note 39(f)(2)(a.2).

2. Available for sale financial assets - For each reporting date, the Group evaluates whether objective evidence exists indicating that an asset's value has declined, and whether impairment has occurred with respect to it. For the purpose of evaluating the above impairment, the Group employs judgment regarding objective indicators which refer to the rates of fair value decline in percent, and regarding the continuity of the period of fair value decline. See also Note 3(k)(1).

(3) Determination of fair value

For the purpose of preparing the financial statements, the Group is required to determine the fair value of financial and non-financial assets and liabilities.

Fair value is the price which would be received upon the sale of an asset, or the price which would be paid upon the transfer of a liability, in an ordinary transaction between market participants on the measurement date. Fair value measurement is based on the assumption that the transaction takes place in the principal market of the asset or liability, or in the absence of a principal market, in the most advantageous market. The fair value of an asset or liability is measured using assumptions that the market participants would use when pricing the asset or liability, assuming that the market participants are operating in favor of their economic interests. Fair value measurement with respect to non-financial assets takes into account the market participant's ability to generate economic benefits by making best use of the asset, or by selling it to another market participant, who will make best use of the asset.

The Group uses valuation techniques which are appropriate for the circumstances, and for which there are sufficient obtainable inputs in order to measure fair value, while maximizing the use of relevant observable inputs, and minimizing the use of unobservable inputs.

Fair value amounts were determined for measurement and/or disclosure purposes using the methods described below. Additional information regarding the assumptions which were used in the determination of establishment of is included in the following notes:

- Note 10, regarding investment property, including with respect to investment-linked contracts
- Note 13, regarding assets for investment-linked contracts
- Note 14, regarding other financial investments
- Note 25, regarding financial liabilities
- Note 41, regarding share-based payment

Note 2: Basis for Preparation of the Financial Statements (Cont.)

E. Use of estimates and discretion (Cont.)

(3) Determination of fair value (Cont.)

Fair value hierarchy

In the determination of the fair value of an asset or liability, the Group uses observable market inputs, as much as possible. Fair value measurements are divided into three levels of the fair value hierarchy, based on the inputs used in the valuation, as follows:

Level 1 - Fair value which is measured according to quoted (non-adjusted) prices in an active market for similar instruments.
Level 2 - Fair value which is measured using directly or indirectly observable inputs which are not included in Level 1 above.
Level 3 - Fair value which is measured using inputs which are not based on observable market inputs.

The level within the fair value hierarchy to which the fair value measurement of the entire asset belongs, is determined based on the lowest level of data that are significant in the measurement of total fair value.

F. Reclassification

During the reporting period, immaterial classifications were made in Note 8, Note 11 and Note 20, as well as other immaterial classifications.

Note 3: Significant Accounting Policies

The accounting policy specified below was applied consistently by the Group for all periods presented in these consolidated financial statements.

A. Consolidation basis

1. Business combinations

The Group applies the acquisition method to all of its business combinations.

The acquisition date is the date on which the buyer obtains control of the acquired entity. Control exists when the Group is exposed, or holds rights, to variable returns due to its involvement in the acquired entity, and when it has the ability to influence those returns by exercising its influence over the acquired entity. The evaluation of control includes taking into account real rights which are held by the Group and by others.

The Group recognizes goodwill as of the acquisition date according to the fair value of the transferred consideration, including amounts recognized with respect to any non-controlling interests in the acquired entity, as well as the fair value, as of the acquisition date, of capital interests in the acquired entity which were previously held by the buyer, less the net amount attributed in the acquisition to identifiable assets that were acquired, and to liabilities that were accepted.

On the acquisition date, the buyer recognizes a contingent liability which was accepted in a business combination, if a present commitment exists which is due to past events, and if its fair value is reliably measurable.
In the event that the Group performs a bargain purchase (including one that includes negative goodwill), it recognizes the gains created as a result thereof in the statement of income, on the acquisition date.
Additionally, goodwill is not updated with respect to the use of transferred losses for tax purposes which existed on the business combination date.

Costs associated with the acquisition which materialized for the buyer with respect to a business combination, such as agent fees, consulting fees, legal fees, valuations and other fees with respect to professional services or consulting services, excluding services which are related to the issue of debt or equity instruments in connection with a business combination, are recognized as expenses during the period in which the services are received.

2. Subsidiaries

Subsidiaries are entities which are controlled, directly or indirectly, by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date control was obtained until the date control was lost.

The financial statements of pension funds and provident funds (excluding the Bar A Provident Fund, to whose members the Company has guaranteed minimum returns - see Note 39(d)(1)), which are under the Group's management, were not consolidated, due to the fact that the Group is not directly exposed to variable returns with respect to them, and therefore, does not control those entities.

The evaluation of control including taking into account also the overall relationship between the Group and those entities, and the Group's exposure to returns from other interests which it holds. This estimate also takes into account the Group's maximum exposure to the variability of returns, including with respect to management fees and the Group's guarantee to protect returns of members' rights in compensation programs.

The accounting policy of subsidiaries was changed insofar as was required in order to adjust it to the accounting policy which was adopted by the Group.

Note 3: Significant Accounting Policies (Cont.)

A. Consolidation basis (Cont.)

3. Non-controlling interests

Non-controlling interests constitute the total capital in a subsidiary that is not attributable, either directly or indirectly, to the Company.

Measurement of non-controlling interests on the business combination date
Non-controlling interests, which are instruments conferring ownership rights in the present, and which grant their holder a share in the net assets in case of liquidation (for example: ordinary shares), are measured on the business combination date at fair value, or according to their relative share in the assets and liabilities identified with the acquired entity, on a separate basis for each transaction.

Allocation of profit or loss and other comprehensive income between shareholders
Income or loss, and any component of other comprehensive income, is attributed to shareholders in the Company and to non-controlling interests. Total income or loss, or other comprehensive income or loss, is attributed to the owners of the Company and to non-controlling interests, even if, as a result, the balance of non-controlling interests is negative.

Transactions with non-controlling interests, while retaining control
Transactions with non-controlling interests, while retaining control, are treated as capital transactions. The Company chose to charge any difference between the consideration paid or received for the change in non-controlling interests to the capital reserve from transactions with non-controlling interests.

Furthermore, when making changes to its stake in a subsidiary while still retaining control, the Company re-attributes the cumulative amounts which were recognized under other comprehensive income between the Company's shareholders and the non-controlling interests.

4. Loss of control

When a loss of control occurs, the Group writes off the assets and liabilities of the subsidiary, as well as any non-controlling interests and other components of capital attributed to the subsidiary. If the Group remains with a certain investment in the former subsidiary, the balance of the investment is measured according to its fair value on the date of loss of control. The difference between the consideration for the fair value of the remaining balance of the investment, and the balances which were written off, is recognized under profit and loss, in the item for other income or expenses. From that date onwards, the remaining investment is accounted by the equity method or as an available for sale financial asset, according to the Group's degree of influence on the relevant company.

The amounts which were recognized in capital through other comprehensive income in connection with said subsidiary are re-classified to profit or loss or to retained earnings, in the same manner that would have been required had the subsidiary itself disposed of the assets or the liabilities in question.

Note 3: Significant Accounting Policies (Cont.)

A. Consolidation basis (Cont.)

5. Investments in associate companies and joint ventures

Investments in associate companies and joint ventures are accounted by the equity method (save as specified in section (f)(6) below), and are recognized for the first time at cost. The investment cost includes transaction costs. The consolidated financial statements include the Group's share in net income or loss, in other comprehensive income or loss, and in the net assets of investee companies accounted by the equity method, after performing adjustments required to adapt the accounting policy to that used by the Group, from the date when significant influence or joint control materialized, until the date on which the conditions for significant influence or joint control are no longer met.

The Group discontinues applying the equity method beginning on the date when it loses significant influence over the associate company or joint control of the joint venture, or when it rises to control of the investee company, and treats the remaining investment as a financial asset or subsidiary, as applicable.

On the date of loss of significant influence or joint control, the Group measures at fair value any remaining investment in the former associate company or joint venture. The Company recognizes profit or loss under the item for other income or expenses, with respect to any difference between the fair value of a particular remaining investment, and any consideration from the disposal of part of the investment in the associate company or joint venture, and the book value of the investment at that time. The amounts which were recognized under capital reserves through other comprehensive income, with reference to an investee company accounted by the equity method, are reclassified to profit and loss or to retained earnings, in the same manner which would have been required had the aforementioned investee company itself realized the assets or liabilities in question.

Changes to the holding rates of companies accounted by the equity method while retaining significant influence or joint control, including transition between significant influence and joint control, and vice versa

In case of an increase in the holding rate of a company which is accounted by the equity method while retaining significant influence or joint control, the Group applies the acquisition method only to the additional holding rate, while the previous holding remains unchanged.
In case of a decrease in the holding rate of a company which is accounted by the equity method while retaining significant influence or joint control, the Group writes off the proportional part of its investment, and recognizes the profit or loss from the sale under the item for other income or expenses in the statement of income. The cost of the rights which were sold for the purpose of calculating the profit or loss from the sale is determined according to a weighted average.
Additionally, at that time, a proportional part of the amounts which were recognized under capital reserves through other comprehensive income, with reference to the same company accounted by the equity method, is reclassified to the statement of income or to retained earnings, in the same manner as would have been required had the associate company or joint venture itself realized the assets or liabilities in question. The aforementioned accounting treatment is also relevant in cases where an investment in an associate company becomes an investment in a joint venture, or vice versa.

6. Transactions which were canceled as part of the preparation of the consolidated financial statements

Inter-company balances in the Group, and unrealized income and expenses resulting from inter-company transactions among the Group's member companies, were canceled as part of the preparation of the consolidated financial statements. Unrealized profits due to transactions with associate companies and with joint ventures were canceled against the investment, in accordance with the Group's rights in those investments. Unrealized losses were canceled in the same manner as that which was used to cancel unrealized profits, so long as no evidence of impairment existed.

Note 3: Significant Accounting Policies (Cont.)

A. Consolidation basis (Cont.)

7. Acquisition of property company

Upon the acquisition of a property company, the Group exercises judgment in its evaluation of whether it constitutes the acquisition of a business or a property, for the purpose of determining the accounting treatment for the transaction. In its evaluation of whether a property company constitutes a business, the Group evaluates, inter alia, the nature of the existing processes in the property company, including the scope and nature of the management, security, cleaning and maintenance services which are given to tenants. Transactions in which the acquired company is a business are treated as a business combination, as specified above. However, transactions in which the acquired company is not a business are treated as an treated as a group of assets and liabilities. In transactions of the business combination type, the acquisition cost, including transaction costs, is proportionately allocated to the identifiable assets and liabilities which were acquired, based on their proportional fair value as of the acquisition date. In the latter case, goodwill is not recognized, and deferred taxes are not recognized, with respect to temporary differences which exist as of the acquisition date.

B. Foreign currency

1. Transactions in foreign currency

Transactions in foreign currency are translated to the relevant functional currencies of the Group's member companies, according to the exchange rates that were in force as of the transaction dates. Monetary assets and liabilities denominated in foreign currency on the reporting date are translated to the functional currency according to the exchange rate which is in effect as of that date. Foreign currency differences with respect to the monetary items refers to the difference between the amortized cost of the functional currency at the start of the year, adjusted to the effective interest rate and to payments throughout the year, and the amortized cost of the foreign currency, as translated using the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies and measured at fair value are translated to the functional currency according to the exchange rate that is in force on the date of determination of fair value. Non-monetary items denominated in foreign currency and measured at historical cost are translated according to the exchange rate that was in force as of the transaction date.

Foreign currency differences arising from translation to the functional currency are generally recognized under the statement of income, excluding differences which are due to the translation of capital, non-monetary financial assets classified as available for sale and which are recognized under other comprehensive income (excluding in the case of impairment, in which case the translation differences which were recognized under other comprehensive income are reclassified to profit and loss).

2. Foreign operations

The functional currency, which is the currency that reflects, in the best possible manner, a company's economic environment and the transactions, is evaluated separately for each of the Group's member companies, including companies presented using the equity method. Such currency is then used to measure their financial positions and operating results. In cases where the functional currency of a Group member is different from the Company's functional currency (as described in Note 2(b) above), said company constitutes a foreign operation whose financial statements are translated for the purpose of including them in the financial statements, as follows:

The assets and liabilities of foreign operations, including goodwill and fair value adjustments which materialized at the time of acquisition, are translated to NIS according to the current exchange rate as of the reporting date. The income and expenses of foreign operations are translated to NIS using average exchange rates, which constitute an approximation of the rates that existed on the transaction dates.

Foreign currency differences with respect to the translation are recognized under other comprehensive income and are presented under capital, in the translation reserve.

In cases where a foreign operation is a subsidiary that is not wholly owned by the Group, the proportional part of the foreign currency differences with respect to the foreign operation is allocated to non-controlling interests.

Upon the disposal of a foreign operation which leads to loss of control, significant influence or joint control, the cumulative amount in the translation reserve with respect to the foreign operation is reclassified to profit and loss, as part of the profit or loss from the disposal.

Note 3: Significant Accounting Policies (Cont.)

B. Foreign currency (Cont.)

In general, foreign currency differences with respect to loans which were received or provided for foreign operations, including foreign operations which are subsidiaries, are recognized under profit and loss in the consolidated statements. When the settlement of loans which were received or provided for foreign operations is not planned and is not expected in the foreseeable future, profit and loss from foreign currency differences which are due to those monetary items are included as part of the investment in the foreign operation, net, recognized under other comprehensive income, and presented under capital, as part of the translation reserve.

C. Segmental reporting

An operating segment is a component of the Group which fulfills the following criteria:

1. It is engaged in business operations from which it may derive income, and with respect to which it may bear expenses, including income and expenses that are attributable to transactions between the Group's member companies.
2. Its operating results are reviewed on a regular basis by the Group's Chief Operational Decision Maker, in order to reach decisions regarding the resources allocated to it, and in order to assess its performance.
3. Separate financial information is available for the above.

For details regarding financial reporting by segment, see Note 5.

D. Insurance contracts, investment contracts and asset management contracts

IFRS 4, Insurance Contracts, allows an insurer to continue applying the accounting policy which it applied before the date of the transition to IFRS regarding insurance contracts which it issues (including related acquisition costs and related intangible assets), and also regarding insurance contracts which it acquires.

Presented below are the Group's significant accounting policies in connection with insurance contracts:

1. Long term savings and long-term care insurance in the health insurance segment
   - A. Recognition of revenue - see section (n) below.
   - B. Liabilities with respect to health and long-term care insurance contracts in the health insurance segment

The liabilities are calculated in accordance with the Commissioner's directives (regulations and circulars), accounting rules and conventional accounting methods in Israel. The liabilities are included based on an actuarial valuation, and are calculated according to the relevant coverage data, including policyholder age, seniority of coverage, insurance amount, etc. The liabilities also include provisions for ongoing paid claims and outstanding claims, the direct and indirect expenses due to them, and provisions for IBNR claims. The share of reinsurers in the liabilities is determined according to the terms of the relevant contracts.

The liabilities, and the share of reinsurers therein, are determined by Clal Insurance's chief actuaries: Mr. Daniel Sharon, M.B.A., F.I.A., F.IL.A.A, and Mr. Omri Harel, F.IL.A.A.

The CPI-linked liabilities and CPI-linked investments which are used to cover these liabilities were included in the last published financial statements before the end of the reporting period, including liabilities with respect to insurance contracts in which the linkage is semi-annual, in accordance with their terms.

Liabilities to supplement the annuity reserve

The liabilities regarding future annuity payments in life insurance contracts are calculated in accordance with the guidelines issued by the Commissioner, in consideration of the improvement in life expectancy and the change in annuity realization rates upon the retirement of policyholders, which require monitoring of the adequacy of the liabilities with respect to insurance contracts, which allow receiving an annuity and supplementing them appropriately. Accordingly, the Group performs an immediate supplementation of the liabilities, as required, with respect to insurance contracts regarding paid annuities for policyholders who have reached retirement age, and with respect to the non-profitable group of insurance contracts. Regarding other insurance contracts, a supplementation of the liability is performed with respect to funds which have accrued in the insurance contracts until the end of the reporting period, including matching to expected income, throughout the period of the insurance contract.

For additional details, see Note 39(e)(e.1).

Outstanding claims and INBR claims

Outstanding claims, less the share of reinsurers therein, are calculated on a case-by-case basis, in accordance with the estimates prepared by the experts of the Company, based on announcements made with respect to the insurance events and insurance amounts, and are included under liabilities with respect to insurance contracts and investment contracts. For IBNR claims, a provision is calculated based on a statistical model.

Note 3: Significant Accounting Policies (Cont.)

D. Insurance contracts, investment contracts and asset management contracts (Cont.)

1. Long term savings and long-term care insurance in the health insurance segment(Cont.)

B. Liabilities with respect to health and long-term care insurance contracts in the health insurance segment (Cont.)

Reserves for ongoing claims

The provisions for paid pension and for paid ongoing claims in loss of working capacity insurance and in long-term care insurance, the direct and indirect expenses which are due to them, and the provisions for IBNR claims, are calculated by the chief actuaries in the Company, and are included under liabilities with respect to insurance contracts and investment contracts.

C. Deferred acquisition costs (DAC)

(1) Life and long-term care insurance contracts

DAC in life insurance and long-term care insurance contracts which were sold beginning on January 1, 1999, include commissions to agents and acquisition supervisors, and other expenses, including part of the general and administrative expenses, which are associated with the acquisition of new insurance contracts. DAC are amortized in equal annual rates over the period of the insurance contract, but no more than 15 years. The DAC with respect to insurance contracts which were canceled or settled are written off on the date of the cancellation or settlement.

The chief actuaries of the consolidated insurance companies evaluate, on an annual basis, the recoverability of DAC, in accordance with the Commissioner’s directives. The evaluation is performed in order to verify that the insurance contracts are expected to generate sufficient future income to cover the amortization of DAC and the insurance liabilities, operating expenses and commissions with respect to those insurance contracts. The test is conducted collectively for all individual products and for all underwriting years. The assumptions which are used in this evaluation include assumptions regarding cancellations, operating expenses, returns on assets, mortality and morbidity, which were determined by the actuaries of the Company on an annual basis, in accordance with tests, past experience, and relevant current studies.

(2) Asset management contracts

Incremental acquisition costs which are directly attributable to the acquisition of contracts for managing assets in pension funds and provident funds are recorded as DAC when the Company expects to recover those costs. In any other case, they are recognized as an expense upon their materialization.

Acquisition costs which have been discounted as assets are amortized to the statement of income on a systematic basis which is consistent with the estimated period for transfer of the asset management service, which is validated from time to time. The balance of DAC which accrued until December 31, 2017 is tested for impairment once per year, by discounting the cash flow forecast due to the acquired activity. Additionally, in accordance with IFRS 15, at least once per year, the Company evaluates whether the asset’s book value, which was recognized beginning on January 1, 2018, exceeds the balance of the consideration which the entity expects to receive in exchange for the service to which the asset refers, less the costs which are directly attributable to the provision of the service, which were not recognized as expenses, according to undiscounted amounts. If necessary, impairment loss is recognized in the statement of income.

D. Liability adequacy test

The insurance company’s chief actuaries periodically conduct a liabilities adequacy test regarding liabilities with respect to life and long-term care insurance contracts (hereinafter: “**LAT**”). The LAT is intended to test that the total liabilities suffice to cover the discounted value of the future flows which are expected from the insurance contracts: claims, commissions and expenses, net of premiums, and in consideration of the surplus of fair value over the book value of the backing assets. The cash flows are discounted according to a risk-free interest rate, plus a rate of an illiquidity premium, depending on the type of liability. The illiquidity premium as of December 31, 2019 was 0.30% (as of December 31, 2018 - 0.43%), and was calculated based on the Commissioner’s guidelines on the matter (hereinafter: the “**Liability Value**”).

If the test indicates that the amount of the liability in the books is lower than the value of the aforementioned liability, a special provision is recorded with respect to the deficiency.

Note 3: Significant Accounting Policies (Cont.)

D. Insurance contracts, investment contracts and asset management contracts (Cont.)

1. Long term savings and long-term care insurance (Cont.)

   D. Liability adequacy test (Cont.)
   The test is performed separately for groups of policies which have been defined by the Commissioner, individual policies and collective policies. In individual policies, the test is performed with respect to groups of insurance contracts (including their annexes) which were issued in various periods, according to participation types, and separately for basic risk policies. In collective policies, the test is performed on the level of the single collective, and is performed in accordance with the actual claims experience of the single collective, and subject to the statistical reliability of such experience. The assumptions used for the above tests include assumptions made with regard to cancellations, operating costs, returns from assets, mortality and morbidity, and are determined by the chief actuaries of the Company based on tests, past experience and other relevant studies, including a margin for adverse deviations, in accordance with the insurance circular on the subject of the LAT. See Note 39(e)(e1)(d).

   E. Investment contracts

   Receipts with respect to investment contracts are directly applied to the item for liabilities with respect to insurance contracts and investment contracts in the statement of financial position, and are not included under the item for earned premiums in the statement of income. Repayments of investments with respect to redemptions and end of period with respect to these contracts are directly written off from the item for liabilities with respect to insurance contracts and investment contracts, and are not applied to the statement of income.
   In the statement of income, amounts are charged with respect to these contracts for income from investments, management fees collected from policyholders, changes in liabilities with respect to insurance contracts and investment contracts, in the amount of the policyholders' share in investment income (participation in profits), agent commission expenses and general and administrative expenses.

   F. Provision with respect to participation in the profits of policyholders in collective insurance
   The provision is included under other accounts payable in the statement of financial position, and the change in provision is charged to the item for premiums.

2. Non-life insurance and health insurance, excluding long-term care insurance

   A. Recognition of revenue - see section (n) below.

   B. Liabilities with respect to non-life and health insurance contracts, except long-term care insurance

   Insurance reserves and outstanding claims which are included in the item for liabilities with respect to insurance contracts in the statement of financial position, and the share of reinsurers in the reserve and in outstanding claims, which is included in the item for reinsurance assets in the statement of financial position, were calculated according to the Reserve Calculation Regulations, the Commissioner's guidelines and conventional actuarial methods for the calculation of outstanding claims, which are applied according to the judgment of the actuaries of the Company. The liabilities with respect to insurance contracts were primarily calculated by the chief actuaries in the Company.

   The item for liabilities with respect to insurance contracts is comprised of the following:

   1. Unearned premium reserve. This reserve reflects the premiums which are attributed to the insurance period subsequent to the reporting date.
   2. Premium deficiency reserve This reserve is recorded, as required, if the unearned premiums (less deferred acquisition costs, see section C below) do not cover the expected cost with respect to insurance contracts.
   3. Insurance reserves in long term health insurance branches This reserve is calculated according to actuarial estimates, including, if needed, a provision with respect to expected loss on retention (premium deficiency), which is calculated based on the estimated expected cash flows with respect to the contracts, according to the relevant coverage data, such as policyholder age, seniority of coverage, insurance type, insurance amount, etc.

Note 3: Significant Accounting Policies (Cont.)

D. Insurance contracts and investment contracts (Cont.)

2. Non-life and health insurance, excluding long-term care insurance (Cont.)

B. Liabilities with respect to non-life and health insurance contracts, except long-term care insurance (Cont.)

4. Outstanding claims and reserves which are calculated according to the methods described below:

4.1 Outstanding claims, and the share of reinsurers therein, were included based on an actuarial valuation, excluding as regards the branches listed in section 4.2 below. Provision for indirect expenses for the settlement of claims is included according to an actuarial valuation. The actuarial calculation was performed by the chief supervising actuaries of Clal Insurance: Mr. David Engelmayer, M.A., F.I.A., F.IL.A.A., and Mr. Omri Harel, F.IL.A.A.

4.2. In the cargo, shipping, marine and aviation insurance branches, in guarantees according to the Sales Law, in financial guarantees, in credit insurance, and in the foreign trade risks and incoming business branches, regarding which the actuary has determined that it is not possible to apply an actuarial model, due to a lack of statistical significance, outstanding claims were included based on estimates which were prepared by external experts and employees of the Company who handle claims, on reports of delivering companies regarding incoming businesses, and with the addition of IBNR claims and reserves, as needed.

4.3. Net surplus revenues - with respect to the foreign trade risks branch, net surplus revenues are calculated basis on a cumulative annual report.

4.4 Claims of recourse and residuals are taken into account in the database used to calculate the actuarial valuations of outstanding claims.

4.5 According to the Company's estimate, the outstanding claims are adequate, in consideration of the fact that the outstanding claims are mostly calculated on an actuarial basis, and the others include appropriate provisions for IBNR, as required.

5. Reserve due to the liability adequacy test in accordance with the principles specified in Note 39(e)(e2)(4).

C. Deferred acquisition costs (DAC)

Gross DAC and reinsurers, with respect to non-life insurance and health insurance, excluding long-term care insurance, as stated above, were calculated in accordance with the Reserve Calculation Regulations and the Commissioner's instructions:

(1) DAC in the non-life insurance and short term health insurance branches include commissions to agents and part of the general and administrative expenses in connection with the acquisition of insurance contracts, which are attributed to unearned premiums on retention. DAC are calculated according to the actual expense rates, or according to standard rates which were determined in the Reserve Calculation Regulations and in accordance with the Commissioner's provisions, as a percentage of unearned premiums for each branch separately, whichever is lower. Some of the reinsurers in DAC are classified under the item for other accounts payable. For details regarding changes in the calculation of reinsurers' share in DAC, see section B above.

(2) DAC in long term health insurance branches include commissions to agents and acquisition supervisors, and some of the general and administrative expenses which are associated with the acquisition of new insurance contracts. DAC are amortized in equal rates over the period of the insurance contract, but no more than six years. DAC attributable to canceled insurance contracts are written off on the cancellation date.

In accordance with the Commissioner's directives, an actuary of the insurance company evaluates, on an annual basis, the recoverability of DAC in the long term health insurance branches. This calculation includes evaluating whether the insurance contracts are expected to create sufficient future income to cover the insurance liabilities, the amortization of DAC, the operating expenses and the commissions with respect to those insurance contracts. The test is conducted collectively for all underwriting years. The assumptions which are used in this test include assumptions with respect to cancellations, operating expenses, return on assets, mortality and morbidity, and are determined on an annual basis by the chief actuary of the insurance company, in accordance with tests, past experience and relevant current studies.

Note 3: Significant Accounting Policies (Cont.)

D. Insurance contracts, investment contracts and asset management contracts (Cont.)

2. Non-life and health insurance, excluding long-term care insurance (Cont.)

D. Items for payments and changes in liabilities
The items for payments and change in liabilities with respect to insurance contracts, gross, and retention, include, inter alia, settlement and direct handling costs with respect to paid claims, indirect claim settlement expenses, and updates to the provision for outstanding claims, to direct handling costs, and to indirect claim settlement expenses, which were recorded in previous years.

E. Provision with respect to participation in the profits of policyholders in collective insurance in the long term health insurance branches
The provision is included under other accounts payable in the statement of financial position, and the change in provision is charged to the item for premiums.

F. The Israeli Compulsory Motor Insurance Database of the Israel Insurance Association and other incoming business
Business received from the Israeli Compulsory Motor Insurance Database Ltd. (hereinafter: the "**Pool**"), from other insurance companies (including co-insurance and incoming business from abroad) and from underwriting agencies, are included according to accounts that are received by the reporting date, with the addition of provisions, as applicable, and in accordance with the participation rate of Clal Insurance.

E. Statements of cash flows

In the statements of cash flows, the Company chose to present interest received and dividends received as part of cash flow from operating activities. Interest paid and dividends paid are presented under cash flows from financing activities.

F. Financial Instruments

1. **Non-derivative financial assets**

Non-derivative financial assets include investments in stocks and in debt instruments, cash and cash equivalents and other receivables.

Initial recognition
The Group initially recognizes loans, receivables and deposits on the date of their creation. Other financial assets which are acquired through regular way purchase, including assets which were designated to fair value through profit and loss, are initially recognized on the trade date, when the Group becomes a party to the contractual terms of the instrument, i.e., when the Group undertook to buy or sell the asset.

Write-offs
Financial assets are written off when the Group's contractual right to the cash flows arising from the financial asset expire, or when the Group transfers the rights to receive the cash flows arising from the financial asset in a transaction wherein all risks and benefits associated with the ownership of the financial asset are effectively transferred.
Sales of financial assets through regular way sale are recognized on the trade date, i.e., on the date when the Group undertook to sell the asset.
For details regarding the offsetting of financial assets and financial liabilities, see section 5 below.

Classification of financial assets to groups and accounting treatment with respect to each group

The Group classifies financial assets into groups, as follows:

Financial assets at fair value through profit and loss
Financial assets are classified as measured at fair value through profit and loss, if they are classified as held for trading, or if they were designated as such upon initial recognition. Financial liabilities are designated at fair value through profit and loss if the Group manages investments of this kind, and reaches decisions regarding the sale and purchase thereof based on their fair value, in accordance with the method used by the Group to document the risk management or strategy associated with the investment, or if the designation was intended to prevent an accounting mismatch, or if the instrument in question is a hybrid instrument which includes an embedded derivative (see section 3 below). Attributable transaction costs are applied to the statement of income upon their materialization. These financial assets are measured at fair value, and changes therein are applied to the item for profit (loss) from investments, net, and statement of income in the statement of income.

Note 3: Significant Accounting Policies (Cont.)

F. Financial instruments (Cont.)

1. <u>Non-derivative financial assets (cont.)</u>
Classification of financial assets to groups and accounting treatment with respect to each group (Cont.)

The Group classifies financial assets into groups, as follows: (Cont.)

Loans and receivables
Loans and receivables are non-derivative financial assets with payments that are fixed or fixable, and which are not traded on an active market. These assets are recognized for the first time at fair value plus attributable transaction costs. After initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less impairment losses (see section (k)(1) below). Profit and loss due to the disposal of investments is calculated as the difference between the disposal consideration, net, and the original or amortized cost, and is recognized upon the occurrence of the sale event.
Loans and receivables include cash and cash equivalents and investments in debt instruments which are non-marketable and which are not included in the investment portfolios held against profit sharing (nostro) policies, including designated bonds (HETZ agreements), deposits in banks and debit balances and debit balances receivable.
Cash includes cash balances that are available for immediate use. Cash equivalents include short term investments where the duration from the original deposit date to the redemption date is up to 3 months, which have a high degree of liquidity, which are easily convertible into known amounts of cash, which are exposed to immaterial risk of changes in value, and which are not restricted by a lien.

Available for sale financial assets
Available for sale financial assets are non-derivative financial assets which were designated as available for sale or which were not classified under any of the other groups. The Group's investments in stocks and in certain debt instruments are classified as available for sale financial assets. Upon their initial recognition date, available for sale financial assets are recognized at fair value, with the addition of all attributable transaction costs. In subsequent periods, these investments are measured at fair value, while the changes in them, except for impairment losses and except for profit or loss from changes in the CPI and in the exchange rate and to the accrual of effective interest in debt instruments classified as available for sale, are applied directly to other comprehensive income, and are presented in the capital reserve with respect to financial assets classified as available for sale. Dividends which are received with respect to available for sale financial assets are applied to the statement of income. When the investment is written off, the profit or loss which accumulated in the capital reserve with respect to available for sale financial assets is transferred to profit and loss.
Available for sale financial assets include marketable debt instruments, excluding embedded derivatives, which must be separated, and investments in stocks which are not classified as held for trading investments, and which are not included in the investment portfolios held against profit sharing policies (nostro).

2. **<u>Non-derivative financial liabilities</u>**

Non-derivative financial liabilities include liabilities to banking corporations and others, deferred liability notes, and other payables.

Initial recognition of financial liabilities
The Group recognizes issued debt instruments for the first time on the date of their creation. Other financial liabilities are recognized for the first time on the trade date, when the Group becomes party to the contractual terms of the instrument.
Non-derivative financial liabilities are recognized for the first time at fair value, plus all attributable transaction costs. Transaction costs which are directly attributable to an expected issuance of an instrument which will be classified as a financial liability, are recognized as an asset under the item for deferred expenses in the statement of financial position. These transaction costs are deducted from the financial liability upon initial recognition, or are amortized as financing expenses in the statement of income, when the issuance is no longer expected to take place.
After initial recognition, non-derivative financial liabilities are measured at amortized cost using the effective interest method. Financing expenses are charged to the statement of income using the effective interest method.

Write-off of financial liabilities
Financial liabilities are written off when the Group's liabilities, as specified in the agreement, expire, or when it has been settled or canceled.

Note 3: Significant Accounting Policies (Cont.)

F. Financial instruments (Cont.)

2. Non-derivative financial liabilities (Cont.)

Changes to terms of debt instruments

An exchange of debt instruments, on the level of series with materially different terms, between an existing borrower and lender, are treated as a settlement of the original financial liability, and as a recognition of the new financial liability at fair value. Additionally, a significant change in the terms of an existing financial liability, or a part thereof, is treated as a settlement of the original financial liability, and as a recognition of the new financial liability.

In such cases, any difference between the amortized cost of the original financial liability, and the fair value of the new financial liability, is recognized under profit and loss, in the item for financing expenses.

The conditions are materially different if the discounted present value of the cash flows, according to the new conditions, including any commissions which were paid, less any commissions which were received and discounted by the original effective interest rate, is different by at least ten percent than the discounted present value of the remaining cash flows of the original financial liability.

In addition to the aforementioned quantitative test, the Group is evaluating whether changes also occurred in various qualitative parameters which are embodied in the replaced debt instruments. In general, debt instrument exchanges which result in a significant change in qualitative parameters are considered exchanges with materially different terms, even if they do not fulfill the quantitative test which was performed, as stated above.

In the event that the exchange or change is immaterial, it is treated as a change to the terms of the original liability, and no income or loss is recognized with respect to the exchange. Any costs or fees which have materialized adjust the book value of the liability, and are amortized over the remaining period of the modified liability.

3. Derivative financial instruments

The Group holds derivative financial instruments such as options, foreign currency forward contracts and interest rate swaps.

Derivative financial instruments are first recognized at fair value, and directly attributable transaction costs are charged to the statement of income upon their materialization. After initial recognition, the derivative financial instruments are measured at fair value. Profit or loss due to changes in the fair value of derivative financial instruments are immediately applied to the statement of income, under the item for profit (loss) from investments, net, and financing income. Derivative financial instruments are recognized in the statement of financial position as assets when their fair value is positive, and as liabilities when their fair value is negative.

Embedded derivatives in a hybrid instrument must be measured at fair value through profit and loss separately from the host contract if: (a) There is no close connection between the economic characteristics and risks of the host contract and of the embedded derivative, (b) a separate instrument with the same terms as those of the embedded derivative would have fulfilled the definition of a derivative, and (c) the hybrid instrument is not measured at fair value through profit and loss.

Embedded derivatives in an insurance contract are not separated when the embedded derivative itself constitutes an insurance contract.

Economic hedging

Hedge accounting is not applied with respect to derivative instruments used for economic hedging of financial assets and liabilities. Changes in the fair value of these derivatives are applied to the statement of income as part of profit or loss from investments, net, and financing income.

4. CPI-linked financial assets and liabilities which are not measured at fair value

The Company chose to revaluate CPI-linked financial assets and liabilities which are not measured at fair value, in each period, in accordance with the actual rate of change of the CPI.

5. Offsetting of financial instruments

A financial asset and financial liability is offset, and the amounts presented net in the statement of financial position, when the Group has a currently enforceable legal right to offset the amounts which were recognized, and intends to settle the asset and the liability on a net basis, or to realize the asset and settle the liability simultaneously.

Note 3: Significant Accounting Policies (Cont.)

F. Financial instruments (Cont.)

6. **The Group has reached decisions to designate financial assets as specified below:**

Assets included in the investment portfolios of profit sharing policies
These assets, which include marketable financial instruments and non-marketable financial instruments (including investments in associates and joint ventures), were designated to the Group for fair value through profit or loss, for to the following reasons: they constitute portfolios which are managed, separate and identifiable, and whose presentation at fair value significantly reduces a lack of accounting consistency in the presentation of the assets and liabilities using various measurement bases, while in addition, such management is performed at fair value, and the portfolio's performance is measured at fair value in accordance with a documented risk management strategy, and the information regarding the financial instruments is internally reported to management (the relevant Investment Committee) based on fair value.

Financial assets which include embedded derivatives required for separation
Financial assets which include embedded derivatives required for separation were designated to the Group at fair value through profit or loss.

7. **Share capital**

Ordinary shares are classified as an equity instrument. Incremental costs which are directly attributed to the issuance of ordinary shares and share options, less tax impact, are presented as an amortization of the equity instrument in question.

G. Property, plant and equipment

1. Recognition and measurement

The Company chose to measure components of property, plant and equipment at cost less accumulated depreciation and accumulated impairment losses (see section (k)(2) below).

The cost includes costs which are directly attributable to the acquisition of the asset. The cost of independently established assets includes the cost of materials and direct working costs, as well as any other costs which are directly attributable to the process of bringing the asset to a position and situation in which it can operate in the manner intended by management. The cost of purchased software which constitutes an integral part of the operation of the equipment in question, is recognized as part of the cost of such equipment.

When significant components of property, plant and equipment have different lifetimes, these are treated as separate components (significant components) of the fixed asset.

Income or loss arising from the write-off of a component of property, plant and equipment is determined by comparing the net consideration from the write-off of the asset to its book value, and is recognized net in the item for other income or other expenses, as relevant, in the statement of income.

2. Subsequent costs

The cost of replacing part of an item of property, plant and equipment, and other subsequent costs, is recognized as part of the book value of property, plant and equipment, if the future economic benefit embodied therein is expected to flow to the Group, and if the cost is reliably measurable. The book value of the replaced part of the property, plant and equipment is written off. Current maintenance costs are charged to income as incurred.

Note 3: Significant Accounting Policies (Cont.)

G. Property, plant and equipment (Cont.)

3. Depreciation

Depreciation is the systematic allocation of an asset's depreciable amount over its useful lifetime. The depreciable amount is the asset's cost less the asset's residual value.

An asset is amortized when it is available for use, in other words, once it has reached the location and condition which are required in order to enable it to operate in the manner intended by management.

Depreciation is charged to the statement of income using the straight line method, over the estimated useful lifetime of each part of the fixed asset items, due to the fact that this method reflects, in the best possible manner, the expected pattern of consumption of future economic benefits embodied in the asset. Assets leased under financial leases, including real estate properties, are depreciated over either the properties' leasing period or the properties' useful lifetime, whichever is shorter, unless the Group is reasonably expected to receive the ownership of the property at the end of the leasing period. Owned real estate properties are not depreciated. Leasehold improvements are depreciated using the straight-line method over the rental period (including optional extension periods held by the Group, and which it intends to exercise) or according to the assets' estimated lifetime, whichever is shorter.

The estimates with respect to the depreciation method, the useful lifetime and the residual value are re-evaluated at least once at the end of each reporting year, and are adjusted when necessary and treated prospectively as a change in estimate.

The depreciation rates used during the current period and the comparison periods are as follows (in percent):

Lands under finance lease	2
Buildings	4
Furniture and office equipment	6-20
Vehicles	15
Computers and peripheral equipment	20-33
Leasehold improvements	4-10

4. Classification under the item for investment property

When the use of real estate is converted from use by the owners to investment property which is measured at fair value, the property is remeasured at fair value, and classified as investment property. Any profit which was created due to the remeasurement is applied to other comprehensive income and presented under the revaluation reserve in capital, unless the profit cancels a previous impairment loss of the property, in which case the profit is first applied to profit and loss. Any losses are applied directly to profit and loss.

Note 3: Significant Accounting Policies (Cont.)

H. Intangible assets

1. Goodwill

Goodwill created as a result of the acquisition of consolidated companies is presented under intangible assets. For information regarding the measurement of goodwill upon initial recognition, see section (a)(1) above.

In subsequent periods, goodwill is measured at cost less accumulated impairment loss (see section (k)(2) below).

2. Other intangible assets

Intangible assets which are acquired separately are measured upon initial recognition at cost, with the addition of direct acquisition costs. Intangible assets which are purchased in a business combination are measured at fair value on the date of the business combination.

The fair value of intangible assets that were acquired in a business combination is based on the discounted value of the cash flow expected to arise from the use and sale of such assets. The method requires a determination of a discount rate that is appropriate for the asset type, and for the risk level associated with the asset.

After initial recognition, intangible assets are measured at cost less accumulated amortization and less accumulated impairment losses (see section (k)(2) below).

Intangible assets with an undefined useful lifetime are not methodically amortized, and are subject to impairment tests on an annual basis, and also at any such time as indicators arise which signify that impairment may have occurred (see also section(k)(2) below). The useful lifetime of these assets is tested on an annual basis in order to determine whether the assessment of its lifetime as undefined is still valid. In the event that the events and circumstances no longer support said estimate, the change from undefined to defined useful lifetime is treated prospectively as a change in accounting estimate. At the same time, impairment is evaluated, and the asset is systematically amortized over its useful lifetime.

Intangible assets with a defined useful lifetime are amortized over their useful lifetimes using the straight line method, or based on the expected cash flow which was used for estimation purposes beginning on the date when the assets became available for use, since these methods reflect, in the best possible manner, the forecasted consumption pattern of the future economic benefits embodied in each asset. Impairment of intangible assets is evaluated when indicators exist which signify that impairment has occurred (see also section (k)(2) below). The amortization period and amortization method of intangible assets with defined useful lifetimes are reviewed at least at the end of each year. Changes in the useful lifetime or in the expected consumption patterns of the economic benefits that are expected to arise form the asset are treated prospectively as a change in accounting estimate. The amortization expenses with respect to intangible assets with finite useful lifetimes are charged to the income statement.

Note 3: Significant Accounting Policies (Cont.)

H. Intangible assets (Cont.)

2. Other intangible assets (Cont.)

Software programs, including research and development costs
The Group's assets include computer systems which are comprised of hardware and software. Software programs that constitute an integral part of hardware that cannot operate without the software installed on it are classified as property, plant and equipment. However, licenses for standalone software programs which provide additional functionality to hardware are classified as intangible assets.

Expenses associated with research activities which are performed with the aim of acquiring new scientific or technical knowledge and understanding know-how are applied to the statement of income upon their materialization.

Development activities are associated with product creation plans or new processes or significant improvements of existing products or processes. Expenses with respect to software development activities are recognized as an intangible asset if and only if: the development costs are reliably measurable; The product or process are both technologically and commercially feasible; A future economic benefit is expected from the product, and the Group has the intention, and sufficient resources, to complete the development and to use the asset. Costs recognized as intangible assets include the cost of materials, direct wage expenses and overhead expenses that are directly attributable to the preparation of the asset for its intended use. Software development costs recognized as intangible assets are measured at cost less accrued amortization and accrued impairment losses (see Note 3(k)(2)).

Other costs with respect to software development activities are charged to income as incurred.

Intangible assets which are created in the Group are not systematically amortized so long as they are not available for use, in other words, they are not in the location and condition which are required in order for them to be used in the manner intended by management. Therefore, these intangible assets, such as development costs, are tested for impairment at least once per year, until the date when they become available for use.

Subsequent costs
Subsequent costs are recognized as intangible assets only if they increase the future economic benefit embodied in the asset for which they were spent. The remaining costs, including costs associated with goodwill or with independently developed brands, are charged to the statement of income upon their materialization.

Useful lifetime
The estimated useful lifetime for the current period and comparative periods is as follows (in percent):

Future management fees from pension operations	3
Future management fees from provident fund operations	5-14
Customer portfolios and brand	7-10
Acquisition costs with respect to insurance portfolios	7
Software programs	10-33

Classification of amortization and impairment losses
The current amortization with respect to intangible assets, including expenses involved in the acquisition of life and non-life insurance portfolios, and excluding software programs, is charged to the statement of income under the item for other expenses.

The depreciation of computer programs is charged to purchasing, distribution and other expenses, indirect expenses for claim settlement, or general and administrative expenses, in accordance with the designation of the software programs in question.
Impairment loss is charged to the item for "Impairment of intangible assets".

I. Investment property

Investment property includes any property (land or building, or part of a building, or both) which is held by the Group, as the owner or under a financial lease, for the purpose of generating rental income and/or for the purpose of capital appreciation, or both, and not for the purpose of providing services, or for administrative purposes.

Note 3: Significant Accounting Policies (Cont.)

I. Investment property (Cont.)

Investment property is measured for the first time at cost plus expenses which are directly attributable to the acquisition of the investment property. The cost of investment property under self construction includes materials and direct labor, as well as other costs which are directly attributable to bringing the asset to the required condition in order to allow it to operate in the manner intended by management.

In subsequent periods, investment property is measured at fair value, with the changes in fair value charged to the statement of income, under the item for income (losses) from investments, net, and financing income. Investment property under construction that is designated for future use as investment property is also measured at fair value, as above, at such time as the fair value becomes reliably measurable. However, in cases where the fair value is not reliably measurable, due to the nature and scope of the risks associated with the project, the property is measured according to the fair value of the land plus construction costs, less impairment losses, if any, until the completion of construction, or until a date when the fair value is reliably measurable, whichever is earlier.

An asset is transferred from investment property to property, plant and equipment when a change in use occurs, such as the commencement of use of an asset by the owner. The cost of the asset that is transferred from investment property to property, plant and equipment constitutes its fair value as of the date of change.

Profit or loss from the write-off of investment property is determined by comparing the consideration from the write-off of the asset to its book value as of the last financial reporting date, and is recognized in the item for profit (loss) from investments, net, and financing income, in the statement of income. When investment property which was classified in the past as an investment property item is sold, the revaluation reserve which is included under capital with respect to the investment property is transferred directly to retained earnings.

J. Leases

The accounting policy which has been adopted for leases since January 1, 2019 is as follows (without restatement of comparative figures):

(1) Determining whether an arrangement contains a lease

On the date of engagement in the lease, the Group determines whether the arrangement constitutes a lease or contains a lease, including assessing whether the arrangement involves a transfer of the right to control the use of an identifiable asset for a certain period of time, in exchange for payment. When assessing whether an arrangement involves a transfer of the right to control the use of an identifiable asset, the Group evaluates whether it has the following two rights throughout the lease period:

(A) The right to essentially obtain all of the economic benefits from the use of the identifiable asset; And:

(B) The right to direct the use of the identifiable asset.

For lease contracts which include non-lease components, such as services or maintenance, that are associated with the lease component, the Group chose to account for the contract as a single lease component, without separating the components.

(2) Leased assets and lease liabilities

Contracts which give the Group the right to use a leased asset for a certain period of time in exchange for a consideration, are treated as leases. Upon initial recognition, the Group recognizes a liability in the amount of the present value of the future lease payments (such payments do not include certain variable lease payments), and in parallel, the Group recognizes a right-of-use asset in the amount of the lease liability, adjusted with respect to lease payments which were paid in advance or which accrued, plus direct costs which materialized in the lease, excluding lease transactions for periods of up to 12 months, and lease transactions in which the underlying asset has a low value, for which the Company chose to recognize the lease payments as an expense in the statement of income, in a straight line throughout the lease period.

Note 3: Significant Accounting Policies (Cont.)

J. Leases (Cont.)

Since it is not possible to easily determine the interest rate implicit in the Group's leases, the Group used, for the purpose of measuring the lease liability, nominal discount rates according to the yield curve which is used for loans in the rating group of Clal Insurance, in the relevant lifetimes of the various leases. After initial recognition, the right-of-use asset is treated according to the cost model, and is depreciated throughout the lease period or throughout the asset's useful lifetime (whichever is earlier). The Group chose to adopt the easement and to use a standard discount rate for a portfolio of leases with similar characteristics.

In transactions wherein the employee is entitled to receive a company vehicle as part of their employment terms, the Company treats those transactions as employee benefits, in accordance with the provisions of IAS 19, and not as a sublease transaction.

(3) Lease period

The lease period is determined as the period during which the lease is not cancelable, together with periods which are covered by an option to extend or cancel the lease, if the lessee is reasonably certain to exercise or not exercise the option, respectively.

(4) Variable lease payments

Variable lease payments which are linked to an index or exchange rate are initially measured using the index or rate which applies on the lease commencement date, and are included in the measurement of the lease liability. When changes have occurred to the cash flows of future lease fees, which are due to changes in the index or exchange rate, the balance of the liability is updated against the right-of-use asset.

Other variable lease payments which are not included in the measurement of the liability are applied to the statement of income on the date when the conditions for those payments have materialized.

(5) Amortization of right-of-use asset

After the lease commencement date, the right-of-use asset is measured at cost less accumulated amortization, and less accrued impairment losses, and is adjusted with respect to remeasurements of the lease liability. The amortization is calculated on a straight line basis throughout the useful lifetime or the contractual lease period, whichever is earlier, as follows:

• **Land for telecommunication sites**	**6-15 years**
• **Buildings**	**7-20 years**
• **Vehicles**	**3 years**

When indicators of impairment exist, the Company tests for impairment of the right-of-use asset, in accordance with the provisions of IAS 36.

(6) Re-assessment of lease liability

Upon the occurrence of a significant event or a significant change in circumstances, which is under the Group's control, and which affected the decision of whether it is reasonably certain that the Group will exercise an option, which was not previously included in the determination of the lease period, or that it will not exercise an option which was previously included in the determination of the lease period, the Group remeasures the lease liability according to the updated lease payments, using an updated discount rate. The change in the liability's book value is recognized against the right-of-use asset, or is recognized in profit and loss if the book value of the right-of-use asset has been amortized in its entirety.

Note 3: Significant Accounting Policies (Cont.)

J. Leases (Cont.)

(7) Lease amendments

When an amendment to is made to the lease terms which does not reduce the scope of the lease, and is not treated as a separate lease transaction, the Company remeasures the balance of the lease liability according to the amended terms of the lease, according to the updated discount rate as of the date of the amendment, and carries the total change in the balance of the lease liability to the balance of the right-of-use asset.

When an amendment is made to the lease terms, which results in a decrease in the scope of the lease, the Company recognizes profit or loss due to the full or partial derecognition of the balance of the right-of-use asset and the lease liability. Subsequently, the Company remeasures the balance of the lease liability according to the amended terms of the lease, using the updated discount rate as of the date of the amendment, and carries the total change in the balance of the lease liability to the balance of the right-of-use asset.

(8) Assets leased by the Group

Operating leases

Leases which do not involve a transfer of substantially all of the risks and benefits associated with the ownership of the underlying asset are classified as operating leases.
The Group recognizes lease payments from operating leases as income on a straight line basis throughout the lease period.

Initial direct costs which materialized in the process of obtaining operating leases are added to the book value of the underlying asset, and are recognized as an expense throughout the lease period, on the same basis as the income from the lease.

<u>The accounting policy which was adopted until December 31, 2018 with respect to leases was as follows:</u>

Leases, including land leases from the Israel Land Administration, or from other third parties, in which the Group significantly bears all risks and returns from the property, are classified as finance leases. Upon initial recognition, the leased properties are measured according to an amount equal either to the property's fair value, or to the present value of the minimum future leasing fees, whichever is lower. Future payments for the exercise of an option to extend the lease period vis-a-vis the Israel Land Administration are not recognized as part of the relevant asset and liability, since they constitute conditional lease fees which are derived from the fair value of the land on the future renewal dates of the lease agreement.

After initial recognition, the asset is treated in accordance with the accounting policy uses for assets of this type. The liability with respect to leasing payments is presented at present value, with the lease payments allocated to financing expenses, and repayment of the liability with respect to the lease calculated using the effective interest method.

The remaining leases are classified as operating leases, and the leased properties are not recognized in the Group's statement of financial position.
In leases of land and buildings, the land and building components are tested separately for the purpose of classifying the leases, where a significant consideration in the classification of the land component is the fact that land generally has an undefined lifetime.

Lease payments and receipts
Payments within the framework of operating leases, excluding contingent lease fees, are applied to the statement of income using the straight line method throughout the lease period.

When the Company recognizes an asset in an operating lease, the lease receipts are recognized as income under profit or loss using a straight line over the lease period. Contingent lease receipts are applied to the statement of income as income on the date when the Company is entitled to receive them.

Note 3: Significant Accounting Policies (Cont.)

K. Impairment

1. Non-derivative financial assets

The Group reviews, for each reporting date, whether objective evidence exists which indicates impairment with respect to the following financial assets or groups of financial assets:

Financial assets at amortized cost
When objective evidence of impairment is found to exist, a test is performed to evaluate the need for recognition of an impairment loss. For material financial assets, the need for impairment is evaluated for each asset on a separate basis. For the remaining financial assets, the need for impairment is evaluated on a collective basis, based on groups with similar credit risk characteristics. Objective evidence for impairment, with regard to assets which are included under the loans and receivables groups, exists when one or more events occurred which adversely impacted the estimate of future cash flows expected to arise from the asset or group of assets with similar credit risk characteristics (hereinafter: the "**Asset**") after the recognition date.

Evidence of impairment includes indicators of financial difficulty, including liquidity difficulties and the inability to make principal or interest payments. The loss amount charged to the statement of income is measured as the difference between the asset's balance in the financial statements and the present value of estimated future cash flows (which does not include future credit losses that have not yet materialized), which are discounted according to the financial asset's original effective interest rate (the effective interest rate calculated upon initial recognition). If the financial asset bears variable interest, the discount is performed according to the current effective interest rate. The balance for the asset in the financial statements is reduced by means of a recording provision. In subsequent periods, impairment loss is canceled when the retrieval of the asset's value is objectively attributable to an event that occurred after recognition of the loss. Such cancellation is charged to the statement of income up to the amount of amortized cost which would have existed as of the date of the impairment's cancellation, had the impairment not been recognized.

Available for sale financial assets
With respect to available for sale financial assets which constitute equity instruments, the objective evidence of impairment includes significant or ongoing decline in the fair value of the asset below its cost, as well as evaluation of changes in the technological, economical or legal environment, or in the market environment in which the Company that issued the instrument operates. The evaluation of significant or ongoing impairment is dependent on the circumstances prevailing as of each financial reporting date, where such evaluation includes taking into account the historical volatility of fair value, and also the duration of time in which the asset's fair value is lower than its original cost. Furthermore, in accordance with the Group's policy, a decline in fair value at a rate of 20% or higher relative to cost, as of the reporting date, or a decline which continued for over nine months (even if at a lower rate, as stated above), constitutes objective evidence of impairment. When objective evidence of impairment exists, the cumulative losses charged to capital reserves, which are measured as the difference between the acquisition cost (less previous impairment losses) and the fair value, are transferred from the capital reserves and recognized as an impairment loss in the statement of income. In subsequent periods, any additional decrease in fair value is recognized as an impairment loss; Cancellation of impairment loss is not applied to the statement of income, but rather, is applied to capital reserve as other comprehensive income.

With respect to available for sale financial assets which constitute debt instruments, objective evidence for impairment exists when one or more events occurred which adversely impacted the estimate of future cash flows expected to arise from the asset after the investment date, and when such impact can be reliably measured. Evidence of impairment includes indicators of financial difficulty, including liquidity difficulties and the inability to make principal or interest payments. When objective evidence of impairment exists, the cumulative losses charged to capital reserves, which are measured as the difference between the purchase cost (less previous impairment losses, amortization using the effective interest method and previous impairment losses) and the fair value, are transferred from the capital reserve and recognized as an impairment loss in the statement of income. In subsequent periods, any additional decrease in fair value is recognized as impairment loss; Impairment loss is canceled when the increase in fair value is objectively attributable to an event which occurred after the recognition of the impairment loss, and which was included in the original impairment calculation. A cancellation due to an increase in fair value as above, is charged to the statement of income up to the amount of amortized cost which should have existed as of the date of the impairment's cancellation, had the impairment not been recognized.

Note 3: Significant Accounting Policies (Cont.)

K. Impairment (Cont.)

2. Non-financial assets

Timing of impairment test
The book value of the Group's non-financial assets that do not constitute deferred acquisition costs, investment property and deferred tax assets, is tested for each reporting date in order to determine the existence of impairment financial indicators. In the event that such indicators are found to exist, the asset's estimated recoverable amount is calculated. Once per year, on a fixed date, with respect to each cash generating unit which includes goodwill, or intangible assets with an undefined lifetime or which are not yet available for use, the Group performs an assessment of the recoverable amount. This is performed on a more frequent basis if impairment indicators have been found.

Determination of cash generating units
For the purpose of the impairment test, the assets are grouped into the smallest group generating cash flows from continuous use, and which are primarily independent of other assets and groups (hereinafter: "**Cash Generating Unit**").

Measurement of recoverable amount
The recoverable amount of an asset, or of a cash generating unit, is the higher of either the value in use or the fair value less disposal expenses. When determining value in use, the Group discounts projected future cash flows according to the discount rate before tax, which reflects market assessments regarding the time value of money, and the specific risks relevant to a particular asset or cash generating unit, with respect to which the future cash flows which are expected to arise from the asset or from the cash generating unit have not been adjusted.

Allocation of goodwill to cash generating units
Cash generating units to which goodwill has been allocated are grouped in a manner whereby the level on which the goodwill impairment was tested reflects the lowest level on which the goodwill is monitorable for the purpose of internal reporting, although in any case, it is no larger than the operating segment (before grouping similar segments - see section (c) above regarding the definition of operating segments). In cases where goodwill is not monitored for internal management purposes, the goodwill is allocated to operating segments (before grouping similar segments). Goodwill acquired as part of a business combination is allocated to cash-generating units, including those which existed in the Group also prior to the business combination, and which are expected to produce benefits from the synergy of the combination.

For the purpose of testing the impairment of goodwill, where non-controlling interests were measured for the first time according to their relative share in the net assets of the acquired entity, the Group chose to reflect the book value of the goodwill according to the Group's holding rate in the cash generating unit to which the goodwill is allocated.

Headquarter assets
Headquarter assets do not produce separate cash flows, and are used for more than one cash generating unit. A part of the headquarters' assets are allocated to cash generating units on a reasonable and consistent basis, and are evaluated for impairment as part of the impairment test performed with respect to the cash generating units to which they are allocated. Other headquarters' assets, which cannot be reasonably and consistently allocated to cash generating units, are allocated to the Group for cash generating units in the event that indicators exist which signify that impairment has occurred in the asset belonging to the Company's headquarters, or when indicators exist which signify that impairment has occurred in the Group for cash generating units. In this case, the recoverable amount of the cash generating unit used by the headquarter asset is determined.

Note 3: Significant Accounting Policies (Cont.)

K. Impairment (Cont.)

2. Non-financial assets (Cont.)

Recognition of impairment loss
Impairment losses are recognized when the book value of the asset or of the cash generating unit exceed the recoverable amount, and are applied to the statement of income. As regards cash generating units which include goodwill, an impairment loss is recognized when the book value of the cash generating unit, after embodiment of the balance of goodwill, exceeds its recoverable amount. Impairment losses which are recognized with respect to cash generating units are initially allocated towards the amortization of the book value of the goodwill attributed to such units, and are later proportionally attributed to the amortization of the book value of the other assets in the cash generating unit.

Allocation of impairment loss for non-controlling interests
The Company chose to allocate impairment loss between the owners of the Company and non-controlling interests according to the same basis which is used to allocated profit or loss.

Cancellation of impairment loss
Loss from goodwill impairment is not canceled. With respect to other assets for which impairment losses were recognized in previous periods, on each reporting date, an evaluation is performed to ascertain whether indicators exist which signify that such losses have decreased, or no longer exist. The impairment loss is canceled if a change occurred in the estimates used to determine the recoverable amount, only in the event that the asset's book value, after cancellation of the impairment losses, does not exceed the book value less depreciation or amortization which would have been determined had the impairment loss not been recognized.

3. Associate companies and joint arrangements accounted by the equity method

The Company determines, on each reporting date, after applying the equity method, whether objective evidence of impairment exists, and whether it will be necessary to recognize impairment loss with respect to the investment in investee companies accounted by the equity method (hereinafter: the "**Investment**").

The impairment test is conducted with respect to the investment in its entirety, including the goodwill attributed to the investee company accounted by the equity method (hereinafter: the "**Investee Company**"). In the event that such objective evidence is found to exist, impairment loss is recognized in the amount of the difference between the recoverable amount of the investment and its value in the financial statements. The recoverable amount is the higher of either fair value or value in use, which is calculated based on a valuation of the net cash flows which are expected to arise from the investee, including cash flows from the activities of the investee, and the consideration from the final disposal of the investment, or an estimation of the present value of the estimated future cash flows which are expected to arise from the dividends which will be received, and from the final disposal. Such impairment loss is not specifically allocated to the goodwill which is included in the investment, and therefore, in subsequent periods, loss is cancelable up to its full amount, if and only if changes have occurred in the estimates which were used to determine the recoverable amount of the investment, from the date when the impairment loss was last recognized. The book value of the investment, after the cancellation of the impairment loss, may not exceed the book value of the investment which would have been determined according to the equity method, had it not been recognized as an impairment loss.

4. Outstanding premiums

The provision for doubtful debts with respect to premiums whose collection is doubtful, in the opinion of management, is determined specifically based on specific risk assessments, and collectively based on past collection experience in population groups with similar credit risk characteristics.

Note 3: Significant Accounting Policies (Cont.)

K. Impairment (Cont.)

5. Debts of reinsurers

Non-fulfillment of reinsurers' undertakings towards the Company does not release it from its undertakings towards policyholders in accordance with the insurance policies. A reinsurer which does not fulfill its undertakings in accordance with the reinsurance contracts may cause the Company to incur losses.

Provisions for doubtful debts with respect to the debts of reinsurers whose collection is in doubt are performed on the basis of individual risk assessments. Additionally, when determining the share of reinsurers in outstanding claims and in insurance reserves, the consolidated companies take into account, inter alia, an evaluation of the possibility of collecting from the reinsurers. When the share of the above reinsurers is calculated on an actuarial basis, the share of such reinsurers in these difficulties is calculated by the actuary, in consideration of all risk factors. Additionally, the consolidated companies take into account, when preparing the provisions, inter alia, the willingness of reinsurers to reach "cut off" agreements (in which contractual agreements are terminated by means of final repayment of the debts).

L. Employee benefits

1. Post-employment benefits

The Group has several post-employment benefit plans. The plans are generally financed by deposits to insurance companies and to pension funds, and are classified as defined deposit plans and as defined benefit plans.

A. Defined deposit plans

A defined deposit plan is a post-employment plan in which the Group pays fixed payments to a separate entity, without having a legal or implicit obligation to make additional payments. The Group's obligations to deposit sums in a defined deposit plan are charged as an expense to the statement of income, in the periods during which the employees have provided related services.

B. Defined benefit plans

A defined benefit plan is a post-employment benefit plan which is not a defined deposit plan. A net liability of the Group which refers to a defined benefit plan with respect to post-employment benefits is calculated for each plan separately, by estimating the future amount of the benefit which will be owed to the employee in consideration of his services, in the current period and in previous periods. This benefit is presented at present value less the fair value of plan assets. The Group determines the net liability on the liability (asset), net, with respect to the defined benefit, by multiplying the liability (asset), net with respect to the defined benefit by the discount rate which was used to measure the liability with respect to defined benefit, as both were determined at the beginning of the annual reporting period. The discount rate was determined according to the yields, as of the reporting date, of high quality corporate bonds, whose currency is the NIS, and whose repayment date is similar to the terms of the Group's liability. The calculations are performed by a certified actuary, based on the forecasted eligibility unit.

When the results of these calculations lead to the creation of an asset for the Group, an asset is recognized up to the net amount of the present value of the economic benefits which are available in the form of a repayment from the plan, or a reduction in the future deposits to the plan. An economic benefit in the form of repayments or reductions in future deposits will be considered available when it is realizable over the plan's lifetime, or after settlement of the liability. This calculation will take into account minimum deposit requirements, if they are relevant to the plan.
The remeasurement of the liability (asset), net, with respect to the defined benefit, includes actuarial profit and loss, return on plan assets (excluding interest), and any change in the impact on the assets limit (insofar as is relevant, excluding interest). According to the Group's choice, re-measurements are immediately applied, through other comprehensive income, directly to retained earnings. Interest costs with respect to defined benefit liabilities, interest income with respect to plan assets and interest with respect to the impact on the limit of assets which were applied to the statement of income, are presented under the item for general and administrative expenses.

Note 3: Significant Accounting Policies (Cont.)

L. Employee benefits (Cont.)

1. Post-employment benefits (Cont.)

   B. Defined benefit plan (Cont.)

      When an improvement or reduction has occurred in the benefits provided by the Group to employees, that part of the increased benefits which is attributed to the past service of employees, or the profit or loss from the reduction, is immediately recognized under profit or loss when the correction or reduction of the plan takes place.

      The Group recognizes profit or loss from the settlement of a defined benefit plan when the settlement takes place. Such profit or loss constitutes the difference between the settled part of the present value of the defined benefit liability on the settlement date and the settlement price, including transferred plan assets.

      Insurance policies with respect to termination of employer - employee relationships that were issued by the Company do not constitute plan assets, and are presented as a reduction of the liability with respect to the insurance contracts.

2. Other long term employee benefits

   The Group's net liability with respect to long term employee benefits which do not refer to post-employment benefit plans, applies to the future benefit amount owed to employees with respect to services provided during the current period and previous periods. The total amount of such benefits is discounted to its present value, and is presented after deduction of the fair value of the assets attributable to the obligation in question. The discount rate is determined according to the returns as of the reporting date of high quality corporate bonds whose currency is the NIS, and whose repayment date is similar to the terms of the Group's liabilities. The calculation is performed based on the forecasted eligibility unit.
   Actuarial gains and losses are charged to the statement of income for the period in which they were created.

3. Severance benefits

   Severance benefits are recognized as an expense when the Group has clearly committed, without any real possibility of cancellation, to the dismissal of employees before they reach the conventional retirement age according to a detailed formal plan, or to provide severance benefits as a result of an offer which was made in order to encourage voluntary retirement. Benefits provided to employees upon voluntary retirement are charged when the Group has provided to employees a plan encouraging voluntary retirement, when it is expected that the offer will be accepted, and when the number of individuals accepting the offer can be reliably estimated.

4. Short term employee benefits

   Short term employee benefits are benefits whose full settlement is expected earlier than 12 months after the end of the reporting period during which the employees provide the services in question. Liabilities with respect to short term employee benefits are measured on a non-discounted basis, and the expense is charged upon provision of the service in question, or in the event of non-cumulative absences (such as maternity leave) - upon actual absence. A provision with respect to short term employee benefits for cash bonus or profit sharing plans is recognized in the amount expected for payment when the Group has a current legal or implicit liability to pay the amount in question with respect to a service provided by the employee in the past, and where the liability is reliably measurable.

Note 3: Significant Accounting Policies (Cont.)

L. Employee benefits (Cont.)

5. Share-based payment transactions

The fair value on the allocation date of share-based payment bonuses to employees is applied as a payroll expense under profit and loss in parallel the increase in capital, over the period when the employees' eligibility to equity instruments is obtained, i.e., the period when the performance and/or service conditions are fulfilled (hereinafter: the "**Vesting Period**"). The vesting period concludes on the date when the relevant employees are entitled to compensation (hereinafter: the "**Vesting Date**"). According to the Group's policy choice, the increase in capital is applied to the item for retained earnings.

The cumulative expenses recognized on each reporting date with respect to transactions settled by equity instruments until the maturity date reflects the rate of passage of the vesting period, and the Group's best estimate of the number of equity instruments that will eventually vest. The debit or credit in the statement of income reflects the change in cumulative expenses recognized at the beginning and end of the reporting period. Expense with respect to allocations which will not finally mature are not recognized.

M. Provisions

A provision is recognized when the Group has a current legal or implicit liability as a result of an event which occurred in the past, and which is reliably measurable, and when it is more likely that not that a negative flow of economic benefits will be required in order to settle the liability. The Company has chosen to determine the provisions when the impact of the value of time is significant, by discounting the future cash flow according to the pre-tax interest rate which reflects the current market estimates regarding the time value of money and the specific risks associated with the liability. The book value of the provision is adjusted in each period in order to reflect the passage of time.

The Group recognizes an indemnification asset if it is virtually certain that the indemnification will be received in the event that the Company settles the obligation. The amount recognized with respect to the indemnification does not exceed the provision amount.

Legal claims

Legal claims which possess unique characteristics are not grouped, but rather are evaluated separately. A provision with respect to unasserted claims is recognized in accordance with the claim's overall chance of success, if filed, against the Group's member companies (based on the probability that the claim will be filed, and the probability that the claim will succeed).

Onerous contracts

A provision for onerous contracts is recognized when the benefits which are expected to be received from the contracts by the Group are lower than the unavoidable costs due to the fulfillment of its onerous contract obligations. The provision is measured as the lower of either the present value of the expected cost to terminate the agreement and the present value of the net expected cost of continuing the agreement. Before the provision is recognized, the Group recognizes impairment of the assets associated with that agreement, if any.

Note 3: Significant Accounting Policies (Cont.)

N. Recognition of revenue

Presented below is the Group’s policy regarding the recognition of revenue:

1. Premiums

A. Long term savings segment and health segment

Premiums in the life insurance, long-term care and long term health branches, including savings premiums, and excluding receipts with respect to investment contracts, are recorded as income when they come due.

Premiums in the short term health branch are recorded as income based on monthly output reports.

Cancellations are recorded on the date the announcement is received from the policy owner, or when initiated by the Company due to arrears in payment, subject to the provisions of the law. Policyholders’ participation in profits is deducted from the premiums.

B. Non-life insurance segment

Premiums in the non-life insurance segment are recorded as income based on monthly output reports. Premiums primarily involve an insurance period of one year. Gross premium income, and changes in unearned premiums in respect thereof, are recorded under the item for earned premiums, gross.

Premiums in the compulsory motor branch are recorded upon repayment of the premium, since the insurance coverage is conditional on payment of the premium.

Premiums from insurance contracts whose commencement date is after the end of the reporting period are recorded as accrued income.

The income included in the financial statements is after cancellations received from the policy owners, and less cancellations and provisions due to non-repayment of premiums, subject to the provisions of the law, and less participation in earnings on the basis of agreements which are in force.

2. Income (loss) from investments, net, and financing income

Income (loss) from investments, net, and financing income, includes income from interest and linkage differentials with respect to invested sums (including available for sale financial debt assets), dividend income, net income (loss) from the sale of financial assets classified as available for sale, changes in the net fair value of financial assets at fair value through profit or loss, net income (loss) from foreign currency with respect to assets, changes in the fair value of investment property, income (loss) with respect to the write-off of investment property, and rental income from investment property less attributable expenses.

Interest income and premium amortization or deductions are recognized upon their accrual, using the effective interest method.

Dividend income is recognized on the date of eligibility for payment. In the event that the dividend is received with respect to marketable shares, the Group recognizes the dividend income on the ex date.

Rental income from investment property is recognized under profit and loss according to the straight line method, over the lease period. Allocated lease incentives are recognized as an inseparable part of total rental income over the lease period.

Gains and losses from exchange foreign currency differences and changes in the fair value of investments are reported net.

Note 3: Significant Accounting Policies (Cont.)

N. Recognition of revenue (Cont.)

3. Revenue from management fees

A. Management fees for investment-linked insurance contracts

The management fees are calculated in accordance with the Commissioner's instructions and the contract terms, on the basis of the returns and the accrual of policyholders' savings in the profit investment portfolio for those contracts. The management fees include the following components:
With respect to insurance contracts which were sold beginning on January 1, 2004 - fixed management fees only;
With respect to insurance contracts which were sold until December 31, 2003 - fixed and variable management fees.

Fixed management fees are calculated using fixed rates from the savings accrual, and are recorded on an accrual basis.

Variable management fees are calculated as a rate of real annual profit (from January 1 to December 31) which is applied to the insurance contract after deducting the fixed management fees which were collected from that insurance contract. Only positive variable management fees may be collected, less negative amounts accrued in previous years. Variable management fees are calculated on the level of the single policy (see also Note 29).

Over the course of the year, variable management fees are recorded on an accrual basis in accordance with the real monthly return, insofar as this is positive. For months in which the real return was negative, the variable management fees are reduced to the cumulative amount of variable management fees charged from the beginning of the year. Negative returns for which no reduction of management fees was performed during the current year will be deducted for the purpose of calculating the management fees from positive returns in subsequent periods.

B. Management fees from pension funds and provident funds

Revenue from management fees in pension funds and provident funds is applied based on the balances of managed assets and receipts from members on an accrual basis, according to the Commissioner's directives.

4. Revenue from commissions

A. Life insurance
Revenue from life insurance commissions in consolidated insurance agencies is applied based on the date of eligibility to receive commissions, according to the agreements with the insurance companies, less provisions for repayment of fees due to expected cancellations of insurance policies.

B. Non-life insurance
Revenue from commissions in non-life insurance in the consolidated insurance agencies are applied upon their materialization.

C. Reinsurance
Revenue from reinsurance commissions in life insurance, health insurance and non-life insurance is applied upon its materialization.

Note 3: Significant Accounting Policies (Cont.)

O. General and administrative costs and expenses

General and administrative costs and expenses are classified under indirect claim settlement expenses (which are included under the item for payments and changes in liabilities with respect to insurance contracts and investment contracts), expenses associated with acquisition (which are included under the item for commissions, marketing expenses and other acquisition expenses), and the balance of other general and administrative expenses which are included in this item. The classification was made according to the Group's internal models, and according to the identification and loading of overhead expenses.

P. Financing expenses

Financing expenses include interest expenses, linkage differentials and foreign currency differences on received loans and other credit costs, interest and linkage differentials on deposits and balances of reinsurers, changes with respect to the value of time in provisions. Profit and loss from foreign currency differences are reported net.

Non-discounted borrowing costs are applied to the statement of income according to the effective interest method.

Q. Taxes on income

Taxes on income include current and deferred taxes. Current and deferred taxes are applied to the statement of income unless the tax is due to a business combination, or are applied directly to capital or to other comprehensive income if they are due to items which are recognized directly other comprehensive income under capital or are recognized directly, respectively.

Current taxes
Current tax is the tax amount which is expected to be paid (or received) on taxable income for the year, calculated according to the applicable tax rates in accordance with laws which were enacted, or which were effectively enacted, as of the reporting date. Current taxes also include changes in tax payments in reference to previous years.

The Group offsets current tax assets and liabilities if there is a legally enforceable right to offset current tax assets and liabilities, and if there is an intention to settle current tax assets and liabilities on a net basis, or if the current tax assets and liabilities are settled simultaneously.

Uncertain tax positions
A tax liability with respect to uncertain tax positions, including additional tax expenses and interest, is recognized when it is more likely than not that the Group will be required to make use of its economic resources to settle the obligation.

Note 3: Significant Accounting Policies (Cont.)

Q. Taxes on income

Deferred taxes

Deferred taxes are recognized with respect to the temporary differences between the book value of assets and liabilities for the purpose of financial reporting, and their value for tax purposes. The Group does not recognize deferred taxes with respect to the following temporary differences: initial recognition of goodwill; Initial recognition of assets and liabilities in a transaction which does not constitute a business combination and which does not affect accounting profit and profit for tax purposes; and differences due to investments in investee companies, if the Group holds control on the difference reversal date, and they are not expected to reverse in the foreseeable future, whether by way of realization of the investment or by way of a dividend distribution with respect to the investment.

The measurement of deferred taxes reflects the tax implications which will result from the manner by which the Group predicts, at the end of the reporting period, the repayment or settlement of the book value of assets and liabilities, according to the tax rate which is expected to apply on the reversal date. Regarding investment property measured using the fair value model, a refutable assumption exists that the book value of the investment property will be repaid by way of sale.

Deferred taxes are measured according to the tax rates that are expected to apply to the temporary differences on the date of their realization, based on the laws that were enacted, or effectively enacted, as of the reporting date. Deferred taxes with respect to subsidiaries operating outside of Israel were calculated according to the relevant tax rates in each country.

Deferred tax assets are recognized in the books with respect to transferred losses and/or deductible temporary differences in the event that taxable income is expected to arise in the future against which the transferred losses and/or deductible temporary differences may be used, or in the absence of projected future taxable income, deferred tax assets are recognized only up to the amount of taxable temporary differences. Deferred tax assets are evaluated for each reporting date, and in the event that the attributable tax benefits are not expected to be realized, they are amortized.

Deferred tax assets which were not recognized are re-evaluated on each reporting date and are recognized if the expectation has changed such that taxable income is expected in the future against which it will be possible to use them.

Offsetting of deferred tax assets and liabilities

The Company offsets deferred tax assets and liabilities in the event that a legally enforceable right exists to offset the current assets and liabilities, and they are attributable to the same taxable income, which is taxed by the same tax authority in the same assessed company, or in different companies, which intend to realize deferred tax assets and to settle deferred tax liabilities on a net basis, or where the deferred tax assets and liabilities are settled simultaneously.

Inter-company transactions

Deferred tax with respect to inter-company transactions recorded in the consolidated financial statements is recorded based on the tax rate that applies to the acquiring company.

R. Earnings per share

The Company presents data regarding basic and diluted earnings per share for its ordinary share capital.

Basic earnings per share are calculated by dividing the income or loss attributable to the holders of ordinary shares in the Company by the weighted average number of ordinary shares which were outstanding during the year.

Diluted earnings per share are determined by adjusting the profit or loss attributed to the holders of ordinary shares in the Company, and adjusting the weighted average of the outstanding ordinary shares and with respect to the effects of all potential diluting ordinary shares (i.e., shares which reduce earnings per share or which increase loss per share).

Note 3: Significant Accounting Policies (Cont.)

S. Initial adoption of amendments to international accounting standards

1. International Financial Reporting Standard (IFRS) 16, Leases

Beginning on January 1, 2019 (hereinafter: the “Date Of Initial Adoption”), the Group is adopting International Financial Reporting Standard (IFRS) 16, Leases (in this section: “IFRS 16” or the “Standard”), which replaced International Accounting Standard (IAS) 17, Leases (in this section: “IAS 17” or the “Previous Standard”).

The main effect of the adoption of the standard is reflected in the cancellation of the current demand for lessees to classify a lease as an operating (off-balance sheet) or finance lease, and the presentation of a standard model for lessees’ accounting treatment of all leases, similarly to the method of accounting for finance leases according to the previous standard. Until the adoption date of the standard, the Group classified most of the leases in which it is the lessee as operating leases, since it did not substantially bear all risks and returns from the assets. Leased assets which were classified as finance leases primarily included office buildings, backup sites and vehicles.

In accordance with the standard, regarding agreements in which the Group is the lessee, the Group recognizes a right-of-use asset and a lease liability on the commencement date of the lease contract, for all leases in which the Group has the right to control the use of the identifiable assets for a defined time period, excluding the exceptions specified in the standard. **Accordingly, the Group recognizes depreciation and amortization expenses with respect to the right-of-use asset, and recognizes financing expenses with respect to the lease liability.** Therefore, beginning on the date of the standard’s initial adoption, rent payments pertaining to assets which are leased under an operating lease, which were presented under the item for general and administrative expenses in the statement of income, are recognized as assets, and the depreciation expenses with respect thereto are presented as depreciation and amortization expenses.

The Group chose to adopt the easement in the transitional provisions, which stipulates that lease liabilities will be calculated according to the present value of the future lease payments, discounted by the incremental interest as of the date of initial adoption, and in parallel, will recognize an identical amount in liabilities in a right-of-use asset, except for leases of buildings and sites, for which the Group will recognize, on the date of initial adoption, a right-of-use asset at book value, as if the standard had been adopted as from the lease commencement date. In other words, with respect to buildings and sites, the Group will measure the value which would have been obtained had the requirements of the standard been adopted on the date of engagement, while determining the right-of-use asset at amortized cost as of the date of initial adoption. As a result, the adoption of the standard resulted in an adjustment of retained earnings on the date of initial adoption.

Additionally, as part of its adoption of the standard, the Group also chose to adopt the following easements:

(1) To adopt the practical easement regarding the recognition and measurement with respect to leases of assets of low value, for each lease separately.
(2) Not to separate non-lease components from lease components, and to treat all components as a single lease component.
(3) To use a standard discount rate for a portfolio of leases with similar characteristics;

The following table presents the cumulative effects of the sections which were affected by the initial adoption in the statement of financial position as of January 1, 2019:

NIS in millions	According to IAS 17	Change	According to IFRS 16
Right-of-use asset	-	568	568
Rent expenses payable	(26)	26	-
Deferred tax assets	6	6	12
Lease liabilities	-	(613)	(613)
Retained earnings	(3,158)	13	(3,145)

Note 4: New Standards and Interpretations Which Have Not Yet Been Adopted

Standard / Interpretation / Amendment	Topic	Application and Transitional Provisions	Main Expected Effects
(1) International Financial Reporting Standard (IFRS) 17, Insurance Contracts	The standard establishes principles for recognition, measurement, presentation and disclosure in connection with insurance contracts (including reinsurance treaties), and replaces the current provisions on the subject. According to the new standard, the entity will recognize and measure groups of insurance contracts in accordance with the risk-adjusted present value of the future cash flows from the contracts, pertaining to all available information regarding the cash flows, consistently with observable market inputs; plus (in case of a liability) or less (in case of an asset) the amount representing the unrealized profit from the group of contracts (the contractual service margin). Revenue with respect to insurance contracts, for each reporting period, is derived from changes in the liability with respect to future coverage, which are attributed to the various components of the proceeds which the insurer is entitled to receive with respect to the contract, such as costs of acquiring insurance contracts, adjustment of risk, attribution of the contractual service margin to periods, expected claims, and expenses during the period. However, an entity may apply a simpler measurement model to certain particular (for example, contracts with insurance coverage of up to one year), according to which the amount attributed to services which have not yet provided will be measured by allocating the premium over the coverage period (the premium allocation approach).	The new standard will be adopted beginning on January 1, 2021. Early adoption is possible, so long as IFRS 9 - Financial Instruments, is adopted in parallel. In November 2018, the IASB decided to propose the postponement of the initial adoption date of IFRS 17 by one year, to January 1, 2022. In June 2019, a proposed amendment to the standard was published, which included, inter alia, in November 2018, the IASB decided to propose the postponement of the initial adoption date of IFRS 17 by one year, to January 1, 2022. In accordance with the draft letter which was sent to the managers of the insurance companies in February 2020, the Capital Market, Insurance and Savings Authority intends to schedule the standard's initial adoption in Israel for the quarterly and annual periods beginning on or after January 1, 2023. In March 2020, the IASB decided to amend the standard, and to postpone by two years the date of the standard's initial adoption, to January 1, 2023, and also, in parallel, to postpone the optional easement which was given to insurers who meet certain criteria for adopting the provisions of IFRS 9, Financial Instruments, beginning on January 1, 2023. The updated standard is expected to be published in mid-2020. The standard it is necessary to adopted retrospectively, whereby in cases when retrospective adoption is impractical, one of the following two approaches may be chosen: retrospective adoption with certain easements; or the adoption of the fair value approach.	The adoption of the standard is expected to have a significant impact on the financial statements of insurance companies, and the adoption of the standard also requires significant automational preparations, and therefore, the Company is unable to estimate, at this stage, the full implications of the adoption of the standard.

Note 4: New Standards and Interpretations Which Have Not Yet Been Adopted (Cont.)

Standard / Interpretation / Amendment

(2) IFRS 9 (2014), Financial Instruments

Topic

In July 2014, the IASB published the full and final text of IFRS 9 - Financial Instruments, which replaces IAS 39 - Financial Instruments: Recognition and Measurement. IFRS 9 (hereinafter: the "New Standard") primarily changes the provisions for the classification and measurement of financial assets, and applies to all financial assets covered under IAS 39.

The new standard determines that, upon initial recognition, all financial assets will be measured at fair value. In subsequent periods, debt instruments will be measured at amortized cost only if the following two cumulative conditions are fulfilled:

- The asset is held within the framework of a business model which is intended to hold assets in order to collect the contractual cash flows issuing therefrom (hereinafter: the "Principal and Debt Only Test").
- According to the contractual terms of the financial asset, the Company is entitled, on certain dates, to receive cash flows which constitute only principal payments and interest payments on the principal balance.

All other debt instruments and all other financial assets will be subsequently measured at fair value. The new standard provides a distinction between debt instruments which will be measured at fair value through profit or loss, and debt instruments which will be measured at fair value through other comprehensive income.

Financial assets which constitute equity instruments will be measured in subsequent periods at fair value, and the differences will be applied to the statement of income or to other comprehensive income (loss), in accordance with the Company's choice regarding each individual instrument. Equity instruments which are held for trading must be measured at fair value through profit or loss.

The new standard also includes a new model which is comprised of three stages for measuring the impairment of financial debt instruments which are not measured at fair value through profit or loss, and is based on the expected credit losses model. Each stage determines the method for measurement of the expected credit losses, based on changes which occurred in the debt instrument's credit risk. Additionally, an easement is provided under this model for financial assets with short credit periods, such as trade receivables.

With respect to derecognition and financial liabilities, the new standard establishes the same provisions as those which are required in accordance with IAS 39 with respect to derecognition and financial liabilities, for which the fair value alternative was not chosen.

With respect to liabilities for which the fair value alternative was chosen, the amount of the change in the fair value of the liability - which is attributable to changes in the Company's credit risk - will be applied to other comprehensive income. All other changes in fair value will be applied to the statement of income.

Application and Transitional Provisions

The standard will be applied with respect to annual periods beginning on or after January 1, 2018.

In September 2016, an amendment was published to IFRS 4, which permits an entity issuing insurance contracts to adopt IFRS 9 with adjustments (hereinafter: the "Overlay Approach"), or to defer the adoption of IFRS 9 to January 1, 2021 (hereinafter: the "Deferral Approach" or the "Temporary Exemption").

In September 2018, the IASB decided to present an extension of the temporary exemption from the adoption of IFRS 9, for insurance companies which adopted the deferral approach, until January 1, 2022.

For the purpose of adopting the deferral approach, the entity is required to meet the following criteria:

A) The entity has not previously adopted any version of IFRS 9.
B) The entity's activities are significantly activities associated with insurance.

The Company meets the criteria for the easement as of the adoption date, and accordingly, it intends to defer the adoption of IFRS 9 to January 1, 2022.

When the liabilities covered under IFRS 4 constitute 90% or less of the Company's the Company's liabilities as of December 31, 2015, but the liabilities associated with the insurance constitute over 90% of the Company's total liabilities

As of December 31, 2015, the book value of the Company's liabilities which are associated with insurance constitutes 96% of the total book value of the Company's liabilities, as follows:

	Book value	Proportion of total liabilities
Liability	NIS in thousands	%
Liabilities due to contracts covered under IFRS 4	79,636	88%
Liability with respect to non-derivative investment contracts which are measured at fair value through profit or loss	2,154	2%
Liabilities which constitute capital for the purpose of complying with the capital regime that applies to the Company	3,220	4%
Tax liabilities	2,424	2%
Total	87,443	96%

Since that date, no changes have occurred in the insurance company's activities which would have required re-assessment.

Main Expected Effects

The Group evaluates the implications of the standard on the financial statements.

No change is expected in the method used to measure the value of the assets against investment-linked liabilities.

The balance of the capital reserve with respect to available for sale capital financial assets will be transferred to retained earnings, and the changes in the value of such financial assets will also be included under surplus through the statement of income (and will not be recorded based on the rules applicable to available for sale financial assets (see Note 3(f)(1) above).

The Company is still evaluating the method used to measure HETZ (indexed life) bonds and treasury deposits, which bear guaranteed returns and include a certain margin above the guaranteed returns in liabilities to the policyholders / members against which they are held, as well as the consequences of changes, if any, in the measurement of these assets, on the value of the aforementioned liabilities.

Note 4: New Standards and Interpretations Which Have Not Yet Been Adopted (Cont.)

Standard / Interpretation / Amendment	Topic	Application and Transitional Provisions	Main Expected Effects
(3) Amendments to IFRS 9, Financial Instruments, IAS 39, Financial Instruments: Recognition and Measurement, and IFRS 7, Financial Instruments: Disclosures, benchmark interest rates reform (the "Amendments")	The amendments include several mandatory easements which are relevant to the evaluation of the adequacy of hedge accounting relationships that are affected by the uncertainty due to the IBOR interest rates reform (a reform which will lead to the cancellation of benchmark interest rates, such as the LIBOR and the EURIBOR). For example: • When determining the probability of the hedged cash flows, it is necessary to rely on the existing contractual cash flows, and to ignore future changes due to the IBOR reform. • When evaluating prospective effectiveness, the current contractual terms of the hedged item and of the hedging instrument are to be taken into account, while ignoring the uncertainties due to the reform.	The amendments will be adopted retrospectively beginning on January 1, 2020. Early adoption is possible. The easements included in the amendments will be discontinued prospectively on the earlier of either the date when the uncertainty regarding the reform has been clarified, or the date when the hedge relationship is discontinued.	The Group's believes that the adoption of the amendments is not expected to have a significant impact on the financial statements.
(4) Amendment to IFRS 3, Business Combinations	The amendment clarifies whether a transaction involving the acquisition of an operation constitutes a transaction for the acquisition of a "business" or an asset. For the purpose of performing this evaluation, an option was added of choosing to use the concentration test, such that if the entire fair value of the acquired assets is significantly attributable to a group of similar identifiable assets, or to a single identifiable asset, the transaction will constitute the acquisition of an asset. Also clarified were the minimum requirements for the definition of a business, such as the requirement stipulating that the acquired processes must be significant, in a manner whereby, in order for to qualify as a business, the operation must include at least one input element and one significant process, which together significantly contribute to the operation's ability to generate outputs. Additionally, reference was reduced to the output element which is required in order to meet the definition of a business, and examples to illustrate the aforementioned evaluation were added.	The amendment will be adopted with respect to transactions involving the acquisition of assets or businesses whose acquisition date is in annual periods beginning on January 1, 2020.	The Group is evaluating the implications of the amendment, and the Group believes that the adoption of the amendment is not expected to have a significant impact on the financial statements.

Note 5: Segmental Reporting

A. General

The Group is engaged in the following operating segments:

1. Long term savings

The long term savings segment includes life insurance, accompanying coverages (riders) and management of pension funds and provident funds. The segment includes long term savings (within the framework of the various types of insurance policies, pension funds and provident funds, including study funds), as well as insurance coverage for various risks, including death, disability, loss of working capacity, health insurance policies sold as riders to life insurance policies, and others. According to the Commissioner's directives, the long term savings segment includes the following branches: provident funds, pension funds, and life insurance.

2. Health insurance

The health insurance segment includes the Group's operations in the health insurance branches. The segment includes long-term care insurance, medical expenses insurance, surgeries, transplants, personal accidents (long term health branch), international travel, dental insurance, foreign workers, and more.

3. Non-life insurance

The non-life insurance segment in Israel includes the liability and property insurance, credit insurance, personal accidents and other insurance branches.

According to the Commissioner's directives, the non-life insurance segment in Israel is divided into the following branches: compulsory motor, motor property, property and others branches, and other liability branches, as specified below:

- **Compulsory motor branch**
  The compulsory motor insurance branch focuses on coverage whose acquisition by the vehicle owner or driver is compulsory by law, and provides coverage for bodily injuries (to the driver of the vehicle, to the passengers in the vehicle or to pedestrians), as a result of the use of the motor vehicle.

- **Motor property branch**
  The motor property insurance branch focuses on coverage for damages caused to the policyholder's vehicle, and on property damages caused to a third party by the policyholder's vehicle.

- **Property and others branches**
  The remaining property branches other than motor, liability and other insurance branches, such as guarantees and personal accident insurance (short term health branch).

- **Credit insurance through a consolidated company**
  Credit insurance branches and foreign trade risks.

- **Other liability branches**
  The liability branches cover the liabilities of policyholders with respect to damages caused to third parties. These branches include third party liability, employers' liability, professional liability, and product liability.

4. Other

Including operating segments which do not meet the quantitative thresholds for reporting, credit and financing operations, and insurance agencies.

5. Operations which were not allocated to segments

This operation includes the Group's headquarters, which primarily includes capital, liabilities that are not a part of insurance operations, and assets held against them in Clal Insurance, as well as the Company's separate balances and results.

Note 5: Segmental Reporting (Cont.)

B. Seasonality

1. Long-term savings segment

In general, income from premiums in life insurance, and income from management fees in pension funds and provident funds, are not characterized by seasonality, and therefore, seasonality is not a factor with respect to claims.

However, due to the timing of the end of the tax year, a certain degree of seasonality exists with respect to deposits from premiums/benefits contributions to pension savings products in December, since substantial amounts are deposited during that month by employees and self-employed persons who initiate deposits that are not in the framework of their wages, with the intention of making full use of the tax benefits, as well as by employers completing obligations with respect to the tax year or making one-time deposits, usually with respect to a severance pay tenure debt. There are also certain months, which vary from year to year, in which the scope of premiums/contributions could be higher, this being mainly due to one-time payments made by employers to workers, in respect of which contributions are provided.

2. Non-life insurance segment

In general, revenue from premiums in non-life insurance in Israel is not characterized by clear seasonality. However, premiums in the first quarter of the year are higher than premiums in other quarters, mainly due to renewals of insurance contracts by business policyholders, and to renewals of large vehicle fleets at the start of the calendar year, which have a certain degree of seasonality. The effect of this seasonality on reported income is neutralized by the unearned premium reserve.

There is no clear seasonality in the other expense components, such as claims, and in other income components, such as income from investments. However, it should be noted that in the winter seasons an increase in claims is sometimes seen in the first or fourth quarters of the year, or in both of them, mainly in the property branches, and as a result reported income for the period decreases.

Note 5: Segmental Reporting (Cont.)

C. Report on operating segments

	Long term savings											
	Provident			Pension			Life insurance [1]			Total		
NIS in thousands	2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018	2017
Gross premiums earned	**-**	-	-	**-**	-	-	**5,986,281**	5,845,913	5,534,579	**5,986,281**	5,845,913	5,534,579
Premiums earned by reinsurers	**-**	-	-	**-**	-	-	**136,355**	135,807	168,245	**136,355**	135,807	168,245
Premiums earned on retention	**-**	-	-	**-**	-	-	**5,849,926**	5,710,106	5,366,334	**5,849,926**	5,710,106	5,366,334
Income from investments, net, and financing income	**139,540**	158,559	139,160	**4,727**	2,634	488	**8,702,644**	802,520	5,421,019	**8,846,911**	963,713	5,560,667
Income from management fees	**176,500**	175,627	183,021	**280,453**	271,359	282,422	**951,549**	436,111	760,035	**1,408,502**	883,097	1,225,478
Income from commissions	**-**	-	-	**-**	-	-	**23,930**	28,213	43,050	**23,930**	28,213	43,050
Other income	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-
Total income	**316,040**	334,186	322,181	**285,180**	273,993	282,910	**15,528,049**	6,976,950	11,590,438	**16,129,269**	7,585,129	12,195,529
Payments and changes in liabilities with respect to insurance contracts and investment contracts, gross	**134,356**	152,437	131,475	**-**	-	-	**15,004,675**	5,815,721	10,351,365	**15,139,031**	5,968,158	10,482,840
Share of reinsurers in payments and change in liabilities with respect to insurance contracts	**-**	-	-	**-**	-	-	**(117,856)**	(81,589)	(106,515)	**(117,856)**	(81,589)	(106,515)
Payments and changes in liabilities with respect to insurance contracts and investment contracts on retention	**134,356**	152,437	131,475	**-**	-	-	**14,886,819**	5,734,132	10,244,850	**15,021,175**	5,886,569	10,376,325
Commissions, marketing expenses and other acquisition costs	**61,937**	56,488	58,644	**110,991**	106,356	109,622	**721,903**	742,225	721,188	**894,831**	905,069	889,454
General and administrative expenses	**101,937**	107,633	106,569	**171,369**	177,013	165,492	**388,725**	381,421	373,426	**662,031**	666,067	645,487
Impairment of intangible assets	**352**	114,824	108,000	**379**	-	-	**14,819**	-	10,593	**15,550**	114,824	118,593
Other expenses	**3,562**	7,854	19,156	**3,679**	1,365	-	**-**	184	483	**7,241**	9,403	19,639
Financing expenses (income)	**(1)**	(2)	(1)	**200**	4	(1)	**14,169**	2,322	10,383	**14,368**	2,324	10,381
Total expenses	**302,143**	439,234	423,843	**286,618**	284,738	275,113	**16,026,435**	6,860,284	11,360,923	**16,615,196**	7,584,256	12,059,879
Share in the results of investee companies accounted by the equity method, net	**-**	-	-	**(922)**	(1,281)	(1,184)	**95**	(8,929)	6,160	**(827)**	(10,210)	4,976
Income (loss) before taxes on income	**13,897**	(105,048)	(101,662)	**(2,360)**	(12,026)	6,613	**(498,291)**	107,737	235,675	**(486,754)**	(9,337)	140,626
Other comprehensive income (loss) before taxes on income	**1,733**	-	-	**3,530**	(3,707)	4,881	**56,488**	35,885	31,034	**61,751**	32,178	35,915
Total comprehensive income (loss) before taxes on income	**15,630**	(105,048)	(101,662)	**1,170**	(15,733)	11,494	**(441,803)**	143,622	266,709	**(425,003)**	22,841	176,541
1) Total premiums (including pure savings premiums (investment contracts) which were applied directly to reserve).							**7,171,626**	6,282,926	5,825,561	**7,171,626**	6,282,926	5,825,561

Note 5: Segmental Reporting (Cont.)

C. Report on operating segments (Cont.)

	Health			General			Other		
NIS in thousands	**2019**	**2018**	**2017**	**2019**	**2018**	**2017**	**2019**	**2018**	**2017**
Gross premiums earned	**1,329,382**	2,106,995	1,917,218	**2,352,950**	2,324,119	2,279,434	**-**	-	-
Premiums earned by reinsurers	**63,674**	300,418	262,060	**1,064,856**	943,808	759,976	**-**	-	-
Premiums earned on retention	**1,265,708**	1,806,577	1,655,158	**1,288,094**	1,380,311	1,519,458	**-**	-	-
Income from investments, net, and financing income	**297,353**	11,461	359,955	**173,171**	135,505	116,924	**460**	4,553	5,273
Income from management fees	**-**	-	-	**-**	-	-	**-**	5,974	5,974
Income (expenses) from commissions	**4,283**	8,760	(7,647)	**202,629**	201,612	170,235	**139,682**	134,315	123,030
Other income	**-**	-	-	**49**	73	61	**-**	2	3,189
Total income	**1,567,344**	1,826,798	2,007,466	**1,663,943**	1,717,501	1,806,678	**140,142**	144,844	137,466
Payments and changes in liabilities with respect to insurance contracts and investment contracts, gross	**1,726,812**	1,822,451	1,654,538	**1,901,903**	1,562,129	1,874,324	**-**	-	-
Share of reinsurers in payments and change in liabilities with respect to insurance contracts	**(221,401)**	(471,418)	(293,904)	**(977,421)**	(553,777)	(703,535)	**-**	-	-
Payments and changes in liabilities with respect to insurance contracts and investment contracts on retention	**1,505,411**	1,351,033	1,360,634	**924,482**	1,008,352	1,170,789	**-**	-	-
Commissions, marketing expenses and other acquisition costs	**505,132**	520,420	449,263	**580,205**	572,422	584,804	**106,540**	103,404	94,273
General and administrative expenses	**71,467**	73,487	66,646	**80,238**	73,377	60,146	**16,402**	20,032	18,901
Impairment of intangible assets	**-**	-	-	**-**	-	-	**-**	-	8
Other expenses	**216**	-	-	**-**	10	-	**512**	849	963
Financing expenses (income)	**11,923**	12,318	6,147	**(3,358)**	11,325	(7,290)	**1,028**	388	473
Total expenses	**2,094,149**	1,957,258	1,882,690	**1,581,567**	1,665,486	1,808,449	**124,482**	124,673	114,618
Share in the results of investee companies accounted by the equity method, net	**(48)**	(5,039)	4,331	**(5,145)**	(9,159)	15,837	**-**	-	74
Income (loss) before taxes on income	**(526,853)**	(135,499)	129,107	**77,231**	42,856	14,066	**15,660**	20,171	22,922
Other comprehensive income (loss) before taxes on income	**74,376**	(29,613)	54,640	**30,114**	3,847	48,157	**(2,937)**	1,170	(1,050)
Total comprehensive income (loss) before taxes on income	**(452,477)**	(165,112)	183,747	**107,345**	46,703	62,223	**12,723**	21,341	21,872

Note 5: Segmental Reporting (Cont.)

C. Report on operating segments (Cont.)

	Not allocated to segments			Adjustments and offsets			Total		
NIS in thousands	2019	2018	2017	2019	2018	2017	2019	2018	2017
Gross premiums earned	**-**	-	-	**(2,497)**	(2,009)	(2,028)	**9,666,116**	10,275,018	9,729,203
Premiums earned by reinsurers	**-**	-	-	**-**	-	-	**1,264,885**	1,380,033	1,190,281
Premiums earned on retention	**-**	-	-	**(2,497)**	(2,009)	(2,028)	**8,401,231**	8,894,985	8,538,922
Income from investments, net, and financing income	**363,207**	130,090	192,270	**(633)**	(453)	(541)	**9,680,469**	1,244,869	6,234,548
Income from management fees	**-**	-	-	**1,475**	(4,874)	(4,969)	**1,409,977**	884,197	1,226,483
Income (expenses) from commissions	**-**	-	-	**(86,606)**	(81,554)	(61,555)	**283,918**	291,346	267,113
Other income	**-**	-	308	**-**	-	-	**49**	75	3,558
Total income	**363,207**	130,090	192,578	**(88,261)**	(88,890)	(69,093)	**19,775,644**	11,315,472	16,270,624
Payments and changes in liabilities with respect to insurance contracts and investment contracts, gross	**-**	-	-	**(2,835)**	(2,044)	(2,954)	**18,764,911**	9,350,694	14,008,748
Share of reinsurers in payments and change in liabilities with respect to insurance contracts	**-**	-	-	**-**	-	-	**(1,316,678)**	(1,106,784)	(1,103,954)
Payments and changes in liabilities with respect to insurance contracts and investment contracts on retention	**-**	-	-	**(2,835)**	(2,044)	(2,954)	**17,448,233**	8,243,910	12,904,794
Commissions, marketing expenses and other acquisition costs	**-**	-	-	**(86,605)**	(81,250)	(61,242)	**2,000,103**	2,020,065	1,956,552
General and administrative expenses	**65,291**	83,250	88,520	**(4,174)**	(5,983)	(7,639)	**891,255**	910,230	872,061
Impairment of intangible assets	**1,029**	-	3,036	**662**	-	-	**17,241**	114,824	121,637
Other expenses	**1,641**	29	2,929	**19**	406	242	**9,629**	10,697	23,773
Financing expenses (income)	**212,247**	132,048	125,045	**80**	(472)	(301)	**236,288**	157,931	134,455
Total expenses	**280,208**	215,327	219,530	**(92,853)**	(89,343)	(71,894)	**20,602,749**	11,457,657	16,013,272
Share in the results of investee companies accounted by the equity method, net	**(1,108)**	(1,260)	363	**-**	-	-	**(7,128)**	(25,668)	25,581
Income (loss) before taxes on income	**81,891**	(86,497)	(26,589)	**4,592**	453	2,801	**(834,233)**	(167,853)	282,933
Other comprehensive income (loss) before taxes on income	**176,667**	(103,406)	122,938	**(2,190)**	2,247	227	**337,781**	(93,577)	260,827
Total comprehensive income (loss) before taxes on income	**258,558**	(189,903)	96,349	**2,402**	2,700	3,028	**(496,452)**	(261,430)	543,760

Note 5: Segmental Reporting (Cont.)

D. Additional information regarding the main insurance branches included in the non-life insurance segment

	Liability branches					
	Compulsory motor			Liabilities and others branches [1]		
NIS in thousands	2019	2018	2017	2019	2018	2017
Gross premiums	**460,012**	466,725	472,546	**333,780**	333,907	323,847
Reinsurance premiums	**288,121**	281,482	220,271	**112,438**	119,565	112,356
Premiums on retention	**171,891**	185,243	252,275	**221,342**	214,342	211,491
Change in unearned premium balance, on retention	**3,441**	25,270	80,566	**(6,285)**	(2,850)	5,201
Premiums earned on retention	**175,332**	210,513	332,841	**215,057**	211,492	216,692
Income from investments, net, and financing income	**75,740**	58,708	56,056	**65,595**	43,132	38,259
Income from commissions	**61,423**	55,791	29,790	**13,537**	12,852	12,245
Total income	**312,495**	325,012	418,687	**294,189**	267,476	267,196
Payments and changes in liabilities with respect to insurance contracts and investment contracts, gross	**467,085**	422,470	523,463	**488,364**	342,604	355,811
Share of reinsurers in payments and change in liabilities with respect to insurance contracts	**(327,451)**	(222,708)	(167,692)	**(265,395)**	(91,090)	(155,807)
Payments and changes in liabilities with respect to insurance contracts and investment contracts on retention	**139,634**	199,762	355,771	**222,969**	251,514	200,004
Commissions, marketing expenses and other acquisition costs	**79,231**	75,823	80,967	**100,931**	96,960	99,771
General and administrative expenses	**13,366**	10,818	8,126	**9,013**	7,471	5,570
Financing expenses (income)	**(700)**	3,563	419	**(61)**	394	(629)
Total expenses	**231,531**	289,966	445,283	**332,852**	356,339	304,716
Share in the profits (losses) of associate companies, net	**(2,470)**	(4,396)	7,602	**(1,647)**	(2,932)	5,068
Income (loss) before taxes on income	**78,494**	30,650	(18,994)	**(40,310)**	(91,795)	(32,452)
Other comprehensive income before taxes on income	**11,299**	4,582	20,265	**9,863**	3,422	13,786
Total comprehensive income (loss) before taxes on income	**89,793**	35,232	1,271	**(30,447)**	(88,373)	(18,666)
Liabilities with Respect to Insurance Contracts						
Gross	**2,286,995**	2,284,274	2,345,355	**2,548,267**	2,328,034	2,538,361
Reinsurance	**836,177**	575,942	356,485	**1,068,771**	877,243	1,085,830
Retention	**1,450,818**	1,708,332	1,988,870	**1,479,496**	1,450,791	1,452,531

1) Liabilities and others branches primarily include the results of the third party liability and professional liability insurance branches, the activity in which accounts for approximately 70% of total premiums in these branches (in 2018: 66%; in 2017: 66%).

Note 5: Segmental Reporting (Cont.)

D. Additional information concerning the main insurance branches included in the non-life insurance segment (Cont.)

	Property branches											
	Motor property			Credit insurance			Property and others branches [1]			Total		
NIS in thousands	**2019**	**2018**	**2017**	**2019**	**2018**	**2017**	**2019**	**2018**	**2017**	**2019**	**2018**	**2017**
Gross premiums	**677,136**	713,301	726,840	**107,112**	109,793	110,188	**786,924**	727,652	665,546	**2,364,964**	2,351,378	2,298,967
Reinsurance premiums	**97,771**	1,952	2,416	**52,746**	54,675	54,653	**583,340**	554,786	471,783	**1,134,416**	1,012,460	861,479
Premiums on retention	**579,365**	711,349	724,424	**54,366**	55,118	55,535	**203,584**	172,866	193,763	**1,230,548**	1,338,918	1,437,488
Change in unearned premium balance, on retention	**73,908**	7,152	(33,245)	**295**	(307)	51	**(13,813)**	12,128	29,397	**57,546**	41,393	81,970
Premiums earned on retention	**653,273**	718,501	691,179	**54,661**	54,811	55,586	**189,771**	184,994	223,160	**1,288,094**	1,380,311	1,519,458
Income (loss) from investments, net, and financing income	**17,773**	13,804	11,250	**1,275**	9,375	(75)	**12,788**	10,486	11,434	**173,171**	135,505	116,924
Income from commissions	**1,286**	-	6	**14,248**	16,823	15,604	**112,135**	116,146	112,590	**202,629**	201,612	170,235
Other income	**-**	-	-	**49**	73	61	**-**	-	-	**49**	73	61
Total income	**672,332**	**732,305**	**702,435**	**70,233**	81,082	71,176	**314,694**	311,626	347,184	**1,663,943**	1,717,501	1,806,678
Payments and changes in liabilities with respect to insurance contracts and investment contracts, gross	**472,275**	462,293	487,288	**45,556**	23,762	25,734	**428,623**	311,000	482,028	**1,901,903**	1,562,129	1,874,324
Share of reinsurers in payments and change in liabilities with respect to insurance contracts	**(34,468)**	236	(94)	**(29,069)**	(13,779)	(13,659)	**(321,038)**	(226,436)	(366,283)	**(977,421)**	(553,777)	(703,535)
Payments and changes in liabilities with respect to insurance contracts and investment contracts on retention	**437,807**	462,529	487,194	**16,487**	9,983	12,075	**107,585**	84,564	115,745	**924,482**	1,008,352	1,170,789
Commissions, marketing expenses and other acquisition costs	**180,654**	182,935	181,150	**11,666**	9,640	9,639	**207,723**	207,064	213,277	**580,205**	572,422	584,804
General and administrative expenses	**19,673**	16,535	12,498	**18,977**	18,129	17,321	**19,209**	20,424	16,631	**80,238**	73,377	60,146
Other expenses	**-**	-	-	**-**	10	-	**-**	-	-	**-**	10	-
Financing expenses (income)	**(141)**	1,013	(210)	**(1,899)**	3,180	(3,235)	**(557)**	3,175	(3,635)	**(3,358)**	11,325	(7,290)
Total expenses	**637,993**	663,012	680,632	**45,231**	40,942	35,800	**333,960**	315,227	342,018	**1,581,567**	1,665,486	1,808,449
Share in the profits (losses) of associate companies, net	**(463)**	(824)	1,425	**-**	-	-	**(566)**	(1,007)	1,742	**(5,145)**	(9,159)	15,837
Income (loss) before taxes on income	**33,877**	68,469	23,228	**25,002**	40,140	35,376	**(19,832)**	(4,608)	6,908	**77,231**	42,856	14,066
Other comprehensive income (loss) before taxes on income	**1,877**	1,476	4,219	**6,026**	(6,831)	5,513	**1,049**	1,198	4,374	**30,114**	3,847	48,157
Total comprehensive income (loss) before taxes on income	**35,754**	69,945	27,447	**31,028**	33,309	40,889	**(18,783)**	(3,410)	11,282	**107,345**	46,703	62,223
Liabilities with respect to insurance contracts												
Gross	**474,972**	495,220	517,043	**52,946**	63,741	80,605	**1,030,048**	936,041	1,039,333	**6,393,228**	6,107,310	6,520,697
Reinsurance	**83,490**	684	683	**25,623**	31,979	42,747	**713,827**	620,069	625,467	**2,727,888**	2,105,917	2,111,212
Retention	**391,482**	494,536	516,360	**27,323**	31,762	37,858	**316,221**	315,972	413,866	**3,665,340**	4,001,393	4,409,485

1) Property and other branches primarily include the results of the business property insurance and apartment insurance branches, the activity in which accounts for approximately 77% of total premiums in these branches (in 2018 - 77%; in 2017 - 74%).

Note 5: Segmental Reporting (Cont.)

E. Report on operating segments as of December 31

	Long term savings		Health insurance		Non-life insurance		Other		Not allocated to segments		Adjustments and offsets		Total	
NIS in thousands	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Assets:														
Intangible assets	**902,987**	936,306	**84,246**	86,359	**246,245**	255,281	**34,682**	32,946	**29,467**	31,867	**-**	-	**1,297,627**	1,342,759
Deferred acquisition costs	**1,237,092**	1,238,847	**548,862**	496,826	**235,250**	237,866	**-**	-	**-**	-	**-**	-	**2,021,204**	1,973,539
Investments in investee companies	**65,147**	69,845	**3,297**	3,869	**44,979**	81,960	**-**	-	**70,226**	58,830	**-**	-	**183,649**	214,504
Investment property for investment-linked contracts	**3,097,370**	3,000,340	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**3,097,370**	3,000,340
Other investment property	**1,022,084**	1,032,295	**55,786**	57,334	**172,169**	177,266	**-**	-	**-**	-	**-**	-	**1,250,039**	1,266,895
Financial investments for investment-linked contracts	**61,263,538**	54,006,724	**1,133,923**	4,178,509	**-**	-	**-**	-	**-**	-	**-**	-	**62,397,461**	58,185,233
Other financial investments:														
Marketable debt assets	**835,841**	1,407,249	**965,307**	1,016,184	**1,521,773**	456,636	**-**	1,134	**2,612,487**	2,350,659	**-**	-	**5,935,408**	5,231,862
Non-marketable debt assets	**20,058,102**	17,947,174	**815,298**	525,521	**1,595,336**	2,818,470	**-**	3,235	**1,122**	698,828	**-**	(2,885)	**22,469,858**	21,990,343
Stocks	**163,356**	310,646	**435,104**	280,698	**97,164**	258,010	**-**	-	**662,134**	567,621	**-**	-	**1,357,758**	1,416,975
Others	**616,024**	1,270,989	**433,122**	417,496	**249,225**	421,045	**-**	-	**1,300,185**	752,847	**-**	-	**2,598,556**	2,862,377
Total other financial investments	**21,673,323**	20,936,058	**2,648,831**	2,239,899	**3,463,498**	3,954,161	**-**	4,369	**4,575,928**	4,369,955	**-**	(2,885)	**32,361,580**	31,501,557
Cash and cash equivalents for investment-linked contracts	**6,554,553**	3,423,775	**92**	225,124	**-**	-	**-**	-	**-**	-	**-**	-	**6,554,645**	3,648,899
Other cash and cash equivalents	**676,448**	487,682	**202,578**	138,227	**421,868**	124,859	**130,301**	121,801	**1,127,522**	425,717	**-**	-	**2,558,717**	1,298,286
Reinsurance assets	**220,125**	187,636	**603,797**	685,826	**2,727,888**	2,105,917	**-**	-	**-**	-	**-**	-	**3,551,810**	2,979,379
Outstanding premiums	**208,908**	325,954	**67,053**	123,957	**421,477**	423,530	**2,710**	3,415	**-**	-	**-**	-	**700,148**	876,856
Other assets	**599,376**	999,195	**208,448**	196,589	**219,331**	257,118	**63,561**	33,856	**808,196**	281,957	**(46,149)**	(64,336)	**1,852,763**	1,704,379
Total assets	**97,520,951**	86,644,657	**5,556,913**	8,432,519	**7,952,705**	7,617,958	**231,254**	196,387	**6,611,339**	5,168,326	**(46,149)**	(67,221)	**117,827,013**	107,992,626
Total assets for investment-linked contracts	**71,665,479**	61,670,214	**1,148,127**	4,451,034	**-**	-	**-**	-	**-**	-	**-**	-	**72,813,606**	66,121,248
Liabilities:														
Liabilities with respect to non-investment-linked insurance contracts and investment contracts	**22,802,257**	21,865,392	**3,045,582**	2,675,508	**6,393,228**	6,107,310	**-**	-	**-**	-	**(2,034)**	(1,215)	**32,239,033**	30,646,995
Liabilities with respect to investment-linked insurance contracts and investment contracts	**70,752,437**	60,985,176	**1,097,913**	4,401,472	**-**	-	**-**	-	**-**	-	**(17,346)**	(19,751)	**71,833,004**	65,366,897
Financial liabilities	**122,260**	261,610	**3,355**	12,543	**19,830**	59,738	**-**	2,886	**4,089,250**	3,209,815	**(12)**	(2,893)	**4,234,683**	3,543,699
Other liabilities	**1,261,422**	1,134,203	**781,273**	818,227	**1,086,588**	901,657	**116,641**	64,173	**1,054,402**	596,344	**(13,330)**	(26,489)	**4,286,996**	3,488,115
Total liabilities	**94,938,376**	84,246,381	**4,928,123**	7,907,750	**7,499,646**	7,068,705	**116,641**	67,059	**5,143,652**	3,806,159	**(32,722)**	(50,348)	**112,593,716**	103,045,706

Note 6: Intangible Assets [1)]

A. Composition and movement

NIS in thousands	Goodwill	Customer portfolios and future management fees	Licenses, trade names, brand names, and others	Original differences attributed to the value of insurance portfolios	Software programs	Total
Cost						
Balance as of January 1, 2018	632,732	272,288	9,851	634,657	2,279,364	3,828,892
Acquisitions and self-development [2)]	-	-	-	2,476	279,528	282,004
Write-off of completely depreciated assets	(35,010)	-	(1,038)	-	(3,182)	(39,230)
Balance as of December 31, 2018	597,722	272,288	8,813	637,133	2,555,710	4,071,666
Acquisitions and self-development [2)]	**-**	**-**	**-**	**508**	**201,227**	**201,735**
Write-off of completely depreciated assets	**-**	**-**	**-**	**-**	**(1,406)**	**(1,406)**
Balance as of December 31, 2019	**597,722**	**272,288**	**8,813**	**637,641**	**2,755,531**	**4,271,995**
Amortization and impairment losses						
Balance as of January 1, 2018	218,408	238,833	9,851	632,846	1,337,201	2,437,139
Amortization for the year	-	3,698	-	872	211,604	216,174
Impairment loss [3)]	114,824	-	-	-	-	114,824
Write-off of completely depreciated assets	(35,010)	-	(1,038)	-	(3,182)	(39,230)
Balance as of December 31, 2018	298,222	242,531	8,813	633,718	1,545,623	2,728,907
Amortization for the year	**-**	**3,552**	**-**	**484**	**225,590**	**229,626**
Write-off of completely depreciated assets	**-**	**-**	**-**	**-**	**(1,406)**	**(1,406)**
Impairment loss [3)]	**-**	**-**	**-**	**-**	**17,241**	**17,241**
Balance as of December 31, 2019	**298,222**	**246,083**	**8,813**	**634,202**	**1,787,048**	**2,974,368**
Book value, net						
Balance as of January 1, 2018	414,324	33,455	-	1,811	942,163	1,391,753
Balance as of December 31, 2018	299,500	29,757	-	3,415	1,010,087	1,342,759
Balance as of December 31, 2019	**299,500**	**26,205**	**-**	**3,439**	**968,483**	**1,297,627**

1) For details regarding the policy regarding current amortization and impairment losses, and for details regarding the amortization periods, see Note 3(h).
2) Additions with respect to software programs include additions with respect to self-development in amounts of approximately NIS 135,390 thousand and approximately NIS 147,456 thousand, during the years ended December 31, 2019 and 2018, respectively.
3) See section B(1) below.

B. Impairment test and additional information

Presented below are details regarding the composition of the book value of the intangible assets, excluding software programs:

	Original differences attributed to the value of insurance portfolios		Customer portfolios and future management fees		Goodwill	
	As of December 31		As of December 31		As of December 31	
NIS in thousands	2019	2018	2019	2018	2019	2018
Provident fund operations [1)]	**-**	-	**26,205**	29,757	**124,587**	124,587
Pension fund operations [2)]	**-**	-	**-**	-	**134,700**	134,700
Non-life insurance operations - Clal Credit	**-**	-	**-**	-	**2,447**	2,447
Insurance agencies [3)]	**3,439**	3,415	**-**	-	**37,766**	37,766
Total	**3,439**	3,415	**26,205**	29,757	**299,500**	299,500

Note 6: Intangible Assets (Cont.)

B. Impairment test and additional information

1. Provident fund management operation

The Company evaluated the need to record a provision for impairment with respect to the goodwill attributed to the provident fund management operation, through a valuation prepared by an independent external valuer, based on the method of discounting the cash flows from the operation (value in use) which is based, inter alia, on the Company's forecast regarding the rate of management fees, managed assets and segmental expenses.

In accordance with the valuation as of December 31, 2019, the calculated recoverable amount is higher than the book value of the provident operations, and therefore, impairment of goodwill did not occur.

In accordance with the valuation as of December 31, 2018, the calculated recoverable amount is higher than the book value of the provident operations, and therefore, impairment of goodwill did not occur as of.

In accordance with the valuation as of June 30, 2018, in accordance with the valuation, the book value of the provident fund operation was higher than the value in use by approximately NIS 115 million, and therefore, the Company recognized impairment loss of goodwill before tax in the aforementioned amount.

Presented below are details regarding the key assumptions and main parameters which were used to calculate recoverable value:

	As of December 31, 2019	As of December 31, 2018
Valuation methodology	DCF	DCF
Operational discount rate WACC before tax	10.1%	12.1%
Long term growth rate in the branch, excluding provident fund for investment	0%	0%
Long term growth rate - provident fund for investment	3.0%	3.0%
Effective marginal tax	34.2%	34.2%
Average long term rate of management fees in Tamar provident fund for compensation	0.49%	0.51%
Average long term rate of management fees in study fund	0.51%	0.59%
Rate of maximum management fees from the accrual	1.05%	1.05%
Number of years in the cash flow forecast	5	5

2. Pension fund management operation

For the purpose of preparing the financial statements as of December 31, 2019, the Company conducted an impairment test of the goodwill attributed to the pension funds operation, through an independent external valuer. The analysis was based on the discounted cash flows (DCF) approach. In the paper, the valuer relied on the embedded value (EV) calculations for pension operations which were prepared by the Company. For the purpose of evaluating value in use, weighted returns on the free assets (excluding special bonds) was credited at a rate of approximately 5.04% with respect to members' assets, and at a rate of 3.36% with respect to assets of annuity recipients. The cash flows were discounted to their present values at a rate of 10.1% before tax (8.2% after tax). Based on the valuation which was obtained, the calculated recoverable amount is higher than the book value of the pension operations, and therefore, impairment of goodwill did not occur as of December 31, 2019.

For the purpose of preparing the financial statements as of December 31, 2018, the Company conducted an impairment test of the goodwill attributed to the pension funds operation, through an independent external valuer. The analysis was based on the discounted cash flows (DCF) approach. In the paper, the valuer relied on the embedded value (EV) calculations for pension operations which were prepared by the Company. For the purpose of estimating value in use, a weighted rate of return on assets was applied at a rate of approximately 4.8%, and cash flows were discounted to their present values at a rate of 12.1% before tax (9.8% after tax). Based on the valuation which was obtained, the calculated recoverable amount is higher than the book value of the pension operations, and therefore, impairment of goodwill did not occur as of December 31, 2018.

Note 6: Intangible Assets (Cont.)

3. Agencies

For the purpose of preparing the financial statements, the Company conducted an impairment test of the goodwill attributed to the agencies operation. For this purpose, on December 31, 2019, the Company conducted an internal evaluation, and on December 31, 2018, reports were received from an independent external valuer. Both the internal evaluation and the external evaluation were prepared by discounting future cash flows from the activity (value in use).

As of December 31, 2019 and 2018, the value in use attributed to the agencies operation was higher than the value of this operation in the books, and therefore, impairment loss of goodwill was not recorded.

Note 7: Deferred Acquisition Costs

A. Composition

	As of December 31	
NIS in thousands	2019	2018
Life insurance and long term savings	**1,237,092**	1,238,847
Health insurance	**548,862**	496,826
Non-life insurance *)	**235,250**	237,866
Total	**2,021,204**	1,973,539

*) For additional details, see Note 19(a).

B. Movement in deferred acquisition costs in the long term savings segment and in the health segment

	Long term savings			Health		
NIS in thousands	Life insurance	Pension and provident	Total	Long-term care	Illness and hospitalization	Total
Balance as of January 1, 2018	925,612	308,499	1,234,111	116,623	354,391	471,014
Additions:						
Acquisition fees	217,285	40,562	257,847	12,234	125,623	137,857
Other acquisition costs	93,553	-	93,553	11,764	107,450	119,214
Total additions	310,838	40,562	351,400	23,998	233,073	257,071
Current amortization	(116,092)	(40,303)	(156,395)	(12,517)	(91,316)	(103,833)
Amortization with respect to cancellations	(190,269)	-	(190,269)	(12,093)	(115,333)	(127,426)
Balance as of December 31, 2018	930,089	308,758	1,238,847	116,011	380,815	496,826
Additions:						
Acquisition fees	**179,529**	**50,026**	**229,555**	**17,164**	**143,755**	**160,919**
Other acquisition costs	**117,170**	**-**	**117,170**	**10,872**	**136,469**	**147,341**
Total additions	**296,699**	**50,026**	**346,725**	**28,036**	**280,224**	**308,260**
Current amortization	**(112,388)**	**(43,804)**	**(156,192)**	**(12,682)**	**(99,808)**	**(112,490)**
Amortization with respect to cancellations	**(192,288)**	**-**	**(192,288)**	**(13,762)**	**(129,972)**	**(143,734)**
Balance as of December 31, 2019	**922,112**	**314,980**	**1,237,092**	**117,603**	**431,259**	**548,862**

Note 8: Property, Plant and Equipment

A. Composition and movement [1)]

NIS in thousands	Land and office buildings	Computers and servers	Vehicles	Furniture and office equipment	Leasehold installations and improvements	Total
Cost						
Balance as of January 1, 2018	65,639	219,162 *)	882	66,272 *)	217,622 *)	569,577
Acquisitions	-	17,863	48	3,228	14,259	35,398
Write-offs	-	(2,720)**)	(526)	(26)	-	(3,272)
Balance as of December 31, 2018	65,639	234,305	404	69,474	231,881	601,703
Acquisitions	-	30,846	29	3,101	1,698	35,674
Write-offs	-	(3,253)	(318)	(3,110) **)	(1,863) **)	(8,544)
Balance as of December 31, 2019	**65,639**	**261,898**	**115**	**69,465**	**231,716**	**628,833**
Depreciation and impairment losses						
Balance as of January 1, 2018	49,429	170,128 *)	227	37,570 *)	80,557 *)	337,911
Depreciation for the year	1,316	22,842	115	4,189	13,131	41,593
Write-offs	-	(2,718) **)	(217)	(26)	-	(2,961)
Balance as of December 31, 2018	50,745	190,252	125	41,733	93,688	376,543
Depreciation for the year	1,311	23,345	54	4,295	11,690	40,695
Write-offs	-	(3,081)	(136)	(3,110) **)	(1,863) **)	(8,190)
Balance as of December 31, 2019	**52,056**	**210,516**	**43**	**42,918**	**103,515**	**409,048**
Book value, net						
Balance as of January 1, 2018	16,210	47,092	655	30,180	139,445	231,666
Balance as of December 31, 2018	14,894	42,111	279	29,219	140,573	225,160
Balance as of December 31, 2019	**13,583**	**49,878**	**72**	**28,051**	**128,201**	**219,785**

1. For details regarding the amortization periods, see Note 3(g)(3).

*) Reclassified.
**) Primarily write-offs of completely depreciated assets.

B. For additional details regarding leased property, plant and equipment, see Note 27.

Note 9: Investments in Investee Companies

A. Summary financial data regarding investments in investee companies and joint ventures

As of December 31, 2019

Company name	ADC Holdings 2)	Atudot Pension Fund for Workers & Independent Workers Ltd.	22 Kingsway Limited	Ibex London Limited	Clal Wacker Investments LP	WC Edgewater Venture, L.L.C3)	WC 75 Tresser, L.L.C 3)	660 Columbus Ave. Investors, L.L.C 3)	Dominion Tower Holdings, LP	Credit Suisse Emerging Markets 1)	IDE Technologies	Total
	Holding company	Old pension fund managing company	Real estate investment	Real estate investment	Real estate investment	Real estate investment	Real estate investment	Real estate investment	Real estate investment	Capital market	Operating segment	
Country of incorporation	Israel	Israel	Israel	Israel	United States	United States	United States	United States	United States	Cayman Islands	Israel	
Main location of the business operation	Israel	Israel	Israel	Israel	United States	United States	United States	United States	United States	Cayman Islands	Israel	
Holding rate in equity (%)	33.33%	50.00%	50.00%	50.00%	12.25%	17.15%	17.15%	9.75%	49.00%	2.69%	5.78%	
Holding rate in voting rights (%)	33.33%	50.00%	50.00%	50.00%	12.25%	17.15%	17.15%	9.75%	49.00%	2.69%	5.78%	
Total assets	37,007	38,189	36,900	28,046	4,057	186,382	441,960	228,068	-	76,603	1,043,480	
Total liabilities	77	11,803	-	-	-	121,036	290,913	213,188	-	9,964	472,667	
Total net assets (total assets less total liabilities)	36,930	26,386	36,900	28,046	4,057	65,346	151,047	14,880	-	66,639	570,813	
The Group's share in net assets (net assets * holding rate)	12,310	13,180	18,449	14,023	497	11,208	25,903	1,453	-	1,795	32,983	
Balance of excess cost and other adjustments	-	30,095	-	-	-	-	-	-	-	394	21,359	
Value of the investee company in the Group's books	12,310	43,275	18,449	14,023	497	11,208	25,903	1,453	-	2,189	54,342	183,649
Revenues	1,438	46,216	-	(10,424)	-	(1,738)	2,099	(11,578)	2,567	3,785	519,986	
Total profit and loss	1,084	1,916	-	(10,424)	-	(1,738)	2,099	(11,578)	2,567	2,757	88,040	
The Group's share in profit and loss of the investee company	361	958	-	(5,212)	-	(298)	361	(1,129)	1,257	89	(1,635)	
Amortization of adjustments to fair value which were performed on the acquisition date	-	(1,880)	-	-	-	-	-	-	-	-	-	
The Group's share in the profit and loss of the investee company, as presented in the books	361	(922)	-	(5,212)	-	(298)	361	(1,129)	1,257	89	(1,635)	(7,128)
Foreign currency translation differences for investee companies	-	-	-	8,833	-	(952)	(2,227)	(232)	-	(196)	(4,314)	912
The Group's share in the comprehensive income of the investee company, as presented in the books	361	(922)	-	3,621	-	(1,250)	(1,866)	(1,361)	1,257	(107)	(5,949)	(6,216)

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1) In 2019, Clal Insurance had significant influence over EMCO, such as investment, through the joint representative of Clal Insurance Group and of Koor Industries Ltd., a member company of IDB Group. Since 2020 IDB is no longer the controlling shareholder, and the investment in EMCO is accounted for under other investments. For additional details, see Note 1.

2) Clal Insurance received, in the years 2008-2009, two loans from ADC Holdings, according to its relative share in the share capital, the balance of which, as of the reporting date, amounted to approximately NIS 12.3 million after current repayments which are included under the item for other accounts payable.

3) The holding rate reflects the direct holdings of the investment portfolios against non-investment-linked liabilities (hereinafter: "**Nostro**"). In addition to these rates, the Company holds investments against investment-linked liabilities (hereinafter: "**Members**") at additional holding rates. The joint holding rates in the nostro portfolio and in the members portfolio confer upon the Company significant influence.

Note 9: Investments in Investee Companies (Cont.)

A. Summary financial data regarding investments in investee companies and joint ventures (Cont.)

As of December 31, 2018

Company name	ADC Holdings 2)	Atudot Pension Fund for Workers & Independent Workers Ltd.	22 Kingsway Limited	Ibex London Limited	Clal Wacker Investments LP	WC Edgewater Venture, L.L.C 3)	WC 75 Tresser, L.L.C 3)	660 Columbus Ave. Investors, L.L.C 3)	Dominion Tower Holdings, LP	Credit Suisse Emerging Markets 1)	IDE Technologies	Total
Operating segment	**Holding company**	**Old pension fund managing company**	**Real estate investment**	**Real estate investment**	**Real estate investment**	**Real estate investment**	**Real estate investment**	**Real estate investment**	**Real estate investment**	**Capital market**	**Water technologies**	
Country of incorporation	**Israel**	**Israel**	**Israel**	**Israel**	**United States**	**United States**	**United States**	**United States**	**United States**	**Cayman Islands**	**Israel**	
Main location of the business operation	**Israel**	**Israel**	**Israel**	**Israel**	**United States**	**United States**	**United States**	**United States**	**United States**	**Cayman Islands**	**Israel**	
Holding rate in equity (%)	33.33%	50.00%	50.00%	50.00%	12.25%	17.15%	17.15%	9.75%	49.00%	2.69%	3.61%	
Holding rate in voting rights (%)	33.33%	50.00%	50.00%	50.00%	12.25%	17.15%	17.15%	9.75%	49.00%	2.69%	3.61%	
Total assets	48,377	35,599	36,900	92,784	4,857	203,625	481,561	262,731	-	90,339	2,755,560	
Total liabilities	78	11,956	-	-	-	130,701	315,394	233,898	-	9,725	1,806,322	
Total net assets (total assets less total liabilities)	**48,299**	**23,643**	**36,900**	**92,784**	**4,857**	**72,924**	**166,167**	**28,833**	**-**	**80,614**	**949,238**	
The Group's share in net assets (net assets * holding rate)	**16,100**	**11,809**	**18,449**	**46,392**	**595**	**12,505**	**28,497**	**2,808**	**-**	**2,169**	**34,280**	
Balance of excess cost and other adjustments	-	31,975	-	-	-	-	-	-	-	475	8,450	
Value of the investee company in the Group's books	**16,100**	**43,784**	**18,449**	**46,392**	**595**	**12,505**	**28,497**	**2,808**	**-**	**2,644**	**42,730**	**214,504**
Revenues	1,454	43,179	-	4,270	-	741	(14,991)	(20,152)	(37,506)	(56,571)	457,690	
Total profit and loss	1,066	1,320	-	4,270	-	741	(14,991)	(20,152)	(37,506)	(58,408)	49,425	
The Group's share in profit and loss of the investee company	**347**	**599**	**-**	**2,134**	**-**	**128**	**(2,571)**	**(1,967)**	**(18,380)**	**(523)**	**(3,555)**	
Amortization of adjustments to fair value which were performed on the acquisition date	-	(1,880)	-	-	-	-	-	-	-	-	-	
The Group's share in the profit and loss of the investee company, as presented in the books	**347**	**(1,281)**	**-**	**2,134**	**-**	**128**	**(2,571)**	**(1,967)**	**(18,380)**	**(523)**	**(3,555)**	**(25,668)**
Foreign currency translation differences for investee companies	-	-	(275)	1,023	-	986	2,389	328	4,058	149	3,765	**12,423**
The Group's share in the comprehensive income of the investee company, as presented in the books	**347**	**(1,281)**	**(275)**	**3,157**	**-**	**1,114**	**(182)**	**(1,639)**	**(14,322)**	**(374)**	**210**	**(13,245)**

1) As of December 31, 2018, Clal Insurance has significant influence in EMCO, due to the fact that it has the power to take part in certain material decisions of EMCO, such as investments, through the joint representative of the Clal Insurance Group and of Koor Industries Ltd., a member company of the IDB Group.

2) Clal Insurance received, in the years 2008-2009, two loans from ADC Holdings, according to its relative share in the share capital, the balance of which, as of December 31, 2018, amounted to approximately NIS 16.1 million after current repayments, and which are included under the item for other accounts payable. 3) The holding rate reflects the direct holdings of the investment portfolios against non-investment-linked liabilities (hereinafter: "**Nostro**"). In addition to these rates, the Company holds investments against investment-linked liabilities (hereinafter: "**Members**") at additional holding rates. The joint holding rates in the nostro portfolio and in the members portfolio confer upon the Company significant influence.

Note 9: Investments in Investee Companies (Cont.)

A. Summary financial data regarding investments in investee companies and joint ventures (Cont.)

As of December 31, 2017

Company name	**ADC Holdings 2)**	**Atudot - Pension Fund for Workers & Independent Workers Ltd.**	**Ibex London Limited**	**WC Edgewater Venture, L.L.C 3)**	**WC 75 Tresser, L.L.C 3)**	**DCE 1 APS**	**660 Columbus Ave. Investors, L.L.C 3)**	**Dominion Tower Holdings, LP**	**Credit Suisse Emerging Markets 1)**	**IDE Technologies**	**Trans Betach Ltd.**	**Total**
Operating segment	**Holding company**	Managing Company **Old pension fund**	**Real estate investment**	**Real estate investment**	**Real estate investment**	**Real estate investment**	**Real estate investment**	**Real estate investment**	**Capital market**	**Water technologies**	**Marine insurance agency**	
Country of incorporation	**Israel**	**Israel**	**Israel**	**United States**	**United States**	**Denmark**	**United States**	**United States**	**Cayman Islands**	**Israel**	**Israel**	
Main location of the business operation	**Israel**	**Israel**	**Israel**	**United States**	**United States**	**Denmark**	**United States**	**United States**	**Cayman Islands**	**Israel**	**Israel**	
Holding rate in equity (%)	33.33%	50.00%	50.00%	17.15%	17.15%	49.00%	9.75%	49.00%	2.69%	3.61%	50.00%	
Holding rate in voting rights (%)	33.33%	50.00%	50.00%	17.15%	17.15%	49.00%	9.75%	49.00%	2.69%	3.61%	50.00%	
Revenues	1,429	42,487	9,752	(3,866)	(3,178)	224	810	35,498	74,753	-	-	
Total profit and loss	1,088	1,271	9,752	(3,866)	(3,178)	224	810	35,498	71,413	-	148	
The Group's share in profit and loss of the investee company	**363**	**696**	**4,875**	**(658)**	**(545)**	**111**	**77**	**17,397**	**1,140**	**3,931**	**74**	
Amortization of adjustments to fair value which were performed on the acquisition date	-	(1,880)	-	-	-	-	-	-	-	-	-	
The Group's share in the profit and loss of the investee company, as presented in the books	**363**	**(1,184)**	**4,875**	**(658)**	**(545)**	**111**	**77**	**17,397**	**1,140**	**3,931**	**74**	**25,581**
Foreign currency translation differences for investee companies	-	-	(304)	(1,394)	(3,353)	(324)	(352)	(4,938)	(814)	-	-	**(11,479)**
The Group's share in the comprehensive income of the investee company, as presented in the books	**363**	**(1,184)**	**4,571**	**(2,052)**	**(3,898)**	**(213)**	**(275)**	**12,459**	**326**	**3,931**	**74**	**14,102**

1) As of December 31, 2017, Clal Insurance has significant influence in EMCO, due to the fact that it has the power to take part in certain material decisions of EMCO, such as investments, through the joint representative of the Clal Insurance Group and of Koor Industries Ltd., a member company of the IDB Group.

2) Clal Insurance received, in the years 2008-2009, two loans from ADC Holdings, according to its relative share in the share capital, the balance of which, as of December 31, 2017, amounted to approximately NIS 15.7 million, after current repayments, and which are included under the item for other accounts payable.

3) The holding rate reflects the direct holdings of the investment portfolios against non-investment-linked liabilities (hereinafter: "**Nostro**"). In addition to these rates, the Company holds investments against investment-linked liabilities (hereinafter: "**Members**") at additional holding rates. The joint holding rates in the nostro portfolio and in the members portfolio confer upon the Company significant influence.

Note 9: Investments in Investee Companies (Cont.)

B. Movement in investments in investee companies

NIS in thousands	2019	2018
Balance as of January 1	**214,504**	296,172
Investment during the period	**25,080**	-
Equity losses	**(7,128)**	(25,668)
Other comprehensive income	**912**	12,423
Erosion of loans	**(10,223)**	1,024
Dividend received	**(14,492)**	(19,253)
Other	**413**	(104)
Consideration from sale of investment	**(25,416)**	(50,090)
Balance as of December 31	**183,649**	214,504

C. Additional details regarding main subsidiaries which are directly held by the Company [1)]

	Note	Country of incorporation	The Company's rights in equity %	Investment in the consolidated company
2019				
Clal Insurance Company Ltd. ("Clal Insurance")		**Israel**	**99.98**	4,372,563
Clal Agency Holdings (1998) Ltd. ("Clal Agencies")		**Israel**	**100.00**	88,079
Clalbit Systems Ltd.		**Israel**	**100.00**	9,411
Clal Factoring and Finance Ltd.	2)	**Israel**	**100.00**	15,832
Clal Business Credit Ltd.	2)	**Israel**	**100.00**	22,328
2018				
Clal Insurance Company Ltd. ("Clal Insurance")		Israel	99.98	4,704,502
Clal Agency Holdings (1998) Ltd. ("Clal Agencies")		Israel	100.00	81,468
Clalbit Systems Ltd.		Israel	100.00	8,017
Clal Credit and Finance Ltd.	2)	Israel	100.00	59,531

1) As of December 31, 2019 and 2018, the Company did not provide any loans or guarantees to subsidiaries.

2) During the reporting period, the companies Clal Consumer Credit, Clal Credit and Finance Ltd. and HaClal HaRishon Ltd. were merged into Clal Insurance Company Ltd. The merger applies retroactively, beginning on January 1, 2019, and had no material impact on the financial statements.
Additionally, the companies Clal Factoring and Clal Business Credit were distributed as a payment in kind dividend from Clal Credit and Finance to the Company.

Note 10: Investment Property, Including with Respect to Investment-Linked Contracts

A. Composition and movement

	Investment property									
	Investment-linked contracts									
	Offices in Israel 2)		Logistical and commercial centers in Israel		Offices abroad		Residential abroad		Total	
NIS in thousands	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Balance as of January 1	**1,642,447**	1,588,718	**672,988**	619,874	**514,012**	495,022	**170,893**	166,353	**3,000,340**	2,869,967
Additions										
Net acquisitions and additions for current assets	**82,760**	-	**34,933**	57,023	**-**	-	**-**	-	**117,693**	57,023
Discounted costs and expenses	**10,837**	11,832	**1,199**	3,850	**-**	-	**2,265**	2,246	**14,301**	17,928
Total additions	**93,597**	11,832	**36,132**	60,873	**-**	-	**2,265**	2,246	**131,994**	74,951
Write-offs										
Disposals	**(55,099)**	-	**-**	-	**-**	-	**-**	-	**(55,099)**	-
Total write-offs	**(55,099)**	-	**-**	-	**-**	-	**-**	-	**(55,099)**	-
Translation differences	**-**	-	**-**	-	**(33,187)**	25,776	**(13,314)**	13,144	**(46,501)**	38,920
Changes in fair value with respect to sold real estate	**1,897**	-	**-**	-	**-**	-	**-**	-	**1,897**	-
Changes in fair value with respect to unrealized real estate	**57,166**	41,897	**34,937**	(7,759)	**(16,007)**	(6,786)	**(11,357)**	(10,850)	**64,739**	16,502
Changes in fair value 1)	**59,063**	41,897	**34,937**	(7,759)	**(49,194)**	18,990	**(24,671)**	2,294	**20,135**	55,422
Balance as of December 31	**1,740,008**	1,642,447	**744,057**	672,988	**464,818**	514,012	**148,487**	170,893	**3,097,370**	3,000,340
Details regarding the discount rates which were used to determine fair value	**5%-9.5%**	6.%-9.5%	**5.7%-9%**	6.%-9.5%	**5%-8.9%**	5%-6.9%	**5.2%**	5%		

1) Income from changes in fair value is recognized in the item for investment income, net, and financing income.

2) Including an advance payment with respect to investment property.

Note 10: Investment Property, Including with Respect to Investment-Linked Contracts (Cont.)

	Other									
	Offices in Israel [2)]		Logistical and commercial centers in Israel		Offices abroad		Residential abroad		Total	
NIS in thousands	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Balance as of January 1	**767,198**	743,119	**150,390**	127,433	**257,481**	249,941	**91,826**	91,616	**1,266,895**	1,212,109
Additions										
Net acquisitions and additions for current assets	**34,120**	-	**15,247**	23,839	**-**	-	**-**	-	**49,367**	23,839
Discounted costs and expenses	**4,738**	3,942	**222**	914	**-**	-	**1,220**	850	**6,180**	5,706
Total additions	**38,858**	3,942	**15,469**	24,753	**-**	-	**1,220**	850	**55,547**	29,545
Write-offs										
Disposals	**(54,901)**	-	**-**	-	**-**	-	**-**	-	**(54,901)**	-
Total write-offs	**(54,901)**	-	**-**	-	**-**	-	**-**	-	**(54,901)**	-
Translation differences	**-**	-	**-**	-	**(15,812)**	11,401	**(7,154)**	7,602	**(22,966)**	19,003
Changes in fair value with respect to realized real estate [1)]	**1,890**	-	**-**	-	**-**	-	**-**	-	**1,890**	-
Changes in fair value with respect to unrealized real estate [1)]	**23,299**	20,137	**(3,812)**	(1,796)	**(9,976)**	(3,861)	**(5,937)**	(8,242)	**3,574**	6,238
Changes in fair value	**25,189**	20,137	**(3,812)**	(1,796)	**(25,788)**	7,540	**(13,091)**	(640)	**(17,502)**	25,241
Balance as of December 31	**776,344**	767,198	**162,047**	150,390	**231,693**	257,481	**79,955**	91,826	**1,250,039**	1,266,895
Details regarding the discount rates which were used to determine fair value	**5%-9.5%**	6.%-9.5%	**5.7%-9%**	6.%-9.5%	**5%-8.9%**	5%-6.9%	**5.2%**	5%		

1) Income from changes in fair value is recognized in the item for investment income, net, and financing income.

2) Including an advance payment with respect to investment property.

Note 10: Investment Property, Including with Respect to Investment-Linked Contracts (Cont.)

B. Determination of fair value

1. **Fair value hierarchy**
All fair value measurements are at level 3 of the fair value hierarchy. For the definition of the levels of the hierarchy, see Note 2(e)(3) above.

2. **Valuation techniques which are applied in the Group and valuation technique which were used in the determination of fair value**
The fair value of investment property represents an estimate of the amount which would be received upon the sale of the investment property, in an ordinary transaction between market participants on the measurement date.
In the absence of current prices on an active market, the fair value of investment property is determined based on valuations prepared by external independent valuers who have the appropriate professional skills and current experience with assets of similar position and type as that of the valuated property. Valuations of investment property are performed according to the appropriate valuation method for the property type, as specified below. External valuations are performed in different periods for different properties in the investment property portfolio. All valuations are submitted for review to the relevant entities in the Company.

3. **Data regarding the fair value measurement of investment property**

Type of property	Valuation techniques used in the determination of fair value	Significant unobservable inputs	Reciprocal relationships between significant unobservable inputs and fair value measurement
Rental properties for commercial / residential / office purposes	Fair value was estimated using the discounting income technique: the valuation model is based on the present value of estimated NOI from the property. Real estate valuations are based on the net annual cash flows, discounted by the discount rate which reflects the specific risks embodied therein. When rental agreements are in effect, wherein the payments are different from appropriate rental fees, adjustments are performed in order to reflect the actual rental payments during the agreement period. The valuations take into account the types of tenants which are actually located in the leased property, or who are responsible for the fulfillment of the rental liabilities, or those who may be in the leased property after a vacant property has been leased, including a general assessment regarding their credit reliability; and the property's remaining economic lifetime, in places where those parameters are relevant. The valuation also takes into account negative cash flow which are attributed to betterment levies, expected renovations and lease fees.	• Market value of future rent payments at the end of the agreement period • Cash flow discount rate (5% to 9.50%)	The fair value calculation will increase if: • The NOI from the property increases • The cash flow discount rate decreases
Investment property under construction	Fair value is estimated using the comparison technique: the valuation model is based on the price per square meter in the building, in light of observable inputs in an active market of comparable properties, while making significant adjustments for the quality of the building, and the lease terms. In the absence of inputs regarding prices per square meter in similar properties with similar lease terms, fair value is estimated using the income approach, and based on the estimated value of the property's rental income, and market returns are applied to the NOI from the property, in order to estimate the property's value. When actual rental income is significantly different from appropriate rent, adjustments are made in order to reflect the actual rental income.		There is no reciprocal relationship between the material unobservable inputs.

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Note 10: Investment Property, Including for Investment-Linked Contracts (Cont.)

(4) Sensitivity analysis

The discount rate constitutes a significant estimate in the determination of fair value, due to the fact that the changes therein significantly affect the fair value of the investment property. However, it is noted that the change in fair value of investment property for investment-linked contracts does not affect the Group's profit and loss.
The following sensitivity analysis presented presents the impact of a change in the discount rate, by the presented rates:

Investment property for investment-linked contracts

	Increase (decrease) in fair value as of December 31	
NIS in thousands	2019	2018
Increase of 0.5%	**(186,404)**	(179,509)
Decrease of 0.5%	**215,395**	206,376

Investment property for non-investment-linked contracts

	Increase (decrease) in profit and loss before tax for the year ended December 31	
NIS in thousands	2019	2018
Increase of 0.5%	**(76,239)**	(76,854)
Decrease of 0.5%	**88,255**	87,776

C. Amounts recognized in the statement of income (excluding changes in fair value)

	For the year ended December 31		
NIS in thousands	2019	2018	2017
Rental income from investment property	**293,748**	290,206	272,152
Direct operating expenses arising from investment property which generated rental income during the period	**(32,695)**	(30,486)	(33,000)
	261,053	259,720	239,152

D. Details regarding land rights which are used by the Group as investment property

	As of December 31	
NIS in thousands	2019	2018
Owned	**3,027,041**	3,144,079
Under capitalized lease:		
Up to 15 years	**421,741**	384,864
15-50 years	**879,187**	718,772
Over 50 years	**19,440**	19,520
Total	**4,347,409**	4,267,235

Some of the ownership rights and leasing rights have not yet been recorded under the name of the Group's member companies at the Land Registry and at the Israel Land Authority, as applicable, mostly due to technical registration arrangements.

E. For details regarding lease agreements for investment property, see Note 27.

F. The balance of the Group's liabilities for additional investments in investment property amounted, as of December 31, 2019, to a total of approximately NIS 294 million, of which a total of approximately NIS 213 million was out of the funds of profit sharing policies (and a total of approximately NIS 182 million, of which a total of approximately NIS 136 million was out of the funds of profit sharing policies, last year).

Note 11: Other Accounts Receivable

A. Composition

NIS in thousands	As of December 31 2019	 2018
Prepaid expenses	**39,940**	43,084
Advance payments to suppliers	**3,293**	8,818
Collateral with respect to securities	**317,429**	657,101
Receivables with respect to the acquisition of securities	**98,629**	168,703
Advances on account of commissions for insurance agents	**19,750**	23,604 *)
Insurance companies and insurance mediators	**220,870**	199,602
Trade receivables and income receivable	**57,781**	70,385
Subrogation and residuals	**25,877**	24,817
Others	**37,115**	38,825
Total	**820,684**	1,234,939
Less the provision for doubtful debts, primarily with respect to reinsurers (see section B below)	**(21,898)**	(21,612) *)
Total other accounts receivable	**798,786**	1,213,327

*) Re-classified.

For details regarding the Group’s exposure to credit risks and market risks, see Note 39.

For details regarding other accounts receivable which constitute related parties and interested parties, see Note 40.

B. Movement in the provision for doubtful debts

NIS in thousands	As of December 31 2019	 2018
Balance as of January 1	**21,612**	19,195
Lost debts	**(1,193)**	(1,444)
Change in provision for the period - charged to profit and loss	**1,479**	3,861 *)
Total provision for doubtful debts	**21,898**	21,612

*) Re-classified.

Note 12: Outstanding Premiums

A. Composition [1),2)]

NIS in thousands	As of December 31 2019	2018
Outstanding premiums	**762,791**	949,070
Less provision for doubtful debts	**(62,643)**	(72,214)
Total outstanding premiums	**700,148**	876,856
Includes outstanding checks and standing orders	**350,766**	353,429

1) For details regarding the Group's exposure to credit risks and market risks, see Note 39.
2) For details regarding outstanding premiums from related parties and interested parties, see Note 40.

B. Movement in the provision for doubtful debts with respect to outstanding premiums

NIS in thousands	2019	2018
Balance as of January 1	**72,214**	47,169
Change in provision for the period - charged to profit and loss	**(9,571)**	25,045
Balance as of December 31	**62,643**	72,214

C. Aging

NIS in thousands	As of December 31 2019	2018
Total non-impaired outstanding premiums		
Without arrears	**429,286**	502,391
In arrears *):		
Less than 90 days	**79,679**	95,480
90 to 180 days	**45,835**	90,587
Over 180 days	**102,745**	140,966
	228,259	327,033
Total non-impaired outstanding premiums	**657,545**	829,424
Impaired outstanding premiums	**42,603**	47,432
Total outstanding premiums	**700,148**	876,856

*) Includes a total of NIS 168,026 thousand (December 31, 2018 - NIS 263,581 thousand) of debts in arrears in the life insurance segment. These debts are primarily backed by the redemption value of the policy.

Note 13: Assets for Investment-Linked Contracts

A. Composition

Details of assets held against investment-linked insurance contracts and investment contracts, presented at fair value through profit or loss [1]:

NIS in thousands	As of December 31 2019	2018
Investment property	**3,097,370**	3,000,340
Financial investments		
Marketable debt assets	**26,869,855**	26,681,982
Non-marketable debt assets	**6,558,458**	6,236,989
Stocks	**13,948,919**	10,553,676
Other financial investments [2]	**15,020,229**	14,712,586
Total financial investments	**62,397,461**	58,185,233
Cash and cash equivalents	**6,554,645**	3,648,899
Other [3]	**764,130**	1,286,776
Total assets for investment-linked contracts	**72,813,606**	66,121,248

1) For details regarding the exposure to assets for investment-linked contracts, see Note 39.
2) Other financial investments primarily include investments in ETF's/ETN's, participation certificates in mutual funds, investment funds, derivatives, futures contracts, options and structured products.
3) The balance primarily includes outstanding premiums, reinsurer balances, collateral with respect to activities with futures contracts, and transactions with securities which have not yet been settled as of the date of the financial statements.

B. Fair value of financial assets

(1) Fair value hierarchy of financial assets which are measured at fair value

The table below presents the financial assets which are measured at fair value on a periodic basis, using a valuation technique in accordance with the fair value levels. For the definition of the hierarchy levels, see Note 2(e)(3). For additional details regarding fair value measurement, see Note 14.

For details regarding fair value of investment property for investment-linked assets, see Note 10 above.

	As of December 31, 2019			
NIS in thousands	Level 1	Level 2	Level 3	Total
Financial investments:				
Marketable debt assets	**23,466,195**	**3,403,660**	**-**	**26,869,855**
Non-marketable debt assets	**-**	**6,489,578**	**68,880**	**6,558,458**
Stocks	**13,201,948**	**-**	**746,971**	**13,948,919**
Other financial investments *)	**9,884,310**	**1,427,149**	**3,708,770**	**15,020,229**
Total financial investments	**46,552,453**	**11,320,387**	**4,524,621**	**62,397,461**
*) Of which, with respect to derivatives	60,772	310,476	-	371,248

During the period, there were no significant transfers between level 1 and level 2.

Note 13: Assets for Investment-Linked Contracts (Cont.)

B. Fair value of financial assets (Cont.)

(1) Fair value hierarchy of financial assets which are measured at fair value (Cont.)

	As of December 31, 2018			
NIS in thousands	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial investments:				
Marketable debt assets	23,419,841	3,262,141	-	26,681,982
Non-marketable debt assets	-	6,111,400	125,589	6,236,989
Stocks	9,895,056	-	658,620	10,553,676
Other financial investments *)	9,176,074	2,319,475	3,217,037	14,712,586
Total financial investments	42,490,971	11,693,016	4,001,246	58,185,233
*) Of which, with respect to derivatives	220,212	168,962	-	389,174

During the period, there were no significant transfers between level 1 and level 2.

(2) Movement in assets measured at fair value level 3

NIS in thousands	Non-marketable debt assets	Stocks	Other financial investments	Total
Balance as of January 1, 2019	**125,589**	**658,620**	**3,217,037**	**4,001,246**
Total income (loss) recognized in the statement of income	**4,034**	**(7,387)**	**85,333**	**81,980**
Acquisitions	**-**	**198,879**	**1,089,894**	**1,288,773**
Sales	**-**	**(69,889)**	**(677,411)**	**(747,300)**
Redemptions	**(55,320)**	**-**	**-**	**(55,320)**
Interest and dividend receipts	**(5,423)**	**(33,252)**	**(6,083)**	**(44,758)**
Balance as of December 31, 2019	**68,880**	**746,971**	**3,708,770**	**4,524,621**
Total income (loss) for the period included under profit and loss with respect to held financial assets as of December 31, 2019 *)	6,083	(1,470)	93,746	98,359

NIS in thousands	**Non-marketable debt assets**	**Stocks**	**Other financial investments**	**Total**
Balance as of January 1, 2018	138,451	560,179	2,609,200	3,307,830
Total income recognized in the statement of income	8,588	84,528	419,064	512,180
Acquisitions	6,010	42,415	553,174	601,599
Sales	-	-	(353,347)	(353,347)
Redemptions	(38,109)	-	-	(38,109)
Interest and dividend receipts	(5,313)	(28,502)	(11,054)	(44,869)
Transfers to level 3 **)	15,962	-	-	15,962
As of December 31, 2018	125,589	658,620	3,217,037	4,001,246
Total income for the period included under profit and loss with respect to held financial assets as of December 31, 2018 *)	8,562	84,528	418,975	512,065

*) In the item for income from investments, net, and financing income.
**) With respect to debt assets for which the use of quotes was discontinued, and which were transferred to level 3.

(3) For details regarding the method used to measure fair value, see Note 14(f)(3).

Note 14: Other Financial Investments

NIS in thousands	As of December 31, 2019 Fair value through profit and loss	Available for sale	Loans and receivables	Total
Marketable debt assets [(a)]	**86,755**	**5,848,653**	**-**	**5,935,408**
Non-marketable debt assets [(b)]	**2,854**	**-**	**22,467,004**	**22,469,858**
Stocks [(d)]	**-**	**1,357,758**	**-**	**1,357,758**
Others [(e)]	**237,670**	**2,360,886**	**-**	**2,598,556**
Total	**327,279**	**9,567,297**	**22,467,004**	**32,361,580**

NIS in thousands	**As of December 31, 2018** **Fair value through profit and loss**	**Available for sale**	**Loans and receivables**	**Total**
Marketable debt assets [(a)]	128,088	5,103,774	-	5,231,862
Non-marketable debt assets [(b)]	3,411	-	21,986,932	21,990,343
Stocks [(d)]	-	1,416,975	-	1,416,975
Others [(e)]	166,784	2,695,593	-	2,862,377
Total	298,283	9,216,342	21,986,932	31,501,557

A. Marketable debt assets

Composition

NIS in thousands	**As of December 31** **2019**	**2018**
Government bonds		
Available for sale	**3,691,097**	3,194,082
Total government bonds	**3,691,097**	3,194,082
Other debt assets:		
Non-convertible		
Presented at fair value through profit and loss:		
Designated upon initial recognition	**86,755**	128,088
Available for sale	**2,157,556**	1,909,692
Total other non-convertible debt assets	**2,244,311**	2,037,780
Total marketable debt assets	**5,935,408**	5,231,862
Impairment applied to income statement (cumulative)	**5,622**	17,148

Note 14: Other Financial Investments (Cont.)

B. Non-marketable debt assets

(1) Composition, fair value vs. book value and level in the fair value hierarchy

	As of December 31, 2019				As of December 31, 2018			
NIS in thousands		Fair value				Fair value		
	Book value	Total	Level 2	Level 3	Book value	Total	Level 2	Level 3
Government bonds treated as loans and receivables								
Designated bonds	**14,163,272**	**24,010,374**	**-**	**24,010,374**	13,681,106	19,489,873	-	19,489,873
Deposits in treasury	**2,131,914**	**3,010,778**	**-**	**3,010,778**	2,094,730	2,766,397	-	2,766,397
Total government bonds	**16,295,186**	**27,021,152**	**-**	**27,021,152**	15,775,836	22,256,270	-	22,256,270
Other non-convertible debt assets								
Presented at fair value through profit and loss:								
Designated upon initial recognition	**2,854**	**2,854**	**2,854**	**-**	3,411	3,411	3,411	-
Presented as loans and receivables, excluding deposits in banks [1]	**5,435,543**	**6,218,670**	**5,164,035**	**1,054,635**	5,450,806	5,885,017	5,097,750	787,267
Deposits in banks	**736,275**	**864,354**	**864,354**	**-**	760,290	843,219	843,219	-
Total other non-convertible debt assets	**6,174,672**	**7,085,878**	**6,031,243**	**1,054,635**	6,214,507	6,731,647	5,944,380	787,267
Total non-marketable debt assets	**22,469,858**	**34,107,030**	**6,031,243**	**28,075,787**	21,990,343	28,987,917	5,944,380	23,043,537
Impairment applied to income statement (cumulative)	**80,244**				85,256			

1) For additional details, see Note 39(e)(e1)(d)(4).

(2) Aging of investments in non-marketable financial debt assets

	As of December 31	
NIS in thousands	**2019**	**2018**
Government bonds	**16,295,186**	15,775,836
Debt assets which were not specifically impaired, gross:		
Without arrears	**6,107,178**	6,155,035
In arrears *):		
Less than 90 days	**2,363**	632
90 to 180 days	**3,245**	716
Over 180 days	**2,080**	2,378
	7,688	3,726
Total debt assets which were not specifically impaired, gross	**22,410,052**	21,934,597
Collective provision	**(2,488)**	(2,752)
Total debt assets which were not specifically impaired, net	**22,407,564**	21,931,845
Impaired debt assets:		
Impaired assets, gross	**140,050**	141,002
Provision for loss	**(77,756)**	(82,504)
Impaired debt assets, net	**62,294**	58,498
Total non-marketable debt assets	**22,469,858**	21,990,343

*) Primarily loans on policies against which full redemption values and/or mortgages exist.

It is noted that the above amounts do not represent the actual amount in arrears, but rather the balance of the debt associated with the arrears.

Note 14: Other Financial Investments (Cont.)

C. Details regarding interest and linkage with respect to debt assets

	As of December 31	
Effective interest rate, in percent	2019	2018
Marketable debt assets		
Linkage basis		
Linked to the consumer price index	**0.01**	0.93
NIS	**1.26**	2.37
Linked to foreign currency	**5.17**	5.43
Non-marketable debt assets		
Linkage basis		
Linked to the consumer price index	**4.70**	4.85
NIS	**2.16**	2.34
Linked to foreign currency	**4.79**	5.85

D. Stocks

	As of December 31	
NIS in thousands	2019	2018
Marketable		
Available for sale	**1,038,780**	1,125,733
Total marketable stocks	**1,038,780**	1,125,733
Non-marketable		
Available for sale	**318,978**	291,242
Total non-marketable stocks	**318,978**	291,242
Total stocks	**1,357,758**	1,416,975
Impairment applied to income statement (cumulative)	**112,468**	148,232

E. Other financial investments

1. Composition

	As of December 31	
NIS in thousands	2019	2018
Marketable		
Presented at fair value through profit and loss:		
Designated upon initial recognition	**141,052**	87,682
Derivative instruments (2)	**1,821**	34,557
Available for sale	**578,917**	1,049,234
Total marketable financial investments	**721,790**	1,171,473
Non-marketable		
Presented at fair value through profit and loss:		
Designated upon initial recognition	**5,643**	17,981
Derivative instruments (2)	**89,154**	26,564
Available for sale	**1,781,969**	1,646,359
Total non-marketable financial investments	**1,876,766**	1,690,904
Total other financial investments	**2,598,556**	2,862,377
Impairment applied to income statement (cumulative)	**46,187**	85,994

Other financial investments primarily include investments in ETF's/ETN's, participation certificates in mutual funds, investment funds, financial derivatives, forward contracts, options and structured products.

Note 14: Other Financial Investments (Cont.)

E. Other financial investments (Cont.)

2. Additional information regarding derivative instruments

Presented below is the total net exposure amount to the underlying asset, presented in delta terms of the transaction in derivative instruments made as of the dates of the financial statements of insurance companies in the Group:

	As of December 31	
NIS in thousands	**2019**	**2018**
Stocks	**79,879**	57,385
CPI	**9,069**	-
Foreign currency	**(3,003,780)**	(1,358,920)
Fixed interest	**-**	124,476
Goods	**9,403**	5,387

The amount of the net exposure to the underlying asset is presented in terms of the delta in transactions with derivative instruments which were performed as of the dates of the financial statements, which are included under financial liabilities, as specified in Note 25.

F. Fair value

1. Fair value hierarchy of financial assets measured at fair value

The following table presents the financial assets which are measured at fair value on a periodic basis, using a valuation technique in accordance with the fair value level. For details regarding the levels of the hierarchy, see Note 2(e)(3) above.

	As of December 31, 2019			
NIS in thousands	Level 1	Level 2	Level 3	Total
Financial investments:				
Marketable debt assets	**5,780,610**	**154,798**	**-**	**5,935,408**
Non-marketable debt assets	**-**	**2,854**	**-**	**2,854**
Stocks	**1,038,780**	**-**	**318,978**	**1,357,758**
Other financial investments *)	**723,528**	**69,154**	**1,805,874**	**2,598,556**
Total financial investments	**7,542,918**	**226,806**	**2,124,852**	**9,894,576**
*) Of which, with respect to derivatives	1,821	69,154	20,000	90,975

During the period, there were no significant transfers between level 1 and level 2.

	As of December 31, 2018			
NIS in thousands	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial investments:				
Marketable debt assets	4,905,717	326,145	-	5,231,862
Non-marketable debt assets	-	3,411	-	3,411
Stocks	1,125,733	-	291,242	1,416,975
Other financial investments *)	1,118,082	82,034	1,662,261	2,862,377
Total financial investments	7,149,532	411,590	1,953,503	9,514,625
*) Of which, with respect to derivatives	34,557	26,564	-	61,121

During the period, there were no significant transfers between level 1 and level 2.

Note 14: Other Financial Investments (Cont.)

F. Fair value (Cont.)

2. Movement in assets measured at fair value level 3

	Fair value measurement on the reporting date of financial assets at fair value through profit and loss and available-for-sale financial assets		
NIS in thousands	**Stocks**	**Other financial investments**	**Total**
Balance as of January 1, 2019	**291,242**	**1,662,261**	**1,953,503**
Total income (loss) which was recognized:			
Under profit and loss	**12,742**	**107,594**	**120,336**
Under other comprehensive income	**(26,731)**	**(16,755)**	**(43,486)**
Acquisitions	**57,039**	**376,312**	**433,351**
Sales	**(5,565)**	**(323,021)**	**(328,586)**
Dividend and interest received	**(9,749)**	**(517)**	**(10,266)**
Balance as of December 31, 2019	**318,978**	**1,805,874**	**2,124,852**
Total income for the period included under profit and loss with respect to financial assets held as of December 31, 2019	**13,096**	**118,930**	**132,026**

	Fair value measurement on the reporting date of financial assets at fair value through profit and loss and available-for-sale financial assets		
NIS in thousands	**Stocks**	**Other financial investments**	**Total**
Balance as of January 1, 2018	253,539	1,306,606	1,560,145
Total recognized income:			
Under profit and loss	12,464	46,284	58,748
Under other comprehensive income	20,342	158,343	178,685
Acquisitions	17,506	345,425	362,931
Sales	-	(193,450)	(193,450)
Dividend and interest received	(12,609)	(947)	(13,556)
Balance as of December 31, 2018	291,242	1,662,261	1,953,503
Total income for the period included under profit and loss with respect to financial assets held as of December 31, 2018	12,464	48,089	60,553

Note 14: Other Financial Investments (Cont.)

F. Fair value (Cont.)

3. Fair value valuation technique and valuation techniques which are applied in the Company

A. Investments in stocks and debt instruments

The fair value of investments which are actively traded on orderly financial markets is determined in reference to their quoted closing bid price as of the close of trading on the reporting date.

With regard to investments traded by in the over counter (OTC) market, the Group receives price quotes from recognized pricing services.

For investments which have no active market, fair value is determined by external valuers using valuation methods. These methods include reliance upon transactions recently performed in market conditions, reference to the current market value of another, materially similar instrument, cash flow discounting, or other valuation methods.

The fair value of non-marketable debt assets in Israel, including bonds, loans and deposits, is calculated according to a model which is based on the present value which is obtained by discounting the cash flows, in accordance with the discount rates which are determined by a company providing interest rate quotes (see section 4(a)(1) below).

The fair value of non-marketable debt assets outside of Israel is calculated according to a model which is based on the present value of the present value which is obtained from the discounted cash flows according to a discount rate which is obtained from an expert (see section 4(a)(2) below).

The fair value of HETZ bonds is calculated according to the actuarial average lifetime, and according to the forecasted discounted cash flow, based on the risk-free interest curve.

The valuations, methodology and trends are reviewed and approved by the relevant investment managers and investment accountants.

The fair value of investment funds is based on the net asset value (NAV), which is usually reported by the funds once per quarter. The funds' reports are reviewed and approved by the investment manager, based on his familiarity with the fund.

The fair value of hybrid instruments is determined according to quotes.

B. Derivatives

The fair value of forward contracts, cross currency swaps and warrants is based on quoted prices, if available. In the absence of quoted prices, as stated above, the fair value of forward contracts and cross currency swaps are estimated by discounting the difference between the forward price specified in the contract and the current forward price with respect to the remaining contract period to redemption, using quotes of appropriate interest rates, while with respect to warrants, fair value is determined according to the Black-Scholes model.
The fair value of interest rate swaps (IRS) is calculated in accordance with the discounted future cash flows economic model, according to the terms of the contract, and is based on price quotes which are received from recognized pricing services.

4. Inputs which were used in the calculation of fair value

A. Interest rates which were used in the determination of fair value

1. The discount rates which were used to calculate the fair value of non-marketable debt assets, which is determined by discounting the estimated expected cash flows with respect to them, are based principally on the yields of government bonds and the margins of corporate bonds, as measured on the Tel Aviv Stock Exchange. The price quotes and the interest rates which were used for discounting purposes are determined by the Company that won the tender published by the Finance Ministry, for the setting up and operation of a database of price quotes and interest rates for institutional entities.

Note 14: Other Financial Investments (Cont.)

F. Fair value (Cont.)

4. Inputs which were used in the calculation of fair value (Cont.)

A. Interest rates which were used in the determination of fair value (Cont.)

2. The discount rates used to calculate the fair value of non-marketable foreign debt assets, which is determined by discounting the estimated cash flows which are expected from them, are mostly based on the yields of corporate bonds, as measured in trading arenas outside of Israel.

3. Interest rates for non-marketable debt assets - in Israel, by local rating: 1)

In percent	As of December 31 2019	2018
AA and higher	**(0.2)**	1.0
BBB to A	**1.7**	3.5
Unrated	**4.3**	6.2

Interest rate for non-marketable debt assets - foreign, according to international rating 2):

In percent	As of December 31 2019	2018
Unrated	**4.5**	6.6

1) The sources for rating levels in Israel are Maalot, Midroog and internal ratings. The data of Midroog Ltd. were converted to rating symbols using commonly accepted conversion factors. Each rating includes all ranges, for example, the A rating includes A- to A+.

2) All foreign rated debt assets were rated by recognized foreign rating agencies. Each rating includes all ranges, for example, the A rating includes A- to A+.

G. Required disclosure in connection with the temporary exemption from the adoption of IFRS 9

The following table presents the fair value of the financial assets, divided into two groups: assets which fulfill the test only, not including assets held for trading or managed on a fair value basis (hereinafter: "**Group A**"); and all other financial assets (hereinafter: "**Group B**").

	As of December 31, 2019		Balance as of December 31, 2018	
NIS in thousands	Group A	Group B	Group A	Group B
Financial investments for investment-linked contracts	**-**	**62,397,461**	-	58,185,233
Cash and cash equivalents for investment-linked contracts	**-**	**6,554,645**	-	3,648,899
Other financial investments - stocks	**-**	**1,357,758**	-	1,416,975
Other financial investments - others	**-**	**2,598,556**	-	2,862,377
Other financial investments - marketable debt assets	**5,850,168**	**85,240**	5,106,716	125,146
Other financial investments - non-marketable debt assets	**34,044,736**	**62,294**	28,929,419	58,498
Cash and cash equivalents	**2,558,717**	**-**	1,298,286	-

For details regarding the evaluation of debt assets which fulfill the principal and interest test in accordance with IFRS 9, see Note 39(f)(2)(a1).

Note 15: Cash and Cash Equivalents

A. Cash and cash equivalents for investment-linked contracts

1. Composition

	As of December 31	
NIS in thousands	**2019**	**2018**
Cash and deposits available for immediate withdrawal	**2,003,595**	2,632,439
Short term deposits	**4,551,050**	1,016,460
Cash and cash equivalents	**6,554,645**	3,648,899

2. Additional details

The cash in banking corporations bears, as of the financial reporting date, current interest which is based on interest rates with respect to daily bank deposits of 0.04%-0.24% (as of December 31, 2018 - 0%-0.22%).

Other deposits in banking corporations are for periods of one week to three months. The deposits bear interest at a rate of 0.22%-0.24% (as of December 31, 2018 - 0.19%-0.25%).

B. Other cash and cash equivalents

1. Composition

	As of December 31	
NIS in thousands	**2019**	**2018**
Cash and deposits available for immediate withdrawal	**1,836,436**	1,256,491
Short term deposits	**722,281**	41,795
Cash and cash equivalents	**2,558,717**	1,298,286

2. Additional details

Cash in banking corporations bears, as of the financial reporting date, current interest which is based on interest rates with respect to daily bank deposits of 0.02%-0.24% (as of December 31, 2018 - 0%-0.22%).

Other deposits in banking corporations are for periods of one week to three months. The deposits bear interest at a rate of 0.22%-0.24% (as of December 31, 2018 - 0.19%-0.25%).

C. For additional details regarding the Group’s exposure to interest rate risk, market risk and regarding the sensitivity analysis, see Note 39(c)(2) and (3).

Note 16: Capital and Reserves

A. Share capital

	Ordinary shares *)		
	2019	2018	2017
	In thousands of shares with a par value of NIS 1 each		
Issued and paid-up share capital as of January 1	**55,579**	55,563	55,412
Share issuance, see Note D(2)	**12,066**	-	-
Exercise of warrants for senior employees **)	**-**	16	151
Issued and paid-up share capital as of December 31	**67,645**	55,579	55,563
Registered capital	**100,000**	100,000	100,000

*) The shares are listed for trade on the Tel Aviv Stock Exchange. Holders of ordinary shares are entitled to receive dividends, as announced from time to time, and voting rights in the Company's general shareholder assemblies, according to a ratio of one vote per share, along with liquidation rights in the Company and director nomination rights in the Company.

**) For additional details, see Note 41 - Share-Based Payment.

B. Capital reserves

1. The translation reserve for foreign operations is primarily comprised of effects from the GBP and USD.
2. Other capital reserves include a capital reserve with respect to transactions with controlling shareholders, reserve for revaluation of property, plant and equipment, and other immaterial reserves.

C. Dividends

During the last three yeas, no dividends were distributed.

The balance of distributable earnings as of the reporting date, in accordance with the Companies Law, amounted to a total of approximately NIS 2.6 billion.

The Company's Board of Directors decides on the amount of dividends for distribution to the shareholders.

The possibility of a dividend distribution is also affected by the ability of the investee companies to distribute dividends, subject to their capital requirements and liquidity needs. For details regarding the capital requirements and the provisions regarding dividend distributions in consolidated insurance companies, see section (e) below.

D. The Company's capital management and capital requirements

1. The Company's policy is to maintain a stable capital basis in order to maintain the Company's ability to continue its activities in order to generate returns for its shareholders, and to comply with external capital requirements which the Company undertook to meet in the past, and in order to support the capital needs of its consolidated companies, as specified in section E below, and future business development.

   With regard to capital management, the need to maintain an absorption buffer is also evaluated with attention given to negative developments that may impact capital and the capital requirements.

   The Board of Directors supervises capital return, which is defined by the Group as income (loss) for the period attributable to Company shareholders, divided by capital attributable to shareholders in the Company.

Note 16: Capital and Reserves (Cont.)

2. On August 29, 2019, the Company published a shelf prospectus. The shelf prospectus allows the Company, inter alia, to issue ordinary Company shares, preferred shares, bonds (including by way of extension of existing series of the Company's bonds, insofar as any have been issued), bonds convertible into Company shares, warrants exercisable into Company shares, warrants exercisable into bonds, bonds convertible into Company shares, marketable securities, and any other security which by law may be issued by virtue of a shelf prospectus on the relevant date.

   In December 2019, the Company performed an issuance of 12,066 thousand shares with a par value of NIS 1 million each, worth a total of NIS 650 million, in accordance with a shelf offering report which was published by virtue of the shelf prospectus. The issuance costs amounted to a total of approximately NIS 17 million. The net issuance consideration amounted to NIS 633 million.

3. The Company undertook towards the Commissioner to supplement the equity of Clal Insurance in accordance the Control of Insurance Business (Minimum Equity Required of an Insurer) Regulations, 1988 (the "**Capital Regulations**"), up to 50% of the required equity, if and when the equity of Clal Insurance is negative, and in the amount of the negative capital. According to the wording of the undertaking, it will remain valid so long as the Company is the controlling shareholder (as defined in the Control Law) in Clal Insurance.

4. Upon the Commissioner's demand, the Company undertook to supplement, at any time, the equity of Clal Pension and Provident Funds Ltd., to the amount stipulated in the Income Tax Regulations (Rules for Approval and Management of Provident Funds), 1964. According to the wording of the undertaking, it will remain in effect so long as the Company controls Clal Pension and Provident Funds, either directly or indirectly. For details regarding the capital requirements, see section F below.

   For additional details in connection with the status of the control of the Company and of consolidated institutional entities, and undertakings to supplement capital, see section E(8) below.

E. Capital management and requirements in consolidated insurance companies

(1) Application of the economic solvency regime
Since July 2017, insurance companies are subject to the provisions of the economic solvency regime, which included instructions for the calculation of equity and of the economic solvency capital requirement.

In March 2018, a circular was published on the subject of "Provisions regarding equity with respect to solvency of insurers" (hereinafter: the "**Accounting Solvency Regime Circular**"). The accounting solvency regime circular comes in place of the provisions with respect to required equity which were included in the Capital Regulations, and establishes, as much as possible, the current arrangements in the Capital Regulations regarding the solvency equity requirement, without implementing changes thereto, except for the addition of arrangements which are required for the implementation of the economic solvency regime. The Capital Regulations were canceled within the framework of the publication of the Control of Financial Services Regulations (Insurance) (Minimum Equity Required to Receive Insurer License), 2018 (hereinafter: the "**Minimum Equity Regulations**"), in April 2018. The provisions of the accounting solvency regime circular will apply to insurance companies which are not subject to the economic solvency regime, and to insurance companies which are subject to the economic solvency regime until the receipt of the Commissioner's approval regarding the performance of an audit on the implementation of the economic solvency regime.

The insurance companies in the Group received the Commissioner's approval for the audit of the economic solvency ratio report as of December 31, 2018, and accordingly, beginning with the financial statements as of June 30, 2019 the Group's insurance companies are required to comply with the provisions of the Solvency II-based economic solvency regime only.

Note 16: Capital and Reserves (Cont.)

E. Capital management and requirements in consolidated insurance companies (Cont.)

(2) Economic solvency ratio
In accordance with the economic solvency regime, according to the calculation which they performed, as of June 30, 2019 the insurance companies in the Group are complying with the capital requirements, and have a capital surplus beyond the capital requirement according to the provisions for the distribution period and the stock scenario adjustment.

The calculation which was conducted by the Group's insurance companies as of June 30, 2019, was not audited or reviewed by the auditors. It is emphasized that the forecasts and assumptions which constituted the basis for the preparation of the economic solvency ratio report are mostly based on past experience, as indicated in actuarial studies which are conducted from time to time. In light of the reforms taking place in the capital, insurance and savings market, and the changes in the economic environment, historical data does not necessarily predict future results.

The calculation is sometimes based on assumptions regarding future events, and actions of management which may not necessarily materialize, or may materialize differently from the assumptions which were used as the basis for the calculation. Additionally, actual results may differ significantly from the calculation, in light of the fact that the combined scenarios of events may materialize in a manner which is significantly different from the assumptions in the calculation.

For additional details, see also section 3.2.3 of the Board of Directors' Report, and the economic solvency ratio report of Clal Insurance as of June 30, 2019.

For additional details regarding events subsequent to the reporting date, see Note 43(k) below.

(3) Additional details regarding the economic solvency regime

The provisions of the economic solvency regime include instructions for the calculation of equity on an economic basis, and of the solvency capital requirement.

A. In accordance with the provisions of the economic solvency regime, in general, the balance sheet items are calculated based on economic value, and particularly, the insurance liabilities are calculated based on the best estimate of all future cash flows which are expected to arise from the current business operations, without conservative margins, and plus a risk margin which reflects the total cost of capital which other insurance company or reinsurer could be expected to demand for the purpose of receiving the insurance liabilities of an insurance company, calculated on a best estimate basis, as defined in the provisions of the economic solvency regime. In the economic balance sheet, in general, intangible assets are not recognized. It is prepared based on the Company's separate financial statements, which include subsidiary insurance companies whose data are consolidated with the data of the insurance company, and which, according to the instructions, does not include the economic value of the provident fund and pension activity under the insurance company.

B. The calculation of the solvency capital requirement is based on an estimate of the exposure of economic equity to the risk components which are established in the provisions of the economic solvency regime, which include life insurance risks, health insurance risks, non-life insurance risks, market risks and counterparty risks. These risk components include risk sub-components with respect to specific risks to which the insurance company is exposed. The estimation of economic equity exposure to each risk sub-factor is performed based on a scenario which was specified in the instructions. The determination of the solvency capital requirement is based on a schema of the capital requirements with respect to the risk components and the risk sub-components, as stated above, in consideration of the factors which are attributed to them, and after deducting an adjustment for absorption of losses due to deferred taxes, as specified in the provisions of the economic solvency regime. The calculation of the solvency capital requirement also includes components of required capital with respect to operational risk and required capital with respect to managing companies.

Note 16: Capital and Reserves (Cont.)

E. Capital management and requirements in consolidated insurance companies (Cont.)

It is noted that the calculation of the economic solvency ratio is based on data and models which may differ from those used by the Company in the financial reports, and which are based, inter alia, on forecasts and assumptions which rely, for the most part, on past experience. Actual results may differ from the forecasts and assumptions which were used to calculate the economic solvency ratio. In particular, and as specified in the provisions of the economic solvency regime circular, the calculation of the economic solvency ratio is significantly based on the embedded value calculation model. The model for the calculation of embedded value is implemented in accordance with the practice regarding adoption in Israel, whose principles and rules were determined by the Capital Market Authority, which adopted the rules and principles that were determined by the joint committee of insurance companies and the Capital Market Authority, which worked with the accompaniment of Israeli and foreign advisors. The model is based, inter alia, on internal studies which reflect the Company's best estimates, subject to certain qualifications and restrictions which were established in the aforementioned principles and rules.

It is emphasized that the results of the models which are used to calculate recognized equity and the solvency capital requirement are highly sensitive to the forecasts and assumptions which are included therein, and to the manner in which the instructions are implemented. The economic solvency ratio is highly sensitive to market variables and other variables, and accordingly, it may be volatile.

It is further noted that the Company was informed by the Capital Market, Insurance and Savings Authority (hereinafter: the "**Authority**") that it will work to appoint an "implementation staff" to discuss certain issues pertaining to the provisions of the economic solvency regime, and the need for its adjustment. At this stage, the Company is unable to estimate whether, following the activities of the implementation team, the Authority will work to implement the aforementioned changes, nor the impact that such changes may have on the Company's solvency ratio, if and when they are accepted.

(4) Minimum capital requirement and the supervisory intervention hierarchy

The provisions of the economic solvency regime define, in addition to the solvency capital requirement (SCR), also the minimum capital requirement (MCR), which will not fall below 25% of the solvency capital requirement in accordance with the provisions during the distribution period, and will not exceed 45% thereof. Additionally, a supervisory intervention hierarchy was established, according to which a company which does not meet the required solvency ratio, or regarding which there is a significant concern that its solvency ratio will be lower than the minimum requirement, will submit to the Commissioner a plan to ensure its fulfillment of the solvency ratio requirement within 6 months after the date of its submission. If the insurance company has not fulfilled the requirements of the plan, in accordance with the terms specified in the provisions, the Commissioner will consider supervisory intervention in accordance with his authorities. Additionally, a company which does not meet the minimum capital requirement (MCR), or regarding which there is a real concern that it will not meet the minimum capital requirement, will submit to the Commissioner for approval a plan to ensure its fulfillment of the minimum capital requirement within three months after the date of its submission. If the insurance company has not fulfilled the requirements of the plan, in accordance with the terms specified in the provisions, the Commissioner will take supervisory measures in accordance with the authorities which are conferred upon him under the Control Law

Note 16: Capital and Reserves (Cont.)

E. Capital management and requirements in consolidated insurance companies (Cont.)

(5) Composition of recognized economic capital

The provisions of the economic solvency regime establish provisions regarding the composition of recognized capital on an economic basis, which stipulate that equity must amount to the total of Tier 1 and Tier 2 capital, as defined in the provisions, such that Tier 2 subordinated, Tier 2 hybrid and Tier 3 instruments which were issued before June 30, 2017 will be classified as Tier 2 capital, and will be recognized in accordance with the terms of their recognition before that date. It was further determined that the maximum scope of Tier 2 capital will amount to 40% of SCR. With reference to the fulfillment of MCR, it was determined that the maximum scope of Tier 2 capital will amount to 20% of MCR.

(6) Provisions during the distribution period

The provisions of the economic solvency regime include the determination of a distribution period, during which the following guidelines will be implemented:

A. The capital requirements with respect to the stock risk sub-component, as defined in the provisions, gradually over seven years, beginning on the application date, starting from a rate of 22%, up to rates of 30%, 39% and 49%, with respect to investments in infrastructure stocks of type 1 and type 2, respectively. The gradual increase will also apply to the anti-cyclical adjustment, as defined in the provisions.

B. The solvency capital requirement, which is calculated in accordance with the distribution provisions of the stock risk sub-component, as specified above, will increase gradually, from a rate of 60% of the solvency capital requirement according to the provisions, at an annual rate of 5%, until full compliance with the calculation based on the data as of December 31, 2024.

C. Regarding the composition of capital, it was determined that the maximum scope of Tier 2 capital during the distribution period will amount to 50% of the solvency capital requirement during the distribution period.

D. In March 2020, the Commissioner published an outline for implementation of the provisions of an economic solvency regime according to the European framework (hereinafter: the “Outline”), and a draft amendment to the consolidated circular regarding the instructions for implementing the economic solvency regime (hereinafter: the “Draft Amendment”), further to the consultation paper regarding the implementation of the transitional provisions under the economic solvency regime (the “Consultation Paper”), which was published in November 2019, and a circular regarding the quantitative impact study to evaluate adjustments to the economic solvency regime (the “Quantitative Impact Study”), which was published in January 2020.

According to the draft amendment, an insurance company may, with the Commissioner’s approval, adopt different distribution provisions than the current ones as specified in section 2 above. The alternative distribution provisions allow gradual linear distribution, until December 31, 2032, of the increase in economic insurance reserves (including the risk margin) On retention, calculated as of December 31, 2019, vs. the accounting reserves on retention as of that date, with reference to certain tax reserves, and subject to the restrictions which were specified in the draft.

Note 16: Capital and Reserves (Cont.)

E. Capital management and requirements in consolidated insurance companies (Cont.)

The draft amendment also includes various adjustments to the economic solvency regime, mostly with reference to the calculation of the capital requirements. The main adjustments which were made include easements with respect to market risk components, including a potentially significant reduction in the stock scenario, which can be applied to 75% of the total investment in shares held against investment-linked liabilities, and other investments which meet the specified conditions for recognition as long term held shares; expansion of the reduction in the amount of the scenario for investments in infrastructure; and expansion of recognition through means of risk mitigation for investment-linked liabilities. Additional adjustments were also made to other components of the calculation which the Company does not expect will have a significant impact on the results.

According to the outline, the Authority intends to work towards applying the directives regarding the economic solvency regime according to the framework which was adopted in Europe, by July 2020. Regarding the reporting and publication of the economic solvency ratio, it was determined in the outline that the date for publication of the economic solvency ratio report as of December 31, 2019, will be August 31, 2020 (instead of May 31, 2020), and that insurance companies will be exempt from the requirement to calculate and report the economic solvency ratio as of June 30, 2020.

In addition to the foregoing, the Commissioner announced, as part of the outline, that in 2020 the Authority intends to publish draft directives regarding the implementation of the own risk and solvency assessment (ORSA), which are based on the provisions of the current European Directive on the subject.

(7) Dividends

Except for the general requirements and the Companies Law, a dividend distribution from a capital surplus in an insurance company is also subject to liquidity requirements, compliance with provisions of the Investment Regulations, and additional directives which are published by the Commissioner from time to time. In October 2017, the Commissioner sent a letter to the managers of the insurance companies, stating that an insurance company will be entitled to distribute dividends if, after the performance of the distribution, the insurer has a ratio of recognized equity to required equity (hereinafter: "**Solvency Ratio**") at a minimum rate of 100%, according to the provisions of the economic solvency regime, calculated without the provisions during the distribution period, and subject to the solvency ratio which determined by the Company's Board of Directors.

Additionally, the insurance company is required to submit to the Commissioner, within twenty business days after the distribution date, the Company's annual profit forecast for the two years subsequent to the date of the dividend distribution; The Company's updated debt service plan, approved by the Company's Board of Directors, and an updated debt service plan of the holding company which holds the Company, which was approved by the Board of Directors of the holding company; A capital management plan, approved by the Company's Board of Directors; Minutes of the discussion in the Company's Board of Directors, in which the dividend distribution was approved, including attachment of the background material for the discussion.

In March 2020, the Board of Directors of Clal Insurance established a preliminary capital target for the solvency ratio, in accordance with the economic solvency regime, at a rate of 108%, which will be developed gradually to a rate of 118% in 2024 – the end of the distribution period according to the economic solvency regime, see section 6(b) above. The Board of Directors of Clal Insurance also determined that the capital target will be evaluated from time to time, inter alia, in accordance with business and regulatory developments. It is hereby clarified that the determination of the aforementioned target does not guarantee that Clal Insurance will fulfill it at all times, and does not constitute an undertaking of Clal Insurance to distribute dividends.

Further to that stated in section 6(d) above regarding the draft amendment, insofar as the draft amendment enters into effect, it is expected to lead to the re-evaluation of the capital target.

The foregoing may have a significant impact on the Company's ability to distribute dividends, which primarily depends on dividend distributions from Clal Insurance to the Company.

It is further noted that insofar as the draft amendment referenced in section 6(d) above enters into effect, it is expected to lead to the re-evaluation of the capital target.

Note 16: Capital and Reserves (Cont.)

E. Capital management and requirements in consolidated insurance companies (Cont.)

(8) Status of the control of the Company and of consolidated institutional entities

As the Company was informed, on May 8, 2014, the representatives of the previous controlling shareholders in IDB Development (the Ganden, Manor and Livnat Groups) received notice from the Commissioner stating that, further to the creditors' settlement in IDB Holding, and due to the fact that they no longer held control of institutional entities from the Group, the permits for control of the aforementioned institutional entities, which had previously been given to them by the Commissioner, were canceled, including, inter alia, regarding Clal Insurance, Clal Credit Insurance and Clal Pension and Provident Funds (hereinafter: the "**Institutional Entities**" and the "**Permit**"), in which IDB Holding undertook to supplement (or to cause the companies under its direct or indirect control to supplement) the capital required of the insurers according to the Capital Regulations or any other regulation or law which may replace them, provided that the maximum undertaking limit does not exceed 50% of the capital required of an insurer, and that the undertaking will be realized only when the insurer's capital is negative, and in the amount of the negative capital, provided that the supplementary amount does not exceed the aforementioned undertaking ceiling. In addition, IDB Holding has undertaken, in accordance with the permit, to supplement (or to cause the companies under its direct or indirect control to supplement) the equity of Clal Pension and Provident Funds, up to the amount stipulated in the Provident Fund Regulations as these will be in force from time to time, or any other regulation or law which may come in their place, and it was determined that the aforementioned undertaking (with respect to institutional entities) will be valid so long as IDB Holding remains the controlling shareholder of the institutional entities.

On December 8, 2019, the Company received a letter from the Commissioner (the "Commissioner's Letter"), in which the Commissioner announced, inter alia, that in light of the changes which have occurred in IDB Development's holding rate in the Company, according to the Authority's position, as of the present date, there is no entity which holds (directly or indirectly) the Company's means of control, in a manner which would create an obligation to obtain a permit for the control of the Company in accordance with section 32(b) of the Insurance Law, and therefore, the Company is required to receive from the Commissioner a permit for the control of Clal Insurance. The Company is holding discussions with the Commissioner in connection with the foregoing

In light of the status of the control of the Company, as stated above, there is uncertainty regarding the validity of the undertakings to supplement capital which were given by the Company in the past.

For details regarding the holding and control of the Company, and for details regarding the cancellation of the control permit, see Note 1.

(9) Clal Insurance also undertook towards the Commissioner to supplement the capital requirement for Clal Credit Insurance in accordance with the Capital Regulations, up to 50% of the required capital according to the Capital Regulations, if and when the equity of Clal Credit Insurance becomes negative. The undertaking is in effect so long as Clal Insurance remains the controlling shareholder (as defined in the Control Law) of Clal Credit Insurance. The undertaking was given to the Commissioner in accordance with a requirement specified in the permit for control of Clal Credit Insurance, which stipulates that Clal Insurance will ensure to supplement the required equity of Clal Credit Insurance, in accordance with the Capital Regulations or in accordance with any other regulations which may replace them in the future.

F. Capital requirements for managing companies of pension funds and provident funds

The Control of Financial Services Regulations (Provident Funds) (Minimum Equity Required of Managing Companies of Provident Funds or Pension Funds), 2012 and the Income Tax Regulations (Rules for Approval and Management of Provident Funds) (Amendment No. 2), 2012, prescribe capital requirements for managing companies, in accordance with the scope of managed assets and annual expenses, however, no less than initial capital of NIS 10 million. Liquidity requirements were also prescribed.

A managing company will be entitled to distribute dividends only if its equity is at least the minimum equity required of it according to these Regulations. A managing company will also be required to provide additional capital with respect to controlled managing companies.

Additionally, as of the end of the reporting period, managing companies under the control of Clal Insurance have a capital surplus relative to the minimum capital required pursuant to the Capital Regulations for Managing Companies.

Note 17: Liabilities with Respect to Non-Investment-Linked Insurance Contracts and Investment Contracts 1)

	As of December 31					
	2019	2018	2019	2018	2019	2018
NIS in thousands	**Gross**		**Reinsurance**		**Retention**	
Life insurance and long-term savings						
Insurance contracts	**20,405,653**	19,507,188	**(16,478)**	(13,784)	**20,389,175**	19,493,404
Investment contracts	**2,396,604**	2,358,204	**-**	-	**2,396,604**	2,358,204
	22,802,257	21,865,392	**(16,478)**	(13,784)	**22,785,779**	21,851,608
Less amounts deposited in a consolidated company as part of a defined benefit plan for employees of the Group 1)	**(2,034)**	(1,215)	**-**	-	**(2,034)**	(1,215)
Total long term savings	**22,800,223**	21,864,177	**(16,478)**	(13,784)	**22,783,745**	21,850,393
Insurance contracts included in the health insurance segment (Note 21)	**3,045,582**	2,675,508	**(589,666)**	(674,050)	**2,455,916**	2,001,458
Insurance contracts which are included in the non-life insurance segment (Note 19)	**6,393,228**	6,107,310	**(2,727,888)**	(2,105,917)	**3,665,340**	4,001,393
Total liabilities with respect to non-investment-linked insurance contracts and investment contracts	**32,239,033**	30,646,995	**(3,334,032)**	(2,793,751)	**28,905,001**	27,853,244

Note 18: Liabilities with Respect to Investment-Linked Insurance Contracts and Investment Contracts 1)

	As of December 31					
	2019	2018	2019	2018	2019	2018
NIS in thousands	**Gross**		**Reinsurance**		**Retention**	
Life insurance and long-term savings						
Insurance contracts	**67,924,289**	59,203,441	**(203,647)**	(173,852)	**67,720,642**	59,029,589
Investment contracts	**2,828,148**	1,781,735	**-**	-	**2,828,148**	1,781,735
	70,752,437	60,985,176	**(203,647)**	(173,852)	**70,548,790**	60,811,324
Less amounts deposited in a consolidated company as part of a defined benefit plan for employees of the Group 1)	**(17,346)**	(19,751)	**-**	-	**(17,346)**	(19,751)
Total long term savings	**70,735,091**	60,965,425	**(203,647)**	(173,852)	**70,531,444**	60,791,573
Insurance contracts included in the health insurance segment (Note 21)	**1,097,913**	4,401,472	**(14,131)**	(11,776)	**1,083,782**	4,389,696
Total liabilities with respect to investment-linked insurance contracts and investment contracts	**71,833,004**	65,366,897	**(217,778)**	(185,628)	**71,615,226**	65,181,269

1) In investment-linked insurance contracts, insurance benefits which the beneficiary is entitled to receive are contingent upon or linked to returns produced by certain investments of the Group, less management fees. These contracts include, inter alia, insurance plans which credit / charge to the policyholder a bonus / malus, according to the investment results achieved by the policies which share in the Group's investment income. In non-investment-linked insurance contracts, the insurance benefits to which a policyholder is entitled are not dependent on the income or loss resulting from investments made by the Group.

The distinction between investment-linked contracts and non-investment-linked contracts is made on the level of the individual coverage, such that insurance policies exist which include several coverages, some of which are investment-linked, while others are non-investment-linked.

Note 19: Liabilities with Respect to Insurance Contracts Which are Included in the Non-Life Insurance Segment

A. Liabilities with respect to insurance contracts included under non-life insurance segments, by type

	As of December 31					
	2019	2018	2019	2018	2019	2018
NIS in thousands	Gross		Reinsurance		Retention	
Compulsory motor and liabilities branches						
Unearned premium reserve	**371,539**	375,850	**191,996**	199,149	**179,543**	176,701
Outstanding claims and premium deficiency reserve	**4,463,723**	4,236,458	**1,712,954**	1,254,037	**2,750,769**	2,982,421
Total compulsory motor and liabilities branches	**4,835,262**	4,612,308	**1,904,950**	1,453,186	**2,930,312**	3,159,122
Of which, total liabilities with respect to the compulsory motor insurance branch	**2,286,995**	2,284,274	**836,177**	575,942	**1,450,818**	1,708,332
Property and others branches						
Unearned premium reserve	**668,122**	651,798	**347,946**	271,232	**320,176**	380,566
Premium deficiency reserve	**10,591**	-	**-**	-	**10,591**	-
Outstanding claims	**879,253**	843,204	**474,992**	381,499	**404,261**	461,705
Total property and others branches	**1,557,966**	1,495,002	**822,938**	652,731	**735,028**	842,271
Total liabilities with respect to insurance contracts included under non-life insurance segments	**6,393,228**	6,107,310	**2,727,888**	2,105,917	**3,665,340**	4,001,393
Deferred acquisition costs						
Compulsory motor and liabilities branches	**79,644**	78,032	**34,523**	35,736	**45,121**	42,296
Property and others branches	**155,606**	159,834	**55,274**	56,241	**100,332**	103,593
Total deferred acquisition costs	**235,250**	237,866	**89,797**	91,977	**145,453**	145,889
Liabilities with respect to non-life insurance contracts less deferred acquisition costs						
Compulsory motor and liabilities branches (see section C1 below)	**4,755,618**	4,534,276	**1,870,427**	1,417,450	**2,885,191**	3,116,826
Property and others branches (See C2 below)	**1,402,360**	1,335,168	**767,664**	596,490	**634,696**	738,678
Total liabilities with respect to non-life insurance contracts less deferred acquisition costs	**6,157,978**	5,869,444	**2,638,091**	2,013,940	**3,519,887**	3,855,504

B. Liabilities with respect to insurance contracts included in the non-life insurance segment, by calculation method

	As of December 31					
	2019	2018	2019	2018	2019	2018
NIS in thousands	Gross		Reinsurance		Retention	
Actuarial valuations						
Mr. David Engelmayer (last year - Mr. Yaakov Mauser) 1)	**5,259,652**	4,985,815	**2,136,351**	1,587,793	**3,123,301**	3,398,022
Provisions on the basis of other estimates						
Estimate of the claims department regarding known outstanding claims	**28,059**	33,529	**16,980**	20,506	**11,079**	13,023
Addition for outstanding claims with respect to incurred but not reported (IBNR) claims	**19,521**	15,145	**13,177**	10,222	**6,344**	4,923
Unearned premium reserve	**1,039,661**	1,027,647	**539,941**	470,381	**499,720**	557,266
Other estimates	**385**	496	**-**	-	**385**	496
Net surplus revenues (accrual) with respect to foreign trade risks insurance	**45,950**	44,678	**21,439**	17,015	**24,511**	27,663
Total liabilities with respect to insurance contracts included in the non-life insurance segment in Israel	**6,393,228**	6,107,310	**2,727,888**	2,105,917	**3,665,340**	4,001,393

1) See the certifications by the chief actuary in non-life insurance in Israel, which are attached as an annex to the financial statements. No addition / deficiency exists between the actuarial valuations and the amount included in the financial statements.

Note 19: Liabilities with Respect to Insurance Contracts Which are Included in the Non-Life Insurance Segment (Cont.)

C. Movement in liabilities with respect to insurance contracts included under the non-life insurance segment, less deferred acquisition costs

1. Compulsory motor and liabilities branches

	As of December 31					
	2019	2018	2019	2018	2019	2018
NIS in thousands	Gross		Reinsurance		Retention	
Balance at beginning of year	**4,534,276**	4,809,536	**1,417,450**	1,413,030	**3,116,826**	3,396,506
Cumulative claim costs with respect to the current underwriting year	**714,338**	677,957	**371,040**	334,226	**343,298**	343,731
Change in balances as of the beginning of the year resulting from the indexation to the CPI and the investment income, according to the discount assumption embodied in the liability.	**67,072**	107,663	**21,727**	31,239	**45,345**	76,424
Impact of the provision with respect to the Winograd Committee *)	**(164,907)**	(55,641)	**(42,447)**	(3,945)	**(122,460)**	(51,696)
Balance of change in estimated cumulative claims cost with respect to previous underwriting years **)	**333,026**	46,668	**236,595**	(16,332)	**96,431**	63,000
Total change in cumulative claim costs	**949,529**	776,647	**586,915**	345,188	**362,614**	431,459
Claim settlement payments during the year:						
With respect to the current underwriting year	**(5,043)**	(4,983)	**(2,475)**	(1,989)	**(2,568)**	(2,994)
With respect to previous underwriting years	**(723,144)**	(1,046,924)	**(131,463)**	(338,779)	**(591,681)**	(708,145)
Total payments	**(728,187)**	(1,051,907)	**(133,938)**	(340,768)	**(594,249)**	(711,139)
Balance at end of year	**4,755,618**	4,534,276	**1,870,427**	1,417,450	**2,885,191**	3,116,826

1. The opening and closing balances include outstanding claims, the premium deficiency reserve and unearned premiums, less deferred acquisition costs.
2. The cumulative (ultimate) cost of claims is the balance of outstanding claims, the premium deficiency reserve, unearned premiums less deferred acquisition costs, plus total claim payments, including direct and indirect claim settlement payments.
3. The payments include indirect claim settlement expenses (general and administrative expenses recorded for claims) attributed to the underwriting years.

*) For additional details, see Note 39(e)(e2)(4)(f).

**) The change in estimated cumulative claims costs with respect to the previous underwriting years is due, inter alia, to the increase in individual claim costs, and its impact on the actuarial model

Note 19: Liabilities with Respect to Insurance Contracts Which are Included in the Non-Life Insurance Segment (Cont.)

C. Movement in liabilities with respect to insurance contracts included under the non-life insurance segment, less deferred acquisition costs (Cont.)

2. Property and others branches

	As of December 31					
	2019	2018	2019	2018	2019	2018
NIS in thousands	Gross		Reinsurance		Retention	
Balance at beginning of year	**1,335,168**	1,471,712	**596,490**	615,160	**738,678**	856,552
Cumulative claim costs with respect to events during the reporting year	**862,712**	838,687	**322,606**	268,125	**540,106**	570,562
Change in cumulative claim costs with respect to events prior to the reporting year	**70,740**	(30,132)	**61,783**	(28,023)	**8,957**	(2,109)
Total change in cumulative claim costs	**933,452**	808,555	**384,389**	240,102	**549,063**	568,453
Claim settlement payments during the year:						
With respect to events during the reporting year	**(498,147)**	(481,020)	**(116,012)**	(93,580)	**(382,135)**	(387,440)
With respect to events prior to the reporting year	**(399,711)**	(467,938)	**(175,069)**	(193,376)	**(224,642)**	(274,562)
Total payments	**(897,858)**	(948,958)	**(291,081)**	(286,956)	**(606,777)**	(662,002)
Change in the unearned premium reserve, net of deferred acquisition costs	**21,006**	17,082	**77,866**	28,184	**(56,860)**	(11,102)
Change in the premium deficiency reserve	**10,592**	(13,223)	**-**	-	**10,592**	(13,223)
Balance at end of year	**1,402,360**	1,335,168	**767,664**	596,490	**634,696**	738,678

1. The opening and closing balances include outstanding claims with the addition of the premium deficiency reserve and unearned premiums, less deferred acquisition costs.
2. The cumulative cost of claims with respect to events during the reporting year includes the balance of outstanding claims as of the end of the reporting year, with the addition of total claim payments during the reporting period, including direct and indirect claim settlement expenses.
3. Claim settlement payments during the year include payments with respect to events prior to the reporting year, with the addition of the change in the balance of outstanding claims with respect to events prior to the reporting year.
4. The claim settlement payments include direct and indirect expenses for the settlement of those claims (general and administrative expenses recorded for claims), as attributed to the damage years.

Note 19: Liabilities with Respect to Insurance Contracts Which are Included in the Non-Life Insurance Segment (Cont.)

D1. Examination of the development of estimated liabilities with respect to insurance contracts less deferred acquisition costs, gross, in the compulsory motor and liabilities branches in Israel, and branches assessed on the basis of underwriting years in Europe

	As of December 31, 2019										
	Underwriting year										
NIS in thousands, adjusted to CPI for November 2019 1)	**2010 [2]**	**2011 [2]**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**Total**
Claims paid (cumulative) at end of year											
After one year	79,363	150,134	5,300	4,400	4,333	2,219	3,697	5,954	4,998	5,043	
After two years	150,781	75,139	53,409	44,576	41,732	33,911	37,950	41,675	44,395		
After three years	156,810	170,532	156,817	140,171	133,406	118,937	123,819	127,600			
After four years	254,454	294,937	273,867	270,258	239,990	217,714	216,574				
After five years	354,779	418,122	413,522	388,491	344,952	294,752					
After six years	450,238	529,740	562,943	520,910	428,042						
After seven years	553,381	655,948	676,366	614,589							
After eight years	631,878	960,176	763,107								
After nine years	676,322	1,002,051									
After ten years	717,818										
Estimated cumulative claims (with payments including accrual) at end of year											
After one year [3]	1,029,611	1,041,508	951,998	887,280	787,094	671,958	649,750	643,403	680,001	714,340	
After two years	1,044,142	928,168	1,028,853	871,928	813,413	680,753	637,220	666,286	708,175		
After three years	974,186	996,145	1,040,672	868,385	803,776	646,449	659,517	708,121			
After four years	929,295	985,117	963,111	833,151	799,291	674,507	690,423				
After five years	906,209	989,365	1,012,102	890,846	825,799	680,031					
After six years	860,351	1,083,552	1,090,230	909,985	1,008,637						
After seven years	865,130	1,211,160	1,080,536	911,449							
After eight years	886,378	1,217,870	1,071,592								
After nine years	894,141	1,204,724									
After ten years	879,172										
Surplus (deficit) relative to the first year which did not include accrual [4]	50,123	(219,607)	(108,481)	(78,298)	(204,861)	722	(40,673)	(64,718)	(28,174)	-	(693,967)
Rate of the deviation relative to the first year which did not include accrual, in percent	5.39%	(22.29)%	(11.26)%	(9.40)%	(25.49)%	0.11%	(6.26)%	(10.06)%	(4.14)%		(9.68)%
Cumulative cost of claims as of December 31, 2019	879,172 *)	1,204,724 *)	1,071,592	911,449	1,008,637	680,031	690,423	708,121	708,175	714,340	8,576,664
Cumulative payments until December 31, 2019	717,818	1,002,051	763,107	614,589	428,042	294,752	216,574	127,600	44,395	5,043	4,213,971
Total liabilities as of December 31	161,354 *)	202,673 *)	308,485	296,860	580,595	385,279	473,849	580,521	663,780	709,297	4,362,693
Outstanding claims for years up to and including the 2009 underwriting year											392,925
Total gross liability with respect to insurance contracts in the compulsory motor and liabilities branches in Israel, less deferred acquisition costs with respect to 2019											4,755,618
	Up to and including the 2010 underwriting year										
*) Less outstanding claims as of the date of the deconsolidation of a subsidiary in Europe, as follows:	142,051	336,718									478,769

1) The above amounts are presented according to inflation adjusted values (arising from operations in Israel), or revaluated values based on the exchange rate as of the reporting date (arising from consolidated companies abroad), in order to allow examination of the development on the basis of real values.

2) From 2010 to 2011, including Broadgate data.

3) The estimate of cumulative claims at the end of the first year includes the unearned premium reserve, less deferred acquisition costs.

4) The difference between estimated cumulative claims in the first year, which does not include the accrual in the estimation of cumulative claims as of the reporting date.

Note: The level of significance of the actuarial models is greater when the development of claims is evaluated on the level of total underwriting years. It is therefore more appropriate to evaluate the development of the Company's estimates on the level of all underwriting years together, rather than for each underwriting year separately.

Note 19: Liabilities with Respect to Insurance Contracts Which are Included in the Non-Life Insurance Segment (Cont.)

D2. Examination of the development of estimated liabilities with respect to insurance contracts less deferred acquisition costs, on self-retention, in the compulsory motor insurance and liabilities branches in Israel, and branches assessed on the basis of underwriting years in Europe

	As of December 31, 2019										
	Underwriting year										
NIS in thousands, adjusted to CPI for November 2019 ¹)	2010 ²	2011 ²	2012	2013	2014	2015	2016	2017	2018	2019	Total
Claims paid (cumulative) at end of year											
After one year	71,101	78,738	5,215	4,389	4,333	2,214	3,695	5,039	3,003	2,568	
After two years	137,662	58,610	49,438	43,745	37,663	33,326	37,513	28,972	23,492		
After three years	152,618	150,681	143,556	132,015	123,372	113,923	121,392	81,306			
After four years	247,260	269,005	248,011	254,950	228,093	211,503	206,420				
After five years	342,870	386,670	355,984	363,574	325,825	286,867					
After six years	436,861	489,519	492,441	467,852	403,855						
After seven years	536,951	603,988	591,999	538,264							
After eight years	606,743	664,478	660,740								
After nine years	648,960	704,100									
After ten years	679,119										
Estimated cumulative claims (with payments including accrual) at end of year											
After one year ³⁾	799,501	635,520	807,146	758,821	680,932	586,847	586,228	369,190	344,767	343,300	
After two years	833,421	769,714	804,509	751,235	671,389	592,797	546,609	397,124	348,375		
After three years	833,334	797,112	813,816	756,227	666,646	560,936	567,357	420,513			
After four years	819,127	785,956	788,077	719,768	660,972	576,027	594,979				
After five years	800,397	789,861	785,110	783,171	675,111	586,882					
After six years	771,937	806,221	871,756	773,562	677,964						
After seven years	775,413	852,511	877,290	769,516							
After eight years	793,563	852,921	875,629								
After nine years	800,651	842,253									
After ten years	790,782										
Surplus (deficit) relative to the first year which did not include accrual ⁴⁾	28,345	(56,297)	(87,552)	(49,748)	(11,318)	5,915	(8,751)	(51,323)	(3,608)		(234,337)
Rate of the deviation relative to the first year which did not include accrual, in percent	3.46%	(7.16)%	(11.11)%	(6.91)%	(1.70)%	1.00%	(1.49)%	(13.90)%	(1.05)%		(4.13)%
Cumulative cost of claims as of December 31, 2019	790,782 *)	842,253 *)	875,629	769,516	677,964	586,882	594,979	420,513	348,375	343,300	6,250,193
Cumulative payments until December 31, 2019	679,119	704,100	660,740	538,264	403,855	286,867	206,420	81,306	23,492	2,568	3,586,731
Balance of outstanding claims	111,663 *)	138,153 *)	214,889	231,252	274,109	300,015	388,559	339,207	324,883	340,732	2,663,462
Outstanding claims for years up to and including the 2009 underwriting year											221,729
Total liabilities on self-retention with respect to insurance contracts in the compulsory motor and liabilities branches, less deferred acquisition costs with respect to 2019											2,885,191
	Up to and including the 2010 underwriting year										
*) Less outstanding claims as of the date of the deconsolidation of a subsidiary in Europe, as follows:	82,443	134,710									217,253

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1) The above amounts are presented according to inflation adjusted values (arising from operations in Israel), or revaluated values based on the exchange rate as of the reporting date (arising from consolidated companies abroad), in order to allow examination of the development on the basis of real values.
2) From 2008 to 2011, including Broadgate data.
3) The estimate of cumulative claims at the end of the first year includes the unearned premium reserve, less deferred acquisition costs.
4) The difference between estimated cumulative claims in the first year, which does not include the accrual in the estimation of cumulative claims as of the reporting date.

Note: The level of significance of the actuarial models is greater when the development of claims is evaluated on the level of total underwriting years. It is therefore more appropriate to evaluate the development of the Company's estimates on the level of all underwriting years together, rather than for each underwriting year separately.

Note 19: Liabilities with Respect to Insurance Contracts Which are Included in the Non-Life Insurance Segment (Cont.)

D3. Examination of the development of estimated liabilities with respect to insurance contracts less deferred acquisition costs, gross, in the compulsory motor branch

	As of December 31, 2019										
	Underwriting year										
NIS in thousands, adjusted to CPI for November 2019 1)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Claims paid (cumulative) at end of year											
After one year	3,820	3,779	2,909	3,289	1,675	1,482	1,515	1,924	2,777	3,627	
After two years	42,115	39,982	35,035	33,863	25,217	24,094	24,881	27,573	25,212		
After three years	107,067	109,805	108,402	92,839	85,990	85,658	85,381	98,343			
After four years	178,729	190,650	174,722	181,595	161,579	156,291	146,467				
After five years	232,787	261,710	242,272	255,644	233,677	209,282					
After six years	285,900	329,659	341,356	323,488	291,498						
After seven years	357,043	411,458	414,685	370,585							
After eight years	400,886	447,265	472,085								
After nine years	422,853	472,519									
After ten years	443,732										
Estimated cumulative claims (with payments including accrual) at end of year											
After one year 2)	558,257	525,614	532,396	520,626	478,607	402,781	404,844	391,311	399,293	443,801	
After two years	567,145	530,948	533,497	511,599	482,562	406,585	375,214	398,249	412,406		
After three years	580,083	542,888	546,296	519,681	465,045	398,540	386,155	445,260			
After four years	537,299	512,178	512,967	485,679	463,544	429,512	401,798				
After five years	509,730	507,046	497,694	535,874	469,296	438,317					
After six years	470,332	516,995	576,731	515,796	466,850						
After seven years	471,578	551,801	564,936	490,937							
After eight years	480,282	545,930	558,577								
After nine years	482,105	536,183									
After ten years	474,104										
Surplus (deficit) relative to the first year which did not include accrual 3)	63,195	(24,005)	(45,610)	(5,258)	(1,805)	(31,732)	3,046	(53,949)	(13,113)		(109,231)
Rate of the deviation relative to the first year which did not include accrual, in percent	11.76%	(4.69)%	(8.89)%	(1.08)%	(0.39)%	(7.80)%	0.75%	(13.79)%	(3.28)%		(2.65)%
Cumulative cost of claims as of December 31, 2019	474,104	536,183	558,577	490,937	466,850	438,317	401,798	445,260	412,406	443,801	4,668,233
Cumulative payments until December 31, 2019	443,732	472,519	472,085	370,585	291,498	209,282	146,467	98,343	25,212	3,627	2,533,350
Total liabilities as of December 31, 2019	30,372	63,664	86,492	120,352	175,352	229,035	255,331	346,917	387,194	440,174	2,134,883
Outstanding claims for years up to and including the 2009 underwriting year											123,342
Total gross liabilities with respect to insurance contracts in the compulsory motor branches, less deferred acquisition costs as of December 31, 2019											2,258,225

1) The above amounts are adjusted for inflation values to allow evaluation of the development on the basis of real values.
2) The estimate of cumulative claims at the end of the first year includes the unearned premium reserve, less deferred acquisition costs.
3) The difference between estimated cumulative claims in the first year, which does not include the accrual in the estimation of cumulative claims as of the reporting date.

Note: The level of significance of the actuarial models is greater when the development of claims is evaluated on the level of total underwriting years. It is therefore more appropriate to evaluate the development of the Company's estimates on the level of all underwriting years together, rather than for each underwriting year separately.

Note 19: Liabilities with Respect to Insurance Contracts Which are Included in the Non-Life Insurance Segment (Cont.)

D4. Examination of the development of estimated liabilities with respect to insurance contracts less deferred acquisition costs, on self-retention, in the compulsory motor branch

	As of December 31, 2019										
	Underwriting year										
NIS in thousands, adjusted to CPI for November 2019 [1])	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Claims paid (cumulative) at end of year											
After one year	3,820	3,779	2,909	3,289	1,675	1,482	1,515	1,021	1,115	1,250	
After two years	42,115	39,982	35,035	33,863	25,217	24,094	24,881	15,021	9,809		
After three years	107,067	109,805	108,402	92,839	85,990	85,658	85,381	52,423			
After four years	178,729	190,650	174,722	178,167	161,579	155,366	146,467				
After five years	232,787	261,710	242,272	250,609	233,677	208,357					
After six years	285,900	328,707	339,868	316,599	291,322						
After seven years	357,043	409,380	402,168	363,628							
After eight years	400,886	442,006	451,150								
After nine years	422,853	463,758									
After ten years	437,951										
Estimated cumulative claims (with payments including accrual) at end of year											
After one year [2])	548,415	514,836	519,982	507,587	466,635	394,190	396,286	199,864	163,451	156,169	
After two years	550,777	512,929	512,899	498,260	462,803	395,786	363,978	209,184	148,821		
After three years	563,956	525,201	525,681	508,706	453,435	370,357	367,295	230,613			
After four years	529,030	503,217	502,878	473,701	450,429	388,352	384,902				
After five years	501,324	498,079	486,268	521,332	462,825	395,408					
After six years	469,156	496,109	546,404	499,849	462,067						
After seven years	465,889	530,551	534,072	477,468							
After eight years	474,402	527,024	529,630								
After nine years	476,422	518,486									
After ten years	468,270										
Surplus (deficit) relative to the first year which did not include accrual [3])	60,760	(15,269)	(26,752)	(3,767)	(8,632)	378	11,384	(30,749)	14,630		1,983
Rate of the deviation relative to the first year which did not include accrual, in percent	11.49%	(3.03)%	(5.32)%	(0.80)%	(1.90)%	0.10%	2.87%	(15.38)%	8.95%		0.05%
Cumulative cost of claims as of December 31, 2019	468,270	518,486	529,630	477,468	462,067	395,408	384,902	230,613	148,821	156,169	3,771,834
Cumulative payments until December 31, 2019	437,951	463,758	451,150	363,628	291,322	208,357	146,467	52,423	9,809	1,250	2,426,115
Total liabilities as of December 31, 2019	30,319	54,728	78,480	113,840	170,745	187,051	238,435	178,190	139,012	154,919	1,345,719
Outstanding claims for years up to and including the 2009 underwriting year											101,500
Total gross liabilities with respect to insurance contracts in the compulsory motor branches, less deferred acquisition costs as of December 31, 2019											1,447,219

1) The above amounts are adjusted for inflation values to allow evaluation of the development on the basis of real values.
2) The estimate of cumulative claims at the end of the first year includes the unearned premium reserve, less deferred acquisition costs.
3) The difference between estimated cumulative claims in the first year, which does not include the accrual in the estimation of cumulative claims as of the reporting date.

Note: The level of significance of the actuarial models is greater when the development of claims is evaluated on the level of total underwriting years. It is therefore more appropriate to evaluate the development of the Company's estimates on the level of all underwriting years together, rather than for each underwriting year separately.

Note 19: Liabilities with Respect to Insurance Contracts Which are Included in the Non-Life Insurance Segment (Cont.)

D5. Composition of comprehensive income (loss) in the compulsory motor insurance branch (NIS in thousands)

	Comprehensive income (loss) with respect to the current underwriting year	Comprehensive income (loss) with respect to previous underwriting years	Comprehensive income (loss) with respect to the current underwriting year	Comprehensive income (loss) with respect to previous underwriting years
Reporting year	Gross		On retention	
2019	**(67,336)**	**52,188**	**(6,820)**	**96,613**
2018	(10,753)	19,455	7,280	27,952
2017	13,714	(73,027)	36,198	(34,927)

D6. Data regarding the 2013-2019 underwriting years in the compulsory motor branch (NIS in thousands)

	Underwriting years						
Underwriting Year	**2019**	2018	2017	2016	2015	2014	2013
Gross premiums (including fees)	**465,338**	465,074	477,214	443,285	450,849	541,154	568,481
Comprehensive income (loss) on retention in the underwriting year, accumulated until the reporting date	**(6,820)**	25,570	9,051	3,275	5,152	24,081	60,624
Impact of investment income on cumulative income for the underwriting year	**3,250**	11,960	16,592	42,316	46,226	55,633	76,984

D7. Comprehensive income (loss) on retention in the foreign trade risks insurance branch (NIS in thousands)

Reporting year	Comprehensive income (loss) with respect to the open years	Comprehensive income with respect to the underwriting year released During the reporting year	Adjustments with respect to underwriting years Released in previous years	Activity not Included in the calculation of reserves	Total reported comprehensive income
2019	**-**	**8,396**	**101**	**(963)**	**7,534**
2018	-	9,862	(230)	(471)	9,161
2017	-	9,177	205	(343)	9,039

D8. Composition of comprehensive loss in other liabilities insurance branches (NIS in thousands)

Reporting year	Comprehensive loss with respect to the current underwriting year	Comprehensive loss with respect to previous underwriting years	Comprehensive loss with respect to the current underwriting year	Comprehensive income (loss) with respect to previous underwriting years
	Gross		On retention	
2019	**(60,340)**	**(125,380)**	**(59,690)**	**29,243**
2018	(62,058)	(19,028)	(53,824)	(34,549)
2017	(43,053)	(44,839)	(40,198)	21,532

D9. Data regarding the 2013-2019 underwriting years in the other liabilities insurance branch

	Underwriting years						
Underwriting Year	**2019**	2018	2017	2016	2015	2014	2013
Gross premiums (including fees)	**308,274**	332,569	308,177	310,002	308,911	377,875	381,387
Comprehensive loss on retention in the underwriting year, accumulated until the reporting date	**(59,690)**	(62,238)	(51,189)	(61,963)	(41,718)	(46,917)	(85,481)
Impact of investment income on cumulative income for the underwriting year	**2,896**	10,896	16,032	22,241	23,871	25,583	39,749

Note 19: Liabilities with Respect to Insurance Contracts Which are Included in the Non-Life Insurance Segment (Cont.)

E1. Examination of the development of the assessment of gross outstanding claims in property and others branches

	As of December 31, 2019										
	Damage year										
NIS in thousands, adjusted to CPI for November 2019 1)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Claims paid (cumulative) at end of year											
After one year	658,569	778,780	687,614	851,604	565,862	604,012	481,093	504,570	448,006	462,399	
After two years	990,614	1,263,063	989,032	1,265,917	674,532	1,040,175	809,773	824,081	752,284		
After three years	1,040,893	1,330,636	1,037,118	1,304,721	736,359	1,098,572	881,652	868,281			
After four years	1,068,257	1,370,213	1,057,283	1,344,116	773,473	1,137,294	910,365				
After five years	1,088,493	1,370,213	1,080,024	1,369,966	790,201	1,153,073					
After six years	1,098,127	1,386,570	1,092,396	1,393,511	806,214						
After seven years	1,089,486	1,395,678	1,103,758	1,400,725							
After eight years	1,096,495	1,401,784	1,110,096								
After nine years	1,102,614	1,404,871									
After ten years	1,105,682										
Cumulative claims (including payments)											
After one year	1,206,808	1,438,524	1,160,821	1,405,287	968,667	1,163,652	876,634	936,161	804,210	826,955	
After two years	1,197,988	1,452,281	1,153,759	1,478,337	839,361	1,223,203	956,741	939,710	943,191		
After three years	1,160,045	1,424,989	1,161,490	1,454,498	849,696	1,218,301	977,037	925,156			
After four years	1,153,191	1,452,112	1,135,301	1,432,267	834,608	1,218,906	955,313				
After five years	1,157,522	1,425,563	1,135,080	1,440,915	830,525	1,221,805					
After six years	1,113,984	1,421,687	1,136,150	1,441,456	841,524						
After seven years	1,119,487	1,428,957	1,130,546	1,430,098							
After eight years	1,123,412	1,418,281	1,131,832								
After nine years	1,116,224	1,419,913									
After ten years	1,119,651										
Estimated cumulative cost of claims as of December 31, 2019	1,119,651	1,419,913	1,131,832	1,430,098	841,524	1,221,805	955,313	925,156	943,191	826,955	10,815,439
Cumulative payments until December 31, 2019	1,105,682	1,404,871	1,110,096	1,400,725	806,214	1,153,073	910,365	868,281	752,284	462,399	9,973,993
Balance of outstanding claims	13,969	15,042	21,736	29,373	35,309	68,732	44,948	56,875	190,907	364,556	841,446
Outstanding claims for years up to and including the 2009 damage year											37,807
Total outstanding claims in the property and others branches as of December 31, 2019											879,253

1) The above amounts are presented in values adjusted for inflation, in order to allow an evaluation of their development based on real values.

Note 19: Liabilities with Respect to Insurance Contracts Which are Included in the Non-Life Insurance Segment (Cont.)

E2. Evaluation of the development of the assessment of outstanding claims on retention in the property and others branches

	As of December 31, 2019										
	Damage year										
NIS in thousands, adjusted to CPI for November 2019 ¹)	2010	2011	2012	2013	2014	2015	2016	2017	2014	2019	Total
Claims paid (cumulative) at end of year											
After one year	650,708	683,795	699,695	512,945	467,225	480,977	378,007	371,809	353,186	346,387	
After two years	900,547	967,285	722,243	718,834	486,936	698,583	595,075	550,231	513,498		
After three years	967,817	736,166	758,585	727,997	533,846	744,054	634,152	578,611			
After four years	744,897	774,789	772,346	749,043	564,034	765,244	650,317				
After five years	763,820	775,016	789,669	771,762	579,101	781,215					
After six years	772,454	786,972	802,027	786,040	590,893						
After seven years	761,823	795,115	812,730	794,054							
After eight years	768,771	801,981	819,247								
After nine years	774,625	805,913									
After ten years	777,401										
Cumulative claims (including payments)											
After one year	1,229,974	963,302	948,760	629,818	756,993	750,968	650,596	585,481	536,892	504,364	
After two years	1,179,339	1,541,326	1,381,806	838,392	595,104	811,783	662,024	599,192	556,773		
After three years	1,164,058	775,404	842,537	813,060	609,734	810,770	685,011	602,906			
After four years	778,304	837,918	826,233	808,194	608,321	812,762	681,100				
After five years	813,370	814,329	836,946	820,208	606,992	820,364					
After six years	799,968	819,083	836,887	818,659	619,764						
After seven years	786,201	825,922	831,903	813,968							
After eight years	790,189	816,207	834,087								
After nine years	784,532	818,843									
After ten years	787,669										
Cumulative cost of claims as of December 31, 2019	787,669	818,843	834,087	813,968	619,764	820,364	681,100	602,906	556,773	504,364	7,039,840
Cumulative payments until December 31, 2019	777,401	805,913	819,247	794,054	590,893	781,215	650,317	578,611	513,498	346,387	6,657,537
Balance of outstanding claims	10,268	12,930	14,840	19,914	28,871	39,149	30,784	24,296	43,275	157,977	382,304
Outstanding claims for years up to and including the 2009 damage year											21,957
Total outstanding claims in the property and others branches as of December 31, 2019											404,261

1) The above amounts are presented in values adjusted for inflation, in order to allow an evaluation of their development based on real values.

Note 20: Additional Details Regarding the Long Term Savings Segment

A. Liabilities with respect to insurance contracts and investment contracts, by exposure

As of December 31, 2019

		Policies which include a savings component (including appendices) by policy issue date				Policies with no savings component Risk sold as a single policy		
				From 2004				
	NIS in thousands	Until 1990 1)	Until 2003	Non-investment-linked	Investment-linked	Individual	Collective	Total
.1	By insurance exposure							
	Liabilities with Respect to Insurance Contracts							
	Annuity without guaranteed factors	-	-	-	787,673	-	-	787,673
	Annuity with guaranteed factors							
	Until May 2001	10,783,412	27,042,396	-	-	-	-	37,825,808
	From June 2001	-	5,101,862	7,339	19,803,233	-	-	24,912,434
	Paid annuity	3,930,566	2,688,227	-	356,398	-	-	6,975,191
	Capital-based (without annuity option)	2,678,965	7,183,709	-	2,236,286	-	-	12,098,960
	Supplementary pension reserve 2)	1,815,510	1,483,675	-	13,588	-	-	3,312,773
	Other risk components	150,592	672,948	843	695,110	639,377	258,233	2,417,103
	Total with respect to insurance contracts	19,359,045	44,172,817	8,182	23,892,288	639,377	258,233	88,329,942
	Liabilities with respect to investment contracts in life insurance	-	-	2,573	2,828,148	-	-	2,830,721
	Total life insurance	19,359,045	44,172,817	10,755	26,720,436	639,377	258,233	91,160,663
	Liabilities with respect to guaranteed-return provident fund tracks which were consolidated 3)							2,394,031
	Total							93,554,694
.2	By financial exposure							
	Non-investment-linked	19,037,974	289,897	10,227	389,004	425,665	255,459	20,408,226
	Investment-linked	321,071	43,882,920	528	26,331,432	213,712	2,774	70,752,437
	Total life insurance	19,359,045	44,172,817	10,755	26,720,436	639,377	258,233	91,160,663
	Liabilities with respect to guaranteed-return provident fund tracks which were consolidated 3)							2,394,031
	Total							93,554,694

1) Products issued until 1990 (including enlargements in respect thereof) are primarily guaranteed-return, and are primarily backed by designated bonds.

2) In addition to the supplementary pension reserve which is included under liabilities with respect to insurance contracts, there is also a provision in the amount of NIS 1,773 million, which will be applied to the statement of income throughout the remaining lifetime of the policy until retirement age. For additional details, see Note 39(e)(1)(a)(3).

3) For details regarding the financial exposure with respect to the provident fund Bar A Provident Fund, where the Company is a guarantor for the minimum returns of its members, see Note 39(d)(1)(c).

Note 20: Additional Details Regarding the Long Term Savings Segment (Cont.)

A. Liabilities with respect to insurance contracts and investment contracts, by exposure (Cont.)

As of December 31, 2018

	Policies which include a savings component (including appendices) by policy issue date				Policies with no savings component		
			From 2004		Risk sold as a single policy		
NIS in thousands	**Until 1990 [1)]**	**Until 2003**	**Non-investment-linked**	**Investment-linked**	**Individual**	**Collective**	**Total**
1 By insurance exposure							
Liabilities with respect to insurance contracts							
Annuity without guaranteed factors	-	-	-	612,452	-	-	612,452
Annuity with guaranteed factors							
Until May 2001	10,951,174	24,501,007	-	-	-	-	35,452,181
From June 2001	-	4,643,574	49,117	16,187,765	-	-	20,880,456
Paid annuity	3,345,981	1,964,042	-	264,986	-	-	5,575,009
Capital-based (without annuity option)	2,217,173	6,896,834	-	2,225,146	-	-	11,339,153
Supplementary pension reserve [2)]	1,785,419	766,959	-	12,020	-	-	2,564,398
Other risk components	147,536	665,462	2,832	597,538	580,137	293,475	2,286,980
Total with respect to insurance contracts	18,447,283	39,437,878	51,949	19,899,907	580,137	293,475	78,710,629
Liabilities with respect to investment contracts in life insurance	-	-	2,610	1,781,735	-	-	1,784,345
Total life insurance	18,447,283	39,437,878	54,559	21,681,642	580,137	293,475	80,494,974
Liabilities with respect to guaranteed-return provident fund tracks which were consolidated [3)]							2,355,594
Total							82,850,568
2 By financial exposure							
Non-investment-linked	18,141,807	288,518	52,638	351,215	386,477	289,143	19,509,798
Investment-linked	305,476	39,149,360	1,921	21,330,427	193,660	4,332	60,985,176
Total life insurance	18,447,283	39,437,878	54,559	21,681,642	580,137	293,475	80,494,974
Liabilities with respect to guaranteed-return provident fund tracks which were consolidated [3)]							2,355,594
Total							82,850,568

1) Products issued until 1990 (including enlargements in respect thereof) are primarily guaranteed-return, and are primarily backed by designated bonds.

2) In addition to the supplementary pension reserve which is included under liabilities with respect to insurance contracts, there is also a provision in the amount of NIS 2,036 million, which will be applied to the statement of income throughout the remaining lifetime of the policy until retirement age. For additional details, see Note 39(e)(1)(a)(3).

3) For details regarding the financial exposure with respect to the provident fund Bar A Provident Fund, where the Company is a guarantor for the minimum returns of its members, see Note 39(d)(1)(c).

Note 20: Additional Details Regarding the Long Term Savings Segment (Cont.)

B. Details of results by policy types

For the year ended December 31, 2019

	Policies which include a savings component (including appendices) by policy issue date				Policies with no savings component		
			From 2004		Risk sold as a single policy		
NIS in thousands	Until 1990 [1]	Until 2003	Non-investment-linked	Investment-linked	Individual	Collective	Total
Gross premiums:							
Traditional / mixed	**25,234**	**16,376**	**-**	**-**	**-**	**-**	**41,610**
Savings component	**145,027**	**1,376,642**	**798**	**3,114,085**	**-**	**-**	**4,636,552**
Other	**30,740**	**231,035**	**317**	**337,540**	**628,532**	**79,665**	**1,307,830**
Total	**201,001**	**1,624,053**	**1,115**	**3,451,625**	**628,532**	**79,665**	**5,985,992**
Receipts with respect to investment contracts charged directly to insurance reserves [2]	**-**	**-**	**-**	**1,185,345**	**-**	**-**	**1,185,345**
Financial margin including management fees [3]	**333,738**	**708,942**	**1,464**	**236,916**	**-**	**-**	**1,281,060**
Payments and changes in liabilities with respect to insurance contracts, gross	**1,794,573**	**6,990,898**	**(70)**	**5,648,118**	**318,547**	**35,339**	**14,787,405**
Payments and changes in liabilities with respect to investment contracts [4]	**-**	**-**	**9**	**217,261**	**-**	**-**	**217,270**
Comprehensive income (loss) from life insurance businesses	**(507,690)**	**70,218**	**2,104**	**(113,951)**	**8,813**	**42,215**	**(498,291)**
Other comprehensive income from life insurance businesses	**41,771**	**2,443**	**398**	**3,892**	**4,539**	**3,445**	**56,488**
Total comprehensive income (loss) from life insurance businesses	**(465,919)**	**72,661**	**2,502**	**(110,059)**	**13,352**	**45,660**	**(441,803)**
Income from pension and provident funds							**11,537**
Other comprehensive income from pension and provident funds							**5,263**
Total comprehensive income from pension and provident funds							**16,800**
Total loss from life insurance and long term savings							**(486,754)**
Total loss from life insurance and long term savings							**(425,003)**
Annualized premium with respect to insurance contracts - new business [5]	**27**	**922**	**-**	**250,608**	**97,580**	**-**	**349,137**
One-time premium with respect to insurance contracts	**223**	**3,526**	**-**	**699,156**	**-**	**-**	**702,905**
One-time premium with respect to investment contracts	**-**	**-**	**-**	**1,105,427**	**-**	**-**	**1,105,427**
Transfers to the Company with respect to insurance contracts and investment contracts [6]	**-**	**-**	**-**	**377,730**	**-**	**-**	**377,730**
Transfers from the Company with respect to insurance contracts and investment contracts [6]	**34,843**	**360,051**	**-**	**566,966**	**-**	**-**	**961,860**

1. Products issued until 1990 (including enlargements in respect thereof) are primarily guaranteed-return, and are primarily backed by designated bonds.
2. Not including premiums with respect to investment contracts in a consolidated provident fund (Bar A), in the amount of NIS 2,238 thousand.
3. The financial margin includes gains (losses) from investments charged to other comprehensive income, and does not include the Company's additional income charged as a percentage of the premium, and is calculated before deduction of investment management expenses. The financial margin in guaranteed-return policies is based on income from actual investments for the reporting year, less a multiple of the guaranteed rate of return per year, times the average reserve for the year in the various insurance funds. Financial margin in investment-linked contracts is the total of fixed and variable management fees based on a reduction in the charging to savings in the Company's systems.
4. The line "payments and change in liabilities with respect to investment contracts" includes only the total profits from investments with respect to investment contracts.
5. Enlargements of existing policies are not included as part of the annualized premium with respect to new business, but rather as part of the results of operations of the original policy.
6. Not including internal transfers.

Note 20: Additional Details Regarding the Long Term Savings Segment (Cont.)

B. Details of results by policy types (Cont.)

For the year ended December 31, 2018

	Policies which include a savings component (including appendices) by policy issue date				Policies with no savings component		
			From 2004		Risk sold as a single policy		
NIS in thousands	Until 1990 1)	Until 2003	Non-investment-linked	Investment-linked	Individual	Collective	Total
Gross premiums:							
Traditional / mixed	31,288	19,339	-	-	-	-	50,627
Savings component	160,160	1,381,673	5,985	2,918,885	-	-	4,466,703
Other	33,777	267,427	382	334,263	611,943	81,573	1,329,365
Total	225,225	1,668,439	6,367	3,253,148	611,943	81,573	5,846,695
Receipts with respect to investment contracts charged directly to insurance reserves 2)	-	-	-	437,013	-	-	437,013
Financial margin including management fees 3)	77,978	221,280	2,785	212,603	-	-	514,646
Payments and changes in liabilities with respect to insurance contracts, gross	1,032,393	1,594,873	1,087	2,884,899	253,321	67,813	5,834,386
Payments and changes in liabilities with respect to investment contracts 4)	-	-	126	(18,792)	-	-	(18,666)
Comprehensive income (loss) from life insurance businesses	153,002	86,619	9,670	(163,772)	17,196	5,022	107,737
Other comprehensive income from life insurance businesses	26,261	1,590	662	2,325	2,773	2,274	35,885
Total comprehensive income (loss) from life insurance businesses	179,263	88,209	10,332	(161,447)	19,969	7,296	143,622
Loss from pension and provident funds							(117,074)
Other comprehensive loss from pension and provident funds							(3,707)
Total comprehensive loss from pension and provident funds							(120,781)
Total profit from life insurance and long term savings							(9,337)
Total comprehensive income from life insurance and long term savings							22,841
Annualized premium with respect to insurance contracts - new business 5)	34	830	-	486,747	82,009	-	569,620
One-time premium with respect to insurance contracts	128	2,426	-	467,337	-	-	469,891
One-time premium with respect to investment contracts	-	-	-	368,409	-	-	368,409
Transfers to the Company with respect to insurance contracts and investment contracts 6) *)	-	-	-	191,334	-	-	191,334
Transfers from the Company with respect to insurance contracts and investment contracts 6) *)	42,872	202,460	-	343,394	-	-	588,726

*) Re-classified.

1. Products issued until 1990 (including enlargements in respect thereof) are primarily guaranteed-return, and are primarily backed by designated bonds.
2. Not including premiums with respect to investment contracts in a consolidated provident fund (Bar A), in the amount of NIS 2,451 thousand.
3. The financial margin includes gains (losses) from investments charged to other comprehensive income, and does not include the Company's additional income charged as a percentage of the premium, and is calculated before deduction of investment management expenses. The financial margin in guaranteed-return policies is based on income from actual investments for the reporting year, less a multiple of the guaranteed rate of return per year, times the average reserve for the year in the various insurance funds. Financial margin in investment-linked contracts is the total of fixed and variable management fees based on a reduction in the charging to savings in the Company's systems.
4. The line "payments and change in liabilities with respect to investment contracts" includes only the total profits from investments with respect to investment contracts.
5. Enlargements of existing policies are not included as part of the annualized premium with respect to new business, but rather as part of the results of operations of the original policy.
6. Not including internal transfers.

Note 20: Additional Details Regarding the Long Term Savings Segment (Cont.)

B. Details of results by policy types (Cont.)

For the year ended December 31, 2017

	Policies which include a savings component (including appendices) by policy issue date				Policies with no savings component		
			From 2004		Risk sold as a single policy		
NIS in thousands	**Until 1990 1)**	**Until 2003**	**Non-investment-linked**	**Investment-linked**	**Individual**	**Collective**	**Total**
Gross premiums:							
Traditional / mixed	35,946	21,846	-	-	-	-	57,792
Savings component	176,162	1,394,666	9,244	2,575,968	-	-	4,156,040
Other	36,945	238,417	151	340,829	614,269	90,060	1,320,671
Total	249,053	1,654,929	9,395	2,916,797	614,269	90,060	5,534,503
Receipts with respect to investment contracts charged directly to insurance reserves 2)	-	-	-	290,982	-	-	290,982
Financial margin including management fees 3)	260,370	558,219	1,119	196,756	-	-	1,016,464
Payments and changes in liabilities with respect to insurance contracts, gross	1,130,016	4,898,629	10,239	3,843,002	282,345	72,686	10,236,917
Payments and changes in liabilities with respect to investment contracts 4)	-	-	22	114,427	-	-	114,449
Comprehensive income (loss) from life insurance businesses	107,300	229,501	1,599	(167,245)	43,881	20,639	235,675
Other comprehensive income from life insurance businesses	22,459	1,904	736	1,885	2,311	1,739	31,034
Total comprehensive income (loss) from life insurance businesses	129,759	231,405	2,335	(165,360)	46,192	22,378	266,709
Loss from pension and provident funds							(95,049)
Other comprehensive income from pension and provident funds							4,881
Total comprehensive loss from pension and provident funds							(90,168)
Total profit from life insurance and long term savings							140,626
Total comprehensive income from life insurance and long term savings							176,541
Annualized premium with respect to insurance contracts - new business 5)	35	1,347	-	459,617	80,125	-	541,124
One-time premium with respect to insurance contracts	156	2,627	-	305,583	-	-	308,366
Annualized premium with respect to investment contracts - new business	-	-	-	25	-	-	25
One-time premium with respect to investment contracts	-	-	-	208,725	-	-	208,725
Transfers to the Company with respect to insurance contracts and investment contracts 6) *)	-	-	-	27,840	-	-	27,840
Transfers from the Company with respect to insurance contracts and investment contracts 6) *)	23,059	191,555	-	272,976	-	-	487,590

*) Re-classified.

1. Products issued until 1990 (including enlargements in respect thereof) are primarily guaranteed-return, and are primarily backed by designated bonds.
2. Not including premiums with respect to investment contracts in a consolidated provident fund (Bar A), in the amount of NIS 2,532 thousand.
3. The financial margin includes gains (losses) from investments charged to other comprehensive income, and does not include the Company’s additional income charged as a percentage of the premium, and is calculated before deduction of investment management expenses. The financial margin in guaranteed-return policies is based on income from actual investments for the reporting year, less a multiple of the guaranteed rate of return per year, times the average reserve for the year in the various insurance funds. Financial margin in investment-linked contracts is the total of fixed and variable management fees based on a reduction in the charging to savings in the Company’s systems.
4. The line “payments and change in liabilities with respect to investment contracts” includes only the total profits from investments with respect to investment contracts.
5. Enlargements of existing policies are not included as part of the annualized premium with respect to new business, but rather as part of the results of operations of the original policy.
6. Not including internal transfers.

Note 21: Additional Details Regarding The Health Insurance Segment

A. Liabilities with respect to insurance contracts

1. Details of liabilities with respect to insurance contracts, by financial exposure

As of December 31, 2019

	Long-term care		Illness and hospitalization *)		
NIS in thousands	Individual	Collective	Long term	Short term	Total
Investment-linked	**1,096,457**	**1,456**	**-**	**-**	**1,097,913**
Other	**1,304,539**	**1,154,518**	**543,914**	**42,611**	**3,045,582**
Total insurance liabilities	**2,400,996**	**1,155,974**	**543,914**	**42,611**	**4,143,495**

As of December 31, 2018

	Long-term care		Illness and hospitalization *)		
NIS in thousands	Individual	Collective	Long term	Short term	Total
Investment-linked	818,804	3,582,668	-	-	4,401,472
Other	848,363	1,316,011	470,829	40,305	2,675,508
Total insurance liabilities	1,667,167	4,898,679	470,829	40,305	7,076,980

*) See details in section A(3) below.

2. Details of liabilities with respect to insurance contracts, by insurance exposure

As of December 31, 2019

	Long-term care		Illness and hospitalization		
NIS in thousands	Individual	Collective	Long term	Short term	Total
Reserve for payable claims	**163,750**	**913,845**	**14,798**	**-**	**1,092,393**
Other risk components	**2,237,246**	**242,129**	**529,116**	**42,611**	**3,051,101**
Total insurance liabilities	**2,400,996**	**1,155,974**	**543,914**	**42,611**	**4,143,495**

The most material coverage included in long term illness and hospitalization insurance is medical expenses; with respect to short term, it is international travel.

As of December 31, 2018

	Long-term care		Illness and hospitalization		
NIS in thousands	Individual	Collective	Long term	Short term	Total
Reserve for payable claims	136,915	992,267	6,713	-	1,135,895
Other risk components	1,530,252	3,906,412	464,116	40,305	5,941,085
Total insurance liabilities	1,667,167	4,898,679	470,829	40,305	7,076,980

The most material coverage included in long term illness and hospitalization insurance is medical expenses; with respect to short term, it is international travel.

3. The following are details regarding the composition and valuation basis in the illness and hospitalization branch

	As of December 31					
	2019	2018	2019	2018	2019	2018
NIS in thousands	Gross		Reinsurance		Retention	
Unearned premium reserve	**21,304**	21,192	**-**	-	**21,304**	21,192
Insurance reserves and premium deficiency reserve	**333,462**	276,792	**12,723**	12,045	**320,739**	264,747
Outstanding claims	**231,759**	213,150	**14,489**	12,644	**217,270**	200,506
Total for the illness and hospitalization branch *)	**586,525**	511,134	**27,212**	24,689	**559,313**	486,445
*) Of which - actuarial estimates	**565,221**	489,942	**27,212**	24,689	**538,009**	465,253
Provisions on the basis of other estimates:						
Unearned premium reserve	**21,304**	21,192	**-**	-	**21,304**	21,192
Total for the illness and hospitalization branch	**586,525**	511,134	**27,212**	24,689	**559,313**	486,445

Note 21: Additional Data Regarding the Health Insurance Segment (Cont.)

B. Details of results by policy types

As of December 31, 2019

	Long-term care		Illness and hospitalization		
NIS in thousands	Individual	Collective	Long term	Short term	Total
Gross premiums	**266,421**	**78,832**	**873,322 1)**	**110,918 1)**	**1,329,493**
Payments and changes in liabilities with respect to insurance contracts and investment contracts, gross	**797,821**	**425,447**	**454,596**	**48,948**	**1,726,812**
Income (loss) from health insurance businesses	**(427,686)**	**(124,753)**	**14,890**	**10,696**	**(526,853)**
Other comprehensive income from health insurance businesses	**21,766**	**29,247**	**20,563**	**2,800**	**74,376**
Total comprehensive income (loss) from health insurance businesses	**(405,920)**	**(95,506)**	**35,453**	**13,496**	**(452,477)**
Annualized individual premium - new	**20,276**		**177,138 2)**		**197,414**

1) Of which, individual premiums in the amount of NIS 788,547 thousand, and collective premiums in the amount of NIS 195,694 thousand.

2) Does not include the following branches: dental, foreign workers, international travel and Israelis abroad.

As of December 31, 2018

	Long-term care		Illness and hospitalization		
NIS in thousands	Individual	Collective	Long term	Short term	Total
Gross premiums	256,634	919,513	812,682 1)	118,946 1)	2,107,775
Payments and changes in liabilities with respect to insurance contracts and investment contracts, gross	244,235	1,103,958	419,689	54,569	1,822,451
Income (loss) from health insurance businesses	(46,373)	(117,552)	11,518	16,908	(135,499)
Other comprehensive loss from health insurance businesses	(7,918)	(12,181)	(9,249)	(265)	(29,613)
Total comprehensive income (loss) from health insurance businesses	(54,291)	(129,733)	2,269	16,643	(165,112)
Annualized individual premium - new	21,469		147,041 2)		168,510

1) Of which, individual premiums in the amount of NIS 725,433 thousand, and collective premiums in the amount of NIS 206,195 thousand.

2) Does not include the following branches: dental, foreign workers, international travel and Israelis abroad.

As of December 31, 2017

	Long-term care		Illness and hospitalization		
NIS in thousands	Individual	Collective	Long term	Short term	Total
Gross premiums	244,456	801,855	747,355 1)	123,462 1)	1,917,128
Payments and changes in liabilities with respect to insurance contracts and investment contracts, gross	229,392	1,006,975	358,948	59,223	1,654,538
Income from health insurance businesses	26,666	5,088	83,076	14,277	129,107
Other comprehensive income (loss) from health insurance businesses	16,952	26,447	11,334	(93)	54,640
Total comprehensive income (loss) from health insurance businesses	43,618	31,535	94,410	14,184	183,747
Annualized individual premium - new	18,439		147,744 2)		166,183

1) Of which, individual premiums in the amount of NIS 655,049 thousand, and collective premiums in the amount of NIS 215,768 thousand.

2) Does not include the following branches: dental, foreign workers, international travel and Israelis abroad.

Note 22: Movement in Liabilities with Respect to Life Insurance Contracts, Investment Contracts and Health Insurance

NIS in thousands	Life insurance and long term savings			Health insurance
	Insurance Contracts	Investment contracts	Total	
Balance as of January 1, 2018	76,778,090	4,056,236	80,834,326	6,196,628
Interest, linkage differentials and investment income [1])	777,622	140,380	918,002	50,682
Increase with respect to premiums charged to liabilities [2])	4,660,323	439,465	5,099,788	508,725
Decrease in rate of management fees from accrual	(414,082)	(25,140)	(439,222)	-
Decrease with respect to claims, redemptions and end of period	(3,442,305)	(471,002)	(3,913,307)	-
Changes due to change in assumptions	(214,512)**)	-	(214,512)	161,396 *)
Other changes [3)]	565,493	-	565,493	159,549
Balance as of December 31, 2018	78,710,629	4,139,939	82,850,568	7,076,980
Interest, linkage differentials and investment income [1])	8,821,912	357,541	9,179,453	**144,389**
Increase with respect to premiums charged to liabilities [2])	4,844,433	1,187,583	6,032,016	**205,848**
Decrease in rate of management fees from accrual	(930,816)	(26,648)	(957,464)	**-**
Decrease with respect to claims, redemptions and end of period	(4,944,384)	237,346	(4,707,038)	**(3,606,891)**
Changes due to change in assumptions	400,107 **)	-	400,107	33,380*)
Other changes [3)]	1,428,061	(671,009)	757,052	**289,789**
Balance as of December 31, 2019	**88,329,942**	**5,224,752**	**93,554,694**	**4,143,495**

*) Derived from accumulated experience regarding the cost and frequency of claims, and their impact on expected results.

**) See Note 39(e)(e1)(a) - item regarding main assumptions used to calculate insurance liabilities.

1) This section including interest, linkage differentials and investment gains with respect to the balance at the start of the year, plus interest, linkage differentials and investment income with respect to the savings premiums only which were recorded during the reporting period.

2) These premiums include the savings premiums and part of the premiums in products with a fixed premium, after deducting management fees which are collected as a percentage of premiums, and do not include the entire premium which was recorded as income.

3) The section includes changes in the reserve with respect to outstanding claims, reserve for seasonal claims, IBNR claims, paid annuities, etc., according to the assumptions which were applied at the end of the previous year. The section also includes the impact of interest, linkage differentials and investment gains which were not included under the item for "interest, linkage differentials and investment income", such as interest, linkage differentials and investment income on claim payments and non-savings premiums.

Note 23: Taxes on Income

A. Tax rates applicable to the Group's member companies

1. General

Some of the consolidated companies (insurance companies, pension fund management companies, provident fund management companies and other companies) constitute "financial institutions" as defined in the Value Added Tax Law, 1975. The tax that is applicable to income of financial institutions consists of corporate tax and capital gains tax.

Corporate tax applies to the Company's income and to the income of the other investee companies in Israel.

2. Tax arrangements which are unique to the insurance branch

There is an agreement between the Israel Insurance Association and the tax authorities (hereinafter: the "**Tax Agreement**"), which is renewed and updated on an annual basis, and which regulates tax issues that are unique to the branch. The tax arrangements refer, inter alia, to the following issues:

A. Deferred acquisition costs (DAC) - direct expenses of insurance companies for the acquisition of life insurance contracts, with respect to underwriting years up to and including 2014, will be deductible for tax purposes in equal parts, distributed over four years, and with respect to the underwriting years 2015, up to and including 2020, over ten years. The aforementioned expenses, which pertain to canceled life insurance contracts, are deductible during the year of cancellation. Acquisition costs of pension and provident funds (as defined in the agreement) with respect to the underwriting years 2015 to 2020 will be deductible for tax purposes in equal parts, distributed over 10 years, or according to their distribution in the books, as chosen by the Company. Early expenses with respect to canceled pension and provident contracts will not be permitted.
Deferred acquisition costs in illness and hospitalization insurance are amortized over a period of 6 years, similarly to the amortization rate in the books.

B. Attribution of expenses to preferred income - regarding income taxable at reduced rates, and tax-exempt income which is received by Clal Insurance (hereinafter: "**Preferred Income**"), attribution of expenses will be performed when it signifies turning a part of the preferred income into fully taxable income, according to the attribution rate. The attribution rate stipulated in the agreement is dependent upon the financial source yielding the preferred income.

C. Taxation method with respect to income from assets held as investments which overlap with investment-linked liabilities.

D. Provision for indirect claim settlement expenses - partial adjustment of the provision for indirect claim settlement expenses in the non-life and health insurance segment will be performed with respect to each underwriting year from 2013 to 2020. The adjusted amount will be recognized for tax purposes over a period of three years, beginning from the year after the adjustment year.

E. Taxation of marketable and derivative securities - it was agreed that income and/or expenses from securities will be reported, for tax purposes, on a realization basis. Excluding the following exceptions:
  - Linkage differentials, interest and amortization of discount with respect to marketable bonds will be reported on an accrual basis.
  - Impairment applied to the statement of income will not be considered loss for tax purposes except on a realization basis.
  - Income and/or expenses with respect to derivatives of various types will be reported on an accrual basis.

The provision for tax and deferred taxes, as specified in the financial statements for all of the years, was calculated in accordance with the principles specified above.

Note 23: Taxes on Income (Cont.)

B. Tax rates applicable to the Group's member companies

1. The statutory tax applicable to financial institutions, including the Company, which constitutes the majority of the Group's operations, is comprised of corporate tax and capital gains tax.

2. Update to corporate tax rate

In December 2016, the Knesset plenum passed the Economic Efficiency Law (Legislative Amendments to Achieve Budgetary Goals for Budget Years 2017 and 2018), 2016, which was published in the Official Gazette on December 29. Under the approved law, the corporate tax will be reduced beginning on January 1, 2017, to a rate of 24% instead of 25%), and beginning on January 1, 2018, to a rate of 23%.

Presented below are the statutory tax rates which apply to financial institutions, in accordance with the foregoing:

In percent	Rate of corporate tax	Rate of capital gains tax	Overall tax rate in financial institutions
Year:			
2017	24.00	17.00	35.04
2018 and thereafter	23.00	17.00	34.19

Current taxes for reporting periods are calculated in accordance with the tax rates presented in the above table.

C. Components of expenses (income) in taxes on income

NIS in thousands	For the year ended December 31 2019	2018	2017
Current tax expenses (income)			
With respect to the current period	**(97,120)**	7,674	107,977
Adjustments with respect to previous years, net	**(13,726)**	(12,669)	(10,900)
	(110,846)	(4,995)	97,077
Deferred tax expenses (income)			
Creation and reversal of temporary differences	**(163,816)**	(76,697)	(21,830)
Adjustment of deferred tax balances due to the change in policy	**(5,926)**	-	-
	(169,742)	(76,697)	(21,830)
Total taxes on income from continuing operations	**(280,588)**	(81,692)	75,247

D. Components of tax on income with respect to components of other comprehensive income

NIS in thousands	For the year ended December 31 2019	2018	2017
Foreign currency translation differences for foreign operations	**(3,651)**	6,574	(7,169)
Available for sale financial assets	**126,539**	**(44,646)**	99,492
Actuarial gains (losses) from defined benefit plan	**(4,952)**	**2,448**	753
Total tax benefit (tax expense) with respect to components of other comprehensive income	**117,936**	**(35,624)**	93,076

Note 23: Taxes on Income (Cont.)

E. Adjustment between theoretical tax on income before tax, and tax expenses

NIS in thousands	For the year ended December 31 2019	 2018	 2017
Income (loss) before taxes on income	**(834,233)**	(167,853)	282,933
The Group's primary tax rates	**34.19%**	34.19%	35.04%
Tax (tax saving) is calculated according to the Group's primary tax rate	**(285,207)**	(57,386)	99,147
Addition to (savings in) tax liability with respect to:			
Adjustment with respect to a lower tax rate in investee companies which are not insurance companies	**(1,969)**	(2,089)	(2,256)
Tax neutralization is calculated with respect to the Company's share in the income of investee companies accounted by the equity method	**1,468**	8,407	(8,872)
Differences in the measurement of assets and liabilities for tax purposes, and for the purpose of the adjusted reports	**9,824**	5,042	5,436
Difference with respect to the tax rate used to calculate deferred taxes	**(611)**	(698)	(3,893)
Rental income exempt from capital gains tax	**(3,320)**	(2,738)	(2,988)
Tax-exempt income	**(13,984)**	(21,922)	(5,677)
Unrecognized expenses	**1,970**	3,156	4,074
Unrecognized expenses with respect to share-based payment (see Note 41)	**(3)**	(57)	565
Use of losses and benefits from previous years with respect to which no deferred taxes were recorded	**(419)**	(1,269)	(757)
Creation of deferred taxes with respect to losses for which deferred taxes were not recorded in the past	**(5,948)**	-	-
Losses and benefits for tax purposes for the period with respect to which no deferred taxes were recorded	**559**	531	1,369
Taxes with respect to previous years	**(13,726)**	(12,669)	(10,900)
Taxes with respect to dividends from investee companies	**12,296**	-	-
Negative capital gains tax beyond the payroll tax which was paid	**18,483**	-	-
Total taxes on income (tax benefit)	**(280,588)**	(81,692)	75,247
Effective tax rate			26.60%

Note 23: Taxes on Income (Cont.)

F. Deferred tax assets and liabilities

1. Deferred tax assets and liabilities which were recognized

Deferred tax assets and liabilities are attributable to the following items:

NIS in thousands	Intangible assets	Property, plant and equipment	Investment property	Financial instruments	Deferred acquisition costs in life insurance	Transferable deductions and losses for tax purposes	Employee benefits	Investee companies 1)	Others 2)	Total
Balance of deferred tax asset (liability) as of January 1, 2018	(166,677)	(7,634)	(59,760)	(189,434)	(161,425)	14,068	31,126	(3,446)	40,486	(502,696)
Changes applied to the income statement	14,214	(1,968)	(349)	10,736	27,482	11,875	2,082	2,888	9,737	76,697
Changes applied to other comprehensive income	-	-	(3,751)	42,967	-	-	(2,291)	-	(1,301)	35,624
Classification of current taxes to deferred taxes	(415)	-	1,045	-	-	425	-	-	(6,029)	(4,974)
Balance of deferred tax asset (liability) as of December 31, 2018	**(152,878)**	**(9,602)**	**(62,815)**	**(135,731)**	**(133,943)**	**26,368**	**30,917**	**(558)**	**42,893**	**(395,349)**
Deferred taxes with respect to losses for which deferred taxes were not recorded in the past *)	**-**	**-**	**-**	**-**	**-**	**5,948**	**-**	**-**	**-**	**5,948**
Impact of the initial adoption of IFRS 16	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5,926**	**5,926**
Changes applied to the income statement	**(24,283)**	**(2,221)**	**5,309**	**(28,484)**	**8,419**	**200,658**	**582**	**545**	**3,291**	**163,816**
Changes applied to other comprehensive income	**-**	**-**	**2,874**	**(124,537)**	**-**	**-**	**4,923**	**-**	**(1,196)**	**(117,936)**
Classification of current taxes to deferred taxes	**-**	**(123)**	**-**	**-**	**-**	**618**	**(216)**	**-**	**17,471**	**17,750**
Balance of deferred tax asset (liability) as of December 31, 2019	**(177,161)**	**(11,946)**	**(54,632)**	**(288,752)**	**(125,524)**	**233,592**	**36,206**	**(13)**	**68,385**	**(319,845)**

*) For additional details regarding the merger, see Note 9(c) to the financial statements.

1) As of December 31, 2018 and 2019, the Group has a balance of liabilities for deferred taxes with respect to a temporary difference due to the investment in investee companies, where the temporary difference with respect to them is expected to reverse in the foreseeable future.
2) Primarily due to the provision for doubtful debts.

Note 23: Taxes on Income (Cont.)

F. Deferred tax assets and liabilities (Cont.)

NIS in thousands	As of December 31 2019	2018
Deferred tax assets	**9,953**	6,554
Liability with respect to deferred taxes	**(329,798)**	(401,903)
Total	**(319,845)**	(395,349)

2. Deferred tax assets which were not recognized

Deferred tax assets which were not recognized are with respect to the following items:

NIS in thousands	As of December 31 2019	2018
Losses for tax purposes	**76,854**	124,761
Capital losses and real difference from marketable securities	**689,350**	690,083
Total	**766,204**	814,844

According to the currently existing tax laws in Israel, there is no time restriction on the usage of losses for tax purposes or on the usage of the deductible temporary differences. However, deferred tax assets were not recognized with respect to these items, since it is not expected that taxable income will arise in the future against which the tax benefits may be used.

G. Tax assessments

Final tax assessments:

A. The tax reports of the Group's member companies, excluding the companies listed in section B below, are considered final assessments in accordance with the provisions of section 145 of the Income Tax Ordinance, up to and including the tax year 2014.

B. The following companies have final tax assessments up to and including the tax year 2017:
   1. The Company.
   2. Assets of Clal Insurance Company Property Ltd.
   3. Clal Pension and Provident Funds Ltd.
   4. Clal Factoring and Finance Ltd.
   5. Clal Credit and Finance Ltd.
   6. Clal Finance Consumer Credit Ltd.

Note 24: Employee Benefits

Employee benefits include post-employment benefits, severance benefits, other long term benefits and short term benefits, as well as share-based payments.

For details regarding benefits to key management personnel, see Note 40.

For details regarding share-based payments, see Note 41.

NIS in thousands	Details	For the year ended December 31 2019	 2018
Present value of funded obligations		**89,205**	79,089
Present value of unfunded obligations		**32,905**	27,080
Total present value of obligations	A(2)	**122,110**	106,169
Fair value of plan assets	A(2)	**43,245**	45,515
Impact of the maximum limit for assets		**(358)**	(670)
Liability which was recognized with respect to defined benefit plan		**79,223**	61,324
Recognized liability with respect to other long term benefits	C	**17,693**	19,059
Liabilities with respect to short term benefits *)		**176,286**	162,674
Total employee benefits		**273,202**	243,057
Presented under the following sections:			
Other accounts receivable		**-**	1,019
Other accounts payable		**176,933**	163,319
Liabilities with respect to employee benefits, net		**96,269**	80,757

*) The liabilities with respect to short term benefits include liabilities with respect to salary, holiday, compensation and annual bonuses to employees.

For details regarding amounts which are deposited in Clal Insurance, as part of a defined benefit plan for the Group's employees, see Notes 17 and 18.

A. Post-employment benefit plans - defined benefit plan

The Group has defined benefit plans with respect to which amounts are deposited in provident funds, pension funds, appropriate insurance policies and insurance policies which were issued by Clal Insurance.

Labor laws and the Severance Pay Law, 1963 (hereinafter: the "**Severance Pay Law**") in Israel require the Group to pay severance to employees upon termination of employment, or upon retirement. The Group's liability with respect to employee benefits is calculated according to a valid employment agreement, and is based on the salary of an employee which, in management's opinion, creates the right to receive severance pay.

For details regarding a collective agreement and an annex to the agreement, including its implications regarding the subject of the payment of severance pay to employees and the voluntary retirement program, see section D below.

1. Composition of plan assets

The composition of plan assets is as follows:

In percent	As of December 31 2019	 2018
Central severance pay funds	**-**	4
Managers insurance	**36**	33
Provident funds and pension funds	**64**	63
	100	100

Note 24: Employee Benefits (Cont.)

A. Post-employment benefit plans - defined benefit plans (Cont.)

2. Movement in liabilities (assets), net, with respect to defined benefit plans and components thereof

NIS in thousands	Liability with respect to defined benefit plan 2019	Liability with respect to defined benefit plan 2018	Fair value of plan assets 2019	Fair value of plan assets 2018	Total liability (asset), net, recognized with respect to defined benefit plan 2019	Total liability (asset), net, recognized with respect to defined benefit plan 2018
Balance as of January 1	**106,169**	115,341	**44,845**	47,238	**61,324**	68,103
Expense/income applied to the statement of income [1]						
Current service cost	**12,034**	13,192	**-**	-	**12,034**	13,192
Past service cost	**1,617**	2,903	**1,097**	511	**520**	2,392
Interest costs / income	**3,384**	3,766	**1,322**	1,306	**2,062**	2,460
Settlements [2]	**(419)**	(5,423)	**(195)**	(2,137)	**(224)**	(3,286)
Total expense / income carried to the statement of income	**16,616**	14,438	**2,224**	(320)	**14,392**	14,758
Recognized under other comprehensive income:						
Actuarial gains (losses) due to changes in demographic assumptions	**283**	9	**-**	-	**283**	9
Actuarial gain (loss) due to changes in financial assumptions [3]	**14,923**	(5,128)	**-**	-	**14,923**	(5,128)
Other actuarial losses (gains)	**654**	(4,086)	**-**	-	**654**	(4,086)
Actual returns less interest income	**-**	-	**(478)**	(924)	**478**	924
Total amount recognized under other comprehensive income:	**15,860**	(9,205)	**(478)**	(924)	**16,338**	(8,281)
Additional movements						
Benefits paid	**(16,535)**	(14,405)	**(7,579)**	(7,190)	**(8,956)**	(7,215)
Redemption of central fund	**-**	-	**(1,616)**	-	**1,616**	-
Amounts deposited by the Group	**-**	-	**5,491**	6,041	**(5,491)**	(6,041)
Total additional movements	**(16,535)**	(14,405)	**(3,704)**	(1,149)	**(12,831)**	(13,256)
Balance as of December 31	**122,110**	106,169	**42,887**	44,845	**79,223**	61,324

1) Expenses are included under general and administrative expenses in the statement of income. See Note 35.
2) On March 29, 2018, an annex to the collective agreement was signed, which applies the provisions of the agreement to some former employees of HaClal HaRishon (in 2019, HaClal HaRishon was merged into Clal Insurance Company Ltd.), including the application of section 14.
3) Such as the discount rate.

3. Actuarial assumptions and sensitivity analysis

Main actuarial assumptions as of the end of the reporting period (by weighted average):

In percent	2019	2018	2017
Average real discount rate as of December 31	**0.55**	2.47	1.85
Rate of real future wage increases	**2.00-3.00**	2.00-3.00	2.00-3.00

1) The discount rate is based on high quality CPI-linked corporate bonds.

Reasonably possible changes on the reporting date in one of the actuarial assumptions, assuming that the other assumptions remain unchanged, affect the defined benefit liability as follows:

NIS in thousands	As of December 31 Increase of one percent 2019	 Increase of one percent 2018	 Decrease of one percent 2019	 Decrease of one percent 2018
Rate of future salary increases	**13,128**	11,515	**(11,261)**	(8,007)
Discount rate	**(11,254)**	(7,932)	**13,383**	11,508

Note 24: Employee Benefits (Cont.)

A. Post-employment benefit plans - defined benefit plans (Cont.)

4. Impact of the plan on the Group's future cash flows

For details regarding a collective agreement and an annex to the agreement, including its implications regarding the subject of the payment of severance pay to employees, see section D below.
The Company's estimate regarding expected deposits in 2020 in defined benefit plans, financed for the plan assets, amounts to NIS 5,400 thousand.
The Group's estimate throughout the lifetime of the plan (according to a weighted average) at the end of the reporting period is 9.4 years (for 2018 - 8.9 years).

5. Actual returns

	For the year ended December 31		
NIS in thousands	**2019**	2018	2017
Actual returns on plan assets	**1,045**	584	2,713

B. Post-employment benefit plans - defined deposit plan

The Group has the following defined deposit plans:

1. Most severance payments are subject to the terms of section 14 of the Severance Pay Law, 1963, according to which the Company's current deposits in pension funds and/or in policies in insurance companies exempt it from any additional undertaking towards employees, for which the aforementioned amounts were deposited. See section D below on this matter as well.

2. Deposits for compensation in Israel.

For details regarding a collective agreement and an annex to the agreement, including its implications regarding the subject of the payment of severance pay to employees, see section D below.

	For the year ended December 31		
NIS in thousands	**2019**	2018	2017
Amount recognized as expenditure with respect to defined deposit plans	**97,580**	93,536	79,109

C. Liabilities with respect to other long term benefits

	As of December 31	
NIS in thousands	**2019**	2018
Liabilities with respect to sick days	**7,302**	6,393
Liability with respect to dedication bonus	**3,916**	3,732
Liability with respect to seniority bonus	**6,475**	8,934
Total recognized liability with respect to other long term benefits	**17,693**	19,059

Note 24: Employee Benefits (Cont.)

D. Collective agreement between the Group's member companies and the Histadrut Worker's Committee in the Group

On July 20, 2017, a collective agreement (the "Collective Agreement") entered into effect which was signed between the Company's subsidiaries, Clal Insurance, Clal Pension and Provident Funds, Clal Credit Insurance, Clalbit Systems Ltd., the former Clal Credit and Finance Ltd. (in 2019, Clal Credit and Finance Ltd. was merged with and into Clal Insurance Company Ltd.) and Canaf (hereinafter: the "Companies") and the Histadrut Worker's Committee in the Group, in which the previous collective agreement was extended for 4 years, from January 1, 2017 to December 31, 2020 (the "Agreement Period"), subject to the implemented changes, as specified below.

On March 29, 2018, an annex to the collective agreement was signed, which applied the provisions of the collective agreement to some former employees of HaClal HaRishon (in 2019, HaClal HaRishon was merged with and into Clal Insurance Company Ltd.), excluding managers of a specified rank, subject to certain agreed-upon changes.

The main terms of the collective agreement, and its estimated financial implications, are as follows:

1. In July of each year, during the agreement period, salary bonuses are paid to employees, at an average rate of 3% of the base rate of employees who are entitled to a salary raise. In general, half of the total salary bonus budget will be paid as a uniform bonus, and the other half will be paid as a differential bonus, in the discretion of managers.
   It is also noted that insofar as the Group fulfills, during the agreement period, an average annual profit of over NIS 342 million, in April 2021, a salary bonus will be given according to the formula which was determined between the parties, with a maximum rate of 4% from that date onwards (addition of up to 1% per year).
   Notwithstanding the foregoing, insofar as the annual profit in a certain year is lower than NIS 100 million, the budget for the payment of salary additions in the subsequent year will be in accordance with the CPI's rate of increase during the 12 month period ending on June 30th of the subsequent year, plus 0.5%; however, no less than 1%, and no more than the budget of salary additions, as specified in the agreement for that year. Insofar as a reduced salary bonus budget is paid, as stated above, in a given year, an additional budget will be allocated to salary additions in the salary for April 2021, according to the difference between the budget which was paid, and the budget which was supposed to be paid in accordance with the collective agreement.
2. Each year, and insofar as the Company's annual profit is no less than NIS 210 million, a annual payment will be paid to employees (without social provisions), at a rate of 1.4% of the annual cost of salary of the employees to whom the agreement applies (with respect to annual profit of no less than NIS 210 million), up to a maximum rate of 3% of the aforementioned annual cost of salary (with respect to annual profit of no less than NIS 400 million).
   Additionally, in case the Company's annual profit is at least NIS 300 million, an additional payment will be paid to employees (without social provisions), at a variable rate (according to expenses) in the range between 0.5% (with respect to annual profit of no less than NIS 300 million) and 1% (with respect to annual profit of no less than NIS 400 million), of the annual cost of salary of the employees to whom the collective agreement applies, This payment will be granted to some of the eligible employees by way of allocation of the Company's share warrants.
3. Additionally, it was agreed to increase the participation in meals and the participation in summer camp payments, as well as an increased welfare budget relative to the first collective agreement, a seniority bonus, and a persistence and excellence bonus for employees who joined the Company after November 2012, as well as an increase in the employer's deposits for compensation.
4. Increasing the minimum wage for monthly employees in the companies to NIS 6,000, increasing the minimum wage for senior employees (employees who have been working in the companies between 10 and 30 years) to amounts from 7,000 to 8,500, and increasing the salary of service center employees. The cost of the aforementioned expense will be included in the salary additions specified in section 1 above. It was further agreed to extend the tenure period for new company employees, as well as changes to the performance improvement processes before dismissal.

Note 24: Employee Benefits (Cont.)

5. The agreement exhausts the demands and claims of all parties for the entire period of the agreement, including with respect to the demand for the provision of consideration to employees with respect to the sale of Company shares by the Company's controlling shareholder and/or with respect to a change in control of the Company, insofar as the foregoing occurs during the agreement period. It was further determined that industrial peace will be maintained throughout the entire agreement period, including with respect to the demand to grant consideration to employees with respect to the sale of shares, as stated above.
6. The estimated average increase in the total cost of the human resources expenses in the Company (not including an increase which is conditional upon the fulfillment of targets, as specified below), in each of the agreement years, relative to relevant previous year, is approximately NIS 20 million.
7. The estimated average cost of the human resources expenses in each of the agreement years, with respect to the components of the agreement which are conditional upon the Company's fulfillment of the profit targets, and assuming achieving 100% of the profit targets which will be determined, amounts to approximately NIS 18 million.
8. Beyond that stated in sections 6 and 7 above, the companies recorded a non-recurring expense in 2017 and in 2019, with respect to the voluntary retirement plan which was offered to employees age 60 or older, in the amount of approximately NIS 23 million and NIS 8 million, respectively.

The agreement formalizes and replaces human resources increases and expenses which would have been given by the companies, had it not been signed, in accordance with the previous collective agreement, had it been extended.

Note 25: Financial Liabilities

A. Financial liabilities

	As of December 31			
	Book value		Fair value *)	
NIS in thousands	2019	2018	2019	2018
Total financial liabilities presented at amortized cost				
Liability certificates b)	**3,974,027**	3,097,877	**4,327,026**	3,347,438
Loans from banking corporations b)	**111,938**	111,938	**118,565**	114,300
Total liabilities presented at amortized cost	**4,085,965**	3,209,815	**4,445,591**	3,461,738
Liabilities measured at fair value through profit and loss:				
Liabilities with respect to derivative financial instruments and short sales:				
Future contracts	**104,532**	269,077	**104,532**	269,077
Foreign currency swap transactions	**31,161**	37,421	**31,161**	37,421
Maof options	**365**	3,010	**365**	3,010
Foreign options	**10,739**	23,850	**10,739**	23,850
Other	**1,921**	526	**1,921**	526
Total liabilities measured at fair value through profit and loss 1)	**148,718**	333,884	**148,718**	333,884
Total financial liabilities	**4,234,683**	3,543,699	**4,594,309**	3,795,622
1) Of which, with respect to investment-linked liabilities	**106,437**	239,423	**106,437**	239,423

For additional information regarding the Group's exposure to interest rate, foreign currency and liquidity risks, see Note 39(d).

*) Includes an approximation of fair value, in cases where the gap is immaterial. For additional information regarding fair value measurement, see section E below.

Note 25: Financial Liabilities (Cont.)

B. Deferred liability notes - Composition as of December 31

						Annual interest rate						Book value		Fair value	
						Effective	Nominal			Interest rate used to calculate fair value	Original amount issued	2019	2018	2019	2018
	Additional information	Issuing entity	Capital type *)	Linkage terms	Interest type	%		Marketable / non-marketable	Level in the fair value hierarchy **)	%	NIS in thousands				
Liability certificates (Series A)	(1)	Clalbit Finance	Tier 2 subordinated capital	CPI-linked	Fixed	4.99	4.89	Marketable	1	-	400,000	**44,464**	66,460	**47,692**	72,553
Loan from interested party bank	(2)	Clal Insurance	Tier 3 hybrid capital	Unlinked	Variable	2.40	2.40	Non-marketable	2	1.06	111,938	**111,938**	111,938	**118,565**	114,300
Liability certificates (Series C)	(3)	Clalbit Finance	Tier 2 hybrid capital	CPI-linked	Fixed	2.97-4.35	3.75	Marketable	1	-	774,701	**82,861**	833,155	**89,651**	915,232
Liability certificates (Series G)	(3)	Clalbit Finance	Tier 2 hybrid capital	CPI-linked	Fixed	2.39-2.45	2.32	Marketable	1	-	364,846	**364,976**	363,291	**402,790**	388,050
Liability certificates (Series H)	(3)	Clalbit Finance	Tier 2 hybrid capital	Unlinked	Fixed	2.98-4.31	4.14	Marketable	1	-	469,388	**471,372**	472,002	**512,994**	498,490
Liability certificates (Series I)	(3)	Clalbit Finance	Tier 2 hybrid capital	CPI-linked	Fixed	2.51-3.84	2.48	Marketable	1	-	423,486	**417,012**	414,195	**484,934**	445,973
Liability certificates (Series J)	(3)	Clalbit Finance	Tier 2 hybrid capital	Unlinked	Fixed	3.38-4.61	3.92	Marketable	1	-	959,854	**950,556**	948,774	**1,089,146**	1,027,140
Liability certificates (Series K)	(3)	Clalbit Finance	Tier 2	Unlinked	Fixed	2.42-2.79	2.64	Marketable	1	-	1,636,172	**1,642,786**	-	**1,699,819**	-
Total liability certificates											5,140,385	**4,085,965**	3,209,815	**4,445,591**	3,461,738

*) For details regarding the inclusion of deferred liability notes in the calculation of recognized capital, see Note 16(e).

**) For the definition of the hierarchy levels, see Note 2(e)(3).

Note 25: Financial Liabilities (Cont.)

B. Deferred liability notes (Cont.)

1. The liability certificates (Series A) were issued in May 2006. The principal is repaid in 11 equal annual installments, in each of the years 2011 to 2021. The interest will be repaid in 15 annual installments, on June 1 of each calendar year, from 2007 until the final repayment date in 2021.
2. A loan from a banking corporation from March 2015, in the amount of approximately NIS 112 million, at an annual interest of prime + 0.8% (and, in parallel, a transaction was performed in which the variable interest was swapped with fixed interest, for a period of 6 years, in a manner whereby the interest was pegged at a rate of 3.48%). The principal of the letter of undertaking will be repaid in a one-time payment, 8 years after the date of issuance of the letter of undertaking. The interest is being paid in semi-annual installments.
   - A. Additional terms of the letter of undertaking:
     1. Right of early redemption
        - A. The first date when Clal Insurance will be entitled to perform a full or partial early redemption of the letter of undertaking, is two years before the principal repayment date.
        - B. After the first early redemption date, there is the right to perform an early redemption on the date of each interest payment.
        - C. Insofar as Clal Insurance does not exercise this right to an early repayment of the principal payment, then beginning from the effective date for the early repayment, the margin specified in section b(3) above will be increased by 45 percentage points (which constitutes no more than 30% of the original credit margin, as this term is defined in the Commissioner's circular, on the signing date of the letter of undertaking), and will amount to prime + approximately 1.25% per year.
        - D. The conditions for early redemption are any of the following:
          1. In parallel, the Company will issue an equity instrument of equivalent or superior quality;
          2. Subject to the advance approval of the Commissioner, and to the conditions which will be determined.
          3. If the capital of Clal Insurance, after the early redemption, exceeds 120% of the minimum capital required of it under the Capital Regulations.
     2. Upon the fulfillment of any of the suspending circumstances, as specified below, the principal payment of the deferred liability note will be deferred:
        - A. The recognized capital amount of Clal Insurance has decreased below the minimum capital required of it, in accordance with the most recent financial statements (annual or quarterly) before the relevant principal repayment date, and Clal Insurance has not performed a capital supplementation as of the publication date of the report.
        - B. The Commissioner ordered the postponement of the principal payment, if he views a near and present concern regarding the ability of Clal Insurance to fulfill the minimum required capital which is required of it (according to the Capital Regulations).
        - C. In case suspending circumstances have been fulfilled on the principal repayment date of the liability note, the repayment of principal will be deferred until the date when the suspending circumstances cease to be fulfilled, with the approval of the Board of Directors of Clal Insurance (provided that notice of the above has been given to the Commissioner seven business days before the execution of the deferred payment, and the Commissioner has not announced, within the aforementioned period, her objection), or until a period of three years after the originally specified principal repayment date (hereinafter: the "**Maximum Principal Deferral Period**"), whichever is earlier (hereinafter: the "**New Principal Repayment Date**"). For the avoidance of doubt, it is hereby clarified that the principal payment will be paid no later than the new principal repayment date, even if suspending circumstances exist on the same date.
        - D. The principal amount which was deferred, as stated above, will not accrue interest in arrears, but rather will accrue interest beginning from the date of the deferral until the new principal repayment date, according to the stated interest rate or the updated interest rate with respect to non-early repayment of the loan.
     3. For details regarding the appropriate interpretation of the terms "required capital" and "recognized capital", in accordance with the Commissioner's position regarding the "definition of recognized capital and required capital in hybrid capital instruments", see section 3(h)3 below.
   - B. The letter of undertaking has a status equal to the deferred liability notes and to the components and instruments which will be included under the Tier 2 and/or Tier 3 capital of Clal Insurance (however, it is hereby clarified that insofar as Tier 3 hybrid equity instruments will be issued in the future, which have a superior status relative to the Tier 2 capital of Clal Insurance, the status of the new letter of undertaking will be superior to those Tier 2 equity instruments); a status higher than the components and instruments which will be included under the Tier 1 capital of the Company; and a status lower than the remaining liabilities of Clal Insurance towards its creditors.

Note 25: Financial Liabilities (Cont.)

B. Deferred liability notes (Cont.)

3. A. Liability certificates (Series C) were issued in July 2010, and the series was extended in June 2011 and December 2012, within the framework of private allocations, and in May 2013, within the framework of an exchange. The principal will be repaid in a single payment on August 1, 2024, subject to the early redemption right, as specified in section h(1) below. The interest on the liability certificates is paid on an annual basis, in two semi-annual payments, on February 1 and August 1 of each calendar year, between the years 2011 and 2024. For details regarding the exchange of some of these liability certificates with liability certificates (Series K), by way of a series extension, see section G below.

   B. Liability certificates (Series G) were issued in July 2014, and the series was extended in December 2016. The principal will be repaid in a single payment in December 2026, subject to an early redemption right, as specified in section H(1) below. The interest on the liability certificates is paid on an annual basis, in two semi-annual payments, on June 30 and December 31 of each calendar year, between the years 2014 and 2026.

   C. Liability certificates (Series F) were issued in July 2014, and the series was extended in December 2016. The principal will be repaid in a single payment in December 2025, subject to an early redemption right, as specified in section H(1) below. The interest on the liability certificates is paid on an annual basis, in two semi-annual payments, on June 30 and December 31 of each calendar year, between the years 2014 and 2025.

   D. Liability certificates (Series I) were issued in July 2015, and the series was extended in December 2016. The principal will be repaid in a single payment in July 2028, subject to an early redemption right, as specified in section H(1) below. The interest on the liability certificates is paid on an annual basis, in two semi-annual payments, on January 31 and July 31 of each calendar year, between the years 2016 and 2028.

   E. Liability certificates (Series J) were issued in July 2015, and the series was extended in April 2016. The principal will be repaid in a single payment in July 2027, subject to an early redemption right, as specified in section H(1) below. The interest on the liability certificates is paid on an annual basis, in two semi-annual payments, on January 31 and July 31 of each calendar year, between the years 2016 and 2027.

   F. The liability certificates (Series K) were issued in September 2019, and the series was extended in December 2019, as specified in section G below. The principal will be repaid in a single payment in March 2033, subject to an early redemption right, as specified in section H(1) below. The interest on the liability certificates is paid on an annual basis, in two semi-annual payments, on March 31 and September 30 of each calendar year, between the years 2020 and 2033.

   G. In December 2019, NIS 698 million par value of outstanding liability certificates (Series C), which are listed on the stock exchange, were exchanged, by way of an exchange offer, in consideration of the issuance of NIS 806 million par value of liability certificates (Series K), as an extension of an existing series. The liability certificates (Series K) which were issued, as stated above, were recognized (subject to restrictions) as Tier 2 capital of Clal Insurance, instead of the liability certificates (Series C) which were exchanged, and which had been recognized as Tier 2 hybrid capital.

   The terms of the liability certificates (Series C) are different from the terms of the liability certificates (Series K), and accordingly, they were treated as an exchange of debt instruments with significantly different terms, in accordance with the definition provided in the standard, where the cost of their exchange amounted to a total of approximately NIS 65 million.

Note 25: Financial Liabilities (Cont.)

B. Deferred liability notes (Cont.)

3. (Cont.)

H. Additional terms of the liability certificates

1. Right to early redemption

A. Clalbit Finance will be entitled, without providing the right of choice to the holders of liability certificates and/or to the trustee, to redeem all or some of the liability certificates, upon the fulfillment of the following conditions (if required):

The first date when Clalbit Finance will be entitled to repay, through a full or partial early redemption, the liability certificates (hereinafter, with respect to each series: the "**First Early Redemption Date**"), is as follows:
Series C - On August 1, 2021;
Series G - On December 31, 2023;
Series H - On December 31, 2022;
Series I - On July 31, 2025;
Series J - On July 31, 2024;

After the first early redemption date, there is the right to perform an early redemption on the date of each interest payment, with respect to each liability certificate of the relevant series.

Series K - March 31, 2027;

After that date, Clalbit Finance will be entitled to redeem the liability certificates through full or partial early redemption at any time. The frequency of the early redemptions will not exceed one redemption per quarter. Insofar as prepayment takes place beginning on the first prepayment date, and up to 3 years before the principal repayment date, the payment with respect to prepayment to the holders of the liability certificates will be the higher of either: a. market value, b. book value, c. value before discounting government bond returns, plus interest of 0.8%.

Insofar as the right to early redemption is not exercised with respect to all of the bonds, then beginning from the date of the interest payment with respect to the bonds which is 3 years before the principal repayment date, additional interest will be paid to the holders of the relevant liability certificates, beyond the interest which applies to the liability certificates at that time, with respect to the remainder of the period, at a rate of 50% of the original risk margin which was determined in the issuance regarding the liability certificates of the relevant series.

The original risk margin is as follows:
Series C - 1.50%;
Series G - 1.35%;
Series H - 1.05%;
Series I - 1.83%;
Series J - 1.76%;
Series K - 1.69%;

B. The minimum amount required to perform an early redemption, with respect to each series of liability certificates, is NIS 25 million par value of liability certificates of the relevant series, except for Series K, in which this amount is NIS 1 million par value of bonds.

C. A condition for early redemption is:

(1) with respect to Series C, G, H, I and J, receipt of advance approval from the Commissioner, in accordance with the conditions which will be determined. In the event that the equity of Clal Insurance, after the early redemption, exceeds 120% of the minimum capital required of it under the Capital Regulations. It should be emphasized that the Commissioner's directives may change from time to time.

(2) With respect to Series K, receipt of advance approval from the Commissioner, in accordance with the conditions which will be determined. In general, early redemption will be possible if the economic equity of Clal Insurance, after the early redemption, exceeds the solvency capital requirement (SCR), as this term is defined in the economic solvency regime circular.

(3) With respect to Series G, H, I, J and K, early redemption is possible even if, in parallel, the Company issues an equity instrument of identical or superior quality;

Note 25: Financial Liabilities (Cont.)

B. Deferred liability notes (Cont.)

3. (Cont.)

H. Additional terms of the liability certificates

B. Deferred liability notes (Cont.)

2. Deferral of principal and/or interest payments in case of suspending circumstances

Upon fulfillment of any of the suspending circumstances described below, the principal payment and/or interest payments with respect to the liability certificates, as relevant, will be deferred:

A. With regard to the deferral of interest payments only - a lack of distributable earnings by Clal Insurance, as defined in the Companies Law, according to the last financial statements (annual or quarterly) prior to the relevant repayment date.

With respect to the deferral of principal and/or interest payments:

B. With respect to Series C, G, H, I and j, the recognized capital amount of Clal Insurance has decreased below the minimum capital required of it (see section H(3) below), in accordance with the most recent financial statements (annual or quarterly) which were published before the relevant principal and/or interest repayment date, and with respect to Series G, H, I and J, insofar as Clal Insurance has not performed a capital supplementation as of the publication date of the report (as this term is defined in the Commissioner's directive regarding "Composition of an insurer's recognized capital" from August 2011).

With respect to Series K, in accordance with the last financial statements of Clal Insurance which were published prior to the payment date, the equity of Clal Insurance is lower than its capital requirement for suspending circumstances, as this term is defined in the economic solvency regime circular, and Clal Insurance has not performed a capital supplementation (as this term is defined in the economic solvency regime circular) as of the publication date of the financial statements.

C. The Board of Directors of Clal Insurance instructs a deferral of the principal and/or interest payment in the event that it finds that a near and present concern has arisen with regard to Clal Insurance's ability to meet its capital requirement (as stated in section B above, as applicable), or to repay, on time, liabilities whose priority rating is higher than that of the liability certificates, provided that advance approval for such action has been received from the Insurance Commissioner.

D. With respect to Series C, G, H, I and J - The Commissioner instructed a deferral of the principal and/or interest payment, due to significant harm to the recognized capital of Clal Insurance, or in the event that he observes real and near concern regarding Clal Insurance's ability to meet its capital requirement.
With respect to Series K - The Commissioner orders the deferral of the interest and/or principal payment, if he believes that it would have an adverse effect on the solvency ratio, or that there is a near and present concern regarding the ability of Clal Insurance to fulfill the solvency capital requirement (as this term is defined in the economic solvency regime circular).

E. Principal and/or interest amounts which have been deferred, as stated above, will accrue linkage differentials, insofar as the original principal is linked, beginning from the date of the deferral until the date of actual payment, according to the known index on the actual payment date, as well as interest beginning from the date of the deferral until the actual payment date:

1. With respect to Series G, H, I, J and K - according to the interest rate specified in the terms of the liability certificates, on the date of the deferral.
2. With respect to Series C, according to the interest rate specified in the terms of the liability certificate on the date of the deferral, plus 50% of the original risk margin which was determined in the issuance, or the market interest rate (as defined in section 3.1.9.3 of the amended shelf prospectus which was published on July 12 and 13, 2010), according to whichever rate results in the higher amount.

Note 25: Financial Liabilities (Cont.)

B. Deferred liability notes (Cont.)

3. (Cont.)

H. Additional terms of the liability certificates

3. The Commissioner's position regarding "definition of recognized capital and required capital in hybrid equity instruments"

In light of the entry into effect of the economic solvency regime (see Note 16(e) above), in March 2018, the Capital Market Authority published a position according to which the appropriate interpretation for the terms "required capital" and "recognized capital", which exist in hybrid equity instruments which were issued by the insurance companies, with respect to suspending circumstances, will be as follows:

A. With respect to insurance companies which did not receive the Commissioner's approval regarding the performance of an audit on the adoption of the economic solvency regime, the terms "equity" and "solvency equity requirement" will be interpreted in accordance with the provisions of the accounting solvency regime circular.

B. With respect to insurance companies which received the Commissioner's approval for the performance of an audit on the implementation of the economic solvency regime, the term "required capital" (including similar terms) will be interpreted in accordance with the definition of the term "minimum capital requirement", in its upper limit (45% of SCR), and calculated without the provisions during the distribution period, and the term "equity" (including similar terms) will be interpreted in accordance with the definition of the term "equity" in the economic solvency regime.

In 2019, Clal Insurance received the Commissioner's approval regarding the audit of the economic solvency ratio report.
In light of the foregoing, the relevant provisions of the liability certificates which were issued, until the date of entry into effect of the economic solvency regime (C, G, H, I and J), will be interpreted in accordance with the aforementioned position paper.

I. In accordance with the amendment to the agreement between Clalbit Finance and Clal Insurance dated August 2019 (hereinafter: the "**Amendment to the Agreement**"):

1. The deposits which will be deposited in Clal Insurance out of the consideration from issuances of liability certificates and/or warrants for liability certificates (including from the exercise of such warrants), which will be issued after the amendment date of the agreement, and which will be considered as Tier 2 capital of Clal Insurance, and the undertaking of Clal Insurance to comply with the terms of the aforementioned liability certificates, will have the following status:

- The same status as Tier 2 subordinated capital, Tier 2 hybrid capital and Tier 3 hybrid capital instruments which were issued by Clal Insurance and/or Clalbit Finance until the date of the amendment to the agreement.
- An equal status to that of the components and instruments which will be included in the Tier 2 capital of Clal Insurance, which will be issued by Clal Insurance and/or Clalbit Finance, beginning from the date of the amendment to the agreement.
- A status higher than the components and instruments which will be included in the Tier 1 capital of Clal Insurance, which will be issued by Clal Insurance and/or Clalbit Finance.
- A status lower than the remaining liabilities of Clal Insurance towards its creditors.

Note 25: Financial Liabilities (Cont.)

B. Deferred liability notes (Cont.)

3. (Cont.)

I. In accordance with the prior amendment to the agreement between Clalbit Finance and Clal Insurance: (Cont.)

2. The deposits which were deposited in Clal Insurance out of the consideration from issuances of liability certificates which were recognized as Tier 2 hybrid capital of Clal Insurance, and the undertaking of Clal Insurance to comply with the terms of the aforementioned liability certificates, have the same status as the deferred liability notes which were issued by Clal Insurance and/or Clalbit Finance as Tier 2 subordinated capital, Tier 2 hybrid capital and Tier 3 hybrid capital; and a lower status than the remaining liabilities of Clal Insurance towards its creditors.

4. The balance of the liability certificates is after deducting issuance costs in the amount of NIS 20 million, which are amortized using the effective interest method.

5. Repayment dates

Presented below are the contractual repayment dates of the deferred liability notes: *)

	December 31	
NIS in thousands	**2019**	**2018**
First year	**18,815**	17,782
Second year **)	**214,672**	17,625
Third year	**466,312**	965,902
Fourth year	**363,452**	465,699
Fifth year and thereafter **)	**3,022,714**	1,742,807
Total	**4,085,965**	3,209,815

*) Assuming early redemption, see section B(5)(f)(1) above.

**) For details regarding the early redemption of Series C and the issuance of Series K, see section B(3)g above.

Note 25: Financial Liabilities (Cont.)

6. Movement in liabilities from financing activities

	Liability certificates	Loans	Total liability certificates	Interest payable with respect to deferred liability notes and loans	Total
Balance as of January 1, 2018	3,130,426	111,938	3,242,364	37,618	3,279,982
Changes due to cash flows from financing activities					
Repayment of deferred liability notes	(50,899)	-	(50,899)	-	(50,899)
Interest paid	-	-	-	(115,981)	(115,981)
Total cash from financing activities	(50,899)	-	(50,899)	(115,981)	(166,880)
Effect of changes in index	14,278	-	14,278	-	14,278
Changes to the effective interest rate	4,072	-	4,072	114,203	118,275
Balance as of December 31, 2018	**3,097,877**	**111,938**	**3,209,815**	**35,840**	**3,245,655**
Changes due to cash flows from financing activities					
Consideration from issue of deferred liability notes	**1,654,968**	**-**	**1,654,968**	**5,253**	**1,660,221**
Repayment of deferred liability notes	**(776,192)**	**-**	**(776,192)**	**(11,180)**	**(787,372)**
Issuance costs	**(12,359)**	**-**	**(12,359)**	**-**	**(12,359)**
Interest paid	**-**	**-**	**-**	**(113,682)**	**(113,682)**
Total cash from financing activities	**866,417**	**-**	**866,417**	**(119,609)**	**746,808**
Effect of changes in index	**5,185**	**-**	**5,185**	**-**	**5,185**
Changes to the effective interest rate	**4,548**	**-**	**4,548**	**118,983**	**123,531**
Balance as of December 31, 2019	**3,974,027**	**111,938**	**4,085,965**	**35,214**	**4,121,179**

C. Shelf prospectus of the Company and of Clalbit Finance

On August 29, 2019, the Company published a shelf prospectus. The shelf prospectus allows the Company, inter alia, to issue ordinary Company shares, preferred shares, bonds (including by way of extension of existing series of the Company's bonds, insofar as any have been issued), bonds convertible into Company shares, warrants exercisable into Company shares, warrants exercisable into bonds, bonds convertible into Company shares, marketable securities, and any other security which by law may be issued by virtue of a shelf prospectus on the relevant date.

Additionally, on August 29, 2019, Clalbit Finance published a shelf prospectus. The shelf prospectus allows Clalbit Finance, inter alia, to issue bonds (including by way of extension of existing series of bonds of Clalbit Finance, insofar as any will be issued), warrants exercisable into bonds, and marketable securities. In general, the consideration for the bonds which will be issued by Clalbit Finance by virtue of the shelf prospectus will be deposited in Clal Insurance, which will be responsible for their repayment towards the bondholders, and which will be recognized by Clal Insurance as Tier 2 capital.

Note 25: Financial Liabilities (Cont.)

D. Rating

Presented below are details regarding the ratings of the Company and the Group's member companies, as well as liability certificates which were issued by them, as of the publication date of the report, and changes during the reporting period:

Rating company	Company name	Rating		Outlook	Date of last update	Date of last ratification
Maalot	Clal Insurance	(IFS) 1)	(AA+)	Negative	Sep 19 2)	Sep 19
		Debt rating for deferred liability notes	(AA)	Negative		
		Debt rating (Tier 2 hybrid capital)	(AA-)	Negative		
Midroog	Clal Insurance	(IFS) 1)	Aa1(hyb)	Stable	Jul 14	Dec 19 3)
		Debt rating - Tier 2 subordinated liability certificates	Aa2(hyb)	Stable		Sep 19 3)
		Debt rating - liability certificates under Tier 2 hybrid capital	Aa3(hyb)	Stable		Dec 19 3)
Moody's international rating company	Clal Credit Insurance	(IFSR)	A3	Negative	Mar 20 4)	Mar 20

1) Financial stability rating of an insurer.
2) In September 2019, Midroog left unchanged the ratings presented in the above table, and changed the rating outlook to negative.
3) In November 2018, and in September and November 2019, Midroog left unchanged the ratings presented in the above table.
4) Clal Credit Insurance is rated (IFSR) A3, stable outlook, by the international rating company Moody's. In March 2020, the international company's rating became public. On March 25, 2020, in light of the developments due to the coronavirus outbreak in Israel and around the world, as stated in Note 1 to the financial statements, Moody's notified the Company that the rating would remain as is, with a negative outlook.

E. Fair value of liabilities with respect to derivative financial instruments and short sales

1) Fair value measurement

The fair value of the financial liabilities was determined with reference to their quoted closing asking price, as of the reporting date. In the event that no quoted price exists, the fair value is measured using a valuation technique which includes the discounted future cash flow method with respect to the principal and interest components, which are discounted using market interest rates for similar liabilities as of the calculation date, which are determined by a company supplying interest rate quotes. For additional details, see Note 14(f).

Note 25: Financial Liabilities (Cont.)

2) Fair value hierarchy

The following table presents the financial liabilities distributed by levels in the fair value hierarchy. For details regarding the levels of the hierarchy, see Note 2(e)(3) above.

	As of December 31, 2019		
NIS in thousands	**Level 1**	**Level 2**	**Total**
Derivatives and short sales	**11,104**	**137,614**	**148,718**

	As of December 31, 2018		
NIS in thousands	**Level 1**	**Level 2**	**Total**
Derivatives and short sales	27,386	306,498	333,884

F. Additional information regarding derivatives

Presented below is the total net exposure to the underlying asset, according to the delta terms of the transaction in derivative instruments made as of the dates of the financial statements by member companies in the Group which are insurance companies in Israel:

	As of December 31	
NIS in thousands	**2019**	**2018**
Stocks	**(33,253)**	(12,641)
CPI	**1,512,027**	1,488,341
Foreign currency	**91,370**	(2,238,701)
Goods	**(754)**	876
Fixed interest	**(115,867)**	(118,331)

Note 26: Other Accounts Payable

Composition

NIS in thousands	As of December 31 2019	2018
Employees and other wage and salary commitments	**176,933**	163,319
Expenses payable	**152,168**	186,210
Provisions with respect to legal claims [1]	**33,944**	51,488
Suppliers and service providers	**60,076**	49,178
Government institutions and authorities	**14,847**	11,550
Reinsurers' share in deferred acquisition costs	**89,797**	91,977
Insurance companies and insurance mediators:		
Deposits of reinsurers	**1,228,866**	1,161,460
Other accounts	**255,263**	189,826
Total insurance companies	**1,484,129**	1,351,286
Insurance agents	**453,418**	440,307
Policyholders and members	**459,469**	379,892
Provision for profit sharing of policyholders	**47,458**	45,723
Interest payable with respect to deferred liability notes	**35,213**	35,843
Prepaid premiums	**65,802**	67,815
Payables with respect to collateral for non-marketable futures contracts	**145,464**	-
Payables with respect to acquisition of securities	**28,384**	95,135
Investee companies accounted by the equity method	**12,286**	16,080
Other payables	**9,765**	14,362
Total other accounts payable	**3,269,153**	3,000,165

1) Movement in the provisions with respect to legal claims

NIS in thousands	For the year ended December 31 2019	2018
Balance as of January 1	**51,488**	39,031
Provisions realized during the year	**(18,979)**	(6,788)
Provisions created during the year	**1,435**	19,245
Balance as of December 31	**33,944**	51,488

Note 27: Leases

A. Leases in which the Group is the lessee

The Group has adopted IFRS 16, Leases, since January 1, 2019.

1. Disclosure regarding right-of-use assets

NIS in thousands	Buildings	Sites	Vehicles	Total
Cost				
Impact of the initial adoption as of January 1, 2019	**517,662**	**23,141**	**27,003**	**567,806**
Additions to right-of-use assets with respect to leases new leases during the period	**-**	**-**	**24,366**	**24,366**
Updates to right-of-use assets with respect to linkage to the index	**1,638**	**66**	**104**	**1,808**
Write-offs	**-**	**-**	**(4,977)**	**(4,977)**
Balance as of December 31, 2019	**519,300**	**23,207**	**46,496**	**589,003**
Accumulated depreciation				
Balance as of January 1, 2019	**-**	**-**	**-**	**-**
Amortization for the period	**30,838**	**2,004**	**19,238**	**52,080**
Write-offs from right-of-use assets	**-**	**-**	**(4,777)**	**(4,777)**
Balance as of December 31, 2019	**30,838**	**2,004**	**14,461**	**47,303**
Balance of amortized cost as of December 31, 2019	**488,462**	**21,203**	**32,035**	**541,700**

2. Disclosure regarding lease liabilities

NIS in thousands	Buildings	Sites	Vehicles	Total
Impact of the initial adoption as of January 1, 2019	**560,690**	**25,170**	**27,003**	**612,863**
Additions to new lease liabilities during the period	**-**	**-**	**24,366**	**24,366**
Updates to lease liabilities with respect to linkage to the index	**1,638**	**66**	**104**	**1,808**
Financing expenses	**18,546**	**730**	**498**	**19,774**
Payment of lease liability	**(45,145)**	**(2,439)**	**(19,889)**	**(67,473)**
Write-offs of lease liabilities	**-**	**-**	**(75)**	**(75)**
Balance as of December 31, 2019	**535,729**	**23,527**	**32,007**	**591,263**

Analysis of lease liability repayment dates

NIS in thousands	As of December 31, 2019
Up to one year	**21,127**
One to five years	**113,705**
Over five years	**456,431**
Total	**591,263**

B. Leases in which the Group is the lessor

The Group leases several commercial buildings and office buildings (which are classified as investment property) to external entities. The leasing agreements are for varying periods (up to approximately 38 years), and are non-terminable, in consideration of the lessees' options to renew the contracts at the end of the period.

The following are the minimum lease payments which are expected to be received with respect to lease agreements, including with respect to the optional contract renewal periods, whose disposal was considered likely as of the date of engagement in the agreement:

	As of December 31	
NIS in thousands	2019	2018
Up to one year	**267,638**	272,493
One year to five years	**891,621**	944,668
Over five years	**2,033,553**	2,085,774
Total	**3,192,812**	3,302,935
Of which, receivable future minimum lease payments attributed to properties in which the Company is the lessee under a finance lease	**916,583**	719,680

For additional information regarding leasing agreements in connection with investment property, see Note 10.

Note 28: Premiums Earned

NIS in thousands	For the year ended December 31, 2019 Gross	Reinsurance **)	Retention
Premiums in life insurance	**5,985,992**	**136,355**	**5,849,637**
Premiums in health insurance	**1,329,494**	**63,674**	**1,265,820**
Premiums in non-life insurance	**2,364,964**	**1,134,416**	**1,230,548**
Total premiums	**9,680,450**	**1,334,445**	**8,346,005**
Change in unearned premium balance and other changes *)	**(14,334)**	**(69,560)**	**55,226**
Total premiums earned	**9,666,116**	**1,264,885**	**8,401,231**

NIS in thousands	For the year ended December 31, 2018 Gross	Reinsurance	Retention
Premiums in life insurance	5,846,695	135,807	5,710,888
Premiums in health insurance	2,107,775	300,418	1,807,357
Premiums in non-life insurance	2,351,378	1,012,460	1,338,918
Total premiums	10,305,848	1,448,685	8,857,163
Change in unearned premium balance and other changes *)	(30,830)	(68,652)	37,822
Total premiums earned	10,275,018	1,380,033	8,894,985

NIS in thousands	For the year ended December 31, 2017 Gross	Reinsurance	Retention
Premiums in life insurance	5,534,503	168,245	5,366,258
Premiums in health insurance	1,917,128	262,060	1,655,068
Premiums in non-life insurance	2,298,967	861,479	1,437,488
Total premiums	9,750,598	1,291,784	8,458,814
Change in unearned premium balance and other changes *)	(21,395)	(101,503)	80,108
Total premiums earned	9,729,203	1,190,281	8,538,922

*) For details regarding changes in unearned premiums in non-life insurance, see Note 19.
There are also changes which are due to a deduction with respect to amounts deposited in the Company within the framework of a defined benefit plan for the Group’s employees.

**) The increase in reinsurance premiums in non-life insurance was mostly due to the new reinsurance agreement in the motor property branch.

Note 29: Income (loss) from Investments, Net, and Financing Income

	For the year ended December 31		
NIS in thousands	**2019**	**2018**	**2017**
Income (loss) from assets held against investment-linked liabilities			
Investment property	**166,924**	229,522	198,179
Financial investments			
Marketable debt assets	**1,944,680**	79,638	928,205
Non-marketable debt assets	**561,856**	(5,463)	312,905
Stocks	**4,303,542**	(152,354)	1,060,307
Other	**733,771**	(441,251)	2,267,035
Cash and cash equivalents	**(7,053)**	33,446	(63,639)
Other	**(18,771)**	(10,741)	(52,932)
Total income (loss) from assets held against investment-linked liabilities, net	**7,684,949**	(267,203)	4,650,060
Income from assets held against non-investment-linked liabilities, capital and others			
Income from investment property			
Revaluation of investment property	**5,464**	6,238	36,583
Current income with respect to investment property	**58,877**	78,165	69,363
Total income from investment property	**64,341**	84,403	105,946
Income (loss) from financial investments, excluding interest, linkage differentials, foreign currency differences and dividends with respect to:			
Available for sale assets (a)	**562,196**	199,637	175,683
Assets presented at fair value through profit or loss (b)	**202,327**	(278,412)	172,859
Assets presented as loans and receivables (c)	**1,095**	502	(6,046)
Total	**765,618**	(78,273)	342,496
Interest income[1] and linkage differentials from financial assets not at fair value through profit and loss	**1,138,688**	1,388,355	1,139,908
Interest income and linkage differentials from financial assets at fair value through profit and loss	**7,436**	8,534	1,848
Profit (loss) from foreign currency differences with respect to investments which are not measured at fair value through profit or loss and from other assets [2]	**(36,208)**	40,868	(47,627)
Income from dividends	**55,645**	68,185	41,917
Total income from investments, net, and financing income	**9,680,469**	1,244,869	6,234,548
1) The aforementioned income includes interest with respect to impaired financial assets which are not measured at fair value through profit or loss	**2,960**	2,005	4,553

2) For details regarding foreign currency differences with respect to financial liabilities, see Note 37.

Note 29: Income (Loss) from Investments, Net, and Financing Income (Cont.)

A. Net profits from investments with respect to available for sale financial assets

NIS in thousands	For the year ended December 31 2019	2018	2017
Net profit from realized securities	**616,044**	287,850	245,190
Net impairment charged to profit and loss	**(53,848)**	(88,213)	(69,507)
Total income from investments with respect to available for sale financial assets	**562,196**	199,637	175,683

B. Income (loss) from investments with respect to assets presented at fair value through profit and loss

NIS in thousands	For the year ended December 31 2019	2018	2017
Net changes in fair value, including profit from disposal			
With respect to assets designated upon initial recognition	**(2,492)**	(399)	(1,920)
With respect to assets held for trading	**204,819**	(278,013)	174,779
Total income (loss) from investments with respect to assets presented at fair value through profit and loss	**202,327**	(278,412)	172,859

C. Income (loss) from investments with respect to assets presented as loans and receivables

NIS in thousands	For the year ended December 31 2019	2018	2017
Income (loss) from disposal of assets presented as loans and receivables	**1,971**	1,653	(6,389)
Reversal of impairment (impairment) charged to profit and loss	**(876)**	(1,151)	343
Total gains from investments with respect to assets presented as loans and receivables	**1,095**	502	(6,046)

Note 30: Income from Management Fees

NIS in thousands	For the year ended December 31 2019	2018	2017
Management fees in the pension and provident fund branches	**458,428**	448,086	466,448
Variable management fees with respect to life insurance contracts *)	**485,403**	2,995	351,977
Fixed management fees with respect to life insurance contracts	**445,413**	414,082	387,098
Management fees with respect to investment contracts	**20,733**	19,034	20,960
Total income from management fees	**1,409,977**	884,197	1,226,483

*) For details regarding the method used to calculate variable management fees, see Note 3(n)(3)(a). As of December 31, 2018, a deficit materialized for the Company in the collection of variable management fees, in the amount of approximately NIS 87 million. The aforementioned deficit was covered, in its entirety, in 2019. For details regarding developments after the reporting date, see Note 43(k).

Note 31: Income from Commissions

NIS in thousands	For the year ended December 31 2019	2018	2017
Insurance agency commissions	**53,076**	52,761	61,475
Reinsurance commissions, less change in deferred acquisition costs with respect to reinsurance	**230,842**	238,585	205,638
Total income from commissions	**283,918**	291,346	267,113

Note 32: Other Income

NIS in thousands	For the year ended December 31 2019	2018	2017
Capital gains from the sale of assets	**-**	-	1,393
Profit from disposal of investments in investee companies and other companies	**-**	-	2,081
Others	**49**	75	84
Total other income	**49**	75	3,558

Note 33: Payments and Changes in Liabilities with Respect to Insurance Contracts and Investment Contracts on Retention

	For the year ended December 31		
NIS in thousands	2019	2018	2017
Total payments and change in liabilities on retention with respect to insurance contracts and investment contracts in long term savings			
With respect to life insurance contracts:			
Paid and outstanding claims			
Death, disability and other events	**732,544**	748,097	718,376
Less reinsurance	**(88,601)**	(119,334)	(101,320)
	643,943	628,763	617,056
Redeemed policies	**2,735,270**	2,288,894	2,131,165
Expired policies *)	**226,585**	14,883	323,369
Retirement	**503,949**	414,656	331,866
Claim settlement costs	**55,453**	16,666	16,369
Total claims	**4,165,200**	3,363,862	3,419,825
Increase in liabilities with respect to life insurance contracts (excluding changes in contingencies) on retention	**10,501,514**	2,386,892	6,707,622
Increase in liabilities with respect to life insurance investment contracts due to the yield component	**217,270**	(18,666)	114,449
Increase in liabilities with respect to a contract for the management of a guaranteed return provident fund	**134,356**	152,437	131,475
Total payments and change in liabilities on retention with respect to insurance contracts and investment contracts in long term savings	**15,018,340**	5,884,525	10,373,371
Total payments and change in liabilities with respect to non-life insurance contracts			
Gross	**1,901,903**	1,562,129	1,874,324
Reinsurance	**(977,421)**	(553,777)	(703,535)
On retention	**924,482**	1,008,352	1,170,789
Total payments and change in liabilities with respect to health insurance contracts			
Gross	**1,726,812**	1,822,451	1,654,538
Reinsurance	**(221,401)**	(471,418)	(293,904)
On retention	**1,505,411**	1,351,033	1,360,634
Total payments and change in liabilities with respect to insurance contracts and investment contracts on retention	**17,448,233**	8,243,910	12,904,794

*) In 2018, the decrease was due to the reclassification of policies from the item for payables to the item for liabilities with respect to insurance contracts. The aforementioned classification had no effect on the segment's results, or on the Company's results.

Note 34 - Commissions, Marketing Expenses and Other Acquisition Costs

	For the year ended December 31		
NIS in thousands	2019	2018	2017
Acquisition costs:			
Acquisition fees	**700,950**	710,163	665,562
Other acquisition costs	**531,188**	468,754	473,578
Change in deferred acquisition costs	**(47,665)**	(28,965)	(21,210)
Total acquisition costs	**1,184,473**	1,149,952	1,117,930
Other current fees	**617,258**	641,415	631,271
Other marketing expenses	**198,372**	228,698	207,351
Total commissions, marketing expenses and other acquisition costs	**2,000,103**	2,020,065	1,956,552

Note 35: General and Administrative Expenses

NIS in thousands	For the year ended December 31 2019	2018	2017
Payroll and associated expenses [2) 4)]	**1,059,275**	1,024,900	1,006,311
Depreciation and amortization [4)]	**318,365**	253,197	255,975
Office maintenance and telecommunication [4)]	**82,288**	136,647	128,946
Marketing and advertising	**53,004**	23,961	13,025
Legal and professional consulting	**39,377**	37,535	32,848
Operating expenses of provident funds in banks	**9,509**	12,725	14,602
Others [3)]	**226,911**	251,471	238,234
Total [1)]	**1,788,729**	1,740,436	1,689,941
Less:			
Amounts classified under the item for liabilities and payments with respect to insurance contracts	**167,914**	132,754	136,951
Amounts classified under the item for commissions, marketing expenses and other acquisition costs	**729,560**	697,452	680,929
General and administrative expenses	**891,255**	910,230	872,061
1) General and administrative expenses include expenses with respect to automation in the amount of	**452,822**	422,994	426,271

2. For additional details regarding payroll expenses and associated expenses, including share-based payments, see Note 41. For additional details regarding provisions with respect to employee benefits, including bonuses with respect to the fulfillment of targets and the implications of a collective agreement, see Note 24(d).
3. The amount was primarily due to automation expenses which are not depreciation and amortization.
4. See Note 3(s)(1) for details regarding the initial adoption of IFRS 16, Leases. For additional details, see Note 27.

Note 36: Other Expenses

NIS in thousands	For the year ended December 31 2019	2018	2017
Amortization of intangible assets (Note 6)	**4,036**	4,570	5,454
Provision (update to provision) for claims and financial sanctions	**(515)**	4,800	15,068
Onerous contract *	**2,038**	**(154)**	3,103
Clearing fees	**3,678**	1,365	-
Others	**392**	116	148
Total other expenses	**9,629**	10,697	23,773

*) Provision with respect to onerous contracts for rent which the Group is obligated to pay.

Note 37: Financing Expenses

NIS in thousands	For the year ended December 31 2019	2018	2017
Interest expenses and linkage differentials with respect to deferred liability notes	**127,581**	131,552	123,539
Prepayment penalty [1)]	**65,150**	-	-
Liabilities to banks	**-**	-	1,055
Interest expenses to reinsurers	**29,532**	17,355	18,477
Exchange differences, net, with respect to liabilities [2) 3)]	**(6,737)**	8,270	(9,226)
Financing expenses with respect to leases [4)]	**19,774**	-	-
Commissions and other financing costs	**988**	754	610
Total financing expenses	**236,288**	157,931	134,455

1) See Note 25 above.
2) Primarily due to foreign currency differences with respect to the settling of accounts vis-à-vis reinsurers.
3) For details regarding foreign currency differences with respect to financial investments, see Note 29 above.
4) See Note 27 above.

Note 38: Earnings Per Share

A. Earnings attributable to holders of ordinary shares of the Company (basic and diluted)

NIS in thousands	For the year ended December 31 2019	2018	2017
Earnings (loss) attributed to holders of ordinary shares	**(556,916)**	(91,445)	203,096

B. Weighted average of the number of ordinary shares (basic)

	For the year ended December 31 2019	2018	2017
	Shares with a par value of NIS 1 each		
Balance as of January 1	**55,578,867**	55,563,497	55,412,244
Impact of shares which were issued during the year	**464,077**	-	-
Impact of warrants exercised into shares	**-**	13,808	34,506
Weighted average of the number of ordinary shares used to calculate basic earnings (loss) per share	**56,042,944**	55,577,305	55,446,750

C. Weighted average of the number of ordinary shares (diluted) 1)

	For the year ended December 31 2019	2018	2017
	Shares with a par value of NIS 1 each		
Weighted average of the number of ordinary shares used to calculate basic earnings per share	**56,042,944**	55,577,305	55,446,750
Impact of share warrants	**-**	-	171,401
Weighted average of the number of ordinary shares used to calculate diluted earnings (loss) per share	**56,042,944**	55,577,305	55,618,151

1) The average market value of the Company's stock, for the purpose of calculating the dilutive effect of warrants based on quoted market prices for the period when the warrants were outstanding.

For details regarding a share issuance by the Company, see Note 16.

Note 39: Risk Management

A. General

The Group's activities expose it to the following primary risks: market risks, liquidity risks, insurance risks, credit risks and operational risks.

This note provides information with regard to the Group's exposure to these risks, and regarding the Group's goals, policies and procedures with regard to the measurement and management of each risk. An additional quantitative disclosure was included throughout the entire financial statements.

A1. Description of procedures and methods for the management, measurement and control of risks

The main risks to which the Company is exposed include risks which are associated with insurance operations (see section A2 below). The main principles of the financial risk management policy are determined by the appropriate organs of each of the Group's member companies, which convene from time to time. The Board of Directors receives ongoing reports and updates, and periodically holds discussions with respect to these exposures.

The risk management unit in the Group is responsible for risk management in the institutional entities in the Group, and periodically concentrates the Group's financial exposures.

The Group periodically convenes professional forums led by the CEO, which include discussions, inter alia, regarding risk aspects in the Group's operating segments.

The Company invests its liquid balances in short term, low risk investments.

For subsidiaries that invest in financial assets, a specific investment policy is determined that is relevant to the nature and activities of each subsidiary. This policy was determined and is supervised by the subsidiary's Board of Directors.

The Company is subject to a minimum capital requirement by virtue of the permit for control of Clal Insurance, which was issued to it by the Commissioner (for details, see Note 16(e)(3)). For details regarding the changes in the control of the Company, and the implications thereof on the control permits, see Note 1 above. The Board of Directors evaluates, from time to time, the capital cushion which is required beyond the above minimum capital requirements, with respect to unexpected developments which may occur in capital and in the capital requirements, as a result of changes in the central risk factors to which the Group is exposed.

Note 39: Risk Management (Cont.)

A. General (Cont.)

A2. Description of management processes and methods, and measurement of risks in the consolidated insurance companies

The risk management policy of the consolidated insurance companies in Israel, and of the investee companies held by them (hereinafter: "**Clal Insurance Group**"), which was approved by the boards of directors, is intended to ensure controlled exposure to the risks to which Clal Insurance Group is exposed, while meeting Clal Insurance Group's regulatory requirements, and maintaining its business goals and financial stability.

Risk management in the Clal Insurance Group is based on three "lines of defense":

- The business entities which are responsible for the identification, assessment, monitoring, mitigation and reporting of risks inherent in products, activities, processes and systems which are subject to their responsibility and control. This responsibility includes, inter alia the definition of processes, internal policies and decision making. The business entities enlist the assistance of supportive departments, including the actuarial, comptrollership, regulatory and legal consulting, reinsurance and information system departments.
- The risk management, control and enforcement unit supplements the risk management activities of the business entities, and is responsible for formulating the framework for risk management in the Group, for developing tools and methods of risk assessment, and for assessing the total risk to which it is exposed. The risk management unit is independently engaged in the formulation of recommendations to management and Board of Directors regarding the overall risk level and capital adequacy, for the analysis and reporting of the risk exposure level, for the approval of products, analysis of business engagements which are material terms of risk, and for the implementation of the Commissioner's directives regarding risk management. As an important part of its function, the risk management unit challenges the identification and assessment of risks associated with the business entities, and the actions taken by them to address the risk, and helps to reinforce the ability of business entities to identify, assess, manage and control risks. The risk management unit works in cooperation with the actuarial division, the comptrollership division and the SOX division, which also constitute a part of the second line of defense.
- The internal audit unit, which uses independent means to audit and challenge the internal processes, controls and systems which are used, inter alia, for risk management, and follows up on the correction of deficiencies which it identified.

Clal Insurance Group endeavors to implement a framework for enterprise risk management, with the aim of creating risk awareness in all of its activities, creating the ability to asses various risks, implementing risk measurement in business processes, and adjusting the total exposure to the Group's ability to bear risks over time. This includes taking actions towards building an automational and procedural infrastructure, in order to address the risks to which Clal Insurance Group is exposed, as well as the identification, mapping, assessment and quantification of material financial and insurance risks to the rights of members and policyholders and to the stability of the institutional entities in the Group, and evaluating the controls which are in place for these risks, across the entire scope of activities performed by Clal Insurance Group, and while continuously improving the tools available to quantify the various risks.

As part of the implementation of the provisions of the Solvency II-based economic solvency regime (see Note 16(e)), Clal Insurance Group estimates the economic equity which is required for its operations, in accordance with these provisions. As part of risk management, the Company is working to control and assess significant business operations also in terms of capital aspects and the integration of economic equity considerations into decision making processes.

Clal Insurance is evaluating its capital adequacy in relation to overall risk, including with respect to the impact of changes in risk factors on its capital adequacy from an accounting perspective. This evaluation is performed based on risk factor scenarios, and on assessments made regarding the correlations existing between them, and provides Clal Insurance with an indication regarding capital adequacy relative to risks. The Board of Directors of Clal Insurance determined the capital target of Clal Insurance based on these analyses (for additional details, see Note 16(d)).

The boards of directors in the Clal Insurance Group established policies with regard to risk exposure, measurement methods used in this regard, restrictions for various risks, and control and reporting methods used for these risks, while monitoring the fulfillment of the established restrictions by means of the reports submitted to them. The Board of Directors of Clal Insurance appointed a Risk Management and Information Technology Committee in order to deepen the control over these areas. The routine monitoring and control of investment management is performed by separate Investment Committees for the nostro funds, monies managed in pension funds and provident funds, and investment-linked policies.

Processes and methods for the management and measurement of various risks:

1. Market and liquidity risks

The market risks in the managed portfolios of the Clal Insurance Group are managed by Canaf, the investment company of the Clal Insurance Group, under the supervision of separate Investment Committees for the various portfolios.

The Clal Insurance Group operates with respect to its investments in accordance with legal provisions and the investment policies, credit policies and risk policies set forth by the boards of directors, including in accordance with the restrictions set forth by them.

The financial risks are mitigated by maintaining distribution between investment channels, branches, issuers, and between assets in Israel and assets abroad, evaluating and analyzing the stability of the entities to which Clal Insurance Group is exposed, and their solvency prior to performance of the investment and during the investment's lifetime, evaluating the profile of the assets relative to the profile of the liabilities against which they are held, including in terms of liquidity and compliance with the exposure restrictions regarding credit risks and market risks, as determined by the boards of directors and the investment committees, from time to time.

Note 39: Risk Management (Cont.)

A. General (Cont.)

A2. Description of procedures and practices for the management and measurement of risks in the consolidated insurance companies (Cont.)

Processes and methods for the management and measurement of various risks: (Cont.)

1. Market and liquidity risks (Cont.)

The Investment Committees and boards of directors monitor the exposure to the various investment channels, as well as the results of scenarios, sensitivity tests and other risk indicators, in order to ensure that the exposure to market risks corresponds to the risk appetite of Clal Insurance Group. The calculation and analysis of risk indices is performed by the risk management unit using a designated system. Information regarding the risk indicators and exposures, relative to the established restrictions, is presented to the Investment Committees and boards of directors on an ongoing basis, and supports the decision making and investment management processes.

These periodic analyses constitute a control tool with regard to the market risks of Clal Insurance Group's asset portfolios. In parallel, routine monitoring is conducted by the investment control unit of Canaf, which manages the investments in terms of the fulfillment of the investment regulations and investment and credit policies in place for the various investment portfolios and operational controls with respect to the activity.

For details regarding the exposure to market risks, see section C below. For details regarding the exposure to liquidity risks, see section D below.

2. Insurance risks

The insurance risks are managed subject to the risk policy approved by the Board of Directors, by the business managers of the various insurance areas, inter alia, by determining guidelines for underwriting, receipt of business and hierarchies, as well as by transferring risks to reinsurers within the framework of contracts, or through facultative insurance, according to the retention policy approved by the Board of Directors.

The insurance risks are mitigated by distributing the insurance contracts, and are also reduced by selecting and implementing underwriting strategies and creating distribution by branches, geographical areas, risk types, coverage limits, etc.

As part of the process of launching new products, and before engaging in material transactions, a comprehensive process of identifying and evaluating the risks associated with the product or the transaction takes place, and the methods used to manage and monitor them are determined. In the event that a concern has arisen regarding a deterioration in the underwriting results which is not due to random fluctuations, in-depth tests are conducted, inter alia, to assess the embodied risk, and if necessary, the assessment of insurance liabilities is updated accordingly, and the underwriting policy is evaluated.

Additionally, in order to reduce the exposure to risks, Clal Insurance implements a stringent evaluation policy for claims, including ongoing evaluation of claims handling processes, and conducts investigations in order to identify cases of embezzlement and fraud. Clal Insurance also employs an active management policy for ongoing claims, in order to reduce the exposure to unexpected developments which may adversely affect it.

Clal Insurance Group employs a policy of limiting the exposure to catastrophic risks by stipulating maximum coverage amounts in certain contracts, and also by acquiring appropriate reinsurance coverage. One of the purposes of the underwriting policy and reinsurance policy is to restrict the exposure to catastrophes to a predetermined maximum loss amount, with reference to a given probability, based on models and/or studies, and in accordance with the risk appetite of the Clal Insurance Group, as determined by the Board of Directors.

The overall quantitative estimate 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 factors between them. The Group works to perform internal estimates based on the same methodology, and using various parameters, as needed.

Note 39: Risk Management (Cont.)

A. General (Cont.)

A2. Description of procedures and practices for the management and measurement of risks in the consolidated insurance companies (Cont.)

Processes and methods for the management and measurement of various risks: (Cont.)

2. Insurance risks (Cont.)

The actuarial department conduct studies, exposure analyses, and periodic evaluations of risk factors, including profitability tests for the operation branches, for specific products and for collective businesses, mortality and morbidity studies, deficiency reserves and exposure to earthquakes. These analyses serve both as the basis for risk assessment, while using statistical indicators and sensitivity tests, in collaboration with the risk management unit, and as part of the system used to control insurance activities.

The Clal Insurance Group uses an automated system to calculate the best estimate of insurance liabilities in life insurance, health insurance and pension, and non-life insurance, for profitability analysis and for the performance of sensitivity tests with respect to the primary risk factors in these areas. Within this framework, the profitability of new business sold throughout the year is also evaluated.
The estimated exposure of Clal Insurance Group to earthquake risk in Israel, which is the primary catastrophic event to which it is exposed, is performed using international models, and Clal Insurance acquires protection against this risk based on this estimate. The assessment of the exposure to other catastrophic risks is primarily performed by means of internal studies.

The risk estimates are brought for review on a periodic basis to the managements and boards of directors of the insurers in the Group.

For additional details regarding insurance risks, see section E below.

Note 39: Risk Management (Cont.)

A. General (Cont.)

A2. Description of procedures and practices for the management and measurement of risks in the consolidated insurance companies (Cont.)

Processes and methods for the management and measurement of various risks: (Cont.)

3. **Credit risks**

With regard to credit risks in the investment assets, Clal Insurance Group operates in the various credit areas by means of specialized units. The boards of directors and Investment Committees of the Group's institutional entities have established a detailed credit policy which provide guidelines and restrictions regarding the credit types, credit ratings, exposure to market branches, geographical exposure, exposure to groups of borrowers and individual borrowers, to the various portfolios managed according to their characteristics, and according to the regulations which are applicable to them. This operation is supported by a procedural, organizational and automational infrastructure which is used to estimate the credit risks and to monitor and handle activities for early identification of problematic debts. A credit approval hierarchy was established in the institutional entities, in addition to ongoing reports which are submitted to senior management, to the Investment Committees, to credit committees and to the boards of directors, regarding credit exposures in the portfolios.

The work procedures include, inter alia, tests and analyses which are performed upon provision of credit, and routine monitoring of the composition and quality of the credit exposures, including by means of automated systems which track the exposures by various cross-sections, and against the restrictions which have been established, on the level of the individual portfolio, of the Group's various member companies, and of the Clal Insurance Group. Before engaging in material transactions, a comprehensive process of risk identification and assessment takes place, inter alia, with the participation of the risk management unit.

For the assessment of credit risks in certain transactions, the Clal Insurance Group also used an internal rating model which was developed by it and approved by the Commissioner.
Credit transactions in a scope exceeding the determined limit are presented for discussion and advance approval in the relevant credit committee and/or investment committee, as applicable, in accordance with the hierarchy of authorities which was determined for the approval of credit transactions.
Clal Insurance Group implements a routine process for the identification of sensitive and troubled debts, which is also evaluated by the risk management unit. The Group has a troubled debt forum, which includes a team of relevant senior position holders, which is responsible for ongoing evaluation of the debt position of institutional entities in the Group.
The investment control department in Canaf monitors the credit exposures with respect to investments performed by Canaf in the various portfolios, as well as their fulfillment of the credit policies determined for these portfolios. This monitoring is based on the individual exposure data for each borrower, including data pertaining to the group of borrowers, rating and branch classification. The control unit in Canaf applies operational controls to the credit activities as part of the activity of the organizational control unit.
In addition to the restrictions which were determined with respect to credit risk in investing activities, the Board of Directors of Clal Insurance determined restrictions with respect to the total exposure to counterparties in all of the Group's operations. The risk management unit evaluates the aggregation of the various exposures to counterparties which are due to all of the Group's activities, with the assistance of automated systems which allow monitoring of the exposures on the level of the single portfolio, on the level of the various companies in the Group, and on the level of the Clal Insurance Group, by various types of segmentation, and evaluates the fulfillment of the determined restrictions. Based on this information, the risk management unit evaluates and analyzes the exposure to counterparties, with reference to the quantitative data regarding the exposure, such as: portfolio distribution by branches and ratings, and concentration indicators which monitor changes in the portfolio's risk level.
For details regarding the exposure to credit risks, including the policy regarding exposure to reinsurers, see section F below.

Note 39: Risk Management (Cont.)

A. General (Cont.)

A2. Description of procedures and practices for the management and measurement of risks in the consolidated insurance companies (Cont.)

Processes and methods for the management and measurement of various risks: (Cont.)

4. **Operational risks**

The management and control of operational risks is implemented as part of the organizational work routine, under the responsibility of the business managers, and with the professional support of the risk management unit. The organizational system for the management and control of operational risks includes the following entities:

- The operational risks and control managers in the business units and their subordinate employees (hereinafter: "Controllers").
- The manager of the operational risks and control unit in the risk management unit, and his employees.
- The "regulatory bodies", which include designated bodies specializing in specific categories of operational risks, including the supervisor of enforcement, the SOX division, the cybersecurity protection and business continuity division, and the ombudsman.

The internal audit unit also performs audits in various operating segments, which also include identification of operational risks and estimation of exposure and the effectiveness of controls.

The controllers are subordinate to the managers of the business units. Their responsibilities include identifying operational exposures in their units, and working to reduce them, while handling the adequacy of processes, with reference to a variety of aspects, including preventing embezzlement and fraud, compliance with regulations and policies, compliance with procedure, and the adequacy of financial reporting. The controllers receive professional guidance, by means of a matrix, issued by the manager of the operational risks and control unit in the risk management unit, who, as part of his position, is responsible for issuing professional instructions to the controllers, coordinating between the regulatory bodies and the controllers, monitoring the findings, concentrating the overall picture, and reporting on it.

The quantitative estimate of the exposure to operational risks is also performed as part of the calculation of the solvency ratio in accordance with the provisions of the economic solvency regime.
The risk management policy which determined by the boards of directors in the Clal Insurance Group also addresses the management of operational risks. Additionally, a specific policy was determined for various categories of operational risks, including prevention of embezzlement and fraud, cybersecurity risks, business continuity, outsourcing and compliance, including with respect to the regulatory requirements on these subjects.

Note 39: Risk Management (Cont.)

A3. Control of risks

Clal Insurance Group considers effective control an important component of its risk management system.

As described extensively above, the Group operates an organizational monitoring unit. This unit is responsible for implementing control over the entire array of aspects involving the operations of the Clal Insurance Group, including control of risks of various types.

Additionally, the independent activity of the risk management unit, actuarial unit, comptrollership unit and SOX unit provides an additional layer of control over risks.

In particular, the risk management unit controls the overall exposure to risks in the activities of Clal Insurance Group, and implements controls of financial and insurance risks, including control of its fulfillment of the restrictions regarding market risks in the nostro activities of Clal Insurance Group, in restrictions on the exposure to reinsurers, and in restrictions on the exposure to counterparties, which were determined in the policy regarding risk management and monitoring of risks in members' portfolios. The risk management unit also assesses the quality of risk identification and assessment, with reference to certain transactions which are performed in Canaf.

The Company's Internal Auditor also conducts periodic reviews which are based, inter alia, on risk surveys.

B. Legal requirements for institutional entities

Institutional entities are legally obliged to appoint a chief risk officer, whose principal responsibilities are as follows:

- Ensuring the existence of high-quality processes to identify material insurance and financial risks inherent in assets which are held against savings of members and policyholders and in other assets of the insurance company, and inherent in the liabilities of the insurance company or pension fund, as applicable, which may materially affect the rights of members and policyholders, and the financial stability of the institutional entity.
- Quantification of exposure and estimation of the potential impact of the significant risks which were identified, in accordance with tools and criteria which will be defined by the insurer, and assessment of the methods used to manage the identified risks.
- Periodic reporting to the CEO, the Board of Directors, the Investment Committees and the credit committees regarding the risks.
- Addressing the risks which are inherent in new products, regulatory changes, entry into new investment segments and entry into transactions which, as determined by the Board of Directors, have the potential to significantly affect the business results of the institutional entity or the funds of its customers.

The Group appointed a risk manager who acts, inter alia, to implement the regulatory requirements in this area.

Note 39: Risk Management (Cont.)

B. Legal requirements for institutional entities (Cont.)

Various regulatory requirements regarding risk management apply to the institutional entities in the Group, of which the primary requirements include the following:

- The provisions of the consolidated circular regarding the appointment of a risk manager, as well as his authorities, functions and methods of activity.
- A requirement to establish of a risk exposure policy, exposure limits and procedures and tools for the measurement and control of risks.
- Provisions regarding the management, assessment and control of credit risks.
- Provisions regarding the management of exposure to reinsurers.
- Provisions regarding the handling of specific categories of operational risks: embezzlement and fraud, cybersecurity risks, outsourcing, compliance, prevention of money laundering and monitoring of financial reporting (SOX).

The Company is also subject to the provisions of the economic solvency regime (for additional details, see Note 16(e).

For details regarding legal requirements and capital management policies, see Notes 16(e).

C. Market Risks

Market risk is the risk that the reported value, fair value or future cash flows of financial assets, financial liabilities or insurance liabilities will change as a result of changes in market prices. Market risks include, inter alia, risks arising from changes in interest rates, stock prices, the CPI and foreign currency.

1. Investment-linked contracts

Most of Clal Insurance's investment-linked liabilities are liabilities with respect to contracts where the insurance benefits which the beneficiary is entitled to receive are contingent upon returns produced by certain investments of Clal Insurance, less management fees, as described below:

A. Regarding policies which were issued until 2004 - fixed management fees and variable management fees at a rate of 15% of real returns, after deducting fixed management fees.

B. Regarding policies which were issued in 2004 and thereafter - fixed management fees.

In general, with respect to those products, Clal Insurance is not directly exposed to market risks through their impact on the fair value of the investments. However, Clal Insurance is indirectly exposed to market risks through their potential impact on the variable management fees, in accordance with the volatility in returns charged to policyholders, only with regard to investment-linked policies issued until 2004, and on the total amount of the liability from which the fixed management fees of Clal Insurance are derived, with respect to all investment-linked products. Additionally, in certain conditions, exposure may be created for the Company to changes in the interest rates and in the margins which affect the discount rate which is used by the Company in the calculation of the liabilities, including the effect on the K factor and on the deferred pension liabilities (for details, see Note 39(e)). Additionally, with respect to those products, Clal Insurance has indirect exposure to changes in the consumer price index, which will affect the real returns that were achieved, and accordingly, on the variable management fees which will be collected.

In light of the above, the sensitivity tests and maturity dates of the liabilities specified in the following sections do not include investment-linked contracts, except through the effect of interest on the K factor and on the deferred pension liabilities with respect to those contracts.

The scope of liabilities in investment-linked contracts with respect to policies which were issued until 2004, as of December 31, 2019, amounts to approximately NIS 44.1 billion (last year - approximately NIS 39.2 billion). Any change of 1% in the scope of accrual affects fixed management fees in the amount of approximately NIS 3 million. Any change of 1% in the real returns in this portfolio affects the variable management fees in the amount of approximately USD 61 million.

For details regarding the management fees which were collected during the reporting period, see Notes 20 and 30.

Note 39: Risk Management (Cont.)

C. Market risks (Cont.)

2. Sensitivity tests to market risks

The following is a sensitivity analysis performed with regard to the impact on the change in variables on income for the period and on comprehensive income.

The sensitivity analysis was prepared in reference to the financial assets, financial liabilities and liabilities with respect to insurance contracts and investment contracts, with reference to the relevant risk variable as of each reporting date, and assuming that all other variables remain constant. Thus, for instance, the change in interest rate includes the assumption that all other parameters remain unchanged. The sensitivity analysis does not include, as stated above, the impact of investment-linked contracts, and particularly, does not take into account indirect effects for assets with respect to investment-linked liabilities, through their effect on the management fees which will be collected. It was also assumed that the above changes do not reflect impairment of assets presented at amortized cost, or of available for sale financial assets, and therefore, the above sensitivity analysis did not take into account impairment losses with respect to these assets. The sensitivity analysis only reflects direct impacts, without secondary impacts.

It should also be noted that the sensitivities are not necessarily linear, such that very large or small changes with regard to the changes described below are not necessarily a simple extrapolation of the impact of those changes.

	Interest rate		Investments in equity instruments		Rate of change in the consumer price index		Rate of change in foreign currency	
NIS in thousands	+1%	-1%	+10%	-10%	+1%	-1%	+10%	-10%
Profit and loss	**958,189**	**(1,048,161)**	**13,725**	**(12,499)**	**(20,595)**	**19,219**	**(127,869)**	**127,869**
Comprehensive income (equity)	**638,141**	**(660,885)**	**258,243**	**(257,017)**	**(20,595)**	**19,219**	**47,158**	**(47,158)**

	Interest rate		Investments in equity instruments		Rate of change in the consumer price index		Rate of change in foreign currency	
NIS in thousands	+1%	-1%	+10%	-10%	+1%	-1%	+10%	-10%
Profit and loss	279,381	(1,158,312)	9,785	(10,436)	(22,237)	19,296	(159,926)	159,926
Comprehensive income (equity)	58,389	(899,480)	280,604	(281,256)	(22,237)	19,296	47,518	(47,518)

1) The sensitivity analysis to interest changes reflects the impact of corresponding movement throughout the entire yield curve, and pertains both to fixed interest instruments, and to variable interest instruments. Relative to fixed interest instruments, the exposure is proportional to the instrument's book value. The exposure with regard to variable interest instruments is calculated in relation to the cash flow derived from the financial instrument.

   The sensitivity analyses are based on book values, rather than on economic value. Therefore, the sensitivity tests did not include taking into account, out of the assets and liabilities with direct interest rate risk and at fixed interest, the non-marketable debt assets, which are classified as loans and receivables (totaling approximately NIS 26 billion), cash and cash equivalents, reinsurance assets, liabilities with respect to insurance contracts and investment contracts, except as stated below, financial liabilities and reinsurance deposits and balances. Additionally, the rate of assets to which the interest sensitivity analysis was applied amounted to approximately 16% of total assets for non-investment-linked contracts. The rate of liabilities to which the sensitivity analysis was applied, out of the total liabilities with respect to non-investment-linked insurance contracts, amounted to approximately 0.3%.

   The sensitivity analysis includes the impact on the insurance liabilities, due to the low interest rate environment in which the Company has operated in recent years, which affects the amount of insurance liabilities. The impact of a 1% decrease on comprehensive income before tax is estimated as loss of approximately NIS 1,584 million (last year - loss of approximately NIS 1,773 million). The impact of a 1% increase on comprehensive income before tax is estimated as income of approximately NIS 1,447 million (last year - income of approximately NIS 434 million).

   For additional details regarding the strengthening of insurance reserves, in light of the low interest rate environment and its impact on the life insurances in life insurance during the reporting year, see section e(e1)(d) below. For additional details regarding the draft update to the LAT circular, the adoption of which is expected to have an impact on the sensitivity to interest rate changes, see Note 41(j) below.

2) Investments in instruments with no fixed flows, or alternatively, regarding which the Company does not have information regarding such flows, in accordance with the definition in IFRS 7, not including investments in investee companies accounted by the equity method.

3) One primary foreign currency is the US Dollar, as specified in the details regarding assets and liabilities, segmented by linkage bases, in section 4 below.

4) The sensitivity analyses performed with regard to comprehensive income also reflect the impact on income for the period.

5) The sensitivity analyses were performed with regard to income for the period after tax, and with regard to comprehensive income after tax.

6) The sensitivity tests to foreign currency, as presented above, include sensitivity with respect to non-monetary items denominated in foreign currency, in the amount of approximately NIS 2,766 million, with respect to an increase of 10% in foreign currency exchange rates, including income in the amount of approximately 25 million and comprehensive income in the amount of approximately NIS 157 million (2017: approximately NIS 32 million and approximately NIS 169 million, respectively). The primary currency in these instruments is the US Dollar.

Note 39: Risk Management (Cont.)

C. Market risks (Cont.)

3. Direct interest rate risk

Direct interest rate risk is the risk that a change in market interest will cause a change in the fair value or in the cash flow arising from an asset or liability. This risk relates to assets settled in cash. The addition of the word "direct" emphasizes the fact that the change in interest rate may also affect other asset types, though not directly, such as the impact of the change in interest rate on stock prices. It is emphasized that changes in fair value are not necessarily reflected in the book value of the financial instruments (see Note 3(f)).

The following are details regarding assets and liabilities by exposure to interest rate risk:

	As of December 31, 2019		
NIS in thousands	Non-investment-linked	Investment-linked	Total
Assets with direct interest rate risk			
Marketable debt assets	**5,935,408**	**26,869,855**	**32,805,263**
Non-marketable debt assets:			
HETZ bonds and deposits in treasury	**16,295,186**	**-**	**16,295,186**
Other	**6,174,672**	**6,558,458**	**12,733,130**
Other financial investments	**254,133**	**3,906,479**	**4,160,612**
Cash and cash equivalents	**2,558,717**	**6,554,645**	**9,113,362**
Reinsurance assets	**3,334,032**	**217,778**	**3,551,810**
Total assets with direct interest rate risk	**34,552,148**	**44,107,215**	**78,659,363**
Assets without direct interest rate risk *)	**10,461,259**	**28,706,391**	**39,167,650**
Total assets	**45,013,407**	**72,813,606**	**117,827,013**
Liabilities with direct interest rate risk			
Financial liabilities	**4,131,601**	**103,082**	**4,234,683**
Liabilities with respect to insurance contracts and investment contracts	**32,239,033**	**71,833,004**	**104,072,037**
Other	**1,331,903**	**200,141**	**1,532,044**
Total liabilities with direct interest rate risk *)	**37,702,537**	**72,136,227**	**109,838,764**
Liabilities without direct interest rate risk	**2,495,853**	**259,099**	**2,754,952**
Capital	**5,233,297**	**-**	**5,233,297**
Total capital and liabilities	**45,431,687**	**72,395,326**	**117,827,013**
Total assets, less liabilities	**4,815,017**	**418,280**	**5,233,297**
Off-balance sheet risk	**851,798**	**524,663**	**1,376,461**

*) Assets and liabilities without direct interest rate risk - Include stocks, property, plant and equipment and investment property, deferred acquisition costs and intangible assets, as well as balance-sheet groups of property, plant and equipment (other accounts receivable, outstanding premiums, and current balances of insurance companies) whose average lifetime is up to one year, and therefore the interest rate risk with respect to which is relatively low.

Notes:

1) Regarding non-investment-linked life insurance - the life insurance portfolio is primarily comprised of investment-linked policies, which are primarily backed by designated (HETZ) bonds issued by the Bank of Israel throughout the entire lifetime of the policy. The Company therefore has financial coverage which overlaps with the main financial liabilities, in terms of interest and linkage over the lifetime of the policies. As of December 31, 2019 and 2018, the designated bonds covered approximately 75% and approximately 75%, respectively, of all insurance liabilities in life insurance in these plans.
2) With respect to the remaining investments of Clal Insurance, as part of its life and health insurance activities, exposure exists to the interest rates which will be in force upon the refinancing of investments the lifetime of which may be shorter than the average lifetime of the insurance liabilities. With respect to these products, including with respect to ongoing payment claims in long-term care insurance and loss of working capacity insurance, the calculation of the insurance liabilities is based on the nominal interest rate in the policy, subject to an evaluation of the discount rate in some of the pension reserves and to a liability adequacy test (LAT) which is calculated based on the risk-free interest rate curve. For additional details regarding the discount rates of insurance liabilities, see section e(e1)(d) and e(e2)(4)(a) below.

Note 39: Risk Management (Cont.)

C. Market risks (Cont.)

3. Direct interest rate risk (Cont.)

	As of December 31, 2018		
NIS in thousands	Non-investment-linked	Investment-linked	Total
Assets with direct interest rate risk			
Marketable debt assets	5,231,862	26,681,982	31,913,844
Non-marketable debt assets:			
HETZ bonds and deposits in treasury	15,775,836	-	15,775,836
Other	6,214,507	6,236,989	12,451,496
Other financial investments	343,395	4,134,085	4,477,480
Cash and cash equivalents	1,298,286	3,648,899	4,947,185
Reinsurance assets	2,793,751	185,628	2,979,379
Total assets with direct interest rate risk	31,657,637	40,887,583	72,545,220
Assets without direct interest rate risk *)	10,213,741	25,233,665	35,447,406
Total assets	41,871,378	66,121,248	107,992,626
Liabilities with direct interest rate risk			
Financial liabilities	3,304,276	239,423	3,543,699
Liabilities with respect to insurance contracts and investment contracts	30,646,995	65,366,897	96,013,892
Other	1,024,097	169,270	1,193,367
Total liabilities with direct interest rate risk *)	34,975,368	65,775,590	100,750,958
Liabilities without direct interest rate risk	2,091,135	203,613	2,294,748
Capital	4,946,920	-	4,946,920
Total capital and liabilities	42,013,423	65,979,203	107,992,626
Total assets, less liabilities	4,804,875	142,045	4,946,920
Off-balance sheet risk	968,591	702,246	1,670,837

*) Assets and liabilities without direct interest rate risk - Including stocks, property, plant and equipment and investment property, deferred acquisition costs and intangible assets, as well as balance-sheet groups of financial assets (other accounts receivable, outstanding premiums, and current balances of insurance companies) whose average lifetime is up to one year, and therefore the interest rate risk with respect to which is relatively low.

Note 39: Risk Management (Cont.)

C. Market risks (Cont.)

4. Details regarding assets and liabilities, distributed by linkage bases

As of December 31, 2019:

	NIS		Foreign currency						
NIS in thousands	Unlinked	CPI-linked	USD	EUR	GBP	Other	Non-monetary items	Liabilities with respect to investment-linked contracts [1]	Total
Intangible assets	-	-	-	-	-	-	1,297,627	-	1,297,627
Deferred tax assets	-	-	-	-	-	-	9,953	-	9,953
Deferred acquisition costs	-	-	-	-	-	-	2,013,488	7,716	2,021,204
Property, plant and equipment	-	-	-	-	-	-	219,785	-	219,785
Right-of-use asset	-	-	-	-	-	-	541,700	-	541,700
Investments in investee companies accounted by the equity method	-	-	-	-	-	-	183,649	-	183,649
Investment property for investment-linked contracts	-	-	-	-	-	-	-	3,097,370	3,097,370
Other investment property	-	-	-	-	-	-	1,250,039	-	1,250,039
Reinsurance assets	7,789	3,321,870	3,936	437	-	-	-	217,778	3,551,810
Current tax assets	-	282,539	-	-	-	-	-	-	282,539
Other accounts receivable	131,699	237,853	4,361	1,081	-	-	36,488	387,304	798,786
Outstanding premiums	4,445	450,263	93,840	268	-	-	-	151,332	700,148
Financial investments for investment-linked contracts [2]	-	-	-	-	-	-	-	62,397,461	62,397,461
Other financial investments:									
Marketable debt assets	747,148	4,966,695	172,162	21,388	-	28,015	-	-	5,935,408
Non-marketable debt assets	1,371,374	20,771,088	196,866	12,414	118,116	-	-	-	22,469,858
Stocks	-	-	-	-	-	-	1,357,758	-	1,357,758
Other	59,625	19,222	126,385	880	18,349	222	2,373,873	-	2,598,556
Cash and cash equivalents for investment-linked contracts	-	-	-	-	-	-	-	6,554,645	6,554,645
Other cash and cash equivalents	2,329,072	-	182,720	39,556	7,025	344	-	-	2,558,717
Total assets	4,651,152	30,049,530	780,270	76,024	143,490	28,581	9,284,360	72,813,606	117,827,013

1) The majority of insurance contracts issued by the consolidated insurance companies in Israel are denominated in NIS, and their exposure to changes in exchange rates is immaterial. In cases where exposure to exchange rates exists, it primarily results from exposure to the USD and to the EUR.

2) See Note 39(g) below.

Note 39: Risk Management (Cont.)

C. Market risks (Cont.)

4. Details of assets and liabilities by linkage bases (Cont.)

As of December 31, 2019 (Cont.):

	NIS		Foreign currency						
NIS in thousands	**Unlinked**	**CPI-linked**	**USD**	**EUR**	**GBP**	**Other**	**Non-monetary items**	**Liabilities with respect to investment-linked contracts [1]**	**Total**
Total capital	-	-	-	-	-	-	5,233,297	-	5,233,297
Liabilities									
Liabilities with respect to non-investment-linked insurance contracts and investment contracts	25,100	32,168,765	44,708	460	-	-	-	-	32,239,033
Liabilities with respect to investment-linked insurance contracts and investment contracts	-	-	-	-	-	-	-	71,833,004	71,833,004
Deferred tax liabilities	-	-	-	-	-	-	329,798	-	329,798
Liabilities with respect to employee benefits, net	96,269	-	-	-	-	-	-	-	96,269
Other accounts payable	1,619,639	1,030,258	108,719	5,150	-	-	46,147	459,240	3,269,153
Lease liability	-	591,263	-	-	-	-	-	-	591,263
Current tax liabilities	-	513	-	-	-	-	-	-	513
Financial liabilities	3,216,391	909,313	130	5,767	-	-	-	103,082	4,234,683
Total liabilities	4,957,399	34,700,112	153,557	11,377	-	-	375,945	72,395,326	112,593,716
Total capital and liabilities	4,957,399	34,700,112	153,557	11,377	-	-	5,609,242	72,395,326	117,827,013
Total balance sheet exposure	(306,247)	(4,650,582)	626,713	64,647	143,490	28,581	3,675,118	418,280	-
Exposure to underlying assets via derivatives, in delta terms	1,336,039	1,521,096	(2,552,694)	(103,581)	(250,172)	(5,963)	55,275	-	-
Total exposure	1,029,792	(3,129,486)	(1,925,981)	(38,934)	(106,682)	22,618	3,730,393	418,280	-

1) The majority of insurance contracts issued by the consolidated insurance companies in Israel are denominated in NIS, and their exposure to changes in exchange rates is immaterial. In cases where exposure to exchange rates exists, it primarily results from exposure to the USD and to the EUR.

Note 39: Risk Management (Cont.)

C. Market risks (Cont.)

4. Details of assets and liabilities by linkage bases (Cont.)

As of December 31, 2018

Assets

	NIS		Foreign currency						
NIS in thousands	Unlinked	CPI-linked	USD	EUR	GBP	Other	Non-monetary items	Liabilities with respect to investment-linked contracts 1)	Total
Intangible assets	-	-	-	-	-	-	1,342,759	-	1,342,759
Deferred tax assets	-	-	-	-	-	-	6,554	-	6,554
Deferred acquisition costs	-	-	-	-	-	-	1,966,956	6,583	1,973,539
Property, plant and equipment	-	-	-	-	-	-	225,160	-	225,160
Investments in investee companies accounted by the equity method	-	-	-	-	-	-	214,504	-	214,504
Investment property for investment-linked contracts	-	-	-	-	-	-	-	3,000,340	3,000,340
Other investment property	-	-	-	-	-	-	1,266,895	-	1,266,895
Reinsurance assets	6,075	2,782,067	4,151	1,458	-	-	-	185,628	2,979,379
Current tax assets	-	259,338	-	-	-	-	-	-	259,338
Other accounts receivable	100,705	191,028	76,185	313	-	-	41,451	803,645	1,213,327
Outstanding premiums	5,888	494,519	85,262	267	-	-	-	290,920	876,856
Financial investments for investment-linked contracts 2)	-	-	-	-	-	-	-	58,185,233	58,185,233
Other financial investments:									
Marketable debt assets	472,111	4,315,992	414,972	28,604	5	178	-	-	5,231,862
Non-marketable debt assets	1,220,816	20,343,877	203,237	20,903	197,679	-	3,831	-	21,990,343
Stocks	-	-	-	-	-	-	1,416,975	-	1,416,975
Other	16,059	18,946	245,399	46,932	11,107	156	2,523,778	-	2,862,377
Cash and cash equivalents for investment-linked contracts	-	-	-	-	-	-	-	3,648,899	3,648,899
Other cash and cash equivalents	1,153,627	-	112,891	5,332	21,078	5,358	-	-	1,298,286
Total assets	2,975,281	28,405,767	1,142,097	103,809	229,869	5,692	9,008,863	66,121,248	107,992,626

1) The majority of insurance contracts issued by the consolidated insurance companies in Israel are denominated in NIS, and their exposure to changes in exchange rates is immaterial. In cases where exposure to exchange rates exists, it primarily results from exposure to the USD and to the EUR.

2) See Note 39(g) below.

Note 39: Risk Management (Cont.)

C. Market risks (Cont.)

4. Details of assets and liabilities by linkage bases (Cont.)

As of December 31, 2018 (Cont.)

Liabilities

	NIS		Foreign currency						
NIS in thousands	Unlinked	CPI-linked	USD	EUR	GBP	Other	Non-monetary items	Liabilities with respect to investment-linked contracts 1)	Total
Total capital	-	-	-	-	-	-	4,946,920	-	4,946,920
Liabilities									
Liabilities with respect to non-investment-linked insurance contracts and investment contracts	24,404	30,578,231	42,180	2,180	-	-	-	-	30,646,995
Liabilities with respect to investment-linked insurance contracts and investment contracts	-	-	-	-	-	-	-	65,366,897	65,366,897
Deferred tax liabilities	-	-	-	-	-	-	401,903	-	401,903
Liabilities with respect to employee benefits, net	80,757	-	-	-	-	-	-	-	80,757
Other accounts payable	1,471,729	1,012,494	93,621	5,252	-	-	44,186	372,883	3,000,165
Current tax liabilities	-	5,290	-	-	-	-	-	-	5,290
Financial liabilities	1,551,970	1,677,101	74,919	286	-	-	-	239,423	3,543,699
Total liabilities	3,128,860	33,273,116	210,720	7,718	-	-	446,089	65,979,203	103,045,706
Total capital and liabilities	3,128,860	33,273,116	210,720	7,718	-	-	5,393,009	65,979,203	107,992,626
Total balance sheet exposure	(153,579)	(4,867,349)	931,377	96,091	229,869	5,692	3,615,854	142,045	-
Exposure to underlying assets via derivatives, in delta terms	2,058,273	1,488,341	(3,048,099)	(210,868)	(300,975)	(37,679)	51,007	-	-
Total exposure	1,904,694	(3,379,008)	(2,116,722)	(114,777)	(71,106)	(31,987)	3,666,861	142,045	-

1) The majority of insurance contracts issued by the consolidated insurance companies in Israel are denominated in NIS, and their exposure to changes in exchange rates is immaterial. In cases where exposure to exchange rates exists, it primarily results from exposure to the USD and to the EUR.

Note 39: Risk Management (Cont.)

C. Market risks (Cont.)

5. Details regarding exposure to market branches with respect to equity instruments

	As of December 31, 2019					
NIS in thousands	Listed on the Tel Aviv 125 Index	Listed on the Yeter stock index	Non-marketable	abroad	Total	% of total
Industry	**52,928**	**-**	**7,369**	**15,434**	**75,731**	**6%**
Construction, real estate and infrastructure	**213,465**	**29,396**	**-**	**219,199**	**462,060**	**34%**
Electricity and water	**93,587**	**-**	**-**	**48,489**	**142,076**	**10%**
Trading	**49,078**	**-**	**-**	**-**	**49,078**	**4%**
Tourism and hotels	**15,332**	**-**	**-**	**7,496**	**22,828**	**2%**
Telecommunications and IT services	**52,841**	**-**	**12,684**	**78,613**	**144,138**	**11%**
Banks	**193,561**	**5,217**	**9,373**	**8,836**	**216,987**	**16%**
Financial services	**51,167**	**4,955**	**-**	**5,007**	**61,129**	**4%**
Other business services	**27,756**	**-**	**74,478**	**37**	**102,271**	**7%**
Food	**21,771**	**-**	**-**	**104**	**21,875**	**2%**
Drugs and medical services	**8,938**	**-**	**2,975**	**47,554**	**59,467**	**4%**
Total	**780,424**	**39,568**	**106,879**	**430,769**	**1,357,640**	**100%**

	As of December 31, 2018					
NIS in thousands	Listed on the Tel Aviv 125 Index	Listed on the Yeter stock index	Non-marketable	abroad	Total	% of total
Industry	84,504	4,301	3,961	19,771	112,537	8%
Construction, real estate and infrastructure	147,187	28,129	-	229,457	404,773	29%
Electricity and water	122,911	-	87	48,714	171,712	12%
Trading	57,016	3,157	-	-	60,173	4%
Tourism and hotels	-	6,580	-	7,648	14,228	1%
Telecommunications and IT services	49,193	2,814	4,347	72,340	128,694	9%
Banks	207,197	-	3,346	10,012	220,555	16%
Financial services	65,602	18,960	5,836	10,706	101,104	7%
Other business services	-	-	77,052	28,829	105,881	7%
Food	38,252	-	-	-	38,252	3%
Drugs and medical services	18,459	-	3,060	37,477	58,996	4%
Total	790,321	63,941	97,689	464,954	1,416,905	100%

Note 39: Risk Management (Cont.)

D. Liquidity risks

1. General

The Company's policy is to verify the existence of the cash balances which it requires in order to service its financial liabilities, inter alia, through dividend distributions from investee companies.

Clal Insurance Group is exposed to risks arising from uncertainty associated with the date when it will be required to pay claims and other benefits to policyholders, relative to the total amount of funds available for this purpose at that time. It is noted that the possible need to raise sources in an unexpected manner, and within a short time, may require significant and rapid disposal of assets, and the sale of such assets at prices that may not necessarily reflect their market value.

A significant part of the insurance liabilities of Clal Insurance in the long term savings segment and the health segment is not exposed to liquidity risk, due to the characteristics of the various insurance contracts, as described below:

A. Investment-linked contracts - Under the contractual terms, the owners are entitled to receive only the value of the aforementioned investments. Therefore, if the value of the investments declines for any reason, a corresponding decline will take place in Clal Insurance's amount of liabilities. The total liabilities in these contracts as of December 31, 2019 and 2018 amounted to approximately NIS 72.8 billion and approximately NIS 66.1 billion, respectively.
respectively.

B. Approximately 75% of the liabilities with respect to non-investment-linked insurance contracts and investment contracts in the life insurance branch which were issued until 1990 are backed by designated (HETZ) bonds, which are issued by the Bank of Israel. Clal Insurance is entitled to realize these bonds when the redemption of the aforementioned policies is required. The scope of HETZ bonds as of December 31, 2019 and 2018 amounted to a total of approximately NIS 14.1 billion and approximately NIS 13.7 billion, respectively.

C. Deposits with the Accountant General are held with respect to approximately 89% of the liabilities to members of the guaranteed-return provident fund "Bar A Keren Gemulim Ltd." (hereinafter: "**Bar A**"), which Bar A is entitled to withdraw upon demand for redemption of member funds. The scope of these deposits as of December 31, 2019 and 2018 amounted to a total of approximately NIS 2.1 billion.

The Group's potential liquidity risk therefore primarily arises from the Group's balance of assets held against liabilities which are non-investment-linked and which are also not designated (HETZ) bonds or deposits with the Accountant General. The sum of these assets amounted to a total of approximately NIS 23.6 billion (last year - approximately NIS 21.1 billion), and constitutes approximately 20% (last year - approximately 20%) of the total assets in the statement of financial position.

Out of assets which are not held against investment-linked liabilities, a total of approximately NIS 10.2 billion (last year - approximately NIS 8.8 billion) constitutes marketable assets and balances of cash and cash equivalents.

It is noted that in accordance with the Investment Rules Regulations, the consolidated insurance companies are required to hold liquid assets against liabilities due to insurance business in an amount which will not fall below 30% of part of the minimum equity required of them. In this regard, liquid assets, as defined in the Ways of Investment Regulations include, inter alia, government bonds, cash and cash equivalents, corporate bonds and short term deposits with high ratings, stocks which are included in major indices, ETF's and mutual funds.

The institutional entities in Israel manage their assets and liabilities in accordance with the relevant requirements set forth in the Control Regulations, including the amendments enacted pursuant thereto.

2. Estimated maturity dates of liability amounts

The following tables present the estimated maturity dates of the Company's non-discounted insurance and financial liability amounts. Due to the fact that the amounts in question are not discounted, they do not correspond to the balances of financial and insurance liabilities in the statement of financial position.

D. Liquidity risks

2. Estimated maturity dates of liability amounts (Cont.)

A. The estimated repayment dates of the liabilities in the long term savings segment and in the health segment were included in the tables as follows:

<u>Savings funds</u> - On the basis of contractual repayment dates, i.e., retirement age, without cancellation discounts, and assuming that the entire savings will continue in the capital track, and not the annuity track.

<u>Paid retirement, paid loss of working capacity, and paid long-term care</u> - Based on an actuarial estimate.

<u>Outstanding claims and risk reserves</u> - Reported under the item for "Without defined maturity date".

B. The liabilities in non-life insurance, for the purpose of this note, also include net surplus revenues - see Note 3(d)(2)(b)(4)(4.3), the unexpected deviations reserve, and the reserve for unearned premiums, and are net of deferred acquisition costs.

The estimated maturity dates of the aforementioned undertakings were included in the tables as follows:

<u>Liabilities in statistical branches which are estimated by an actuary</u> - are reported in the columns on the basis of an actuarial estimate which assigns an estimated date to the amount of non-discounted liabilities, based on past claims payment experience.

<u>Insurance liabilities in non-statistical debt branches and net surplus revenues</u> - are reported in a column without a defined repayment date.

Note 39: Risk Management (Cont.)

Insurance liabilities in property and others branches, which are not statistical or on whose estimates the actuaries do not sign - are reported in the column representing a repayment period of up to 3 years.

The liabilities are exposed to reserve risks, as described in Section E below. The actuarial models are based on the assumption that the pattern of past behavior and claims will also continue in the future. The estimated flow is exposed to model risk and to parameter risk, which includes the risk that the amount that paid to settle the insurance liabilities will be different than expected.

C. The maturity dates of the financial liabilities and liabilities with respect to investment contracts were included on the basis of the contractual maturity dates. In contracts where the counterparty is entitled to choose the timing of the payment, the liability is included on the basis of the earliest date when the Company may potentially be required to pay the liability.

The repayment dates of liabilities with respect to investment contracts in Bar A were calculated based on the average abandonment rate and redemption rate.

Liabilities in the long term savings segment and health segment *)

NIS in thousands	Up to one year **)	1 to 5 years	5 years to 10 years	10 years to 15 years	Over 15 years	No defined repayment date	Total
As of December 31, 2019	**3,188,004**	**6,553,581**	**4,365,099**	**2,756,588**	**2,982,221**	**2,624,116**	**22,469,609**
As of December 31, 2018	4,389,810	5,396,048	4,289,134	2,677,956	3,098,270	1,157,140	21,008,358

*) Excluding liabilities with respect to investment-linked contracts.

**) The liabilities up to one year include a total of NIS 192,585 thousand (as of December 31, 2018 - approximately NIS 186,737 thousand), repayable on demand. These liabilities were classified as required for repayment in up to one year, despite the fact that the actual repayment dates may be in later years.

Liabilities with respect to insurance contracts

NIS in thousands	Up to 3 years	3 years to 5 years	Over 5 years	No defined repayment date	Total
As of December 31, 2019	**3,249,491**	**879,992**	**904,180**	**1,025,209**	**6,058,873**
As of December 31, 2018	3,197,853	873,875	922,050	903,022	5,896,801

Financial liabilities and liabilities with respect to investment contracts

NIS in thousands	Book value	Up to one year	1 year to 5 years	5 years to 10 years	10 years to 15 years	Over 15 years	No defined repayment date	Total
As of December 31, 2019								
Liabilities with respect to investment contracts	**2,396,604**	**150,290**	**506,684**	**475,620**	**345,391**	**916,046**	**2,573**	**2,396,604**
Liabilities with respect to investment-linked investment contracts	**2,828,148**	**-**	**-**	**-**	**-**	**-**	**2,828,148**	**2,828,148**
Deferred liability notes	**4,085,965**	**150,553**	**1,398,266**	**3,362,417**	**-**	**-**	**-**	**4,911,236**
Other accounts payable	**3,223,006**	**3,223,006**	**-**	**-**	**-**	**-**	**-**	**3,223,006**
Lease liabilities	**4,085,965**	**150,553**	**1,398,266**	**3,362,417**	**-**	**-**	**-**	**4,911,236**
Total	**17,210,951**	**3,714,726**	**3,489,420**	**7,431,606**	**560,016**	**1,030,126**	**2,830,721**	**19,056,615**
As of December 31, 2018								
Liabilities with respect to investment contracts	2,358,204	99,657	351,101	370,049	298,160	1,236,627	2,610	2,358,204
Liabilities with respect to investment-linked investment contracts	1,781,735	-	-	-	-	-	1,781,735	1,781,735
Other accounts payable	2,955,979	2,955,979	-	-	-	-	-	2,955,979
Deferred liability notes	3,209,815	132,914	1,644,119	1,978,983	-	-	-	3,756,016
Total	10,305,733	3,188,550	1,995,220	2,349,032	298,160	1,236,627	1,784,345	10,851,934

Note 39: Risk Management (Cont.)

E. Insurance risks

Insurance risks include the following, inter alia:

Underwriting risks: The risk that erroneous costing will be used as a result of deficiencies in the underwriting process, and of the gap between the risk at the time of pricing and the determination of premium, and the actual occurrence, such that the collected premiums are not sufficient to cover future claims and expenses. The gaps may result from incidental changes in business results, and from changes in average claims costs and/or in the prevalence of claims as a result of various factors.

Reserve risks: The risk of an incorrect estimation of insurance liabilities, which may result in the actuarial reserves being insufficient to cover all of the liabilities and claims. The actuarial models which are used by the insurance companies in the Group, inter alia, to estimate their insurance liabilities, are mostly based on the assumption that the pattern of past behavior and claims represent what will happen in the future. The exposure of the Group's insurance companies is comprised of the following risks:

Model risk - The risk that the wrong model will be chosen for pricing and/or for the evaluation of insurance liabilities;

Parameter risk - The risk that incorrect parameters will be used, which may result in a situation wherein, inter alia, the amount paid to settle the insurance liabilities of Clal Insurance, or the settlement date of the insurance liabilities, is different than expected.

The total maximum expected loss in non-life insurance business operations, as a result of the exposure to a single damage event or to the accumulation of damages with respect to a particularly large event, with an MPL ranging from 1.5% to 3.15%, amounts to approximately NIS 10,165 million gross and approximately NIS 45 million on self-retention, as of December 31, 2019.

For details regarding the various insurance products with respect to which insurance risk is created for the insurer, see details regarding insurance liabilities by insurance risks in Notes 5, 19, 20(a) and 21.

E1. Insurance risk in life and health insurance contracts

General

The following describes the various insurance products and the assumptions used to calculate the liabilities in respect thereto, by product type.

In general, according to instructions issued by the Commissioner, the insurance liabilities are calculated by an actuary, using generally accepted actuarial methods in Israel, and in a manner that is consistent with the previous year. The liabilities are calculated using the relevant coverage data, including the policyholder's age and gender, the insurance period, the insurance commencement date, insurance type, periodic premium and insurance amount.

A. Actuarial methods used to calculate insurance liabilities

1. Insurance plans of the "Preferred" and "Investment tracks" types

   Insurance plans of the "Preferred" type and "Investment Tracks" type include an identified savings component. The basic and main reserve is equal to the cumulative savings amount, with the addition of returns under the policy terms, as follows:

   - Fund linked to investment portfolio returns (investment-linked contracts).
   - CPI-linked fund with the addition of fixed interest is guaranteed or credited with guaranteed returns against adjusted assets (guaranteed-return contracts).

   A separate insurance liability is calculated with respect to the insurance components which are attached to these policies (loss of working capacity, death, long-term care, etc.), as described below.

2. Insurance plan of the "Traditional" type, with fixed premiums

   There are insurance plans of the "Traditional" type with fixed premiums, such as the "Combined" insurance plan, etc., which combine a savings amount component, in case the policyholder remains alive at the end of the plan period, with an insurance component involving risk of death during the plan period, as well as pure savings plans (primarily loss of working capacity and long-term care) with fixed premiums.

   The insurance liability with respect to these products is calculated for each coverage as a discount of cash flows with respect to expected claims, including payment upon conclusion of the period, less projected future claims. This calculation is based on the assumptions used to price the products and/or on discounts derived from claims experience, including the interest rates (hereinafter: the "**Nominal Interest**"), mortality table or morbidity table. The calculation is performed using a method known as "Net Premium Reserve", which does not include, in the projected flow of receipts, the component loaded on the premium rate to cover fees and expenses, while also not deducting the expected expenses and fees.

   With respect to investment-linked insurance plans of the "Traditional" type, the reserve also includes a provision in the amount of the balance of the actual accumulated bonus. The bonus reflects the difference between the actual return less management fees, and the nominal interest rate.

Note 39: Risk Management (Cont.)

E. Insurance risks (Cont.)

E1. Insurance risk in life insurance and long-term care insurance contracts (Cont.)

A. Actuarial methods used to calculate insurance liabilities (Cont.)

3. Paid pension liabilities and liabilities to supplement annuity reserves:

Paid pension liabilities are calculated in accordance with the guidelines specified in the consolidated circular, section 5, part 2, chapter 1(c), in accordance with life expectancy, based on mortality tables which were created based on the tables which were published in 2019 (hereinafter: the "**Annuity Reserves Circular**").

Liabilities to supplement annuity reserves are calculated for policies which are in effect (paid and settled), which allow lifetime annuity payouts, and which have not yet reached the annuity realization stage, or whose policyholders who reached retirement age but have not yet begun actually receiving an annuity (the "**Policies**").

A. Calculation of the liability to supplement the annuity reserve

Liabilities to supplement annuity reserves are calculated, inter alia, in accordance with the probability of annuity withdrawal upon retirement (realization of eligibility for annuity), in accordance with the annuity tracks which policyholders are expected to choose, and based on life expectancy in accordance with mortality tables, which were published in the annuity reserves circular.

Insofar as the probability of annuity withdrawal is higher, the liabilities required to supplement the annuity reserve are also higher. Additionally, insofar as the difference between the updated mortality tables in the annuity reserves circular (which indicate increased life expectancy) and the mortality tables which were used to price the guaranteed annuity factors in the policies is greater, the paid pension liability and the liability to supplement annuity reserves are also higher.

From time to time, the Company conducts studies in which it evaluates the rate of policyholders who are expected to realize their eligibility to receive annuities, the mix of annuity tracks that retiring policyholders choose to receive, which were used to estimate the annuity payment period, as well as other parameters which affect the amount of the liability to supplement the annuity reserve. The realization rates and annuity tracks are adjusted to the various insurance plans and savings types.

B. Gradual provision to supplement the annuity reserve using the K factor

Additionally, in accordance with the annuity reserves circular, the provision to supplement the annuity reserve was made gradually, with respect to funds which accrued in the policies until the end of the reporting period, using the K factor, which was determined, upon the initial adoption of the annuity reserves circular, in order to secure a reserve for the payment of a full annuity in accordance with the policyholders' expected annuity withdrawal date (hereinafter: "Basic K", 0.2% for guaranteed-return policies and 0.96% for investment-linked policies).

On a quarterly basis, the Company evaluates whether the K factor results in adequate distribution of the annuity payment reserve, based on an analysis which is based on conservative financial and actuarial assumptions, indicating that the management fees and/or financial margin which are investments held against the reserve with respect to the policy and the premium payments for the policy, may generate future income beyond the basic K, which suffice to cover all of the expenses, and insofar as a gap exists, the reserves for supplementation of the annuity reserve are updated by updating the K factor. The greater the K factor, the lower the liability for supplementation of the annuity reserve which will be recognized in the financial statements, and the greater the amount which will be deferred and recorded in the future.

In general, the K factor which is used to distribute the reserves for supplementation of the annuity reserve will not exceed the basic K factor.

During the reporting period, the Company updated the life expectancy rate (see section D(2) below) and the expected retirement age, according to age, as well as the cancellation rate, including reference to the impact of the deficit of variable management fees (see section D(3) below). Additionally, during the reporting period, the risk-free interest rate curve decreased (see section D below). As a result, the K factor was updated in the manner specified in the following table:

As of December 31	2019	2018	2017
For guaranteed-return policies	**0.0%**	0.0%	0.0%
For investment-linked policies	**0.73%**	0. 96%	0. 88%

The total estimated cost of the increase in life expectancy may change due to several factors, including, inter alia, changes in life expectancy and in the rate of policyholders who exercise their eligibility to receive annuities, change in the reasons of policyholders for choosing the annuity tracks upon retirement, increase in the savings funds of policyholders, due to future premium payments and/or an increase in investment income, and due to changes in discount interest rate assumptions, and other assumptions.

For additional details regarding the amount of the provision and the total cost, see Note 20A.

For details regarding the discount interest rate for liabilities in the supplementation of annuity reserves, see b(1) below.

4. Other life insurance plans include a pure risk products with fixed premiums (loss of working capacity, death, long-term care, etc.) which are sold as independent policies or are attached to policies with a basic plan of the "preferred", "investment tracks" or "traditional" types. An actuarial liability is calculated with respect to these plans. The calculation was performed using the net premium reserve method. In the other plans, the reserve is calculated in accordance with the amount of outstanding and IBNR claims.

5. Insurance plans for medical expenses, critical illness and personal accidents

Medical expenses insurance plans primarily include coverages for surgery abroad, and for transplants and special treatments abroad, selection of a private surgeon in private hospitals, drugs which are not included in the basket, and additional ambulatory covers.

Note 39: Risk Management (Cont.)

E.1. Insurance risk in life and health insurance (Cont.)

A. Actuarial methods used to calculate insurance liabilities (Cont.)

5. Insurance plans for medical expenses, critical illness and personal accidents (Cont.)

The illness and hospitalization branch includes the following basic insurance coverages:

- Insurance coverage that provides the policyholder the right to finance private medical services. Within this framework, the insurant is given the right to choose the date of receiving the medical service, the identity of the attending physician and the medical institution. The aforementioned insurance coverage provides a refund for medical expenses or compensation, inter alia, in connection with surgery, transplants and/or special treatment overseas etc.
- Insurance coverage in case of diagnosis of a critical illness, in which the policyholder is entitled to receive compensation in the amount which was determined upon joining the insurance.
- Insurance coverage for purchasing medication which is not included in the national health basket.
- Additionally, it is possible to acquire additional coverage, as a rider to the policy, or as a chapter in the basic policy, such as ambulatory services (medical services given not at the time of hospitalization, including consultation with specialized physicians, tests, and physiotherapy treatments).

The personal accidents branch is sold in the Company as an independent policy or as a rider to health policies in the illness and hospitalization branch. The insurance coverages include:

- Accidental death
- Accidental disability and/or loss/reduction of working capacity
- Fractures due to accidents
- Burns due to accidents
- Daily compensation due to hospitalization as a result of an accident
- Compensation due to long-term care situation as a result of an accident

With respect to these plans, which are sold as individual policies, the reserve is calculated using the gross premium reserve method, which includes the total expected flow of receipts, including all premium components, and deducts the cost of the liability, and the expected expenses and commissions, and the expected reinsurance payments (if a sub-arrangement for coverage exists). The calculation assumptions regarding parameters pertaining to morbidity assumptions, demographic assumptions and economic assumptions were made on a stringent basis as compared with the pricing basis, which is a commonly accepted practice for the pricing of reserves.

The international travel branch is comprised of a basket of insurance coverages which are intended for policyholders in connection with their time spent abroad, which includes, inter alia, coverage with respect to illness, personal accidents, reduction of travel period, location, extraction and cargo. The insurance period in an international travel policy is specified in days, according to the period of the policyholder's residence abroad, or for the duration of all travel days in a single calendar year.

In the international travel branch, outstanding claims are calculated based on reports submitted by the claims department of Clal Insurance, and on an actuarial valuation performed on the basis of accumulated experience in the portfolio.

Outstanding claims are calculated based on the report submitted by the claims department, and on a statistical model of claim payments based on past experience. The calculation is performed by based on the triangle methods (Bornhuetter-Ferguson, Chain Ladder) for paid claim amounts, for outstanding claims, and for claim amounts by damage months, including a discounting and confidence range for the personal accidents for students branch.

6. With respect to ongoing payment claims, in long-term care insurance and in loss of working capacity insurance, an insurance liability is calculated according to the expected payment period, and is discounted according to the product's nominal interest rate.
7. Insurance liabilities with respect to collective insurance are comprised of liabilities with respect to unearned premiums, ongoing claims reserve, outstanding claims, continuity reserve and the provision for future losses, as required. Additionally, the provision for participation in profits is presented under the item for payables, as relevant.
8. Liabilities with respect to outstanding claims in life insurance primarily include provisions for outstanding claims with respect to death and disability cases.

Note 39: Risk Management (Cont.)

E. Insurance risks (Cont.)

E1. Insurance risk in life and health insurance (Cont.)

B. Main assumptions used to calculate insurance liabilities

1. Discount rate

A. With respect to insurance plans and pure savings products with fixed premiums, the interest rate used for discounting is as follows:

In insurance plans of the “traditional” and “preferred” types, which are non-investment-linked, and which are primarily backed by designated bonds, an official real interest rate of 3.5% to 4.8% is used.

With respect to investment-linked products which were issued in 1991 or later, an official real interest rate of 2.5% is used. Under the policy terms, changes will be charged to policyholders.

With respect to long term, non-investment-linked individual long-term care and health products, a real nominal interest rate of 2.5% is applied.

B. With respect to paid pension liabilities and liabilities to supplement guaranteed-return annuity reserves, the discount rate was calculated for each fund separately by weighing the estimated market returns on the mix of free assets (2.6%-2.79%; last year - 2.6%-2.79%), and the HETZ bond gross interest rate for the fund. The weighting process is implemented based on the weight of free assets and the weight of HETZ bonds in the fund backing up those reserves. The determination of the discount rate also includes reference to the risk-free interest rate for an average lifetime which is suitable for the liability.

with respect to liabilities for paid pensions, and the supplementation of the profit sharing annuity reserve, in accordance with the estimated market returns on the mix of assets, including with respect to the investment tracks where the funds are intended for investment.

The Company may decide to implement a change to the discount rate as a result changes in the risk-free interest rate and/or in the estimated rate of return in the portfolio of assets held against insurance liabilities. For details regarding the impact of the update to the interest rates which are used to discount the liabilities to supplement annuity and paid pension reserves, see section D below.

2. Mortality and morbidity rates

A. The mortality rates used to calculate insurance liabilities with respect to the mortality of policyholders before reaching retirement age (in other words, not including the mortality of policyholders receiving pension annuities, and those receiving monthly benefits with respect to loss of working capacity or long-term care) are generally identical to the rates used to determine the rate which was approved by the Commissioner.

B. The liabilities for lifetime payout annuities are calculated in accordance with mortality tables which were published by the actuary of the Ministry of Finance in the annuity reserves circular.

An increase in assumed mortality rates, due to an increase in the actual mortality rate above the current assumption level, will result in an increase in insurance liabilities with respect to policyholder mortality before retirement age, and in a reduction of liabilities for lifetime payout annuities.

It should be noted that in recent decades an opposite trend has occurred, which involved increased life expectancy and a decreased mortality rate. The mortality assumption which is used to calculate the liability annuity takes into account the assumption regarding the future increase in life expectancy.

For details regarding the impact of the update to mortality tables, see section D(2) below.

C. The morbidity rates refer to the prevalence of claim events with respect to critical illness, loss of working capacity, long-term care, surgeries and hospitalization, accidental disability, etc. These rates were determined based on the experience of Clal Insurance and/or data from reinsurer studies. In the long-term care and loss of working capacity branches, the annuity payment period used by the Company to calculate the liabilities is determined according to the experience of Clal Insurance or information obtained from reinsurer studies.

The higher the increase in the assumption regarding the morbidity rate and/or annuity payment period, the higher the insurance liability with respect to morbidity from critical illness, loss of working capacity, long-term care, surgeries and hospitalization, and accident disability.

For details regarding the effect of the prevalence update and the payment period for long-term care claims, see section d(5) below.

Note 39: Risk Management (Cont.)

E. Insurance risks (Cont.)

E1. Insurance risk in life insurance and long-term care insurance contracts (Cont.)

B. Main assumptions used to calculate insurance liabilities (Cont.)

3. Annuity realization rates upon retirement

Life insurance contracts which include a savings component, with respect to funds which were deposited until 2008, allowed two tracks for the withdrawal of funds: a capital (one time) track or an annuity-paying track with a guaranteed annuity conversion factor, which can also be chosen through different tracks (such as entire lifetime, couple, 10 year guarantee, and others). In some of the contracts, the policyholder is entitled to choose the way in which they will receive the funds upon withdrawal. Due to the fact that the amount of the insurance liability is different in each of these tracks, the Company estimates, from time to time, the annuity eligibility realization rate upon retirement, and the chosen track. Beginning in 2008, new deposits in all of the plans are for annuities. For details regarding the impact of the update to the annuity withdrawal rate upon retirement, see section D(3) below.

4. Cancellation rates

The cancellation rate affects insurance liabilities with respect to some types of health insurance, as well as lifetime payout annuities in the period prior to commencement of the payments. Insurance contract cancellations may arise due to policy cancellations initiated by Clal Insurance due to discontinuation of premium payments, or redemption of policies at the request of their owners. The assumptions regarding cancellation rates are based on the experience of Clal Insurance, and also on the product type, product lifetime and sale trends. For details regarding the impact of the update to the cancellation rate, including reference to the effect of the deficit of variable management fees, see section D(3) below.

5. Continuity rates

Certain types of collective life insurance, health insurance and long-term care insurance allow policyholders to remain insured under the same terms, even in the event that the collective contract is not resumed. The Company has a liability with respect to this policyholder option, which is based on assumptions regarding the continuity rates of collective insurance types, and on the continuity rates of contracts with the policyholders after the termination of the collective contract. See section E1(a)8 for details regarding the actuarial methods used to calculate the aforementioned insurance liabilities.

The higher the probability that the collective contract will not be renewed (therefore meaning a higher continuity rate), the higher the insurance liability with respect to continued insurance under the previous conditions, without adjusting the underwriting to the change in the policyholder's health condition.

C. Sensitivity tests in life and health insurance

As of December 31, 2019

	Cancellation rate (redemptions, settlements and reductions)		Morbidity rate		Mortality rate		Pension realization rate	
NIS in thousands	+10%	-10%	+10%	-10%	+10%	-10%	+5%	-5%
Income (loss)	**6,533**	**(7,190)**	**(288,688)**	**278,905**	**562,886**	**(625,998)**	**(146,186)**	**146,186**

*) For the total supplementary pension reserve, see Note 20(a).

As of December 31, 2018

	Cancellation rate (redemptions, settlements and reductions)		Morbidity rate		Mortality rate		Pension realization rate	
NIS in thousands	+10%	-10%	+10%	-10%	+10%	-10%	+5%	-5%
Profit (loss)	21,595	(22,795)	(173,555)	64,259	437,599	(524,136)	(82,098)	82,098

*) For the total supplementary pension reserve, see Note 20(a).

Note 39: Risk Management (Cont.)

E. Insurance risks (Cont.)

E1. Insurance risk in life insurance and long-term care insurance contracts (Cont.)

D. Changes in main estimates and assumptions which were used to calculate insurance liabilities

The impact of the update to the assumptions in the life and long-term care insurance branch of the financial results is specified below:

	For the year ended December 31		
NIS in millions	**2019**	**2018**	**2017**
Life insurance			
Change in the discount interest rate used in the calculation of the liabilities to supplement the annuity and paid pension reserves *)	**(26)**	85	(197)
Change in pension reserves following the decreased forecast of future income due to change in interest rate (K factor)	**(805)**	135	(126)
Total effect of interest rate changes on the liability to supplement the annuity and paid pension reserves	**(831)**	220	(323)
Change in mortality assumptions used in the calculation of paid pension liabilities and liabilities to supplement annuity reserves (see section 2)	**(353)**	-	-
Change in other assumptions used in the calculation of liabilities to supplement annuity reserves (see section 3)	**762**	-	-
Cancellation rate during the period before retirement	**-**	-	67
Total effects on the liability to supplement the annuity and paid pension reserves	**(422)**	-	(256)
Liability adequacy test (LAT) (see section 4)	**(648)**	75	64
Total life insurance	**(1,070)**	295	(192)
Frequency and payment period of long-term care claims	**-**	(68)	-
Liability adequacy test (LAT) in long-term care insurance (see section 4)	**(537)**	-	-
Total long-term care in the health segment	**(537)**	(68)	-
Total income (loss) before tax	**(1,607)**	227	(192)

*) In 2017, including the effect of interest on the assets of pension recipients, and the management fees which are derived therefrom.

1. **Strengthening of insurance reserves in the low interest rate environment, and its effect on discount rates in life and long-term care insurance and the Commissioner's directives with respect to the liability adequacy test (LAT)**

   A. The Commissioner's directives regarding the liability adequacy test (LAT)

   further to that stated in Note 3(d)1(d), in August 2015, an insurance circular was published regarding the method used to calculate the liability adequacy test (LAT) in life and long-term care insurance, which was updated in March 2020 (the "LAT Circular"). The LAT circular applies to measurement guidelines and to the selection of certain assumptions, and applies to the financial statements as of June 30, 2015 and thereafter. For details regarding the publication of a draft update to the LAT circular, see Note 43(j) below.

   B. Strengthening of insurance reserves in light of the low interest rate environment

   Further to that stated in section B(1) above, the discount rates which are used to calculate the liabilities to supplement the annuity and paid pension reserves may change as a result of changes in the risk-free interest rate and/or the estimated rate of return in the portfolio of assets held against insurance liabilities.

2. Change in provisions pertaining to life insurance plans combined with savings, which include "annuity factors representing a life expectancy guarantee"

   In July 2019, the Commissioner published a draft "amendment to the provisions of the consolidated circular regarding the measurement of liabilities - update to the series of demographic assumptions in life insurance and update to the mortality improvement model for insurance companies and pension funds", as well as a position paper on the matter (hereinafter: the "**Draft**"), which was published as a final circular in November 2019 (hereinafter: the "**Circular**"). The circular specifies updated default assumptions, which will be used by the insurance companies in their calculation of liabilities with respect to life insurance policies, which allow the receipt of an annuity in accordance with guaranteed conversion rates, based on current demographic assumptions, in accordance with the annuity reserves circular. Additionally, managing companies of pension funds which operate according to the mutual insurance framework will calculate, based on these assumptions, the actuarial balance sheet of the funds under their management, and will determine accordingly the factors which are included in their regulations, beginning from the following periods.

   The circular addresses, inter alia, changes in life expectancy, including future improvements, and the resulting implications on the amounts of reserves, and on the method for designing them. The circular also includes a new mortality tables for retirees of insurance companies, which, for the first time, is based, inter alia, on the mortality experience of the insurance companies' retirees.

Note 39: Risk Management (Cont.)

E. Insurance risks (Cont.)

E1. Insurance risk in life insurance and long-term care insurance contracts (Cont.)

D. Changes in main estimates and assumptions which were used to calculate insurance liabilities (Cont.)

Further to that stated in Note 39(e)(e1)(b)2(b) above, the reserves to supplement annuity reserves and paid pension reserves are calculated in accordance with the mortality tables which are included in the annuity reserves circular, and therefore, in the financial statements as of June 30, 2019, the Company increased its estimates regarding liabilities with respect to insurance contracts in the amount of approximately NIS 305 million, of which a total of approximately NIS 43 million was with respect to paid pension liabilities, in the amount of approximately NIS 310 million with respect to the liabilities to supplement the annuity reserve (see section B above), (a total of NIS 353 million together), while on the other hand, it reduced, in the amount of approximately NIS 48 million, the additional provision in light of the liability adequacy test (see section C above), due to the trends indicated in the draft.

The publication of the circular and the position paper including final estimates had no significant impact on the financial statements.

3. Change in other assumptions used in the calculation of liabilities to supplement annuity reserves

Further to that stated in Note 39(e)(e1)(b)(3) and (4), regarding the periodic estimation of annuity withdrawal rates upon retirement, and the cancellation rate, during the reporting period the Company updated various assumptions, inter alia, in light of the improved model of annuity withdrawal upon retirement, in light of new studies which it performed, regarding the trend towards differing rates of annuity withdrawal, in accordance with retirement age, in light of the accumulated experience on the subject, as opposed to the default which was determined in the annuity reserves circular. As a result, the Company reduced its estimates regarding the liabilities in the amount of approximately NIS 455 million, which includes a total of approximately NIS 539 million with respect to the liability to supplement the annuity reserve, and on the other hand, a total of approximately NIS 84 million representing the increased provision due to the liability adequacy test. The Company also updated the annuity withdrawal rate according to age, as well as the cancellation rate, including reference to the impact of the deficit of variable management fees. As a result, the Company reduced its estimates regarding the liabilities in the amount of approximately NIS 196 million, which includes a total of approximately NIS 223 million with respect to the liability to supplement the annuity reserve, and on the other hand, a total of approximately NIS 27 million representing the increased provision due to the liability adequacy test.

4. Investment policy with respect to managed assets against equity and insurance liabilities

During the reporting period, the Company's investment committee and Board of Directors approved and updated the investment policy, and the corresponding allocation of managed assets against capital and insurance liabilities in the life, health and non-life insurance segments, in consideration of the returns and lifetimes of the liabilities, and the required liquidity.

Further to that stated in Note 3(d)1(d) to the annual financial statements, regarding the calculation of the excess fair value over the book value of the backing assets, as part of the liability adequacy test in accordance with the LAT circular, and in Note 39(e)(e1)(b)(1) above regarding the discount rate, the foregoing updates resulted in a reduction, in the amount of approximately NIS 293 million, of the provisions which were required due to the decreased interest rates (approximately NIS 206 million in life insurance, and approximately NIS 87 million in long-term care insurance in the health branch) during the reporting period.

5.Change in the frequency and payment periods of ongoing long-term care claims

During the corresponding period last year, the Company observed an increase in the prevalence and payment period of long-term care claims, and accordingly, updated its liabilities in the amount of approximately NIS 68 million.

Note 39: Risk Management (Cont.)

E. Insurance risks (Cont.)

E2. Insurance risk in non-life insurance contracts (Cont.)

(1) Summary description of the main insurance branches in which the Group operates

The Group issues non-life insurance contracts primarily in the compulsory motor, liabilities, motor property and property insurance branches.

Compulsory motor insurance policies cover the policyholder and the driver for all liabilities which they may incur under the Compensation for Victims of Road Accidents Law, 1975, due to physical injury caused as a result of the use of a motor vehicle, to the vehicle driver, to passengers in the vehicle, or to pedestrians injured by the vehicle. Claims in the compulsory motor branch are characterized as "long-tail" claims, meaning that a long period of time passes from the actual occurrence of the event until the final settlement of the claim.

Liability insurance is intended to cover the policyholder's liability for any damages which it may cause to third parties. The main types of insurance include: third party liability insurance, employers' liability insurance and other liability insurance such as professional liability, product liability and directors and officers liability insurance. The timing of the filing and settlement of claims is affected by a number of factors, including coverage type, policy terms and legal precedents. In general, claims in the liabilities branch are characterized as "long-tail" claims, meaning that a long period of time passes from the actual occurrence of the event until the final settlement of the claim.

Insurance policies covering motor property damage and third party motor property damage grant the policyholder coverage for property damages. The coverage is generally limited to the value of the damaged vehicle and/or to the third party liability limit in the policy. The Insurance Commissioner's approval is required for the motor property insurance rate, as well as for the entire policy. This rate is a statistical rate, and is in part also differential (not uniform to all policyholders, and adjusted for risk). The above rate is based on several parameters, including those related to the policyholder's vehicle (such as vehicle type, production year, etc.) and those related to the policyholder's characteristics (driver age, claims experience, etc.). The underwriting process is partly performed using the rate itself, and partly using a series of policies, which are intended to evaluate the policyholder's claims experience, including presentation of an approval regarding lack of claims from previous insurers during the preceding three years, presentation of an updated protection approval, etc., and are combined in an automated manner into the policy production process. In most cases, the motor property insurance policies are issued for a period of one year. Additionally, in most cases, claims with respect to these policies are settled near the date of the insurance event, and are characterized as "short tail" claims.

Property insurance types are intended to grant the policyholder coverage against physical damage to their property, and loss of income due to the damage to their property. The primary risks covered in property policies include risks of fire, explosion, break-in, earthquake and natural disasters. Property insurance branches sometimes include coverage for loss of income damages due to physical damage to property. Property insurance types constitute an important component of apartment insurance, business insurance, engineering insurance, cargo transportation (land, air, and sea) insurance, etc. In most cases, claims with respect to these policies are evaluated proximate to the date of the occurrence of the insurance event, and characterized as "short tail".

(2) Principles used in the calculation of the actuarial estimate in non-life insurance

General

A. The liabilities with respect to non-life insurance contracts include the following main components: unearned premium reserve; premium deficiency; outstanding claims; and net surplus revenues, depending on the relevant branch. The provisions for unearned premiums and net surplus revenues are calculated using a method than is independent of any assumptions, and therefore they are not directly exposed to reserve risk. For details regarding the method used to calculate these provisions, see Note 3(d)(2).

B. In accordance with instructions issued by the Commissioner, outstanding claims are calculated by an actuary, using commonly accepted actuarial methods, and in a manner that is consistent with the previous year. The selection of the appropriate actuarial method for each insurance branch and for each event/underwriting year is determined based on judgment, according to the degree of correspondence between the method and the branch. At times, a combination of the various methods is employed. The estimates are primarily based on past experience of the development in claim payments and/or the development of payment amounts and individual estimates. The estimates include assumptions with regard to the average claim cost, claims handling costs and frequency of claims. Other assumptions may refer to changes in interest rates, in exchange rates and in the timing of payments. The claim payments include direct and indirect expenses for the settlement of claims, less subrogation claims and deductibles.

Note 39: Risk Management (Cont.)

E. Insurance risks (Cont.)

E2. Insurance risk in non-life insurance contracts (Cont.)

C. The use of actuarial methods which are based on the development of claims, is for the most part appropriate when stable and sufficient information exists regarding claim payments and/or individual estimates in order to estimate the total projected cost of claims. When the available information regarding actual claims experience is insufficient, the actuary will at times use a calculation that weighs a known approximation (in the Company and/or in the branch), such as the loss ratio, against the actual development of claims. A greater weight is given to an estimate based on claims experience as time passes, and as additional information regarding the claims is accumulated.

D. Additionally, qualitative estimates and judgments are prepared with respect to the degree to which past trends will not continue in the future. For example: due to a one-time event, internal changes such as a change in the portfolio mix, in the underwriting policy, in the claims handling policies, and with respect to the impact of external factors, such as legal ruling, legislation, etc. When changes as above are not fully reflected in past experience, the actuary updates the models and/or performs specific provisions based on statistical and/or legal estimates, as relevant.

E. In a number of large claims with non-statistical characteristics, the reserve is determined (gross and retention) based on the opinion of experts in Clal Insurance, and in accordance with the recommendations of their legal counsel.

F. The share of reinsurers in outstanding claims is estimated in consideration of the agreement type (relative / non-relative), actual claims experience and premiums transferred to reinsurers.

G. The estimate of outstanding claims for Clal Insurance's share in the Pool, in incoming business and in joint insurances which are received from other insurance companies (leading insurers), was based on a calculation performed by the Pool or by the leading insurers, or on a separate calculation in the Company.

(3) Details of actuarial methods in the main insurance branches in non-life insurance

For the purpose of evaluating outstanding claims, use was made of the following actuarial models, in combination with the various assumptions:

A. Chain ladder- This method is based on the historical development of claims (development of payments and/or development of the payment amounts and individual claim estimates, development of claim amounts, etc.) in order to estimate the projected development of current and future claims. The use of this method is primarily appropriate after passage of a sufficient period from the event or the policy underwriting, when sufficient information exists from past claims to estimate the amount of projected claims.

B. Bornhuetter-Ferguson- This method combines an a priori estimate which is known among the consolidated insurance companies or in the branch, and an additional estimate, which is based on the claims themselves. The preliminary estimate is used in premiums and damage rates to estimate the total amount of all claims. The second estimate uses actual claims experience, based on other methods (such as Chain Ladder). The integrated claims estimate weighs both estimated figures, with a greater weight given to the estimate that is based on past claims experience as time passes, and as additional information regarding the claims is accumulated. The used of this method is for the most part suitable in cases where insufficient claims information exists, or where the business in question is new, or does not have sufficient historical information.

C. Averages - At times, similarly to the Bornhuetter-Ferguson method, when the claims experience in past periods is insufficient, use is made of the historical average method. When using this method, the cost of claims is determined based on the claim cost per policy in earlier years, and on the amount of policies in the later years. Similarly, the cost of claims is calculated based on the forecasted amount of claims (the chain ladder method) and on the historical average of claims.

D. Other - For professional illness type claims in employers' liability insurance, which are claims based on continuing damages, a provision is calculated based on projected future cost. Such claims include no specific date in which the worker was injured, and the formation of the damage is as a result of prolonged exposure to risk factors. Claims of this kind are characterized by a very long period following the exposure to the risk factors (the insurer's exposure) until reporting of the claim (long-tail claims). This pattern of the rate of reporting and of the insurer's exposure to continuing damages requires a provision for each exposure year in employers' liability insurance, even if no claims were reported, or if the policy expired many years ago.

Note 39: Risk Management (Cont.)

E. Insurance risks (Cont.)

E2. Insurance risk in non-life insurance contracts (Cont.)

(3) Details of actuarial methods in the main insurance branches in non-life insurance (Cont.)

In the motor property, comprehensive apartment and personal accidents branches, a payment development model was used for payments and gross contingencies. For periods which have not yet reached maturity, the averages method and the Bornhuetter-Ferguson method were used. The model is calculated in terms of gross claims. The estimate of the share of reinsurers, insofar as it is relevant, is done in accordance with the estimate of specific claims plus IBNR, according to the gross IBNR rate which was determined in the actuarial model.

In the compulsory motor and liabilities branches, semi-annual models were used for the development of payments, and the development of payments and contingencies. For periods which have not reached maturity, the Bornhuetter-Ferguson and/or the Expected Loss Ratio methods are used. The claims development model in the liabilities branches is based on net claims from facultative reinsurance. The estimated share of reinsurers in the non-relative contract is obtained based on an estimation of individual outstanding claims for old years, and according to the loss ratio for recent years.

In the loss of property and engineering branches, an annual development model was prepared based on payments and contingencies.

In branches for which no actuarial valuation was performed, including the branches for cargo shipping insurance, marine insurance, aviation insurance, guarantees, credit risks and incoming business, outstanding claims were included according to expert estimates, as described in Note 3(d)(2)(d), in section 4.2.

In the investment insurance branch for apartment buyers, in accordance with the Reserve Calculation Regulations, and in accordance with an evaluation which was conducted by the Company through an independent expert, the reserve for net surplus revenues is calculated cumulatively over 3 years, which, according to the Company's estimate, represents the required degree of conservatism according to best practices.

(4) Main assumptions used for the purpose of the actuarial estimate

A. The reserves for outstanding claims in the compulsory motor, liabilities and personal accidents branches are discounted according to the annual real interest rate determined by the chief actuary. As part of the process of preparing the financial statements, the actuary evaluates, on a quarterly basis, the discount rate for the indicators, including:

- Returns in the portfolio of assets held against insurance liabilities, following an amortization with respect to expected credit defaults;
- Market returns - as reflected in the "deposit yield curve", in accordance with average lifetime and the investments' rating in the portfolio.

These indicators are also evaluated in combination with the evaluation of macro-economic assessments with respect to long term developments in the interest rate environment, and with respect to the average lifetime of the relevant liabilities.

The Company may decide to change the discount rate as part of the overall evaluation of the adequacy of the insurance liabilities, as a result of material and ongoing changes in the risk-free interest rate and/or in the rate of return of the portfolio of assets held against liabilities in non-life insurance and/or changes in market returns.

In the years 2016-2019, no change occurred in the discount interest rate, and it stands at 1.30%.

The amortization with respect to discounting on retention in Clal Insurance, as of the date of the update to the actuarial model amounted to approximately NIS 109 million during the reporting year (last year - approximately NIS 113 million).

B. In the compulsory motor, liabilities and student personal accidents branches, an addition was included with respect to the risk margin (standard deviation) which underlies the reserve.

The total addition on retention in Clal Insurance, as of the date of the update to the various actuarial models, amounted to approximately NIS 182 million (last year - approximately NIS 186 million).

C. When necessary, Clal Insurance adds a claim tail to the analysis of payment developments. In the analysis of the development of payment amounts and outstanding individual claims, actuarial judgment for the most part does not allow negative IBNR on the level of each underwriting year.

D. See also Note 19(c).

E. Implementation of the Commissioner's position was implemented in connection with best practices in the calculation of insurance reserves in non-life insurance (hereinafter: the "Practice"), which serves as the basis for determining a minimum amount for the required reserves.

The policy includes, inter alia, the following determinations:

1. "Applying caution" means, with respect to a reserve which was calculated by an actuary, that an "adequate reserve to cover the insurer's liabilities" signifies that it is fairly likely that the determined insurance liability will suffice to cover the insurer's liabilities. Regarding outstanding claims in compulsory and liabilities branches, the evaluation of "fairly likely" will mean an estimated likelihood

of at least 75%.

Note 39: Risk Management (Cont.)

E. Insurance risks (Cont.)

E2. Insurance risk in non-life insurance contracts (Cont.)

(4) Main assumptions used for the purpose of creating the actuarial valuation (Cont.)

E. (Cont.)

1. (Cont.)
   However, insofar as there are restrictions in the statistical analysis, the actuary will exercise judgment, and will take into account, for example, the following considerations:
   A. Random risk (risk of random deviation from the results of the actuarial model)
   B. Systemic risk (risks which are not included in the model, such as risk of use of an incorrect model or incorrect parameters, or external changes which are not reflected in the model).
   The appropriate discount interest rate used to evaluate caution is in accordance with the risk free interest curve which is adjusted to the illiquid nature of the liabilities. This evaluation also requires taking into account the revaluation method used in the financial statements for assets held against liabilities.
2. Selection of a discount rate for the flow of liabilities.
3. Grouping - for the purpose of the principle of caution in non-grouped branches (as defined in the circular - non-grouped branches), it is necessary to address each branch separately, although it is possible to group together all of the underwriting (or damage) years in the branch. In grouped (grouped) branches, all can be addressed as a single unit. Additionally, it is possible to take into account the absence of a complete correspondence between the various branches for the purpose of reducing the total margin.
4. The determination of the amount of insurance liabilities with respect to policies which were sold in time frames proximate to the balance sheet date and the risks which have not yet passed.

It is noted that in accordance with the LAT circular, the implementation of the principle of caution, as stated above, constitutes sufficient calculation for the purpose of the liability adequacy test in non-life insurance.

F. National Insurance annuity discount rate

In June 2014, an inter-ministerial committee led by the Hon. Judge (Emeritus) Dr. Eliyahu Winograd was appointed in order to evaluate a correction to the life expectancy tables and the interest rate which is used to discount annuities in accordance with the National Insurance Regulations (Discounting), 1978 (the "**Discounting Regulations**" and the "**Committee**"). In June 2016, an amendment to the Regulations (hereinafter: the "**Amendment**") was published which includes, inter alia, updates to the mortality tables and the discount rates which are used to calculate the aforementioned annuities.

The Discounting Regulations formalize, inter alia, the discount rate which is used to calculate the subrogation claims which are submitted by National Insurance towards third parties, in accordance with the right which is conferred upon it by virtue of the National Insurance Law (Consolidated Version), 1995 (hereinafter: the "**Law**"), in cases where the event constitutes grounds to charge the third party in accordance with the Civil Wrongs Ordinance or the RAVC law.

In accordance with the amendment, the interest rate for the purpose of determining the annual annuity will be 2% instead of 3%, as specified in the Discounting Regulations prior to the amendment. The amendment also determines that the mortality tables and annuity discount rates will be updated again on January 1, 2020, and once every four years thereafter.

Note 39: Risk Management (Cont.)

E. Insurance risks (Cont.)

E2. Insurance risk in non-life insurance contracts (Cont.)

(4) Main assumptions used for the purpose of creating the actuarial valuation (Cont.)

F. National Insurance annuity discount rate (Cont.)

The amendment to the Discounting Regulations entered into effect in October 2017, and led to an evaluation by the courts of the effect of the aforementioned change in the discount rate, including with respect to compulsory and liabilities insurance. This matter was presented to the Supreme Court for a decision, as part of a specific case which was conducted against the Pool (hereinafter: the "**Specific Case**"). In April 2018, an inter-ministerial committee was established (by the Ministry of Justice and the Ministry of Finance) for the purpose of evaluating the subject of the discount rate for tort damages, for all intents and purposes, which submitted its conclusions in June 2019 (hereinafter: the "**Kaminetz Committee Report**"). The Kaminetz Committee recommended, inter alia, that the discount rate for tort damages which is used, among other purposes, to discount insurance benefits for policyholders, be kept at the fixed rate of 3% for all injured parties (hereinafter: the "**Determined Discount Rate**"). It also recommended to allow changes to the determined discount rate, according to an evaluation mechanism which will be implemented once every two years, based on an evaluation of the returns which are received from investment in AA rated corporate bonds, over a period of 25 years, during the half year preceding the aforementioned date. Insofar as a deviation of over one percent in either direction has been identified, the interest rate will be updated by the Accountant General (hereinafter: the "**Update Mechanism**"), except in extraordinary circumstances, as specified in the committee's recommendations. In August 2019, a ruling was given regarding the specific case, which adopted the main conclusions of the Kaminetz Committee report (hereinafter: the "**Ruling**"), and which kept the discount rate at 3%. The Court also determined that until a legislative amendment on the matter, for the purpose of evaluating a significant economic change which requires a change in the discount rate, it will adopt the update mechanism. It was further determined in the ruling, with respect to the discount rates which will be used by insurers for the purpose of deducting National Insurance Institute compensation from the policyholders, and for the purpose of paying subrogation claims to the National Insurance Institute, that during the interim period, until the amendment to the Discounting Regulations, according to the committee's recommendations, the insurers' consent to deduct National Insurance Institute compensation from insurance benefits for policyholders, according to a discount rate of 3%, will remain in effect. However, it was determined that in light of the damage caused to the injuring parties (including the insurance companies), it is presumed that, until the amendment to the Discounting Regulations, National Insurance will also have recourse to the injuring party, through a demand according to a discount rate of 3% (hereinafter: "Subrogation Claims of the National Insurance Institute"). At this stage, an agreement has not yet been reached with National Insurance on the matter.
A motion to conduct an additional hearing, which has not yet taken place, was filed with respect to the ruling in September 2019.

The ruling's impact on the financial results during the reporting period, without addressing, at this stage, also a possible change, in accordance with the Supreme Court's recommendation, regarding the discount rate with respect to the payment of National Insurance subrogation claims, is a reduction of the insurance reserves in the amount of approximately NIS 122 million, before tax, as compared with a decrease of approximately NIS 52 million last year. The balance of the provision as of December 31, 2019 amounted to approximately NIS 45 million before tax.

At this stage, before the Supreme Court has given a decision regarding the motion for an additional hearing on the subject of the discount rate for tort damages, and before the legislator has decided regarding the Discounting Regulations, in light of the gap which was created, as stated above, and in light of the update mechanism, the uncertainty regarding the possibilities of evaluating deviations from the mobility band, which would affect the Company's liabilities, and in consideration of the developments in the interest rate environment after the balance sheet date, as specified in Note 43(k) to the financial statements, it is not possible to predict the impact on insurance liabilities.

Note 39: Risk Management (Cont.)

F. Credit risks

1. Distribution of debt assets by location

	As of December 31, 2019		
NIS in thousands	Marketable *)	Non-marketable	Total
In Israel	**5,760,370**	**22,325,971**	**28,086,341**
Foreign	**175,038**	**143,887**	**318,925**
Total debt assets	**5,935,408**	**22,469,858**	**28,405,266**

	As of December 31, 2018		
NIS in thousands	Marketable *)	Non-marketable	Total
In Israel	4,876,880	21,764,827	26,641,707
Foreign	354,982	225,516	580,498
Total debt assets	5,231,862	21,990,343	27,222,205

*) For additional details regarding marketable debt assets, see Note 14(a).
See also section 2 below for details regarding assets distributed by ratings, as presented below.
It is noted that the data presented above are not with respect to debt assets for investment-linked contracts. For details regarding financial investments for investment-linked contracts, see section G below.

Note 39: Risk Management (Cont.)

F. Credit risks (Cont.)

2. Details of assets by rating

A.1. Debt assets

	Local rating *)				
	As of December 31, 2019				
NIS in thousands	AA or higher	A to BBB	Lower than BBB-	Unrated	Total
Debt assets in Israel					
Marketable debt assets					
Government bonds	**3,642,843**	**-**	**-**	**-**	**3,642,843**
Corporate bonds	**1,675,632**	**425,511**	**-**	**16,384**	**2,117,527**
Total marketable debt assets in Israel	**5,318,475**	**425,511**	**-**	**16,384**	**5,760,370**
Non-marketable debt assets					
Government bonds	**16,295,186**	**-**	**-**	**-**	**16,295,186**
Corporate bonds	**552,588**	**86,420**	**-**	**36,822**	**675,830**
Deposits in banks and financial institutions	**736,275**	**-**	**-**	**-**	**736,275**
Other debt assets by type of collateral:					
Mortgages	**-**	**-**	**-**	**2,503,643**	**2,503,643**
Loans on policies	**-**	**-**	**-**	**14,817**	**14,817**
Loans secured by real estate	**-**	**232,922**	**-**	**393,292**	**626,214**
Secured by bank guarantee	**130,262**	**-**	**-**	**-**	**130,262**
Loans secured by control shares	**30,458**	**30,417**	**-**	**27,816**	**88,691**
Secured by a lien on vehicles	**-**	**1,915**	**-**	**-**	**1,915**
Other collateral	**667,382**	**305,380**	**-**	**242,079**	**1,214,841**
Unsecured	**31,854**	**-**	**-**	**6,443**	**38,297**
Total non-marketable debt assets in Israel	**18,444,005**	**657,054**	**-**	**3,224,912**	**22,325,971**
Total debt assets in Israel	**23,762,480**	**1,082,565**	**-**	**3,241,296**	**28,086,341**
Of which - internally rated debt assets	**-**	**232,922**	**-**	**-**	**232,922**
Of which - debt assets which fulfill the principal and interest test only **)	**23,762,480**	**1,082,565**	**-**	**3,180,952**	**28,025,997**

*) The sources for rating levels in Israel are Maalot, Midroog and internal ratings. The Midroog data was converted to rating symbols using commonly accepted conversion ratios. Each rating includes all ranges, for example, the A rating includes A- to A+.

**) For details regarding debt assets which fulfill the principal and interest test, see Note 14(g).

Note 39: Risk Management (Cont.)

F. Credit risks (Cont.)

2. Details of assets by rating (Cont.)

A.1. Debt assets (Cont.)

	International rating *)				
	As of December 31, 2019				
NIS in thousands	A or higher	BBB	Lower than BBB-	Unrated	Total
Foreign debt assets					
Marketable debt assets					
Government bonds	**20,291**	**27,963**	**-**	**-**	**48,254**
Corporate bonds	**-**	**65,393**	**61,391**	**-**	**126,784**
Total foreign marketable debt assets	**20,291**	**93,356**	**61,391**	**-**	**175,038**
Non-marketable debt assets					
Loans secured by real estate	**-**	**-**	**-**	**89,234**	**89,234**
Other debt assets	**-**	**-**	**-**	**54,653**	**54,653**
Total foreign non-marketable debt assets	**-**	**-**	**-**	**143,887**	**143,887**
Total foreign debt assets **)	**20,291**	**93,356**	**61,391**	**143,887**	**318,925**
Of which - debt assets which fulfill the principal and interest test only ***)	**20,291**	**40,349**	**29,163**	**143,887**	**233,690**

*) All foreign rated debt assets were rated by recognized foreign rating agencies. Each rating includes all ranges, for example, the A rating includes A- to A+.

**) The Group has no financial guarantees which are not treated as insurance contracts.

***) For details regarding debt assets which fulfill the principal and interest test, see Note 14(g).

Note 39: Risk Management (Cont.)

F. Credit risks (Cont.)

2. Details of assets by rating (Cont.)

A.1. Debt assets (Cont.)

	Local rating *)				
	As of December 31, 2018				
NIS in thousands	AA or higher	A to BBB	Lower than BBB-	Unrated	Total
Debt assets in Israel					
Marketable debt assets					
Government bonds	3,170,461	-	-	-	3,170,461
Corporate bonds	1,443,552	222,321	4,668	35,878	1,706,419
Total marketable debt assets in Israel	4,614,013	222,321	4,668	35,878	4,876,880
Non-marketable debt assets					
Government bonds	15,775,836	-	-	-	15,775,836
Corporate bonds	537,939	95,012	836	39,116	672,903
Deposits in banks and financial institutions	759,554	736	-	-	760,290
Other debt assets by type of collateral:					
Mortgages	-	-	-	2,534,545	2,534,545
Loans on policies	-	-	-	16,737	16,737
Loans secured by real estate	-	225,098	-	217,863	442,961
Secured by bank guarantee	121,353	-	-	-	121,353
Loans secured by control shares	41,399	955	-	19,134	61,488
Other collateral	661,195	391,875	1,462	266,894	1,321,426
Unsecured	40,120	3,235	-	13,933	57,288
Total non-marketable debt assets in Israel	17,937,396	716,911	2,298	3,108,222	21,764,827
Total debt assets in Israel	22,551,409	939,232	6,966	3,144,100	26,641,707
Of which - internally rated debt assets	-	203,789	-	-	203,789
Of which - debt assets which fulfill the principal and interest test only **)	22,551,409	922,694	6,130	3,086,997	26,567,230

*) The sources for rating levels in Israel are Maalot, Midroog and internal ratings. The Midroog data was converted to rating symbols using commonly accepted conversion ratios. Each rating includes all ranges, for example, the A rating includes A- to A+.

**) For details regarding debt assets which fulfill the principal and interest test, see Note 14(g).

Note 39: Risk Management (Cont.)

F. Credit risks (Cont.)

2. Details of assets by rating (Cont.)

A.1. Debt assets (Cont.)

	International rating *)				
	As of December 31, 2018				
NIS in thousands	A or higher	BBB	Lower than BBB-	Unrated	Total
Foreign debt assets					
Marketable debt assets					
Government bonds	23,443	178	-	-	23,621
Corporate bonds	5,217	241,413	84,731	-	331,361
Total foreign marketable debt assets	28,660	241,591	84,731	-	354,982
Non-marketable debt assets					
Loans secured by real estate	-	-	-	225,482	225,482
Other debt assets	-	-	-	34	34
Total foreign non-marketable debt assets	-	-	-	225,516	225,516
Total foreign debt assets **)	28,660	241,591	84,731	225,516	580,498
Of which - debt assets which fulfill the principal and interest test only ***)	28,660	165,417	52,297	225,516	471,890

*) All foreign rated debt assets were rated by recognized foreign rating agencies. Each rating includes all ranges, for example, the A rating includes A- to A+.

**) The Group has no financial guarantees which are not treated as insurance contracts.

***) For details regarding debt assets which fulfill the principal and interest test, see Note 14(g).

The following table presents a comparison between the fair value and the book value of the assets which fulfill the principal and interest test, which do not have a low credit risk. Book value is measured in accordance with IAS 39, but before the provision for impairment.

NIS in thousands	Balance as of December 31, 2019		Balance as of December 31, 2018	
	Book value	Fair value	Book value	Fair value
Marketable debt assets	**29,163**	**29,163**	56,965	56,965
Non-marketable debt assets	**117,896**	**46,686**	135,676	54,410

Note 39: Risk Management (Cont.)

F. Credit risks (Cont.)

2. Details of assets by rating (Cont.)

A.2. Credit risks with respect to other assets (in Israel)

	Local rating *)			
	As of December 31, 2019			
NIS in thousands	AA or higher	A to BBB	Unrated	Total
Other accounts receivable, excluding reinsurer balances	**14,799**	**726**	**203,589**	**219,114**
Deferred tax assets	**-**	**-**	**9,953**	**9,953**
Other financial investments	**34,541**	**5,537**	**43,425**	**83,503**
Cash and cash equivalents	**2,466,963**	**42,204**	**-**	**2,509,167**
Total	2,516,303	48,467	256,967	2,821,737

	Local rating *)			
	As of December 31, 2018			
NIS in thousands	**AA or higher**	**A to BBB**	**Unrated**	**Total**
Other accounts receivable, excluding reinsurer balances	49,704	-	186,822	236,526
Deferred tax assets	-	-	6,554	6,554
Other financial investments	10,718	-	29,106	39,824
Cash and cash equivalents	1,236,186	40,095	-	1,276,281
Total	1,296,608	40,095	222,482	1,559,185

*) The sources for rating levels in Israel are Maalot, Midroog and internal ratings. The Midroog data was converted to rating symbols using commonly accepted conversion ratios. Each rating includes all ranges, for example, the A rating includes A- to A+.

A.3. Credit risks with respect to off-balance sheet instruments (in Israel)**)

	Local rating *)			
	As of December 31, 2019			
NIS in thousands	AA or higher	A to BBB	Unrated	Total
Unused credit lines	**5,252**	**164,998**	**667,914**	**838,164**

	Local rating *)			
	As of December 31, 2018			
NIS in thousands	**AA or higher**	**A to BBB**	**Unrated**	**Total**
Unused credit lines	-	45,398	851,236	896,634

*) The sources for rating levels in Israel are Maalot, Midroog and internal ratings. The Midroog data was converted to rating symbols using commonly accepted conversion ratios. Each rating includes all ranges, for example, the A rating includes A- to A+.

**) The Group has no financial guarantees which were given in Israel and which are not treated as insurance contracts.

Note 39: Risk Management (Cont.)

F. Credit risks (Cont.)

2. Details of assets by rating (Cont.)

A.4. Credit risks with respect to other assets (foreign)

	International rating *)				
	As of December 31, 2019				
NIS in thousands	A or higher	BBB	Lower than BBB-	Unrated	Total
Other accounts receivable, excluding reinsurer balances	**192,368**	**-**	**-**	**-**	**192,368**
Other financial investments	**163,409**	**7,077**	**-**	**144**	**170,630**
Cash and cash equivalents	**49,550**	**-**	**-**	**-**	**49,550**
Total	**405,327**	**7,077**	**-**	**144**	**412,548**

	International rating *)				
	As of December 31, 2018				
NIS in thousands	A or higher	BBB	Lower than BBB-	Unrated	Total
Other accounts receivable, excluding reinsurer balances	5,951	4,713	-	162,492	173,156
Other financial investments	104,245	8	-	199,318	303,571
Cash and cash equivalents	22,005	-	-	-	22,005
Total	132,201	4,721	-	361,810	498,732

*) All foreign rated debt assets were rated by recognized foreign rating agencies. Each rating includes all ranges, for example, the A rating includes A- to A+.

A.5. Credit risks with respect to off-balance sheet instruments (foreign) **)

	International rating *)				
	As of December 31, 2019				
NIS in thousands	A or higher	BBB	Lower than BBB-	Unrated	Total
Unused credit lines	**-**	**-**	**-**	**13,634**	**13,634**

	International rating *)				
	As of December 31, 2018				
NIS in thousands	A or higher	BBB	Lower than BBB-	Unrated	Total
Unused credit lines	-	-	-	71,957	71,957

*) All foreign rated debt assets were rated by recognized foreign rating agencies. Each rating includes all ranges, for example, the A rating includes A- to A+.

**) The Group has no financial guarantees which were given abroad and which are not treated as insurance contracts.

Note 39: Risk Management (Cont.)

3. **Additional information regarding the rating of debt assets**

   Internal rating is based on a model formulated by Clal Insurance. Clal Insurance periodically conducts validation of the internal model against the ratings of external rating agencies, and other credit rating models. These tests showed a good correlation between the internal rating and the external criteria. Additionally, the model was monitored by external entities which approved the ability to rely on the internal rating model.

4. The information presented in this note regarding credit risks does not include assets for investment-linked contracts, which are presented in section G below.
5. For details regarding balances of outstanding premiums, see Note 12.
6. For details regarding the aging of investments in non-marketable financial debt assets, see Note 14(b)(2).
7. **Details regarding the exposure to industry branches with respect to investments in marketable and non-marketable financial debt assets**

	As of December 31, 2019		
NIS in thousands	Amount	% of total	Off-balance sheet risk
Market branch			
Industry	**36,384**	**0%**	**-**
Construction and real estate	**2,345,218**	**8%**	**637,679**
Electricity and water	**1,015,207**	**4%**	**44,435**
Trading	**506**	**0%**	**-**
Telecommunications and IT services	**139,840**	**0%**	**-**
Banks	**1,526,498**	**5%**	**-**
Financial services	**189,117**	**1%**	**-**
Other business services	**93,597**	**0%**	**-**
Public services	**422,998**	**1%**	**-**
Private individuals	**2,649,618**	**11%**	**169,684**
Government bonds	**19,986,283**	**70%**	**-**
Total	**28,405,266**	**100%**	**851,798**

	As of December 31, 2018		
NIS in thousands	Amount	% of total	Off-balance sheet risk
Market branch			
Industry	105,631	%0	-
Construction and real estate	1,707,124	%6	641,098
Electricity and water	1,279,622	%5	81,988
Trading	5,614	%0	-
Telecommunications and IT services	88,950	%0	-
Banks	1,615,651	%6	-
Financial services	288,264	%1	-
Other business services	123,078	%0	-
Public services	313,662	%1	-
Private individuals	2,724,691	%11	245,505
Government bonds	18,969,918	%70	-
Total	27,222,205	%100	968,591

Note 39: Risk Management (Cont.)

F. Credit risks (Cont.)

8. Reinsurance

A. Policy of Clal Insurance regarding the management of credit risks in connection with reinsurers

Clal Insurance Group insures some of its business operations in reinsurance, mostly through foreign reinsurers. However, the reinsurance does not release the consolidated insurance companies from their obligation towards their policyholders according to the insurance policies.

The Group is exposed to risks arising from uncertainty regarding the ability of reinsurers to pay their share in liabilities with respect to insurance contracts (reinsurance assets), and their debts with respect to claims paid. This current exposure is managed via ongoing monitoring of the reinsurer's position in the global market, and of its fulfillment of its financial liabilities.

In accordance with the instructions issued by the Commissioner, the boards of directors of the consolidated insurance companies determine, once per year, maximum exposure frameworks to specific reinsurers and to groups of reinsurers, with which Clal Insurance Group has entered / will enter into contractual agreements, based on their international ratings. These exposures are managed by means of case-by-case evaluations of the reinsurers to which exposure is material, and by monitoring indicators of the risk level relative to all reinsurers with which Clal Insurance is engaged. The risk management unit conducts quarterly monitoring of the exposures to reinsurers which are reported to it, monitors the financial position of the large reinsurers based on various data, including from international capital markets, and conducts credit monitoring of analyses which were performed with respect to specific reinsurers. The risk management unit reports to the boards of directors on a quarterly basis regarding the exposure relative to the defined limits.

The exposures of these companies are also distributed between different reinsurers, with the primary ones being to reinsurers with high international ratings.

As a result of the implementation of the policy described above, the concentration of exposure to any single reinsurer is not high, however, the Company may be exposed to concentrated credit risk with respect to a single reinsurer in case of a catastrophic event.

Note 39: Risk Management (Cont.)

F. Credit risks (Cont.)

8. Reinsurance (Cont.)

B. Information regarding exposure to credit risks of reinsurers

As of December 31, 2019

			Reinsurance assets less reinsurers' share of deferred acquisition costs								Debts in arrears	
NIS in thousands	**Total premiums for reinsurers in 2019**	**Debit (credit) balances, net 2)**	**In life insurance**	**In health insurance**	**In property insurance**	**In liabilities insurance**	**Total reinsurance assets**	**Deposits of reinsurers**	**Total letters of credit received from reinsurers**	**Total exposure 1)**	**Six months to one year**	**Over one year**
Rating group												
AA												
Swiss Re	**252,503**	**(83,694)**	**120,630**	**27,987**	**165,601**	**102,819**	**417,037**	**121,841**	**57,311**	**154,191**	**-**	**-**
Munich Re	**218,926**	**(30,705)**	**66,761**	**24,889**	**51,182**	**298,059**	**440,891**	**214,129**	**-**	**196,057**	**-**	**-**
Others	**400,498**	**92,741**	**30,791**	**346,653**	**187,480**	**764,535**	**1,329,459**	**579,157**	**1,441**	**841,602**	**22,932**	**498**
Total	**871,927**	**(21,658)**	**218,182**	**399,529**	**404,263**	**1,165,413**	**2,187,387**	**915,127**	**58,752**	**1,191,850**	**22,932**	**498**
A	**458,741**	**6,859**	**1,606**	**204,268**	**363,057**	**653,175**	**1,222,106**	**313,739**	**21,004**	**894,222**	**568**	**361**
BBB	**-**	**15**	**-**	**-**	**56**	**71**	**127**	**-**	**-**	**142**	**-**	**15**
Lower than BBB- or unrated	**3,777**	**(752)**	**337**	**-**	**288**	**51,768**	**52,393**	**-**	**-**	**51,641**	**7**	**141**
Total	**1,334,445**	**(15,536)**	**220,125**	**603,797**	**767,664**	**1,870,427**	**3,462,013**	**1,228,866**	**79,756**	**2,137,855**	**23,507**	**1,015**

Note 39: Risk Management (Cont.)

F. Credit risks (Cont.)

8. Reinsurance (Cont.)

B. Information regarding exposure to credit risks of reinsurers (Cont.)

As of December 31, 2018

			Reinsurance assets less reinsurers' share of deferred acquisition costs								Debts in arrears	
NIS in thousands	Total premiums for reinsurers in 2018	Debit (credit) balances, net [2]	In life insurance	In health insurance	In property insurance	In liabilities insurance	Total reinsurance assets	Deposits of reinsurers	Total letters of credit received from reinsurers	Total exposure [1]	Six months to one year	Over one year
Rating group												
AA												
SCOR	239,119	97,140	-	377,172	21,502	83,272	481,946	400,103	-	178,983	-	-
Munich Re	217,599	(33,062)	58,269	21,137	54,122	189,617	323,145	157,361	-	132,722	-	-
Swiss Re	180,987	(29,241)	99,407	22,995	100,876	107,450	330,728	127,646	57,460	116,381	-	-
Others	301,836	(32,095)	28,243	10,522	100,331	475,422	614,518	125,481	6,256	450,686	367	312
Total	939,541	2,742	185,919	431,826	276,831	855,761	1,750,337	810,591	63,716	878,772	367	312
A												
Lloyd's	70,997	(9,347)	-	96	41,316	160,809	202,221	9	-	192,865	-	-
Others	433,441	29,222	1,309	253,904	276,557	365,291	897,061	350,860	24,953	550,470	1,204	299
Total	504,438	19,875	1,309	254,000	317,873	526,100	1,099,282	350,869	24,953	743,335	1,204	299
BBB	3	15	-	-	60	77	137	-	-	152	-	15
Lower than BBB- or unrated	4,703	(1,385)	408	-	787	36,451	37,646	-	-	36,261	31	198
Total	1,448,685	21,247	187,636	685,826	595,551	1,418,389	2,887,402	1,161,460	88,669	1,658,520	1,602	824

1) The total exposure to reinsurers equals total insurance assets (share of reinsurers in liabilities with respect to insurance contracts, less deferred acquisition costs for reinsurance), less deposits and less the sum of letters of credit received from reinsurers as collateral to secure their liabilities, plus (less) current net debit (credit) balances.

2) Following an amortization of the provision for doubtful debts in the amount of approximately NIS 6,231 thousand (last year: NIS 7,427 thousand). The balances do not include balances of insurance companies with respect to current insurance.

3) Total provisions for doubtful debts, plus the reduction of the share of reinsurers in liabilities with respect to insurance contracts, amounted to a total of approximately NIS 7,413 thousand (last year: NIS 8,610 thousand), which constitutes 0.3% (last year: 0.5%) of the overall exposure.

4) The rating was primarily determined by the rating company S&P. In cases where a rating has not been given by S&P, the rating is determined by another rating company, and the rating was converted according to the index prescribed in the Ways of Investment Regulations.

5) The total exposure of reinsurers to an earthquake event with an MPL of 1.5% to 3.15% of the insurance amount, according to the insurance branches and the characteristics of the insured property, is NIS 10,141 million (last year: MPL of 1.5% to 2.9% of the insurance amount, according to the insurance branches and the characteristics of the insured property, in the amount of NIS 9,673 million) of which the reinsurer's most material share in the exposure is 16.4% (last year: 15.95%).

6) There are no additional reinsurers beyond those specified above, the exposure to which exceeds 10% of the total exposure of reinsurers in non-life insurance, or where the premiums with respect to them exceeds 10% of the total premiums for reinsurance in non-life insurance for 2019.

7) The unrated group includes balances with respect to outstanding claims through brokers up to and including 2003, the exposure to which amounted to approximately NIS 65 thousand (last year: NIS 19 thousand).

8) The data includes balances of companies in Israel which were included in accordance with the rating conversion table as specified in section 4 above, in the amount of approximately NIS (71) thousand (last year: NIS (152) thousand).

Note 39: Risk Management (Cont.)

G. Information regarding financial investments for investment-linked contracts

1. Details regarding the composition of investments by linkage bases

		As of December 31, 2019			
NIS in thousands	Unlinked	CPI-linked	In foreign currency or linked thereto *)	Non-monetary items and others	Total
Cash and cash equivalents	6,115,096	-	439,549	-	6,554,645
Marketable assets	11,564,676	12,402,598	6,433,965	20,671,547	51,072,786
Non-marketable assets	1,459,671	4,478,448	923,060	4,463,496	11,324,675
Total assets	19,139,443	16,881,046	7,796,574	25,135,043	68,952,106

		As of December 31, 2018			
NIS in thousands	Unlinked	CPI-linked	In foreign currency or linked thereto *)	Non-monetary items and others	Total
Cash and cash equivalents	3,508,640	-	140,259	-	3,648,899
Marketable assets	9,615,830	14,118,525	6,609,948	17,559,231	47,903,534
Non-marketable assets	1,056,563	4,281,490	1,141,350	3,802,296	10,281,699
Total assets	14,181,033	18,400,015	7,891,557	21,361,527	61,834,132

*) The USD is a major foreign currency.

2. Credit risk for assets in Israel

As of December 31, 2019

		Local rating *)			
NIS in thousands	AA or higher	A to BBB	Lower than BBB-	Unrated	Total **)
Debt assets in Israel:					
Government bonds	14,343,641	-	-	-	14,343,641
Other debt assets - marketable	7,664,779	1,215,255	11,604	67,379	8,959,017
Other debt assets - non-marketable	3,277,770	1,451,766	-	1,442,759	6,172,295
Total debt assets in Israel	25,286,190	2,667,021	11,604	1,510,138	29,474,953
Of which - internally rated debt assets	-	466,202	-	-	466,202

As of December 31, 2018

		Local rating *)			
NIS in thousands	AA or higher	A to BBB	Lower than BBB-	Unrated	Total **)
Debt assets in Israel:					
Government bonds	15,370,063	-	-	-	15,370,063
Other debt assets - marketable	6,412,137	1,273,272	23,816	108,006	7,817,231
Other debt assets - non-marketable	3,361,582	1,398,418	2,531	942,853	5,705,384
Total debt assets in Israel	25,143,782	2,671,690	26,347	1,050,859	28,892,678
Of which - internally rated debt assets	-	328,892	-	-	328,892

*) The sources for rating levels in Israel are Maalot, Midroog and internal ratings. The Midroog data was converted to rating symbols using commonly accepted conversion ratios. Each rating includes all ranges, for example, the A rating includes A- to A+.

**) The book value constitutes an approximation of the maximum credit risk. Therefore, the total column represents maximum credit risk.

Note 39: Risk Management (Cont.)

G. Information regarding financial investments for investment-linked contracts (Cont.)

3. Credit risk for foreign assets

As of December 31, 2019

	International rating *)				
NIS in thousands	**A or higher**	**BBB**	**Lower than BBB-**	**Unrated**	**Total **)**
Total foreign debt assets	**156,757**	**2,220,649**	**1,127,349**	**448,605**	**3,953,360**

As of December 31, 2018

	International rating *)				
NIS in thousands	**A or higher**	**BBB**	**Lower than BBB-**	**Unrated**	**Total **)**
Total foreign debt assets	**327,687**	**2,143,623**	**1,027,291**	**527,692**	**4,026,293**

*) All foreign rated debt assets were rated by recognized international rating agencies. Each rating includes all ranges, for example: an A rating includes A- to A+.

**) The book value constitutes an approximation of the maximum credit risk. Therefore, the total column represents maximum credit risk.

Note 39: Risk Management (Cont.)

H. Geographical risks

As of December 31, 2019

NIS in thousands	Government bonds	Corporate bonds	Stocks	ETF's / mutual funds *)	Mutual funds	Investment property	Other investments	Total balance sheet exposure	Derivatives in delta terms	Total
Israel	19,958,268	2,832,238	1,072,552	73,678	-	938,391	8,690,225	33,565,352	39,366	33,604,718
USA	-	63,848	259,291	490,604	122,705	176,819	1,264,254	2,377,521	8,018	2,385,539
Great Britain	-	-	-	-	-	-	536,475	536,475	-	536,475
Germany	-	-	-	-	-	-	860,041	860,041	-	860,041
Switzerland	-	-	-	-	-	-	427,692	427,692	-	427,692
Emerging markets	-	-	-	-	-	-	99,244	99,244	-	99,244
Others	28,015	21,387	25,915	14,631	18,349	134,829	1,572,333	1,815,459	7,891	1,823,350
Total assets	19,986,283	2,917,473	1,357,758	578,913	141,054	1,250,039	13,450,264	39,681,784	55,275	39,737,059

As of December 31, 2018

NIS in thousands	Government bonds	Corporate bonds	Stocks	ETF's / mutual funds *)	Mutual funds	Investment property	Other investments	Total balance sheet exposure	Derivatives in delta terms	Total
Israel	18,969,740	2,526,914	1,112,742	71,397	-	917,587	7,387,707	30,986,087	15,837	31,001,924
USA	-	107,989	270,616	455,209	85,140	194,814	1,192,931	2,306,699	153,192	2,459,891
Great Britain	-	-	-	-	-	-	548,813	548,813	-	548,813
Germany	-	-	-	-	-	-	604,615	604,615	-	604,615
Switzerland	-	-	-	-	-	-	357,091	357,091	-	357,091
Emerging markets	-	-	-	-	-	-	70,821	70,821	-	70,821
Others	178	75,946	33,617	326,971	197,988	154,494	1,411,673	2,200,867	6,592	2,207,459
Total assets	18,969,918	2,710,849	1,416,975	853,577	283,128	1,266,895	11,573,651	37,074,993	175,621	37,250,614

*) Including foreign ETF's.

Note 40: Related Parties and Interested Parties

A. Parent company, controlling shareholder and subsidiaries

(1) Further to that stated in Note 1, regarding the appointment of Mr. Terry as the trustee for the control shares of IDB Development on August 21, 2013, and the letters of the Commissioner regarding IDB Development's inability to direct the Company's activities, Mr. Terry, and for the sake of caution also IDB Development and its controlling shareholder, were considered, during the reporting year and during the period until the receipt of the Commissioner's letter, as the Group's the controlling shareholders.

On December 8, 2019, the Company received a letter from the Commissioner, in which the Commissioner announced, inter alia, that in light of the changes which have occurred in IDB Development's holding rate in the Company, the Commissioner evaluated the issue of the control of the Company, and found that, as of the present date, there is no entity which holds (directly or indirectly) the Company's means of control, in a manner which would create an obligation to obtain a permit for the control of the Company in accordance with section 32(b) of the Insurance Law, and therefore, the Company is required to receive a permit for the control of Clal Insurance from the Commissioner.

As of the present date, a permit for the control of Clal Insurance has not yet been received, and the Company is holding discussions with the Commissioner on the matter.

Accordingly, IDB Development is no longer considered the Company's controlling shareholder, including for the purpose of the provisions of the Companies Law, 1999, and the provisions of the Securities Law, 1968.

For additional information, see Note 1 above.

As of the present date, permits have been received for the holding of the Company's means of control, by two entities which are interested parties of the Company (Phoenix Group and Moshe Arkin).

(2) For details regarding investee companies, see Note 9.

(3) In the ordinary course of business, the Group engaged in transactions with entities who are considered its controlling shareholders, or with entities who were considered, as a precaution, as entities in which the controlling shareholders have a personal interest (hereinafter: "**Interested Party Transactions**"), including transactions with companies which were considered, as a precaution, as companies in which the Company's controlling shareholders have a personal interest, as well as undertakings to perform transactions under ordinary commercial conditions, as part of the provision of the Group's services to the entities which were considered, as a precaution, as the controlling shareholders and to companies held by them (such as insurance policies, insurance agency services, management services with respect to provident funds and/or pension funds and/or various financial services) and/or as part of the acquisition of services and products from the controlling shareholders and/or from companies which are held by them (such as telecommunication and telephony services, shopping vouchers, asset management services, etc.) and/or as part of the Group's investments (including investments in securities, credit, real estate and funds). Insofar as these transactions constitute non-extraordinary and insignificant transactions, according to the guidelines and rules specified in the policy which was adopted by the Group as specified in regulation 41(a3)(1) of the Securities Regulations (Annual Financial Statements), 2010, they are not separately described in these reports.

Note 40: Related Parties and Interested Parties (Cont.)

For details regarding engagement, during the reporting year and until December 8, 2019, in transactions with entities from the IDB Group and/or with other parties in which IDB and/or the trustee have a personal interest, and which were not listed in section 270(4) of the Companies Law, and are not insignificant, see section E below.

It is noted that, in accordance with a legal opinion which the Company received and which was approved in the Company's Audit Committee and Board of Directors on January 27, 2016, IDB Development was not considered a controlling shareholder in the Company with respect to the chapter regarding interested party transactions in the Companies Law. However, for the sake of caution only, the Company decided to continue regarding transactions with IDB Development as transactions with a controlling shareholder, and will also regard transactions with third parties in which IDB Development has a personal interest as transactions in which the controlling shareholder has a personal interest, except with respect to engagement in transactions with entities which may be considered material creditors of IDB Development or its controlling shareholders, including banking corporations, in which case it will not regard them as transactions in which the Company's controlling shareholders have a personal interest, which require approvals in accordance with sections 270(4) and 275 of the Companies Law.

Following the Commissioner's letter, the legal opinion was also updated such that, beginning on December 9, 2019, IDB Development is no longer considered the Company's controlling shareholder, including for the purpose of controlling shareholder transactions.

B. Benefits to key management personnel (including directors)

The Company's Chairman of the Board, as well as the Group's CEO and senior executives, are also entitled, in addition to their salaries, to receive non-cash benefits (such as a vehicle, etc.). The Group also deposits, on their behalf, funds as part of a post-employment defined benefit plan and a defined deposit plan.

Executives also participate in the plan involving warrants for Company shares which were granted in years preceding the reporting year (see Note 41).

Note 40: Related Parties and Interested Parties (Cont.)

B. Benefits to key management personnel (including directors) (Cont.)

1. Employment benefits for key management personnel (including the Chairman of the Board) include 1):

	For the year ended December 31					
	2019*)		2018		2017	
	No. of people	NIS in thousands	No. of people	NIS in thousands	No. of people	NIS in thousands
Short term employee benefits	**11**	**17,651**	15	20,367	11	24,365
Post-employment benefits	**11**	**1,547**	15	3,028	11	740
Share-based payments 2)	**1**	**11**	4	(113)	10	1,210
		19,209		23,282		26,315

*) The data do not include 2 key members of management who left in January and February 2019.

1) The benefits include benefits for key management personnel until the conclusion of their employment, and benefits with respect to key management personnel, beginning on the date of their appointment.

2) This amount is determined based on the value of the warrants as of the date of their allocation, such that the fair value of each tranche is spread over its vesting period.

2. Benefits with respect to the employment of key management personnel who are directors not employed in the Company[5]:

	For the year ended December 31					
	2019		2018		2017	
NIS in thousands	No. of people	NIS in thousands	No. of people	NIS in thousands	No. of people	NIS in thousands
Directors compensation 1	**5**	**1,299**	6	1,928	6	1,670

1) The compensation provided to directors in the Company, except for the Chairman of the Board, is based on the Company's rating, and constituted, during the reporting year, the maximum limit with regard to directors who do not have expertise (the compensation is not in consideration of any particular skill), in accordance with the Companies Regulations (Rules for Compensation and Expenses of an External Director), 2000. It is noted that Clal Insurance bears 80% of the compensation to a joint director. The aforementioned amount is after the participation of Clal Insurance. For details regarding the compensation terms of the Chairman of the Board, which are paid in their entirety by Clal Insurance, see section 4 below. Beginning in 2020, and in accordance with the Board of Directors' resolution on December 30, 2019, both the outside directors and the other directors who are not controlling shareholders of the Company, excluding the Chairman of the Board, will be paid the maximum amount permitted for an expert outside director, in accordance with the Company's level, and in accordance with the Company's compensation policy. See also the Company's immediate report dated December 31, 2019.

3. The Company acquires (on its behalf and on behalf of the Group's member companies) directors and officers liability insurance. See section 6 below. Amount paid on behalf of the Company and on behalf of the Group's member companies:

	For the year ended December 31		
NIS in thousands	2019	2018	2017
With respect to directors and officers liability insurance	**989**	931	1,001

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[5] The data for 2018 include data with respect to a director whose tenure concluded in December 2018.

Note 40: Related Parties and Interested Parties (Cont.)

B. Benefits to key management personnel (including directors) (Cont.)

4. Chairman of the Board

Mr. Danny Naveh (hereinafter: "**Mr. Naveh**") has served as the Chairman of the Board of Directors of the Company and of Clal Insurance in a 85% position since June 5, 2013.

Further to the approval of the Company's Compensation Committee and Board of Directors, on July 14, 2013, the general meeting of the Company's shareholders approved an agreement regarding the tenure of Mr. Naveh for a period of three years, until June 5, 2016 (hereinafter: the "**Old Agreement**"). The agreement was approved before the approval of the Company's previous compensation policy, and his terms of tenure were approved by the Audit Committee, Board of Directors and the general meeting.

On April 17 and 18, 2016, the Company's Compensation Committee and the Company's Board of Directors, respectively, approved the Company's engagement in a new agreement with Mr. Naveh, beginning on June 5, 2016, for an undefined period (hereinafter: the "**New Agreement**"), for the purpose of his continued tenure as the Acting Chairman of the Board of the Company and of Clal Insurance, in a 85% position, as specified below. The agreement was approved in the general meeting, for the sake of caution, by a special majority, on May 26, 2016.

The agreement was approved as required in accordance with the Compensation to Corporate Officers in Financial Corporations Law (Special Approval and Non-Permissibility of Expenses for Tax Purposes due to Exceptional Compensation), 2016 (hereinafter: the "**Executive Compensation Law**"), which was published on April 12, 2016, in accordance with the Commissioner's directives from October 2015 with respect to the compensation to the Chairman of the Board of institutional entities, within the framework of an amendment to the circular regarding compensation in institutional entities from April 2014 (hereinafter: the "**Amendment to the Compensation Circular**"), and in accordance with the compensation policy of the Company and of Clal Insurance.

During the period of the agreement, the Chairman of the Board will be entitled to hold other position/s, either as an employee or as a service provider, subject to the aforementioned scope of employment, which will be dedicated to members in the group of companies which is owned by the Company, and to restrictions regarding avoidance of conflicts of interest and/or competition with the Company's business and/or the Commissioner's directives, as agreed upon between the parties on the date of his first appointment.

On May 26, 2016, the general shareholders' meeting approved the compensation terms of the Chairman of the Board, in a manner whereby the monthly salary of Mr. Naveh as the Chairman of the Board amounts to a total of NIS 131,750, linked to the index for June 2016, in accordance with the definition of "linkage to the index" in the Company's compensation policy (the "**Base Salary**"). The annual employment cost of Mr. Naveh, as approved, was expected to amount to approximately NIS 2.37 million, including the provisions for the severance pay component, compensation component, study fund, loss of working capacity insurance, National Insurance and vacation days. Mr. Naveh is not entitled to any variable component (in cash or in capital) or to a 13th salary. The aforementioned employment cost (translated to terms of a full time position) will not exceed a ratio of 35 of the lower employment cost of any employee in the Company (including a contract employee who is employed directly by the Company, or who is employed by a directly or indirectly service provider which is employed by the Company), directly or indirectly.

On November 7, 2016, the Company's Compensation Committee and Board of Directors approved that in accordance with the Company's new compensation policy, which was approved in parallel, and with clarifications which were received in connection with the interpretation of the Executive Compensation Law, in a manner whereby the employment cost of the Chairman of the Board may not exceed 85% of NIS 2.5 million, plus the provisions for severance pay and compensation, in accordance with the law[6] (hereinafter, jointly: the "**Updated Restrictions**"). The update was approved in the general meeting, for the sake of caution, by a special majority, on December 18, 2016[7].

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[6] It is hereby clarified that provisions with respect to employer compensation, beyond the relevant cap for the tax exemption, insofar as they are not directed to a provident fund, but instead to the monthly salaries, will not be recognized as a bonus beyond a total of NIS 2.5 million, as stated above.

[7] In the decision, it was clarified that the decision reached by the meeting in May 2016 would remain in effect, the Company's Compensation Committee and Board of Directors will be entitled to approve a raise of up to 5% to the aforementioned salary (i.e.,

Note 40: Related Parties and Interested Parties (Cont.)

B. Benefits to key management personnel (including directors) (Cont.)

4. Chairman of the Board (Cont.)

In accordance with his employment agreement, Mr. Naveh is entitled to request that the Company's provisions to the study fund and to directors' insurance (not including the severance pay component), beyond the relevant cap for the tax exemption, for each of those payment types, be paid as part of the monthly salary, instead of being transferred to the study fund or to managers insurance, as applicable. The payments in accordance with the provisions of this section will not constitute a salary component, and will not be considered a monthly salary for any other purpose, and the Chairman will not be entitled, with respect thereto, to any social and/or pension and/or severance pay benefits.

Standard salary components are effectively added to the Chairman's aforementioned monthly salary, including provisions to a study fund and for compensation beyond the cap, which were converted to a salary, as well as value and grossing-up of vehicle costs. The aforementioned additional components are in addition the base salary.

Additionally, Mr. Naveh is entitled to receive repayment of expenses spent in connection with the fulfillment of his position, according to the conventional practice in the Company, for the cellphone and vehicle which will be used by Mr. Naveh during the entire period of the agreement, and the Company will also bear all expenses involved in the vehicle's maintenance, including the grossing-up of crediting the benefit with respect to the vehicle and the cellphone for tax purposes. During the reporting year, Mr. Naveh replaced the vehicle with equivalent vehicle value, at no additional cost to the Company.

The agreement includes various provisions with regard to eligibility for annual holiday, convalescence pay, sick pay and social benefits as is conventionally practiced in the Company. In case of the termination of the employer - employee relationship, excluding under extraordinary circumstances, Mr. Naveh will be entitled to release and/or to transfer to his ownership all of the which were funds accumulated on his behalf in the managers' insurance and in the study fund, including their accumulated profits. Additionally, if and inasmuch as the amount accumulated in the severance pay component of the managers' insurance policy does not reach the severance pay amount to which Mr. Naveh would be entitled by law in the event that of dismissal, the Company will supplement the difference owed to Mr. Naveh.

In the agreement, it was determined that the cancellation of the agreement will be effected by providing written notice six months in advance, and the Company will be entitled to shorten the above period subject to the payment of all rights until the end of the advance notice period.

The agreement stipulates non-competition restrictions during the agreement period. The aforementioned restrictions will apply to Mr. Naveh during a period of six months after the end of the advance notice period.

It is noted that, upon the approval of the agreement, it was clarified that existing rights which accrued by virtue of the previous agreement would not be harmed, including options, a proportional annual bonus and a deferred variable bonus with respect to the period during which the previous agreement was in effect, the supplementation with respect to severance pay according to the last salary, and an adjustment bonus, as specified below:

Adjustment bonus - Mr. Naveh will also be entitled to receive an adjustment holiday period of six (6) months following the end of the advance notice period, during which time Mr. Naveh will be paid the full monthly linked salary, as well as the value of the full social benefits and fringe benefits under this agreement (excluding vehicle and cellphone), without Mr. Naveh being required to appear for his work.

Warrants - On June 5, 2013, prior to the entry into effect of the Executive Compensation Law, the Company's Board of Directors approved, further to the approval of the Company's Compensation Committee, the Company's

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a raise of up to approximately NIS 6.5 thousand to the monthly salary), in accordance with the updated restrictions. As of the publication date of the report, the salary has not been updated according to the above.

Board of Directors approved a material private offer to Mr. Naveh of 175,000 warrants (not listed for trading) (herein, jointly: the "**Warrants**"), exercisable into ordinary shares in the Company, according to the value of the benefit embodied in the Warrants in accordance with the terms of the 2013 plan, as specified in Note 41(a)(1). As of the present date, all of the have warrants expired without being exercised.

It is noted that Clal Insurance has invested in two funds in which Mr. Naveh was a partner and manager was a partner and manager before his appointment as the Company's Chairman of the Board. As part of the approval process of Mr. Naveh's appointment, inter alia, it was agreed that Mr. Naveh will not receive any compensation on account of members' funds which were invested in the R.M. Investments and Medical Technologies Fund Ltd. (hereinafter: the "**First Fund**"), and that it will sell its share in the second fund, within a defined period.

The investment period of the first fund including extension periods, in accordance with the partnership agreement, concluded on August 26, 2017. From that date onwards, the fund did not charge management fees from the fund partners, including Clal Insurance. Proximate to the conclusion of the first fund's investment period, the fund's general partner contacted the investors and allowed the investors to choose one of the following options: liquidation of the fund by the general partner, or distribution in kind of the proportional part in the portfolio companies, in consideration of the partnership's rights in the fund. Clal Insurance decided to implement the distribution in kind alternative, and accordingly, received its rights in all of the fund's portfolio companies in consideration of its rights in the partnership. As of the publication date of the report, Clal Insurance is not a partner in the fund, and Mr. Naveh's share in the general partner and managing partner of the first fund amounts to 100% (directly).

Note 40: Related Parties and Interested Parties (Cont.)

B. Benefits to key management personnel (including directors) (Cont.)

5. CEO employment agreement

On June 17, 2018, the boards of directors of the Company and of Clal Insurance approved the appointment of Mr. Yoram Naveh as the CEO of the Company and of Clal Insurance, beginning on July 1, 2018.

On July 5 and 8, 2018, the compensation committees of the Company and of Clal Insurance, respectively, approved the terms of engagement with Mr. Yoram Naveh in the employment agreement, for an unspecified period, beginning on July 1, 2018, whereby each of the parties is entitled to terminate the engagement by giving notice 6 months in advance (the "**Agreement**"). On August 14, 2018, the general meeting of the Company's shareholders approved the terms of the agreement.

Presented below are the main terms of the employment agreement of Mr. Naveh (hereinafter: the "**CEO**"):

The CEO's salary will be calculated subject to the provisions of the Executive Compensation Law, in a manner whereby the projected expense with respect to the CEO's compensation, according to the total cost of the compensation components, per year, in accordance with generally accepted accounting principles, will be in accordance with section 2 of the Executive Compensation Law, according to the higher of either: (1) Two million and a half Shekels (NIS 2.5 million) per year[8] (hereinafter: the "**Compensation Limit**"); or (2) A multiple of the expense with respect to the lowest compensation, according to a full time 100% position, which was paid by the Company to an employee, directly or indirectly (including to a contract employee who is employed directly by the Company, or to an employee who is employed by a service provider who is employed by the Company), times 35 (hereinafter, respectively: the "**Minimum Salary**" or the "**Minimum Salary Limit**").
"Compensation limit" - The higher of either minimum salary limit and the amount limit.

The fixed salary may change from time to time in accordance with the mechanism described above, and an update of the Compensation Committee and the Board of Directors, and furthermore, the fixed salary may change in accordance with and subject to the decision of the Compensation Committee and the Board of Directors, in case it is found that additional components (beyond the provision for compensation and the provision for severance pay as required by law), are not included in the amount limit or the minimum salary limit prescribed in the Executive Compensation Law.

It is hereby clarified that the aforementioned decision is binding towards the Company even if the Company is found to bear additional cost with respect to "excess employment cost", as defined in the Executive Compensation Law (e.g., as a result of an interpretation of the provisions of the Executive Compensation Law), i.e., due to the fact that the aforementioned expense will not be deductible from the Company's taxable income.

The CEO will be entitled to convert components of fringe compensation benefits (e.g., vehicle and social benefits above the relevant maximum limits) into a monthly salary, provided that such conversion does not increase employment cost beyond the compensation limit.

Notwithstanding all of the foregoing, it is hereby clarified that the CEO's total compensation, as defined in the Executive Compensation Law, will not exceed, in any case, three and half million Shekels (NIS 3.5 million) per year (hereinafter: the "**Compensation Mechanism**").

In accordance with the above, the monthly salary of the Company's CEO, since January 2019, amounted to a total of approximately NIS 195 thousand (plus vehicle value), plus social benefits, whereby the expense with respect to the CEO's compensation, according to the total cost of the compensation components, per year, amounted to a total of approximately NIS 3 million. A "tax penalty" may arise in respect of the aforementioned expense, in accordance with the provisions of the Executive Compensation Law.

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[8] Linked to the index, beginning from the publication date of the Executive Compensation Law (April 12, 2016). The calculation of the compensation limit, as stated above, will not include taking into account the provision for compensation, including loss of working capacity, and the provision for severance pay pursuant to the law, which can be provided on account of the compensation components.

Note 40: Related Parties and Interested Parties (Cont.)

B. Benefits to key management personnel (including directors) (Cont.)

5. CEO Employment Agreement (Cont.)

It is noted that Mr. Yoram Naveh's salary, excluding provisions for compensation, including loss of working capacity and the lawful provision for severance pay, amounted to approximately NIS 2.4 million. Added to this amount were provisions for compensation, for loss of working capacity insurance and for severance pay, with respect to 2019, in the amount of approximately NIS 591 million. Additionally, due to the increase in the CEO's salary in accordance with the Company's compensation policy, the liability for severance pay increase, and for this purpose, a provision was made in the Company's books in the amount of approximately NIS 290 thousand, and there may also be an actual supplementation of the severance pay fund, in accordance with the CEO's current salary in 2019, and his period of employment in the Group (since February 1, 2018). An increase in the aforementioned liability may also occur, from time to time, in consideration of the update to his actual salary. A "tax fine" may materialize with respect to the aforementioned liability, in accordance with the provisions of the Executive Compensation Law.

The CEO is also entitled to reimbursement of expenses in connection with the fulfillment of his position, a cellphone, newspaper subscription, and an appropriate vehicle (subject to periodic replacement of the vehicle, in accordance with the Company's standard practice), including expenses associated with the maintenance thereof, and including grossing-up the credit for the vehicle and telephone benefit for tax purposes, as well as additional fringe benefits, as specified in the Company's compensation policy, subject to the compensation limit.

The agreement sets forth non-competition restrictions during the agreement period. The aforementioned restrictions will apply to the CEO with respect to the insurance and finance segments also for the nine month period, beginning from the date of provision of advance notice. During the 6 month advance notice period, the CEO will receive the full linked monthly salary, as well as all social benefits and fringe benefits. The Company will be entitled to waive the CEO's actual work during this period, without derogating from his rights to the aforementioned benefits during the advance notice period.

The agreement includes various provisions and other conventional arrangements. It was further determined that in case of termination of the employer - employee relationship, for any reason whatsoever (excluding extraordinary circumstances in which the CEO will not be entitled to severance pay in accordance with the provisions of the law, with respect to his period of employment in the Company), the CEO will be entitled to release and/or transfer to his ownership all of the funds which have accrued in his favor in directors' insurance and in the study fund, including the profits thereof. Additionally, if and inasmuch as the amount accumulated in the severance pay component of the managers' insurance policy does not reach the severance pay amount to which the CEO would be entitled by law in the event that of dismissal, the Company will supplement the difference owed to the CEO.

The CEO is not entitled to a variable annual bonus with respect to his tenure as CEO.

It is noted that, in accordance with the compensation policy, the compensation policy does not detract from rights which have accrued or were created with respect to previous periods, and therefore, the provisions of the compensation circular will not apply to the adjustment bonus which was provided for Mr. Naveh before the circular's entry into effect.

It is noted that the CEO has a balance with respect to the annual bonus that was given with respect to 2017, which will be released shortly after the reporting year, due to the distribution requirements set forth in the provisions of the compensation circular and of the compensation policy, for which a provision was made in the Company's books, in the full amount, in the year when it was granted[9].

The CEO remains entitled to receive an adjustment bonus in accordance with the provisions of his previous employment agreement, in which it was determined that he will be entitled to 6 months' employment without social benefits and fringe benefits. The provisions of the compensation circular with respect to severance packages apply to the supplementation of the adjustment bonus, as stated above.

The CEO will continue being subject to the arrangements regarding insurance, exemption and indemnification which apply to the Company's directors and corporate officers[10].

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[9] A total of approximately NIS 460 thousand, which will be paid to him in equal parts during the years 2019 to 2021, subject to the fulfillment of the preconditions for the release. In 2018, the minimum conditions for release were not fulfilled, and accordingly, the payment of the proportional part which was supposed to be paid, was to 2019, and will be paid shortly after the approval of the financial statements for that year.

[10] The CEO has received from the Company a letter of exemption and letter of indemnity, similarly to the Company's corporate officers and directors.

Note 40: Related Parties and Interested Parties (Cont.)

B. Benefits to key management personnel (including directors) (Cont.)

5. CEO Employment Agreement (Cont.)
In February 2014, as part of his previous position, 90,000 warrants were allocated to the CEO out of the 2013 plan. As of the present date, all of the tranches expired without being exercised. The CEO also privately purchased, on July 3, 2018, 3,934 shares in the Company.

During his term, the CEO may be requested by the Company to serve as a director in various members of the Company's group, without payment of any additional consideration beyond the consideration that it paid to him by virtue of and in accordance with the provisions of the agreement.

6. Exemption, insurance or indemnity undertakings towards corporate officers which are in effect as of the end of the reporting period

A. The following is a description of the arrangement that applies with respect to liability insurance for directors and corporate officers in the Company:

(1) Beginning on December 1, 2014, the Company buys corporate officers' liability insurance policies for a period of one year. Each of the aforementioned policies is shared by the Company and member companies of the Group, including Clal Finance. Clal Insurance is not the insurer in the aforementioned policies. On December 18, 2016, the general meeting of the Company's shareholders approved the compensation policy for the first time, which includes a clause regarding exemption, indemnification and insurance for corporate officers. In the compensation policy, it was determined that the Company will be entitled to acquire, for the corporate officers in the Group, corporate officers' liability insurance, in insurance amounts which will not exceed USD 400 million, and in consideration of an annual premium which will not exceed USD 1 million, and that the Company will be entitled to acquire runoff insurance for corporate officers, in case of the transfer of the control of the Company and/or of a subsidiary.
In accordance with the aforementioned resolution, the Company engaged in an insurance policy which was issued by an insurer which is a non-related party, for the period from December 1, 2018 to November 30, 2019, and later from December 1, 2019 to November 30, 2020 (the "**Policies for 2019 and 2020**"), in which the Company acquired insurance coverage for the Company and its investee companies, including Clal Finance Ltd. and its investee companies. The overall liability limit of each of the insurance policies for 2019 and 2020 is up to USD 150 and 200 million with respect to a single claim or cumulatively, respectively. The total annual premium is within the amount which was approved in the general meeting.

(2) It is noted that over the years 2005–2014, member companies of the IDB Group, including the Company ((hereinafter: "**Member Companies of the IDB Group**") acquired basic insurance policies for each division in the Group, separately (hereinafter: the "**Basic Policy**"). The liability limits of the basic policy in those years was between USD 20 and 50 million for the insurance period, according to the relevant policy. Additionally, member companies of the IDB Group in those years acquired collective insurance which were shared by the Group's member companies (hereinafter: the "**Collective Policy**"). The collective policy applies (subject to its terms) only beyond the liability limits by virtue of the basic policy of each division in the Group. The maximum total of the insurer's liability limits within the framework of each collective policy, as stated above, was USD 90 million (hereinafter: the "**Original Liability Limit**") for the insurance period, in accordance with the relevant policy. Additionally, beginning in August 2010, the insurance coverage of the Group's member companies included an additional layer of insurance layer, in which insurance coverage was provided to supplement the liability limit amount according to the collective policy, up to the original liability limit, in cases where the liability limit according to the collective policy has decreased or has been exhausted due to a claim or claims, insofar as these have been submitted according to the collective policy by any of the Group's member companies which participated in it, provided that the aforementioned supplementation amount did not cumulatively exceed an amount equal to the original liability limit of the collective policy (hereinafter: "**Additional Insurance Layer**"). It is hereby clarified that the additional insurance layer applies to new claims, which are not related to a claim or claims which caused a reduction or exhaustion of the original liability limit amount. Despite the above, beginning in August 2012, the additional insurance layer does not apply to the IDB division (which includes IDB Holding, IDB Development and private companies under their control).

Note 40: Related Parties and Interested Parties (Cont.)

B. Benefits to key management personnel (including directors) (Cont.)

6. Exemption, insurance or indemnity undertakings towards corporate officers which are in effect as of the end of the reporting period (Cont.)

A. The following is a description of the arrangement that applies with respect to liability insurance for directors and corporate officers in the Company:(Cont.)

(3) It is further noted that in recent years, various claims were filed against member companies of the IDB Group and against corporate officers in member companies of the IDB Group, as well as alerts regarding additional claims against them, in the total sum amounting to billions of NIS. The aforementioned claims and alerts refer to different underwriting years, each of which was covered by the separate policies, as stated above. Some of the claim and demand amounts are beyond the liability limits in the policies.

Clal Insurance is covered, through these policies, in 100% reinsurance, whereby the reinsurers in the policies are international reinsurers with an international rating of at least A-. For details regarding the exposure to reinsurers, see Note 39(f). It is hereby clarified that non-fulfillment of the reinsurers' undertakings towards Clal Insurance will not release Clal Insurance from its liabilities towards the policyholder according to the insurance policies. A reinsurer which does not fulfill its undertakings in accordance with the reinsurance contracts may cause the Company to incur losses.

It is noted that member companies of the IDB Group, and its controlling shareholder, purchase, from time to time, directors and officers liability insurance from Clal Insurance. These engagements are insignificant for the Company.

B. Presented below is a description of the arrangement which applies to the indemnification of directors and senior officers in the Company:

(1) On October 10, 2002, the general meeting of the Company's shareholders approved an undertaking to indemnify directors and corporate officers in the Company and in additional member companies of the Group, up to a rate of 25% of the Company's equity on the indemnification date. Accordingly, the Company issues letters of indemnity to officers in the Company and in certain subsidiaries.

(2) On April 16, 2008, the Company's Audit Committee and Board of Directors approved the provision of updated letters of indemnity to corporate officers in certain member companies of the Group, including the Company, which are materially similar to the letters of indemnity which were approved, as stated above.

(3) On May 3, 2012, in light of Amendment 16 to the Companies Law, and in accordance with the provisions of the Efficiency of Enforcement Procedures Law (Legislative Amendments), 2011, and the Law to Increase Enforcement in the Capital Market (Legislative Amendments), 2011, the general meeting of the Company's shareholders approved the provision of new letters of indemnity by the Company to directors and corporate officers in the Company and/or in additional member companies of the Group (hereinafter: the "**New Letter Of Indemnity**"), up to a rate of 25% of the capital attributed to the Company's shareholders on the date of indemnification. Accordingly, the Company issues letters of indemnity to officers in the Company and in certain subsidiaries.

The provisions of the new letter of indemnity take precedence over any previous obligation or agreement (prior to the signing of the new letter of indemnity), whether verbal or in writing, between the Company and a corporate officer on the subjects specified in the new letter of indemnity, including with regard to events which took place prior to the signing of the new letter of indemnity. The above is subject to the condition that a previous letter of indemnity which has been provided to a corporate officer, if any, will continue to apply and will remain valid with respect to any events which occurred prior to the signing of the new letter of indemnity (including in the event that legal proceedings with respect to the above have been filed against a corporate officer after the signing of the new letter of indemnity), in the event that the terms of the new letter of indemnity worsen the reimbursement terms for the corporate officer with respect to the above event, subject to all laws.

Note 40: Related Parties and Interested Parties (Cont.)

B. Benefits to key management personnel (including directors) (Cont.)

6. Exemption, insurance or indemnity undertakings towards corporate officers which are in effect as of the end of the reporting period (Cont.)

On July 28, 2013, the general meeting of the Company's shareholders approved a correction of omissions in the definitions of "administrative procedure" and "payment to injured party" in the new letter of indemnity, which is not in accordance with the definitions which appear in the Company's bylaws. Accordingly, the definitions of "administrative procedure" and "payment to injured party" in the new letter of indemnity were adjusted in accordance with the definitions which appear in the Company's bylaws.

(4) On December 18, 2016 and October 27, 2019, the Company's general meeting of shareholders approved the compensation policy, which includes, as stated above, a clause regarding exemption, indemnification and corporate officer's insurance.

Within the framework of the Company's compensation policy, it was determined that the Company will be entitled to grant letters of indemnity, according to a wording which will be decided by the Company, and which has been approved and/or will be approved by the general meeting of the Company's shareholders.

C. Presented below is a description of the arrangement which applies with respect to the exemption for directors and senior officers in the Company:

On October 9, 2016, the Company's Compensation Committee and Board of Directors approved the provision of an exemption from liability to the Company's corporate officers, subject to the receipt of the authorizations which are required by law in order to grant the exemption. The aforementioned exemption will not apply to any decision or transaction in which the controlling shareholder, or any corporate officer in the Company (including a different corporate officer than the one to whom the letter of exemption was given), have a personal interest. The compensation policy which was approved in December 2016 includes a determination according to which the Company will be entitled to grant an exemption from liability to the Company's corporate officers, as stated above.

Accordingly, the Company granted letters of exemption to directors and corporate officers in the Company.

Note 40: Related Parties and Interested Parties (Cont.)

C. Balances of related parties and interested parties

	As of December 31, 2019		As of December 31, 2018	
	Related party / interested party			
NIS in thousands	Other related parties 2)	Investee companies	Other related parties 2)	Investee companies
Financial investments for investment-linked contracts	**769,754**	**19,067**	531,065	59,663
Other financial investments:				
Marketable debt assets	**35,267**	**-**	90,032	-
Stocks	**58,690**	**-**	46,710	-
Others	**-**	**3,910**	-	4,764
Loans to investee companies accounted by the equity method 1)	**-**	**5,894**	-	36,688
Other accounts receivable	**1,442**	**-**	631	-
Outstanding premiums	**13,175**	**-**	14,268	-
Other accounts payable	**341**	**12,283**	261	16,076

1) Included under the item for investments in investee companies.
2) The highest balance of debt assets of the IDB Group in 2019 amounted to a total of NIS 91,068 thousand (2018: NIS 105,379 thousand).

Note 40: Related Parties and Interested Parties (Cont.)

D. Amounts included in the statement of income with respect to transactions with related parties and interested parties, and descriptions of these transactions

	For the year ended December 31, 2019			For the year ended December 31, 2018				For the year ended December 31, 2017			
	Related party / interested party										
NIS in thousands	IDB Development Corporation Ltd. and IDB Holding Corporation Ltd.	Other related parties	Investee companies	IDB Development Corporation Ltd. and IDB Holding Corporation Ltd.	Other related parties	Bank Hapoalim group	Investee companies	IDB Development Corporation Ltd. and IDB Holding Corporation Ltd.	Other related parties	Bank Hapoalim group	Investee companies
Gross premiums	**3,986**	**73,464**	**-**	2,800	55,584	16,346	-	4,033	52,737	21,406	-
Income(loss)from investments, net, and financing income	**-**	**58,753**	**(7,320)**	-	(38,151)	46,933	8,311	-	66,866	265,418	5,039
Income from management fees and portfolio management	**-**	**-**	**-**	-	-	-	-	-	-	20,246	-
Payments with respect to insurance contracts	**-**	**14,917**	**-**	1,950	14,938	3,399	-	1,706	41,070	9,480	-
Insurance fees	**-**	**1,132**	**-**	-	1,146	27	-	-	813	1	-
General and administrative expenses	**-**	**5,129**	**-**	-	5,060	1,612	-	-	5,482	4,909	-
Financing expenses	**-**	**-**	**477**	-	-	2,694	485	-	-	4,361	469

Note 41: Share-Based Payment

A. Details regarding plans for the allocation of warrants exercisable into Company shares

1. 2013 plan

On December 6, 2012, the Company's Board of Directors adopted a warrants plan for employees and corporate officers (hereinafter: the "**2013 Plan**"), according to which the Company will be entitled to allocate to employees and corporate officers in the Group up to 2,400,000 warrants. The warrants are each exercisable into ordinary shares with a par value of NIS 1 each, in accordance with the monetary benefit value which is embodied in the warrants as of the exercise date, in three equal annual tranches, and subject to adjustments and conditions, of which the primary ones are specified below. In 2015, the Company's Board of Directors resolved not to allocate, in accordance with the aforementioned plan, 35,000 unregistered warrants out of those which are held in the register of warrants, and to erase them from the Company's register of securities.

The warrants' exercise price will be subject to adjustments with respect to the following events: distribution of bonus shares; cash dividend payment; a share exchange arrangement (such as a merger transaction or re-organization); issuance of interests; cash dividend payment; and separation or consolidation of the Company's share capital, or any corporate capital events of a significantly similar nature. The adjustments will be performed according to the manner set forth in the 2013 plan. The 2013 plan was approved in a capital taxation track in accordance with section 102 of the Income Tax Ordinance.

The vesting dates of the warrants are as follows:
- First tranche - after the end of two years following the allocation date.
- Second tranche - after the end of three years following the allocation date.
- Third tranche - after the end of four years following the allocation date.

Each aforementioned tranche will expire two years after its vesting date (excluding exceptions in case of termination of employer - employee relationships, as specified in the 2013 plan).

The plan manager is entitled to determine, upon the allocation of the warrants, that if after the vesting of a certain tranche of warrants, and before its expiration, the stock exchange price at the closing of any trading day reaches a certain price which will be determined by him (with this price being subject to the adjustments specified above, mutatis mutandis), all of the warrants from that tranche will be automatically exercised (hereinafter: the "**Maximum Price**"). It is noted, with respect to all of the warrants which were allocated in accordance with the 2013 plan, that a maximum price was determined, as stated above.

In 2018, the Company's Board of Directors approved an extension of the outline, for a period of three years, according to which warrants were allocated in accordance with the 2013 plan, and the publication thereof, without any change to its conditions, in order to allow the Company to perform future allocations to employees who are not senior position holders, of warrants by virtue of the 2013 plan, which have been returned, and will be returned in the future (if any) to the register of warrants.

For additional details, see sections B and C below.

Note 41: Share-Based Payment (Cont.)

A. Details regarding plans for the allocation of warrants exercisable into Company shares (Cont.)

2. 2015 plan

In accordance with the compensation policy of Clal Insurance, on March 24, 2015 the Company's Board of Directors adopted a capital compensation plan conditional upon performance for 2015 (hereinafter: the "**2015 Plan**"), according to which the Company will be entitled to allocate warrants to employees who are not senior position holders[11] (as this term is defined in the compensation circular).

The warrants are each exercisable into ordinary shares with a par value of NIS 1, in accordance with the monetary benefit value embodied in the warrants on the exercise date, and subject to adjustments and conditions, of which the primary ones are specified below, in three equal annual tranches.

The warrants' exercise price will be subject to adjustments with respect to the following events: distribution of bonus shares; cash dividend payment; a share exchange arrangement (such as a merger transaction or re-organization); issuance of interests; cash dividend payment; and separation or consolidation of the Company's share capital, or any corporate capital events of a significantly similar nature. The adjustments will be performed according to the manner set forth in the 2015 plan. The 2015 plan was approved in a capital taxation track, in accordance with section 102 of the Income Tax Ordinance.

The eligibility of an offeree to the warrants and to the exercise thereof will be subject to the fulfillment of the preconditions for the formulation of eligibility, the fulfillment of target profit, as defined below, and the vesting conditions which constitute measurable quantitative targets.

The eligibility materialization conditions are preconditions involving (a) Clal Insurance's fulfillment of the minimum solvency ratio with respect to that bonus year, as defined in the compensation policy of Clal Insurance, or another metric to be determined in case of a regulatory changes to the capital regime ("**Minimum Solvency Ratio**"); (b) The Company's fulfillment of a return on equity target rate of at least 5%, with respect to that year. Additionally, as a condition for materialization of the eligibility, the Company is entitled to fulfill a target of at least 70% of the target which will be determined for the purpose of the profit target, and which will be determined in the range between NIS 250 million and NIS 600 million, with respect to each bonus year (the "**Profit Target**"). A condition for eligibility for warrants with respect to an eligibility year is the fulfillment of the preconditions and fulfillment of the profit target (hereinafter: the "**Conditions for Eligibility**"). In the event that any of the conditions for eligibility have not been fulfilled in a particular bonus year, the offeree will not be entitled to all of the warrants which were allocated to him with respect to that bonus year, and those warrants will be returned to the register of warrants, and may be re-allocated to any offeree.

The materialization of the conditions for eligibility for a certain year will be evaluated proximate to the publication date of the period report for the evaluated year (the "**Materialization of Eligibility Date**"). The warrants will vest in three tranches. The first warrant vesting date will be April 1 after the passage of one year, two years and three years after the materialization date. The vesting will be conditional upon the fulfillment of a minimum solvency ratio at the end of the calendar year before the vesting date[12]. Each tranche will vest two years following after its vesting date (the "**Expiration Date**").

Notwithstanding the foregoing, if the option period of a certain tranche concludes during a period which was determined by the Company as a lock-up period with respect to the existence or potential existence of insider information, then subject to the plan terms, the option period will be extended automatically, for an additional period, in a number of days equal to the number of days in the lock-up period.

The plan manager will be entitled to determine, upon the allocation of the warrants, a maximum price, as defined above. It is noted, with respect to all warrants which were allocated in accordance with the 2015 plan, that a maximum price was determined, as stated above.

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[11] "Senior position holder" is as defined in the compensation circular, and as determined from time to time by the Board of Directors. As of the present date, the Board of Directors determined that the managers of the Company's distribution channels will be included under this definition. Additionally, with respect to investment managers whose impact on the investment risk profile of the Company and of the funds of those saving through it is negligible, will be excluded from the list of the Company's senior position holders.

[12] In accordance with the compensation policy and the Board of Directors' resolution, "the minimum solvency ratio" for the purpose of the 2015 options plan, with respect to 2019, will be no less than a ratio of 100%, in accordance with the Commissioner's directives regarding the economic solvency regime, calculated without taking into account the provisions regarding the distribution period which was defined by the Commissioner; however, in case of non-fulfillment of the aforementioned target, due to a significant and broad exogenous event which affects the entire insurance sector in Israel, the Board of Directors will be entitled to determine that the Company has met the minimum solvency ratio. The solvency ratio is the last known ratio which was published by the Company, including equity transactions which were performed until the publication date of the solvency ratio.

Note 41: Share-Based Payment (Cont.)

A. Details regarding plans for the allocation of warrants exercisable into Company shares (Cont.)

A. 2. 2015 plan (Cont.)

In 2015, the Company's Board of Directors resolved to publish outlines pertaining to the allocation of up to 470,000 warrants, which will be offered by virtue thereof, in accordance with the plan, to employees and corporate officers of the Company and/or of companies under its control. All of the warrants according to the aforementioned outline were allocated.

In 2018, the Company's Board of Directors approved an extension of the outline according to which warrants were allocated in accordance with the 2015 plan, and the publication thereof, without any change to its conditions, in order to allow the Company to perform future allocations to employees who are not senior position holders, of warrants by virtue of the 2015 plan, which have been returned, and will be returned in the future (if any) to the register of warrants.

For additional details, see sections B and C below.

For details regarding the granting of warrants, in accordance with the 2013 plan, to the Company's Chairman of the Board and CEO (which expired without being exercised), see Note 40(b)(4) and (5), respectively.

B. Movement in warrants and additional details

	Average lifetime *) in years	Weighted average of the exercise addition in NIS 1)	Number of warrants
Balance as of January 1, 2017	1.88	63.19	2,655,667
Forfeited during 2017		68.91	(8,667)
Expired during 2017		66.22	(294,997)
Exercised during 2017		55.46	(1,101,667)
Total outstanding warrants as of December 31, 2017	1.78	69.24	1,250,336
Forfeited during 2018		70.33	(62,322)
Expired during 2018		69.82	(334,333)
Exercised during 2018		59.80	(122,999)
Total outstanding warrants as of December 31, 2018	1.29	70.48	730,682
Forfeited during 2019		**69.71**	**(4,333)**
Expired during 2019		**70.91**	**(371,451)**
Total outstanding warrants as of December 31, 2019	**1.24**	**70.03**	**354,898**
Of which, total outstanding warrants as of December 31, 2019			
2013 plan	0.72	70.58	97,335
2015 plan	1.60	69.21	227,563
In the CEO's plan 2)	0.10	74.50	30,000
Total exercisable warrants:			
At the end of 2017		68.83	819,561
At the end of 2018		70.78	513,455
At the end of 2019		**69.74**	**269,566**

*) Weighted average of the remaining contractual duration to expiration.

1) The weighted average of the exercise addition with respect to forfeitures and expirations was calculated based on the value of the exercise addition at the end of each year.
The range of exercise prices for the warrants as of December 31, 2019 amounted to NIS 60.64 - 74.50 (2018 - NIS 59.23 - 77.50; 2017 - NIS 57.83 - 77.50).

2) Options which were given to the CEO before his appointment as CEO, during his tenure as s corporate officer of the Company, within the framework of the 2013 plan, which have expired as of the publication date of the report.

Note 41: Share-Based Payment (Cont.)

B. Movement in warrants and additional details

Based on a maximum theoretical assumption of the exercise of all of the warrants from the 2013 plan and the 2015 plan, when the price of the Company's shares on the stock exchange reaches a price where, according to the terms of the warrants plan, an automatic exercise is implemented, and subject to the adjustments specified in the 2013 plan and the 2015 plan, the outstanding warrants will confer upon the recipients, as of December 31, 2019, 2018 and 2017, approximately 0.27%, approximately 0.67%, and approximately 1.16%, respectively, of the Company's issued and paid-up share capital after the allocation.

This assumption, regarding the full exercise of the warrants, is theoretical only. Offerees who exercise the warrants will not be allocated all shares arising therefrom, but rather, only shares in a quantity which reflects the amount of the monetary benefit which is embodied in the warrants, in accordance with the actual benefit amount on the exercise date, i.e., the difference between the price of an ordinary company share on the exercise date, and the exercise price of the warrant.

C. Details regarding the fair value measurement of the warrant plans

The fair value of the warrants is estimated using the binomial model with respect to the warrants which were allocated, as stated above, to the offerees as part of the 2013 plan and the 2015 plan.

The main assumptions in the models includes the share's closing price on the measuring date, the instrument's exercise price, the expected volatility (based on the average historical volatility of the Company's stock, over the expected lifetime of the warrants), the expected lifetime of the instruments (based on the past experience and the general behavior of warrant holders) and the risk-free interest rate according to the lifetime of the warrants (based on the interest rate curve). Terms of service and performance conditions which are not market conditions are not taken into account when determining fair value.

Presented below are the parameters which were used in the application of the models and the fair value on the allocation date:

	Company CEO	2013 plan [1)]	2015 plan [1)]
Number of warrants allocated, less forfeitures, until the balance sheet date	90,000	1,928,333	313,333
Weighted average share price (in NIS)	70.03	58.91	61.70
Weighted average of the exercise addition on the allocation date (in NIS)	72.75	62.38	68.73
Weighted average of expected volatility [2)]	39.23%	42.61%	34.06%
Average warrant lifetime (in years) [3)]	5.00	4.88	5.75
Weighted average of risk free interest rate [4)]	2.45%	2.47%	1.49%
Maximum price	151	135-151	139-146
Fair value as of the allocation date of all warrants issued by the Company (NIS in thousands) [5)]	1,673	32,510	4,550

1) The data presented below constitute a weighted average of the allocations on the various dates, by tranches, after deducting forfeitures and replacements of offerees.
2) The expected volatility of the share price over the expected lifetime of the warrants was determined based on the historical volatility of the Company's share price, and is based on the assumption that the historical volatility of the share price constitutes a good indication of future trends.
3) The projected average lifetime of the warrants was determined based on past experience and general behavior of warrant holders, which does not necessarily represent the future pattern of exercising the warrants into shares. Accordingly, it was assumed that the warrants would be exercised on the expiration date.
4) The risk-free interest rates were determined by a company providing interest rate quotes for interest rates (for additional details, see Note 14(f)(4)), where the interest rate periods corresponded to the expected lifetime of the warrants (based on the interest rate yield curve).
5) The cumulative fair value of all of the allocation, in each of the warrants plans.

D. Payroll expenses with respect to share-based payments

NIS in thousands	Chairman of the Board	Company CEO	2013 plan	2015 plan	Total
In 2017	107	153	1,345	954	2,559
In 2018	-	14	(181)	-	(167)
In 2019	**-**	**-**	**(8)**	**-**	**(8)**

Note 42: Contingent Liabilities and Claims

Presented below are details regarding claims which are not in the ordinary course of business, as follows: material claims[13] whose filing as class actions was approved; Pending motions to approve class action status for material claims; material and immaterial class actions which concluded during the reporting period, until its signing date, other material claim and derivative claims against the Group's member companies.

The following claim amounts are presented at amounts that are correct as of the date of their filing, and as specified by the plaintiffs, unless noted otherwise.

A. Class action claims

In recent years, as part of a general trend in the markets in which the Group operates, a significant increase has occurred in the number of motions filed for the approval of class action status for claims against the Group's member companies, and also in the number of claims filed against the Group's member companies which have been recognized by the Court as class actions. The trend described above, which is due, inter alia, to the enactment of the Class Action Law, 2006 (hereinafter: the "**Law**"), the multiplicity of lawsuits, and the approach of the Courts, significantly increases the Company's potential exposure to losses with respect to rulings issued against the Group's member companies in class actions which are filed against them.

A class action lawsuit, as defined in the Law, is a lawsuit which is managed on behalf of an anonymous class of people who did not grant power of attorney in advance to the class action plaintiff, and which raises material questions regarding facts or law that apply to all class members.

The procedure begins with a written motion submitted by the single plaintiff to the Court with which the plaintiff's personal claim has been filed, in which he requests approval of class action status for his claim. Only in the event that the motion to approve the claim as a class action is accepted does the claim's definition change to a "class action", with the plaintiff becoming a "class action plaintiff".

A class action can only be filed for claims which meet the conditions set forth in law, or on a matter regarding which a legal provision specifically states that a class action may be filed. It should be noted that, from 2006 onwards, the definition of a claim due to which a motion for approval as a class action may be filed against the Group's member companies is a broad definition, and includes any matter which may arise between a company and a customer, whether or not they have engaged in a transaction.

In order for a claim to be approved as a class action, the plaintiff must prove the following, inter alia: (1) the existence of a "personal cause of action" for the specific plaintiff; (2) That the cause of action is sufficiently well-established as to constitute a "prima facie cause of action". At this point, the Court evaluates whether the plaintiff has a prima facie chance of eventually wining the claim in court; (3) That the cause of action gives rise to significant questions of fact or law which are shared by a certain group; (4) That there is a reasonable possibility that the common questions in the claim will be determined in favor of the Group; (5) That the class action is the most efficient and fair method of resolving the dispute which is the subject of the claim, in light of the circumstances; (6) The suitability of the plaintiff to serve as the class action plaintiff, and of his attorney to representative him in the claim.

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[13] It is noted that, in general, in this note, a claim will be considered material, and will be described in accordance with the estimate which is performed by the Company on the date when the claim is received, insofar as the actual exposure amount, net of tax, assuming the claim is found to be justified, and without addressing the claim's chances, or the amount specified therein, per se, exceeds the Group's significance threshold (see chapter D in section 13(f) of the periodic report for 2019) for details regarding profit in accordance with the calculation of forecasted comprehensive loss, divided by the average annual comprehensive income or comprehensive loss in the last three years, calculated based on the last 12 quarters for which audited or reviewed financial statements were published; It is hereby clarified that the income/loss which is attributed to the event, and the income/loss in each quarter, are calculated according to their absolute values. A claim may also be considered material for the purpose of such disclosure when the Company is unable to estimate the total exposure.

Note 42: Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

In general, the process of evaluating a claim as a class action may include 4 stages: Stage A - Filing of the motion to recognize the claim as a class action in the first instance; Stage B - Appeal in the Authority to a higher instance regarding the decision reached by the first instance; Stage C - Hearing the claim on the merits before the first instance (generally before the same judge who heard the motion in the first instance); Stage D - Appeal to a higher instance regarding the decision on the merits.

It should be noted that the scope and content of the hearing of a class action on its own merits is affected by the ruling regarding the approval of the claim as a class action. A decision approving class action status for a claim generally refers to the causes of action which were approved, and those which were not approved; The remedies which were approved and which were not approved; etc.

The law provides a set procedure and restrictions for all matters relating to settlement arrangements in class actions, which causes difficulty in instating settlement arrangements regarding class actions. The law also provides a requirement involving due disclosure to the Court with regard to all material details involved in the settlement arrangement, as well as a right available to the Attorney General and to additional entities listed in the Law to file an objection to the proposed settlement arrangement, and a requirement that an examiner be nominated with respect to the settlement arrangement.

The motions to approve class action status for the claims specified below are in various stages of the procedural hearing; some have been approved, while others are in appeal proceedings.

Note 42: Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A1. Material claims for which class action status was approved (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
1.	3/2010 District - Center	Clal Insurance	The plaintiff contends that Clal Insurance unlawfully and wrongfully took advantage of the Control of Financial Services (Provident Funds) Law, 2008 ("Amendment No. 3"), which determined that funds which are deposited in provident funds beginning from 2008, will be withdrawable as an annuity only, and not as a capital withdrawal (withdrawal in a one-time amount). The plaintiff contends that at the time of conversion of the capital policies which were owned by a policyholder, prior to Amendment No. 3, for non-annuity paying policies, Clal Insurance was required to attach to the policy the annuity factor which was guaranteed to the policyholder under the fixed-payment policy owned by him, while in practice, Clal Insurance chose to attach to the converted capital policy a new annuity factor, in accordance with the life expectancy as of 2009.	To order Clal Insurance to attach to the capital policies of its policyholders the same annuity factor which they had in the fixed-payment policy prior to Amendment No. 3. Alternatively, to order Clal Insurance and the other class members to provide the entire amount of the pension savings funds, retroactively beginning after the date of the entry into effect of Amendment No. 3 (January 2008), and from now on, to the fixed-payment policy with the preferential annuity factor. Alternatively, to order Clal Insurance to compensate the plaintiff and the other class members in the amount of damage which was incurred.	Any person who owned, prior to the entry into effect of Amendment No. 3, both a capital policy and a fixed-payment policy of Clal Insurance (whether of Clal Insurance or of another insurance company), and to whom, following the aforementioned amendment to the law, a annuity factor[14] was not guaranteed in the capital policy, or to whom an annuity factor was guaranteed in the capital policy which was worse than the annuity factor specified in his fixed-payment policy.	In June 2011, the Commissioner's position was submitted, through the Attorney General of Israel, according to which an insurance company is not required to provide annuity factors which were determined in the past, or to transfer policyholders' funds to the fixed-payment policy which they had in the past. It was further noted, with respect to the question of whether it is possible to change the amount used to calculate deposits up to the amount of the salary, it was determined that the matter depends on the particular terms of each policy, and that the plaintiff's policy does not include any provision which requires Clal Insurance to change the deposit amounts or the deposit rates. In September 2015, the District Court decided to accept the motion to approve against Clal Insurance, in which it was determined that the entitled class members include any policyholder who owned, prior to Amendment No. 3, both a capital policy and a fixed-payment policy (whether of Clal Insurance or of another insurance company), and who, following the aforementioned amendment, did not receive an annuity factor in the capital policy, or who received an annuity factor which was worse than the factor in his fixed-payment policy, provided that the capital policy was managed by Clal Insurance. As part of the proceedings, an examiner was appointed regarding the case, who filed his opinion in July 2017, and the parties filed pleadings, conducted investigations as part of handling the claim, and filed their closing arguments.	The plaintiff estimates the number of the class members as 37,752 members, and accordingly, the monetary compensation to all of the class members is estimated at NIS 107 million, in each year.[15]

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[14] The annuity factor is the factor representing life expectancy which is used by the insurer, at retirement age, to convert the savings amount accrued by the policyholder into a monthly annuity.

[15] The specified amount refers to the estimated claim with respect to one damage year only. It is noted that the claim was filed in March 2010, with respect to a legislative amendment from 2008.

Note 42: Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A1. Material claims for which class action status was approved (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
2.	4/2010 District - Center	Clal Insurance and additional insurance companies	The plaintiffs contend that in case of discontinuation of insurance during a certain month, after the insurance premium with respect to that month was collected by the defendants in advance, the defendants do not reimburse to policyholders the surplus relative share of the insurance premium with respect to that month, or alternatively, reimburse the insurance premium at nominal values only.	The reimbursement of the surplus premium amounts which were unlawfully collected from the class members and/or the reimbursement of unlawful revaluation differences, with the addition of duly calculated linkage differentials, as well as a mandamus order instructing the defendants to change their conduct.	Anyone who is and/or was a policyholder of one or more of the defendants, under any insurance policy, excluding a property insurance policy, or the inheritor of such a policyholder, where the insurance policy was discontinued for any reason, whether due to its cancellation by the policyholder, or due to the occurrence of the insurance event.	In June 2015, the Court issued a decision to dismiss the motion to approve against all of the defendants with respect to the primary claims, including: (A) proportional reimbursement of premiums should be performed in case of the occurrence of the insurance event; (B) proportional reimbursement of premiums should be performed in case of cancellation of the policy, where the wording of the policy does not stipulate section 10 of the Insurance Contract Law, 1981, as phrased, during the period relevant to the claim; (C) the reimbursed premiums should be linked only to a positive index, and not to a negative index; (D) the premiums should be reimbursed with the addition of special interest. Additionally, a dismissal was issued with respect to the motion to approve against Clal Insurance only, regarding a claim of non-payment of relative premiums in insurance policies which include a stipulation of section 10 of the Insurance Contract Law, in which it was determined that the cancellation of the policy will enter into effect immediately, in the absence of an evidential infrastructure (hereinafter: the “**Proportional Reimbursement Claim**”). The motion to approve the claim as a class action was accepted against all of the defendants, with respect to anyone who is or who was the holder of an insurance policy, except for a property insurance policy, who canceled an insurance contract, or whose insurance policy was canceled due to the occurrence of the insurance event, from April 2003 until March 14, 2012, and from whom premiums were collected with respect to the months following the cancellation month, which were reimbursed to him according to their nominal value, without linkage differentials and interest in accordance with the Insurance Contract Law (hereinafter: the “**Nominal Return Claim**”). In September 2016, a settlement arrangement was filed with the District Court (the “Settlement Arrangement”), according to which the defendants undertook to donate to public causes amounts which were overcollected, by virtue of the proportional reimbursement claim, and additional amounts by virtue of the nominal reimbursement claim, according to partial rates which were determined in the settlement agreement, and according to the determination of an examiner who will be appointed by the Court within the framework of the settlement agreement. In February 2017 and March 2017, the positions of the Israel Consumer Council and the Attorney General of Israel, respectively, were received, who did not object to the settlement arrangement in its entirety, but rather proposed amendments to the settlement arrangement, inter alia, with respect to the method used to reimburse funds to the class, and with respect to the types of policies to which the settlement will apply. In June 2017, the Court appointed an examiner for the case to examine the settlement arrangement. The settlement agreement is subject to the approval of the Court, the provision of which is uncertain.	The amount claimed by all of the plaintiffs against all of the defendants in the claim is NIS 225 million, with respect to a period of ten years. The plaintiffs have not specified the amount claimed from Clal Insurance only, if the claim is approved as a class action.

Note 42: Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A1. Material claims for which class action status was approved (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
3.	5/2013 District - Tel Aviv	Clal Insurance and additional insurance companies	The plaintiff contends that the defendants breach their obligation to attach linked interest and duly calculated linkage differentials, with respect to the insurance benefits which they pay. According to the claim, the date from which the interest and linkage differentials should be calculated is beginning on the date of the occurrence of the insurance event, until the actual payment date. Alternatively, linkage differentials should be paid from the date of the occurrence of the insurance event until the actual payment date, as well as interest starting 30 days after the filing date of the claim, until the actual payment date of the insurance benefits.	To order the defendants to pay to the class members linkage differentials and interest with respect to the underpayment which was performed. Additionally, and/or alternatively, the Court is requested to order the provision of compensation in favor of the public, in its discretion.	Any person who received, during the 7 years prior to the filing of the claim and/or who will receive, until a ruling has been given on the claim, insurance benefits from the defendants, to which duly calculated interest (the "**First Class**") and duly calculated linkage differentials (the "**Second Class**") were not added. In January 2019, the plaintiff petitioned for the expansion of the class of represented plaintiffs, as defined in the Court's decision to approve from August 2015, such that it will also include all policyholders of Clal who received and/or will receive insurance benefits to which duly calculated interest was not added, from the date of the claim's approval as a class action, until a final ruling has been given on the matter. The Court determined it would reach a determination regarding the motion as part of the ruling.	In August 2015, the District Court decided to dismiss the motion to approve against the defendants, regarding the claim of non-payment of linkage differentials, and to accept the motion to approve against the defendants with respect to the claim regarding the underpayment of interest on insurance benefits, and it was determined that the entitled class members include any policyholder, beneficiary or third party who, during the period from three years prior to the filing of the claim, until the date of the claim's approval as a class action, received from the defendants, and not through any ruling which was given between them, insurance benefits to which duly calculated interest was not added, within 30 days after the date of submission of the claim to the insurer (and not from the date of submission of the last document required by the insurer to evaluate the liability), until the actual payment date. In October 2016, the defendants withdrew, with the approval of the Supreme Court, a motion for leave to appeal which was filed by them in October 2015, which primarily involved an objection to the determination of the District Court, according to which a previous settlement arrangement into which the Company entered regarding a similar question does not constitute final judgment which blocks the filing of the motion to approve, and does not afford protection to the defendants, and the parties reserved all of their claims with respect to the main proceedings. The proceedings are currently in the claim handling stage.	The plaintiff estimates the cumulative amount for the first class in the amount of NIS 518 million (if it is ruled that the interest should be calculated beginning from the date of the occurrence of the insurance event), and in the amount of NIS 210 million (if it is ruled that the interest should be calculated beginning from 30 days after the date of the claim's submission to the insurance company). The plaintiff estimates the cumulative amount for the second class, for which the motion to approve was dismissed, with respect to linkage differentials, in an additional amount of NIS 490 million.

Note 42: Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A1. Material claims for which class action status was approved (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
4.	1/2008 District - Tel Aviv	Clal Insurance and additional insurance companies	According to the plaintiff, the defendants charge sub-annual installments, a payment which is collected in life insurance policies wherein the insurance tariff is determined as an annual amount, though the payment is executed in several installments (hereinafter: "**Sub-Annual Installments**"), in excess of the permitted amount, with such charges being implemented, allegedly, in a number of ways: collection of sub-annual installments with regard to the "policy factor", collection of Sub-Annual Installments at a rate higher than that permitted according to the Control of Insurance circulars, collection of sub-annual installments with respect to the savings component in life insurance policies, and collection of sub-annual installments with regard to non-life insurance policies.	Repayment of all amounts unlawfully collected by the defendants, and a mandamus order requiring the defendants to change their ways of action with regard to the matters listed in the claim.	Any person who engaged in an insurance contract with any of the defendants, and from whom payment was collected with respect to the sub-annual installments component, in circumstances or in an amount which deviated from what is permitted.	The Commissioner filed his position on the case, in which he accepted the position of the insurance companies. In July 2016, the Court approved the claim as a class action. The Group which was approved includes anyone who engaged with the defendants, or with any one of them, in an insurance contract, and from whom sub-annual installments were collected with respect to the following components: with respect to the savings component in life insurance of the "hybrid" type, which were sold by Clal Insurance in the past, with respect to the "policy factor", which is a fixed monthly amount that is added to the premium, and which is intended to cover expenses, and with respect to health, disability, critical illness, loss of working capacity and long-term care policies (the "Collection Components"). The Court's decision was given despite the position of the Commissioner of Insurance which was submitted at the request of the Court, as stated above. The cause of action for which the claim was approved as a class action is unlawful collection of sub-annual installments with respect to the collection components. The requested remedy is the reimbursement of the amounts which were unlawfully collected during the seven years preceding the filing of the claim and thereafter, i.e., from January 2001, and a mandamus order ordering the defendants to rectify their conduct. In December 2016, the defendants filed with the Supreme Court a motion for leave to appeal against the decision to approve the claim as a class action (the "Motion for Leave to Appeal"), and in May 2018, the Supreme Court accepted Motion for Leave to Appeal, heard it as an appeal, and gave a ruling in which the appeal was accepted, and the claim accordingly dismissed. In June 2018, the plaintiffs filed a motion to hold an additional hearing regarding the ruling, with respect to some of the determinations specified therein. In July 2019, a decision was given to approve holding an additional discussion on this matter, before an extended panel of 7 judges. In February 2020, the position of the Attorney General of Israel was filed with the Supreme Court, within the framework of the additional hearing, in which it was stated that the Attorney General of Israel believes that it would be inappropriate to intervene in the determination which was made in the ruling, based on the adoption of the Capital Market Authority's interpretive position.	In February 2010, the parties reached a procedural arrangement according to which the following would be erased from the Motion and the claim: the plaintiff's claims stating that Clal Insurance had collected a rate of sub-annual installments higher than that permitted for policies issued before 1992, and the claim that Clal Insurance had collected the maximum rate of sub-annual installments, even when the number of installments was lower than twelve. Accordingly, the amount claimed from Clal Insurance was changed and set at approximately NIS 398.2 million.

Note 42: Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A1. Material claims for which class action status was approved (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
5.	5/2011 District - Center	Clal Insurance and additional insurance companies	According to the plaintiff, in life insurance, the defendants collect from policyholders, without any basis in the policies and without consent, amounts which at times reach a significant part of the premiums paid by the policyholders, and which are known as the "policy factor" and/or "other management fees") (hereinafter: the "**Policy Factor**"), unlawfully and without any appropriate contractual provision, despite the fact that, in principle, the defendants were allowed, in accordance with the Commissioner's circulars, to collect a policy factor in life insurance policies. The plaintiffs contend that in April 2011, the Court with which the current claim was filed, approved class action status for a motion to recognize a claim against another insurance company (hereinafter: the "**Other Motion**"), which is identical to this claim. It is noted that following the motion for leave to appeal, which was filed by the other insurance company with the Supreme Court, the hearing regarding the other motion to approve was returned to the District Court to be heard again.	Payment of the compensation / reimbursement amount equal to the policy factor amount which was actually collected from the class members, with the addition of the returns which were withheld from them with respect to this amount due to the fact that the amount which was deducted from the premium for the policy factor was not invested for them, and changing the method of action with respect to the collection of the policy factor.	Anyone who was and/or is a policyholder of any or all of the defendants, and from whom any amount was collected as the policy factor.	In June 2015, a settlement arrangement and a motion to approve it were filed with the Court, in which it was requested to order the defendants to pay a total of NIS 100 million with respect to the past (of which, the share of Clal Insurance is approximately NIS 26.5 million), and to provide a discount of 25% of the actual future collection of the policy factor. In November 2016, the Court decided to dismiss the motion to approve the settlement arrangement, since it believed that the foregoing does not constitute an adequate, reasonable and fair arrangement for the affairs of the class members. Additionally, the Court decided to partially approve the conducting of the claim as a class action, only with respect to life insurance policies combined with savings which were prepared between the years 1982 and 2003 (with respect to Clal Insurance, in policies of the "Adif", "Meitav" and "Profile" types), where the savings which accrued in favor of the policyholders in those policies were affected due to the collection of the policy factor, on the grounds of breach of the insurance policy, due to the collection of the policy factor, in a manner which harmed the savings which accrued in favor of the policyholders, with respect to the period beginning seven years before the filing date of the claim, in April 2011. The claim was not approved with respect to other types of policies (hereinafter, jointly: the "**Decision**"). The claimed remedies, as defined in the Court's decision, include curing the breach by implementing an update to the savings which accrued in favor of the policyholders, in the amount of the additional savings which would have accrued for them had a policy factor not been collected, or compensation of the policyholders in the aforementioned amount, and discontinuation of the collection of the policy factor from that point forward. Additionally, payment of professional fees was ruled for the plaintiff's representative, and for the objectors to the settlement arrangement and their representatives, in immaterial amounts. Insofar as the claim will be approved on the merits, the total potential of the claim, with respect to the savings component in the relevant policies is estimated in the amount of approximately NIS 700 million, for four of the defendants who engaged in the settlement arrangement (including Clal Insurance), with respect to the period from 2004 to 2012 (inclusive), based on an estimate which is based on the assessment of the Court which was given based on the opinion of the examiner who was appointed on its behalf. This amount does not include the period until the date of the decision, and the collection amounts with respect to the policy factor, which were received from 2012 onwards, and are supposed to be received in the future. In May 2017, the defendants filed a motion for leave to appeal the Court's decision, both with respect to the non-approval of the settlement arrangement, and with respect to the partial approval of the claim as a class action. In February 2019, the defendants withdrew the motion for leave to appeal, in accordance with the Supreme Court's suggestion, and therefore, the proceedings are currently in the stage of handling the claim before the District Court. The parties are conducting mediation proceedings between them.	The plaintiffs' claim pertains to the policy factor which was collected from them from 2004. According to various estimates and assumptions which were performed by the plaintiffs with respect to the collection of the policy factor, during the seven years preceding the filing date of the claim, by the defendants, and the relevant annual returns, the amount claimed for the class members, against all of the defendants, was estimated by the plaintiffs, as of the filing date of the claim, as a nominal total of approximately NIS 2,325 million. Out of this amount, a total of approximately NIS 661.9 million is attributed to Clal Insurance, according to its alleged market share.

Note 42: Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A1. Material claims for which class action status was approved (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
6.	7/2014 District - Center	Clal Insurance	According to the plaintiff, Clal Insurance overcollects premiums in compulsory and/or third party and/or policies of the "Specified Driver" type (hereinafter: the "**Policy**"), in cases where the youngest driver who is expected to use the vehicle on a routine basis (hereinafter: the "**Driver**") is expected to reach, during the insurance period, an age and/or driving experience level at which Clal Insurance begins collecting reduced premiums (hereinafter, respectively: "**Eligible Age**" and "**Eligible Experience Level**"). The plaintiff contends that Clal Insurance should be required to calculate the premiums by other means, also in case of renewal of the policy after a previous insurance period, and that Clal Insurance should be required to initiate disclosure to the holders of motor policies, of any kind whatsoever, regarding various items of information.	To declare and determine that Clal Insurance is required to calculate the premiums with respect to the policies in the manner specified in the motion; To order Clal Insurance to initiate disclosure of various items of information, as specified in motion; To prohibit Clal Insurance from collecting administrative expenses or any other payment from the policyholder with respect to the issuance of new compulsory certificates of insurance, in cases where the new issuance is required for reasons not originating from the policyholder; To order Clal Insurance to compensate the class members with respect to the damages which they incurred, with the addition of duly calculated linkage differentials and interest from the date of overcollection until the date of compensation and/or actual reimbursement; To order Clal Insurance to reimburse to the class members the entire amount by which Clal Insurance was enriched at the expense of the class members. To order the provision of any other remedy in favor of the classes, or compensation to the public, as considered appropriate by the Court, in light of the circumstances.	Anyone who purchased and/or renewed and/or who will purchase and/or renew the policy from the defendant during the seven years which preceded the filing of the claim, until the date of issuance of a final ruling, and where, during the insurance period, the youngest driver who is expected to use the vehicle reached and/or will reach the age and/or driving experience level at which he is entitled to a reduction of the premiums, and who in practice did not receive the entire reduction to which he was entitled, as well as anyone who is included in the aforementioned class, and whose comprehensive and/or third party insurance is of the "all drivers" type.	In January 2017, a decision was given by the Court in which the plaintiff's claims were dismissed, except with respect to the claim regarding the existence of a conventional practice regarding the update to the policies and the reimbursement of excess premiums, regarding which the motion to conduct the claim as a class action was approved. The class members, as determined in the decision, include "the holders of the respondent's compulsory, comprehensive and third party motor insurance policies during the last seven years, who reached, during the insurance period, the age bracket and/or driving experience bracket which confers an entitlement to a reduction of insurance premiums, and regarding whom the respondent refrained from acting in accordance with the conventional practice, as a result of which, they did not receive the reduction." The proceedings are currently in the claim handling stage. The parties are conducting mediation proceedings between them.	The total claim amount was estimated by the plaintiff as a total of approximately NIS 26 million. The estimate of damage, as stated in the class action plaintiff's affidavit of evidence in chief, amounted to a cumulative total of approximately NIS 100 million, with respect to a period of 11 years.

Note 42: Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A1. Material claims for which class action status was approved (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
7.	11/2014 District - Economic Department of Tel Aviv	Bank of Jerusalem Ltd. (hereinafter: "**Bank of Jerusalem**")	The plaintiff contends that Clal Finance Batucha Investment Management Ltd. ("Clal Batucha"), which merged with and into Bank of Jerusalem, in its function as portfolio manager, performed, on behalf of its customers, transactions with securities of member companies in the IDB Group, in a manner which gave preference to its interests and to the interests of various member companies of the IDB Group over the interests of its customers, in violation of the law. The plaintiff contends that Clal Batucha breached its obligation to inform its customers regarding any conflict of interests which it has in the performance of the aforementioned actions, and to receive their consent.	To issue an order against Clal Batucha to provide details and information regarding the damages which were (allegedly) incurred by each of the class members, and to order Bank of Jerusalem to compensate the class members for the entire damages which they incurred, or alternatively, to determine another remedy in favor of all or some of the class members.	Any person who received from Clal Batucha investment management services, in which they acquired securities which were issued by member companies of the "IDB conglomerate", without giving their advance approval with respect to each transaction, and who incurred damages as a result of the said acquisition. On this matter, the plaintiff includes under the "IDB conglomerate" all corporations which were held (directly or indirectly) by IDB Holding and IDB Development.	In January 2017, the Court gave its decision, which approved the conducting of the claim as a class action against Clal Batucha, and in parallel, it dismissed the motion to approve the claim against defendants who had served as directors in Clal Finance Batucha, in which it was alleged that they had breached their duty of care towards the class members. The class members, as determined in the decision, include "anyone who received investment management services from Clal Finance Batucha Investment Management Ltd. (liquidated due to merger) ("**Batucha**"), on whose behalf, within the framework of the portfolio management activity, Batucha (or any other party on its behalf) acquired securities, as defined in the Regulation of Investment Advice, Investment Marketing and Investment Portfolio Management Law, 1995, (hereinafter: the "**Advice Law**"), which were issued by any of the corporations which were included, at the time of the acquisition, in the IDB Conglomerate (as defined below), from whom advance approval was not received regarding each aforementioned transaction, and who incurred damages due to the aforementioned acquisition." In this regard, the IDB Conglomerate was defined as including "all corporations which were held or controlled, directly or indirectly (including through concatenation) by the companies or IDB Holding Corporation Ltd. (hereinafter: "**IDB Holding**") and IDB Development Corporation Ltd. (hereinafter: "**IDB Development**"), including IDB Holding and IDB Development. For the avoidance of doubt, this definition includes all of the subsidiaries, second tier subsidiaries, and third tier subsidiaries (and so on) of IDB Holding, as well as any other corporation held by them, directly or indirectly." It was further determined in the decision that the class will include anyone in whose account acquisitions of securities were performed, during a period of up to 7 years before the filing of the motion to approve, until the date of completion of the merger transaction of Clal Batucha into Bank of Jerusalem. The cause of action which was approved in the decision is breach of statutory duty by virtue of section 63 of the Civil Wrongs Ordinance, together with section 15(a) of the Advice Law. The Company is not party to the claim; however it received notice regarding the filing of the claim, and the demand for indemnification by Bank of Jerusalem, in accordance with the agreement for the sale of Clal Batucha to Bank of Jerusalem, according to which the Company has an undertaking to indemnify. The aforementioned undertaking to indemnify may be activated if and insofar as Bank of Jerusalem will be obligated, by law, in connection with the aforementioned claim, and subject to the terms of the agreement between the parties[16]. The proceedings are currently in the claim handling stage.	The plaintiff's personal claim amount amounts to a total of approximately NIS 18,624. According to the statement of claim, the damage claimed for all class members cannot be estimated at this stage.

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[16] The Company reported the claim to the insurers of the professional liability insurance policies under which it is covered. The Company is unable, at this stage, to estimate the amount of damages and the scope of insurance coverage.

Note 42: Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A1. Material claims for which class action status was approved (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
8.	2/2014 District - Tel Aviv	Clal Insurance	The plaintiff contends that Clal Insurance abuses the fact that the policyholder does not pay, for a certain period, the savings component in a life insurance policy which includes a savings component and a risk component, and fundamentally and grossly violates the policy terms by implementing unilateral changes to the policy (shortening the policy period, changing the insurance commencement date and increasing the policyholder's age at the start of insurance coverage), which leads to an unlawful increase in the real premium cost, although the premium for the risk component in the policy has been paid in full. According to the plaintiff, Clal Insurance thereby causes policyholders to incur damages in significant amounts.	To order Clal Insurance to pay the excess premium amounts which it collected by first moving the insurance commencement date until the date when the claim was approved as a class action, with the addition of the maximum linkage differentials and interest permitted by law. To receive an order prohibiting Clal Insurance from continuing its collection of premiums at rates higher than the rate specified in the policy. Alternatively, to order Clal Insurance to pay an appropriate and adequate amount in favor of the entire public, in an amount equal to the collection fees which were collected and not reimbursed to the payer, with the addition of duly calculated linkage differentials and interest.	Any person who obtained and/or who was insured by a life insurance policy, and who did not pay the savings component in this policy in its entirety, from the policy preparation date until the date of entitlement for a monthly annuity according to the policy, and from whom premiums were unlawfully overcollected, due to the change in the insurance commencement date.	In December 2017, the Court approved the claim as a class action. The class which was approved includes anyone who engaged in, and/or who was covered by, a life insurance policy which includes a savings component and a risk component, and who did not pay one of the policy components in full, from the policy preparation date until the date of eligibility for a monthly stipend under the policy, or until the settlement or expiration of the policy, whose insurance start date was "moved forward" by the respondent. The claim was approved with the causes of action of breach of contract, deception and unjust enrichment. The claimed remedies include reimbursement of the excess premium amounts which were collected by Clal Insurance, as alleged by the plaintiffs, beyond the amounts specified in the policy, and an order prohibiting Clal Insurance from continuing its collection of premiums at rates higher than the rate specified in the policy. The proceedings are currently in the claim handling stage.	The total damage claimed for all of the class members against Clal Insurance amounts, in the plaintiff's estimate, to a total of approximately NIS 20 million.

Note 42: Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A1. Material claims for which class action status was approved (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
9.	5/2015 District - Jerusalem	Clal Insurance and an additional insurance company	According to the plaintiff, after years during which his deceased mother was insured under a collective life insurance policy, which Clal Insurance sold to the association of pensioners under the "Netiv - Southern and Central Region" pension fund (hereinafter: the "**Association**" and the "**Policy**", respectively), and who paid premiums as required, Clal Insurance unilaterally and unlawfully canceled the policy, because the policy was a losing policy, and did not reimburse the premiums which it had charged. The plaintiff also contends that Clal Insurance illegally collected premiums from policyholders with respect to June 2014, after the date when the policy was canceled.	To order Clal Insurance to pay to each of the class members who did not receive the benefits of the policy, the entire premiums which were collected from them with respect to the policy over the years when they were insured, with the addition of duly calculated interest and linkage.	Anyone who was insured by Clal Insurance in a policy which was canceled on March 2, 2014, as well as all policyholders under the policy from whom Clal Insurance collected premiums in June 2014.	In May 2019, the Court dismissed the claim for reimbursement of all premiums which were paid with respect to the policy over the years. The Court approved the claim as a class action against Clal Insurance and against the association, on the grounds of breach of the provisions of the Insurance Contract Law, 1981, the Control of Insurance Business Regulations (Collective Life Insurance), 1999, the provisions of the policy and on grounds of negligence, and determined that Clal Insurance had not properly alerted the policyholders of the cancellation of the insurance contract, and that the association had breached, inter alia, the fiduciary duty and duty of care which applied to it as the "policyholder". The approved class includes the beneficiaries of the retirees who are covered under the collective insurance contract, who passed away since the cancellation date of the insurance contract until the termination date of the insurance period specified in the insurance contract (a two year period). The claimed remedy is payment of insurance benefits to the class members. The proceedings are currently in the claim handling stage.	The total damage claimed for all of the class members from Clal Insurance amounts, in the plaintiff's estimate, to a total of NIS 90 million.

Note 42: Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A2. Pending motions to approve class action status for material claims

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
1.	7/2014	Clal Pension and Provident Funds Ltd. and against four additional managing companies of pension funds	According to the plaintiffs, two associations which claim that their purpose is to assist the senior population, the defendants increased the management fees which are charged from retirees of the pension funds which are managed by them, during the annuity receipt stage, to the maximum management fees permitted for collection by law (0.5% of the accrued balance), while abusing the fact that the retirees are a "hostage population", although active members pay, on average, significantly lower management fees. It was further claimed that the defendants do not disclose to their members that immediately when they become pensioners, the management fees which they pay to the defendants will be increased to the maximum management fees.	Reimbursement of the excess management fees which were unlawfully collected from the class members, with the addition of interest and linkage; To order the defendants to reduce the management fees which are charged from the pensioners, in a manner whereby the management fees which were collected prior to the commencement of the retirement of each one of them, will not increase; To prohibit the defendants from increasing the management fees for members proximate to their retirement.	Any person who is a member of a new comprehensive pension fund which is managed by one of the defendants, and who is entitled to receive an old age pension and/or who will be entitled to receive an old age pension in the future.	In September 2015, the plaintiffs filed a reply to the defendants' response to the motion to approve (the "Plaintiffs' Reply"), in which, inter alia, a new claim was raised, according to which the defendants did not send to their members advance notice regarding the increased management fees, as required in accordance with the provisions of the law. At the request of the Court, in September 2017, the Commissioner's position was filed, which determined, inter alia, that in accordance with the provisions of the law and the circular dated July 2014, it was possible to collect, during the annuity receipt period, management fees at a rate of less than 0.5%, and that there was no regulatory obligation for the defendants to announce the increase in management fees once the members reached retirement age. The proceedings are currently in the claim handling stage.	The plaintiffs estimate that the management fees which were unlawfully collected by the defendants from current pensioners amount to NIS 48 million, that the management fees which will be unlawfully collected in the future from current pensioners amount to NIS 152 million, and that the management fees which will be unlawfully collected in the future by the defendants from future pensioners, with respect to accrual which was performed until now, amount to NIS 2,800 million. The aforementioned amounts are claimed with respect to all of the defendants.

Note 42: Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A2. Pending motions to approve class action status for material claims (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
2.	11/2014 District - Center	Clal Insurance, Tmura Insurance Agency (1987) Ltd. (hereinafter: "**Tmura**"), an additional insurance company and an additional insurance agency.	According to the plaintiffs, the holders of credit cards from Isracard and Israel Credit Cards Ltd. ("CAL"), who called in order to activate the basic policy of the credit cards, which is provided free of charge, they were sold, during the call, a product which is not an extension, addition or increase of the basic policy, but rather an ordinary policy, sold at full price, in a manner whereby that person was insured twice, from the first Shekel, on all matters pertaining to the overlapping coverages in the two policies.	To order the defendants to repay to the class members the excess premiums which were paid by the class members during the seven years which preceded the filing of the claim; To order the defendants to take into account, as part of the sale of the policies, the economic value of the basic policies, and to collect premiums which will take into account that value; To provide full and adequate disclosure to those calling the call center; To allow the holders of Isracard and CAL credit cards to activate the basic policy by means other than the call center; Alternatively, to order any other remedy in favor of the class, including the issuance of instructions regarding supervision, and execution of the ruling.	The holders of Isracard and CAL credit cards who were entitled to receive international travel insurance, at no extra charge, and who purchased, in the last seven years, international travel insurance from the defendants through the call centers operated by the defendants.	In April 2019, the parties filed with the Court a motion to approve a settlement arrangement. In accordance with the settlement arrangement, Clal Insurance will provide to the class members, as defined in the settlement agreement, a database of international travel insurance days free of charge, which may be used in accordance with the provisions of the settlement agreement. In November 2019, the Attorney General of Israel filed an objection to the settlement arrangement which was filed with respect to the additional insurance company, and in December, he announced that the grounds of his objection applied to the settlement arrangement with Clal Insurance as well. The settlement arrangement's entry into effect is conditional upon the receipt of approval from the Court, the provision of which is uncertain.	The total damage claimed for all of the class members from Clal Insurance amounts, in the plaintiff's estimate, to a total of approximately NIS 70 million.

Note 42: Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A2. Pending motions to approve class action status for material claims (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
3.	7/2015 District - Tel Aviv	Clal Insurance	The plaintiff contends that Clal Insurance calculates the rights for payment of stipends and/or for the discounting of stipends which are owed to policyholders who freeze the payment of premiums (in full or in part) temporarily for a certain period and/or who do not pay the premiums for a number of months, in breach of the provisions of the law, in breach of the provisions of the policy and the required formula for the calculation of the stipend, as included in the policy (hereinafter: the "**Required Formula**"), and also asserted that Clal Insurance refuses to deliver information to its policyholders.	To order Clal Insurance to reimburse the monthly stipend and/or the discounting of the stipend, in accordance with the provisions of the required formula, and to order Clal Insurance to pay to the class members who already incurred damages, the stipend differences or the stipend discounting differences which are owed to them, with the addition of duly calculated linkage differentials and interest. Alternatively, the plaintiff is petitioning for the issuance of a declaratory order stating that Clal Insurance is in breach of the policy provisions.	Regarding the non-monetary remedies - all policyholders of Clal Insurance who hold policies which are similar to the plaintiff's policies (the "**Policyholders**"), who, during a certain period or periods, did not pay, temporarily, the premiums under the policy. Regarding the monetary remedies: all of the policyholders who began receiving from Clal Insurance a monthly stipend which is lower than the monthly stipend which would have been paid in accordance with the required formula, as well as policyholders who chose discounting of the stipend, and where the calculation used to discount their stipend was lower than the discounting of their stipend which would have been paid in accordance with the required formula.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action. In June 2016, the motion of the parties to transfer the hearing to a board which is hearing an additional claim by the plaintiff, on the subject of the calculation of the rights in life insurance policies, where the policyholder does not pay the full premiums, as specified in section 7(a)(a1)(10) above, was approved.	The total damage claimed for all of the class members, in the plaintiff's estimate, to a total of no less than NIS 25 million.
4.	9/2015 District - Center	Clal Insurance and four other insurance companies	The plaintiffs contend that the defendants, when giving points for the "continence" action, as part of the evaluation of insurance benefits in long-term care policies, adopted an interpretation according to which, in order to recognize a policyholder's claim with respect to "incontinence", the condition must result from a urological or gastroenterological illness or impairment only, instead of giving points also when the policyholder's medical condition and impaired functioning which have caused his "incontinence", may be due to an illness, accident or health impairment which are not urological or gastroenterological in nature.	To order the defendants to compensate the class members for all damages which they incurred due to their alleged beaches of the agreement, and to fulfill the agreement from this point forward, or alternatively, to order the provision of any other remedy considered appropriate by the Court, in light of the applicable circumstances.	Any person who held a long-term care insurance policy which was sold by the defendants (or his inheritors, as applicable), and who suffered from a health condition and impaired functioning as a result of an illness or accident or health condition, which caused them to be incontinent and/or to require the permanent use of a stoma or catheter in the bladder, or diapers or absorbent pads of various kinds, and notwithstanding the foregoing, who did not receive from the defendants (as applicable) points with respect to the "continence" component, in a manner which injured his rights.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The plaintiffs contend that the damage cannot be estimated at this stage, but estimate it at tens or even hundreds of millions of NIS. The personal damage claimed by the plaintiff from Clal Insurance, as alleged, amounts to a total of approximately NIS 32,500 (without linkage differentials and interest).

Note 42: Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A2. Pending motions to approve class action status for material claims (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
5.	9/2015 District - Tel Aviv	Clal Pension and Provident Funds Ltd. and four additional managing companies of pension funds	The plaintiffs, members of pension funds managed by the defendants, contend that the mechanism for the compensation, by commission, of agents and brokers, as a percentage of the management fees which are charged from members, as was practiced by the defendants, constitutes a breach of fiduciary duty towards the members of provident funds managed by the defendants, and results in the defendants' collection of management fees in amounts which are higher than appropriate.	To order the defendants to change the mechanism for compensation of agents, and to repay to the members the management fees which were overcollected from them.	Members of provident funds managed by the defendants, from whom management fees were collected while providing a commission to agents which was derived from the amount of management fees.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The plaintiffs estimate the total damage incurred by all of the class members as approximately NIS 2 billion, reflecting damage at a rate of approximately NIS 300 million per year since 2008.
6.	10/2015 District - Center	Clal Insurance	The plaintiff brings claims against the definition of "disability" in accidental disability policies, which allegedly create uncertainty, and against the policy terms, which require the receipt of reasonable proof within one year after the date of the accident. In this regard, it was claimed that despite the fact that the Company received "reasonable proof" regarding the permanent disability of policyholders as a result accidents which occurred since June 2009, it paid to them reduced insurance benefits, or rejected their claims for insurance benefits due to disability. The claim also includes assertions regarding the calculation of disability rates in the payment of insurance benefits in the event that the policyholder has more than one disability, as well as assertions regarding the revaluation of insurance benefits with respect to linkage differentials and interest.	To order Clal Insurance to pay to the class members insurance benefits with respect to permanent disability as a result of an accident, in accordance with the terms of the policy, and to order it to cease its unlawful conduct.	Any person who was insured by Clal Insurance in accidental disability policies, where, despite the fact that Clal Insurance received "reasonable proof" of the permanent disability due to an accident which occurred beginning in June 2009, paid reduced insurance benefits with respect to his disability, or rejected his claim for insurance benefits due to his disability, for the reasons specified in the claim (in whole or in part).	In July 2016, following the announcement of the class action plaintiff, who agreed to the summary dismissal of the claim, and withdrew his claim, the Court summarily dismissed the claim. In September 2016, an appeal was filed with the Supreme Court on behalf of the class action plaintiff against the ruling, in which the claim was summarily dismissed. In November 2017, the Supreme Court revoked the ruling, insofar as it pertains to the summary dismissal of the claim, and ordered the plaintiff to file a clarification notice with the District Court, regarding the question of based on which causes of action the claim is requested to be conducted, and which of the plaintiff's assertions meets the requirement of personal cause of action, and the plaintiff filed the foregoing clarification notice, and in April 2018, the District Court instructed the plaintiff to file an amended motion for approval of the claim as a class action, according to the specific causes of action which it specified. After the dismissal of the aforementioned motion for leave to appeal, which the plaintiff had filed with the Supreme Court, the plaintiff filed with the Court an amended motion to approve, which pertained to the specific causes of action which were determined by the Court, as stated above.	The petitioner estimates the damage incurred by the class at a total of NIS 90 million.

Note 42: Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A2. Pending motions to approve class action status for material claims (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
7.	12/2015 District - Tel Aviv	Clal Insurance and an additional insurance company	The plaintiffs contend that the defendants charged, from holders of life insurance policies which were issued beginning on August 1, 1982, in which the sub-annual installments component was reduced, where the premium is paid in installments during the year (hereinafter: "**Sub-Annual Installments**"), an effective interest rate which is higher than the maximum interest rate which the Insurance Commissioner allowed insurance companies to charge with respect to the sub-annual installments component. According to the plaintiffs, this collection is in breach of the law, policy and common practice in the finance segment, and ignores the monthly premium payment date, and the fact that the annual premiums gradually decrease during the year.	To order the defendants to change the method used to calculate the sub-annual installments component, in a manner whereby it will be calculated in consideration of the actual premium payment dates, and in consideration of the reduction of the annual premiums for each payment. To reimburse to the class members the amounts of the sub-annual installments component which were overcollected from them, beginning on the date when the sub-annual installments component was charged to the policyholders, until a ruling has been given on the claim, or alternatively, in the seven years prior to the plaintiff's claim, until a ruling has been given on the claim. Alternatively, the plaintiff is petitioning for the issuance of a declaratory ruling, according to which the method used by Clal Insurance to calculate the sub-annual installments component is illegal, or for the issuance of another declaratory ruling considered appropriate by the Court, in light of the circumstances.	Holders of life insurance policies which were issued beginning on August 1, 1982, and in which a sub-annual installments component was collected, where the premium is paid in installments throughout the year.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The total damage claimed for all of the class members, in the plaintiffs' estimate, amounts to a total of no less than NIS 50 million.
8.	2/2016 District - Center Lod	Clal Pension and Provident Funds Ltd. and four additional managing companies of pension funds	According to the plaintiff, an association which alleges that its purpose is to act on behalf of weak population groups and persons with special needs, the defendants charge, from recipients of disability and survivor annuities, management fees at the maximum rate permitted by law, while exploiting the fact that they are not permitted to transfer their monies to another fund.	To order the defendants to reimburse, to all recipients of disability and/or survivor annuities, all of the management fees which were unlawfully collected from them, with the addition of interest, or alternatively, to reimburse to the pension fund the management fees which were and/or which will be unlawfully collected from recipients of disability and/or survivor annuities, and to implement a just and fair distribution of the funds.	Any person who receives and/or who has the right to receive a disability annuity, as well as any person who receives and/or who has the right to receive a survivor annuity, and any person who is a member of a pension fund managed by the defendants, and who incurred damage as a result of the collection of management fees in connection with the disability and survivor annuities.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The amount of the class action claim was not quantified in the statement of claim; however, in accordance with an actuarial opinion which was attached to the motion, the damages caused to the class members was estimated, according to an initial estimate, as a total of approximately NIS 1 billion, against all of the defendants.

Note 42: Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A2. Pending motions to approve class action status for material claims (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
9.	8/2016 Regional Court - Tel Aviv (1) 10/2016 Regional Labor Court of Jerusalem (2) 11/2016 Regional Court of Jerusalem (3) 12/2016 Regional Court - Tel Aviv (4) 7/2019 Regional Court - Tel Aviv (5)	Clal Pension and Provident Funds Clal Insurance "Atudot" - Pension Fund for salaried Employees and Self-Employees Ltd. (a subsidiary of Clal Insurance (held 50%)) (hereinafter: "**Atudot**")	The five claims involve the assertion that the defendants collect from members in the pension funds, in the Tamar provident funds, and in the study funds which are managed by them, and in managers' insurance policies, in addition to the management fees, also "investment management expenses" (hereinafter: "**Direct Expenses**"), although there is no contractual provision which allows them to collect those expenses, and in breach of the fund regulations.	The plaintiffs in the five claims request to order the defendants to reimburse the direct expense amounts which were overcollected from them. Additionally, some of the plaintiffs request to order the defendants to pay the additional difference of returns which would have been generated by the amounts which were overcollected had they been invested in the pension fund, while some request to order the defendant to pay the duly calculated NIS interest difference, from the date of overcollection until the date of actual payment.	Members of the pension funds, the study fund, and the provident fund "Clal Tamar" which are managed by the defendants, and holders of managers' insurance policies, from whom investment management expenses were collected during the seven years preceding the filing of the relevant claim.	In May 2018, the position of the Capital Market, Insurance and Savings Authority was filed, within the framework of the proceedings which are being conducted before the Regional Labor Court of Jerusalem, which primarily stated that the managing companies are entitled to collect expenses even if it was not explicitly stated in the regulations. In June 2018, the Authority's responses to the questions which had been addressed to it were filed, within the framework of the proceedings 11(1) and 11(4). The proceedings are currently in the stage of hearing the motions to approve the claims as class actions. It is noted that in May 2019, the District Court of the Central District decided to approve a motion to approve a class action regarding the collection of direct expenses in individual life insurance policies (the "**Decision to Approve**"). In the decision to approve, it was determined that the absence of a clear provision in the policy regarding the collection of direct expenses constitutes a negative arrangement, and therefore, the defendants were not entitled to collect those expenses. In September 2019, a motion for leave to appeal the decision to approve was filed with the Supreme Court, and in November 2019, a decision was given, stating that a hearing would be conducted regarding the motion for leave to appeal, and the position of will be filed. The Group's institutional entities are not party to the aforementioned proceedings.	In claim 1, which refers to the pension funds, the amount of the class action was set as NIS 341 million, with respect to the years 2009-2015, plus the investment management expenses which were collected by the defendant from the Group members in 2016, and plus the returns which would have been earned by the funds which were deducted as investment management expenses. In claim 2, which refers to the study fund, the amount of the class action was set, on an estimation basis, as a total of approximately NIS 53 million. In claim 3, which refers to the Tamar provident fund, the amount of the class action was set, on an estimation basis, as a total of approximately NIS 181 million. In claim 4, which refers to managers' insurance policies, the amount of the class action was set, on an estimation basis, as a total of approximately NIS 404 million, plus the investment management expenses which the defendant charged to the class members in 2016, as well as interest and linkage. In claim 5, which refers to the pension fund which is managed by Atudot, the amount of the class action was set, on an estimation basis, as a total of approximately NIS 41 million.

Note 42: Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A2. Pending motions to approve class action status for material claims (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
10.	9/2016 District - Tel Aviv	Clal Insurance and three other insurance companies	The claim involves the assertion that the defendants allegedly collected and continues to collect from the holders of health insurance policies premiums with respect to unnecessary coverages which the policyholders do not need, and that the respondents allegedly sold to the policyholders, knowingly and deliberately, health insurance policies which include coverages for which the policyholders had no need, since they have supplementary health insurance from the health fund to which they belong, and that they also made one service conditional upon another, with no possibility to acquire a limited policy, which includes only coverages which are not included in the supplementary health insurance policies of the health funds, thereby creating "double insurance".	Reimbursement of the excess premium amounts which were allegedly unlawfully overcollected, issuance of a mandamus order instructing the defendants to change their method of action, as described in the claim, as well as any other additional remedy which may be considered appropriate by the Court, in light of the circumstances.	Anyone who is insured, or was insured, by any or all of the defendants in any of the health insurance policies which include coverages which overlap, either fully or partially, with the coverages which are included in the supplementary health insurance policies of the health funds.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The amount of the class action against the defendants was set as a total nominal amount of NIS 4.45 billion, where the share of Clal Insurance out of that total, as calculated by the plaintiffs, was set as NIS 995 million.
11.	4/2017 Regional Labor Court of Tel Aviv	Tmura Insurance Agency (1987) Ltd. (hereinafter: "**Tmura**"), a second-tier subsidiary of the Company, which is an insurance agency which manages pension arrangements, and against three additional insurance agencies.	According to the plaintiffs, the defendants provided services with respect to the regulation of social / pension provisions, for both employers and employees; however, they charged the consideration from the employees only, without their knowledge or consent, and in breach of the duties which apply to them by law.	To order the defendants to compensate the class members for the damages which they incurred (each defendant with respect to its relevant class members), or alternatively, to order any other remedy in favor of the Group.	Any person who is included among the group of customers of the defendants while the defendants provided, to their employers, pension arrangement management services, during a period beginning defendants before the filing date of the new motion, until the date when the employer began bearing, out of its own resources, the costs of operating the employee's pension arrangement.	In November 2016, the Court approved a motion to withdraw a previous similar claim which had been filed by the Financial Justice Association in February 2016, inter alia, in light of its non-fulfillment of the conditions prescribed in the Class Action Law. In September 2018, the motion was transferred to a hearing before the Labor Court. In February 2019, the defendants filed a motion to add the president of the business organizations as additional defendants in the motion (hereinafter: the "**Motion**"). In May 2019, the Court dismissed the motion, and in parallel, approved the motion of the Chamber of Commerce to join the proceedings with the status of *amicus curiae*. The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action. The position of the Chamber of Commerce, which was filed with the Court in July 2019, supported the respondents' position. A letter on behalf of the Representation of Business Organizations, which also supported the respondents' interpretation, was filed in the case by the respondents. The parties' closing arguments were filed, and the case is now pending a decision regarding the motion to approve.	The amount claimed with respect to the damages incurred by all of the class members amounts to a total of approximately NIS 357 million against all of the defendants, of which, approximately NIS 88 million was attributed to Tmura.

Note 42: Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A2. Pending motions to approve class action status for material claims (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
12.	9/2017 District - Jerusalem	Clal Insurance and additional insurance companies	The plaintiffs contend that the defendants do not duly apply section 5(b) of the Adjudication of Interest and Linkage Law, 1961 (hereinafter: the "**Adjudication of Interest and Linkage Law**"), and do not pay, as a matter of policy, the required interest and linkage pursuant to that law, with respect to any debt which was ruled against them by a judicial authority, and which was not paid by them on the date set for its payment.	Declaratory relief with respect to the breach of the provisions of the law, compensation to the class members with respect to the alleged damages which they incurred, and ordering the defendants to correct the policy from this point forward.	Anyone to whom amounts were paid by the defendants which were ruled in their favor by a judicial authority, without the addition of linkage differentials and/or interest and/or linked interest to the ruled amount.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action. The parties are conducting mediation proceedings between them.	The amount of personal damages alleged by the plaintiff against Clal Insurance amounted to NIS 56.47. The plaintiffs, in the absence of accurate data regarding the aggregate damage incurred by the class, estimate the damage as a minimum of tens of millions of NIS, if not more.

Note 42: Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A2. Pending motions to approve class action status for material claims (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
13.	1/2018 District - Jerusalem	Clal Insurance, two additional insurance companies, Clalit Health Services and Maccabi Health Services.	The plaintiffs contend that the defendants refuse, allegedly, to cover with long-term care insurance people who are on the autistic spectrum, or set impossible and unreasonable conditions for them, without providing any explanation or justification for their actions.	Issuance of a declarative order stating that the defendants have breached, by their conduct, Part H of the Equal Rights for Persons with Disabilities Law, 1998, the Equal Rights for Persons with Disabilities Regulations (Notice of Insurer Regarding Provision of Different Treatment for a Person or Regarding Refusal to Insure a Person), 2016 (the "**Equality Law**"), and additional legislation; the issuance of a mandamus order requiring the defendants to stop discriminating against the class members, and to establish clear work policies regarding individual and equal treatment, without prejudice, of persons with disabilities; the issuance of a mandamus order requiring the defendants to retroactively insure the class members, who will be found qualified to receive long-term care insurance, following an egalitarian underwriting process, in accordance with the aforementioned policies.	People with disabilities on the autistic spectrum who request to be covered under long-term care insurance at any of the defendants, and who unlawfully received from the defendants different and discriminatory treatment, due to the fact that they are people with disabilities, whereby the decision was not based on reliable and relevant statistical, actuarial and medical data regarding the specific insurance risk, and/or for which no reason was given, as required in accordance with the Equal Rights Law and other provisions of the law, during the seven years preceding the filing of the motion to approve.	In January 2020, the Attorney General of Israel announced that he did not wish to appear in the proceedings, and that this announcement did not change the position which he filed regarding another similar case, in which he expressed the position that the insurance company's reliance on the reinsurers' underwriting policies complies with the provisions of the Equal Rights Law. The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The plaintiffs have not quantified the damage for all of the class members, and have estimated the personal damage incurred by the plaintiffs as tens of thousands of NIS per plaintiff.
14	1/2018 District - Center	Clal Insurance and five additional insurance companies.	The plaintiff, Public Trust, a Public Benefit Company, contends that the defendants unlawfully avoid paying to their policyholders and/or to third parties the VAT component which applies to the cost of the damage, when the damage was not actually repaired.	To order the defendants to pay the VAT component, according to the rate which applies to the damage amount, to the class members; to determine and declare that the defendants' avoidance of payment of insurance benefits and/or indemnification with respect to the VAT component which applies to the amendment, in cases where the damage was not actually repaired, is done in violation of the law; to issue a mandamus order requiring the defendants, from this point forward, to include in the insurance benefits which they pay also the VAT which applies to the cost of the repair, including if the damage has not been actually repaired, and as a result, also in case the policyholder or a third party receives insurance benefits at "reimbursement value", and not at "reinstatement value", and to order the defendants to pay to them insurance benefits with respect to the full amount of damage, including VAT.	Any policyholder and/or beneficiary and/or third party, in any insurance type whatsoever, who, as of the filing date of the insurance claim, has not repaired the damage which he claimed, and who received from the insurance company insurance benefits and/or reimbursement with respect to the damage, and where the insurance benefits did not include the VAT component which applies to the repair.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action. It is noted that a claim and a motion to approve it as a class action, based on the same cause of action, were filed in the past against the Company and three additional insurance companies, and were struck out on procedural grounds.	The plaintiff estimates the damages owed to the class members by Clal Insurance, with respect to each year, at a total of NIS 17,732,580. The plaintiff is petitioning for the payment of damages with respect to the beginning on since June 4, 2001, or alternatively, for a period of 7 years since the filing date of the previous claim, or alternatively, for a period of 7 years since the filing date of the claim in question.

Note 42: Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A2. Pending motions to approve class action status for material claims (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
15.	3/2018 Regional Labor Court of Tel Aviv	Clal Pension and Provident Funds Ltd. and five additional managing companies of pension funds.	According to the plaintiffs, members of pension funds which are managed by the defendants, the defendants collect survivor premiums from members who join the pension funds which are managed by them, who have no survivors, without actively attempting to disclose and explain to such members that they should avoid purchasing and paying for survivors insurance coverage, and without clarifying to members who have chosen to waive survivors insurance coverage, shortly before the end of the waiver period, that the waiver is about to expire.	Issuance of a mandamus order instructing the defendants to credit, to the savings fund of the class members, all of the funds which were paid by them and applied to survivor premiums, plus the returns which those funds would have received had they been credited to the savings funds on the date of their payment to the pension fund, as well as the issuance of a mandamus order instructing the defendants to duly disclose, clarify and explain to anyone who joins or is added to the fund, that if they do not have survivors, they would benefit from waiving the purchase of survivors insurance.	Anyone who does not have survivors, who joined or was added to a pension fund which is managed by any of the defendants, and from whom the fund collected survivors insurance premiums, despite the fact that they have no survivors, as this term is defined in the directives of the Authority of Capital Markets, Insurance and Savings.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	In the statement of claim, it was stated that the plaintiffs are unable to estimate, at this point, the rate of cumulative damages incurred by all of the class members.
16.	5/2018 District - Tel Aviv	Clal Insurance and an additional insurance company	The plaintiffs contend that the defendants overcollect insurance premiums with respect to comprehensive motor insurance, which are calculated according to a value of the vehicle which is greater than the actual value of the vehicle, as weighted by them upon the occurrence of a total loss insurance event, in different situations wherein the value of the vehicle is reduced due to “special variables” or “special components”, in a manner whereby the “true value” of the insured vehicle is significantly lower than its value for the purpose of insurance (before weighing the “special variables”), and particularly, when the vehicle was purchased from a rental company or leasing company.	To order the defendants to reimburse the amounts which were unlawfully overcollected from the policyholders, plus duly calculated interest; To declare that the defendants are not entitled to collect premiums based on a vehicle value which does not include the deduction of the “special component” from the vehicle value; To issue an injunction prohibiting the defendants from continuing their aforementioned practice of overcollection, as well as any remedy which the Court considers fair and just in light of the circumstances.	All policyholders who acquired from the defendants, with respect to a vehicle to which special variables apply under the policy, and whose insurance policy states that, in case of an insurance event of the “total loss” type or “constructive total loss” type, a certain rate will be deducted from the vehicle value, without reducing the premiums accordingly, during the seven years preceding the filing date of the claim.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The total alleged personal damage claimed by the plaintiff against Clal Insurance was estimated at a total of NIS 650. The aggregate damage incurred by the class members, during the last seven years, was estimated in the total amount of approximately NIS 50 million, for both defendants.

Note 42: Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A2. Pending motions to approve class action status for material claims (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
17.	5/2018 Regional Labor Court of Tel Aviv	Clal Insurance	The plaintiffs contend that Clal Insurance raised the management fees in managers' insurance policies, beyond the management fee rate which was agreed upon in the insurance policies, and in violation of the law.	Reimbursement of the full amounts which were collected by Clal Insurance with respect to management fees, beyond the rate specified in the managers' insurance policies and/or in breach of the directives of the competent authority and/or in violation of the provisions of the law, as if they had been deposited originally, with the addition of linkage differentials and interest. Alternatively, they request any other remedy in the Court's discretion.	All customers of Clal Insurance who purchased managers' insurance policies, and from whom management fees were collected at a rate which was higher than the rate specified in the policies and/or in violation of the directives issued by the Insurance Commissioner at the Ministry of Finance and/or in violation of the law.	In January 2020, the parties filed a motion to approve a settlement arrangement, according to which Clal Insurance undertook to pay, to the members of the class which was defined in the settlement arrangement, compensation according to the rate determined in the settlement arrangement. The settlement arrangement also includes a future arrangement with respect to an amendment to the rate of management fees which will apply to the policies referenced in the arrangement. The settlement arrangement's entry into effect is conditional upon the receipt of court approval, the provision of which is uncertain.	The plaintiffs did not specify the cumulative damages incurred by all class members. The personal damage of one plaintiff was estimated as a total of NIS 597, with the addition of linkage differentials and interest, and the damages incurred by the second plaintiff were not specified.

18.	8/2018 Regional Labor Court of Tel Aviv	Clal Insurance	The plaintiff contends that Clal Insurance paid, to holders of guaranteed-return insurance policies which were issued between the years 1962 and 1990 ("**Guaranteed-Return Policies**"), interest according to rates which were lower than the rates which it was required to pay in accordance with the publication issued by the Authority of Capital Markets, Insurance and Savings (hereinafter: the "**Capital Market Authority**"), and as a result, that it performed unjust enrichment at the expense of policyholders. It was further asserted that Clal Insurance did not pay interest in arrears to policyholders in cases involving arrears in the redemption of funds from guaranteed-return policies.	The payment of the difference between the interest rate which Clal Insurance actually paid to holders of guaranteed-return policies, and the interest rate which it would have been required to pay in accordance with the publication of the Capital Market Authority, and the update to unredeemed guaranteed-return policies, in accordance with the interest rate which were published by the Capital Market Authority. The plaintiff is also petitioning for payment of duly calculated linkage and interest in arrears in case of arrears in the redemption of funds by virtue of guaranteed-return policies.	Holders of guaranteed-return policies to whom interest was not paid with respect to these policies, according to the rates which were published by the Capital Market Authority, and holders of guaranteed-return policies to whom duly calculated interest in arrears was not paid with respect to the delay in the redemption of the policy funds.	In February 2020, the position of the Capital Market, Insurance and Savings Authority regarding the proceedings was received, which, in general, supported the position of Clal Insurance, and in which it was primarily stated that the returns which the insurance company is required to credit to policyholders are as agreed upon in the policy, and that there is no undertaking by the state insurance company towards the state to credit minimum returns to policyholders. The Capital Market Authority's position also supported the Company's position regarding the date from which interest should be paid in respect of a delay in redemption. The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The plaintiff did not specify the cumulative damage incurred by all class members (however, it was asserted that the damage exceeds NIS 2.5 million). The plaintiff's personal damage was estimated at a total of NIS 133,657.

Note 42: Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A2. Pending motions to approve class action status for material claims (Cont.)

Serial number	**Date and instance**	**Defendants**	**Main claims and causes of action**	**Main remedies**	**Represented class**	**Status / additional details**	**Claim amount**
19.	9/2018 District - Tel Aviv	Clal Insurance	The plaintiffs contend that Clal Insurance unilaterally changed the terms of life, accident, illness and disability insurance policies, against the policyholder's interests, without the policyholders' express consent.	Declaratory relief determining that Clal Insurance is required to cancel the unilateral amendments which it made to the policies, and to restore the policies to their original terms, as well as monetary relief ordering Clal Insurance to reimburse to the class members the value of the economic damage which was incurred due to the unilateral amendments.	Holders, during the 7 years preceding the filing date of the claim, of life, accident, illness and disability insurance policies, and whose policy terms were changed for the worse following the unilateral decision of Clal Insurance, without their express consent.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The plaintiffs contend that the average damage incurred by the plaintiffs amounts to a total of NIS 1,649 from March 2017, and the cumulative damage incurred by all of the class members is estimated by the plaintiffs at NIS 4,947,000. The plaintiffs assert that, after receiving all of the relevant data from Clal Insurance, they will be able to accurately estimate the extent of the alleged overcollection.

20.	11/2018 District - Center	Clal Insurance	The plaintiffs contend that Clal Insurance breaches its contractual obligation under the policy, and allegedly refuses to pay, to holders of comprehensive motor insurance policies for vehicles weighing over 3.5 tons, compensation with respect to the vehicle's loss of value as a result of the insurance event, although the policy covers the "damage" caused to the vehicle, while affecting the assessments which are prepared by the arrangement loss adjusters.	Declaratory relief; Ordering Clal Insurance to indemnify all of its policyholders who were covered under the policy, and whose vehicles suffered and/or will suffer loss value as a result of the insurance event, as well as any other remedy considered by the Court to be appropriate and just, in light of the circumstances.	All policyholders of Clal Insurance who acquired and/or will acquire from Clal Insurance comprehensive motor insurance for vehicles weighing up to 3.5 tons, and whose vehicles, as a result of the insurance event, as defined in the policy, suffered and/or will suffer damage in the form of loss of value.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action. The parties initiated mediation proceedings.	The plaintiff estimates the amount of damages incurred by the class members at approximately NIS 75 million. The plaintiff's personal damage was estimated at a total of NIS 21,605.

Note 42: Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A2. Pending motions to approve class action status for material claims (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
21.	1/2019 District - Jerusalem	Clal Insurance and two additional insurance companies	The plaintiffs contend that the defendants unlawfully hold funds originating from the dispatch of unredeemed checks, and which were sent to policyholders, whose eligibility for insurance benefits or for reimbursement of premiums has been recognized by the defendants.	Payment of the insurance benefits or reimbursement of the premiums, plus linkage and interest from the date when they were recognized by the defendants, through the payment methods which are held by the defendants; Additionally, to order the defendants to perform, in the future, insurance payments using the same payment method as that which is used by the policyholder to pay the premiums; And to order the defendants that if it is not possible to locate the class members, the Guardian General should be contacted and informed of the funds which are held by them.	Anyone who meets one or more of the following conditions: (1) Policyholders of the defendants, whose eligibility for insurance benefits or for the reimbursement of insurance premiums was recognized by the defendants, and to whose registered address checks were sent which had not been redeemed by the policyholders, for any reason whatsoever; (2) Policyholders of the defendants regarding whom, on the date of dispatch of the aforementioned checks, or thereabouts, the defendants had details of their bank account or debit card, through which and/or from which premiums were collected by the defendants, or regarding whom the defendants had the possibility to find such details.	In March 2020, a motion was filed to withdraw the proceedings. The parties are negotiating regarding charging the plaintiffs for expenses.	The claim does not include calculation of the aggregate damage incurred by the class members; however, this amount was estimated as exceeding NIS 2.5 million.
22	3/2019 District- Jerusalem	Clal Insurance	The plaintiffs contend that the defendant issues personal accident policies to its policyholders upon their purchase of international travel insurance, without their consent, and in a misleading manner.	An order to reimburse the funds which were collected by the defendant to each of the class members, with respect to the payment of a personal accidents insurance policy during the last seven years	Any policyholder who, when purchasing an international travel insurance policy, was also added at that time, without their consent, to personal accidents insurance, and who was unlawfully charged monthly premium payments up to 7 years before the filing date of the claim.	The parties are currently conducting mediation proceedings. The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The plaintiffs estimate the damage incurred by the class members at approximately NIS 17 million. The personal damage claimed by the defendant amounts to NIS 1,044.
23	6/2019 Regional Labor Court of Tel Aviv	Clal Insurance	The plaintiff contends that the defendant systematically reduces the benefits of loss of working capacity insurance which it pays to its policyholders by virtue of loss of working capacity insurance policies of the profit sharing type, by unlawfully deducting management fees and nominal interest.	Repayment in kind of the funds which were unlawfully withheld, according to the plaintiff, from the class members, and crediting the savings in the policies with respect to the released premium funds. The plaintiff is also petitioning for a declaration announcing the non-validity of the provisions in the policies pertaining to the deduction of interest and management fees from the returns to which policyholder are entitled.	All holders, or former holders, of profit-sharing loss of working capacity policies which included a mechanism for linking the monthly compensation and/or premium release payments to the investment portfolio's returns, beginning with the 25th payment, to whom Clal Insurance paid monthly compensation and/or release for a period exceeding 24 months, and deducted from the returns, beginning with the 25th payment, interest and/or management fees.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The total damage allegedly incurred by all of the class members was estimated by the plaintiff in the amount of NIS 2,402,836,000.

Note 42: Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A2. Pending motions to approve class action status for material claims (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
24	10/2019 District-Tel Aviv	Clal Insurance	The plaintiff contends that Clal Insurance unlawfully collects linkage differentials and interest with respect to premiums in motor property policies, which are paid on the dates listed in the policy schedule. Alternatively, it was asserted that if the Court determines that Clal Insurance is entitled to collect linkage differentials and interest, as stated above, then its calculation of linkage differentials is performed unlawfully, and the linkage differentials should be calculated according to the difference between the index which was published either 30 days after the commencement date of the insurance period or after the date of submission of the account for the premiums (whichever is later), and the index on the date of actual payment.	To repay to the class members the amounts with respect to the charges, plus linkage differentials and interest from the date they were charged until the date of their repayment.	Anyone who purchased from the defendant an individual motor insurance policy, where it was determined, in the policy schedule, that the premiums will be paid according to the determined amounts and dates, and who paid on those dates, but were still charged linkage differentials and interest by Clal Insurance, during the seven years preceding the filing of the motion. alternatively, insofar as the Court has determined that Clal Insurance was entitled to add linkage differentials and interest with respect to the premium payments, the plaintiff requests to define the class which it wishes to represent as including anyone who purchased from the defendant an individual motor insurance policy, where it was determined, in the policy schedule, that the premiums will be paid according to the determined amounts and dates, and from whom linkage differentials were charged, were not calculated according to the difference between the index which was published either 30 days after the commencement date of the insurance period or after the date of submission of the account for the premiums (whichever is later), and the index on the date of actual payment.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	Estimated at a total of no less than NIS 5,000,000
25	10/2019 District-Center	Clal Insurance	The plaintiff contends that Clal Insurance collects, in life insurance policies, premiums which include an addition for “sub-annual installments”, with respect to premium payments which are made in monthly installments, without clearly and explicitly agreeing upon and disclosing the matter in the policy. The plaintiff contends that Clal Insurance is thereby breaching the provisions of the policy and other legislative provisions, and systematically misleading policyholders. The plaintiff also contends that the demand for payment of the addition with respect to sub-annual installments constitutes a discriminatory condition in a standard contract.	To grant declaratory relief ordering Clal Insurance to cancel the charge with respect to “sub-annual installments”, and to compensate the class members, according to the rate of damages which they incurred, including repaying to the class members the premiums with respect to “sub-annual installments” which they paid prior to the filing date of the claim. The plaintiff is also petitioning to order Clal Insurance to correct the annual reports to policyholders, and to send to them reports which include details regarding the addition of the “sub-annual installments” which are being collected from them, and which will be collected from them, until the policy conclusion date, and to allow them to choose between prepayment of the premiums each year, without the addition of “sub-annual installments”, and payment of monthly premiums, which include the addition of “sub-annual installments”.	Any policyholder of Clal Insurance who purchased from it a life insurance policy, in which they were obligated to pay premiums which include an addition with respect to “sub-annual installments”, without having explicitly specified in the policy that the policy includes an addition with respect to “sub-annual installments”, for payment of the premium in monthly installments.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	NIS 1.8 billion

Note 42: Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A2. Pending motions to approve class action status for material claims (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
26.	11/2019 District-Center	Clal Insurance	The plaintiff contends that Clal Insurance collected management fees in life insurance policies combined with savings of the "profit sharing" type which were issued before January 12, 2004 (hereinafter: the "**Relevant Policies**"), in rates which deviate from what is permitted, without any legal and/or contractual basis.	A remedy of repaying the amount of management fees which were unlawfully collected from the class members, and a mandamus order instructing Clal Insurance to change its operating method with respect to the collection of management fees in the relevant policies from this point forward.	Anyone who was or is a holder of the relevant policies of Clal Insurance, and from whom Clal Insurance collected, during the 7 years preceding the filing date of the claim, and until the approval date of the claim as a class action, management fees which deviate from what is permitted in accordance with the Control of Financial Services Regulations (Insurance) (Terms of Insurance Contracts), 1981, according to their wording at the time, and/or in accordance with the provisions of the policy.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	NIS 120 million
27.	11/2019 District-Tel Aviv	Clal Insurance	The plaintiff contends that Clal Insurance collected management fees from the cumulative savings in life insurance policies combined with savings, without having obtained the policyholders' consent, in breach and violation of the policy terms, and/or without having received approval from the regulator for charging the aforementioned amounts[17].	Repayment of the management fees which were overcollected from the class members, and a mandamus order instructing Clal Insurance to discontinue the collection of management fees from the cumulative savings in the relevant policies, from this point forward, and to restore the insurance contract's original conditions	Anyone who was or is a holder of the relevant policies of Clal Insurance, and from Clal Insurance collected, during the 7 years preceding the filing date of the claim, management fees in breach of the contractual agreements.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	Approximately NIS 22 million.
28	2/2020 District-Center	Clal Insurance	The plaintiff contends that Clal Insurance used old or outdated mortality tables to calculate the premiums in life insurance policies, in a manner which allowed it to collect from policyholders higher premiums than it should have collected, had it used current mortality tables, in breach of the Commissioner's directives, and in violation of the law.	Repayment of the premiums which were overcollected from the class members, plus duly calculated linkage differentials and interest; and to order Clal Insurance to update the mortality tables immediately, in accordance with the instructions and guidelines which were issued the Commissioner.	All policyholders or insured individuals who held life insurance policies with death (risk) coverage of Clal Insurance, and who paid, according to the plaintiff, higher insurance premiums than the premiums which Clal should have collected from them, due to the use of old or outdated mortality tables to calculate the premiums, beginning 7 years after the filing date of the claim, until the approval of the claim as a class action.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The plaintiff has not estimated, at this stage, the cumulative damage incurred by all class members.

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[17] The represented class was defined by the plaintiff as including holders of the Company's life insurance policies which include a savings component; however, *prima facie*, it appears the assertions made in the statement of claim refer to a certain type of policies, which were sold from 2000 to 2004.

Note 42: Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A2. Pending motions to approve class action status for material claims (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
29.	2/2020 District-Center	Clal Insurance and an additional insurance company	The claim involve the main assertion that due to "lack of knowledge" because of the non-provision and publication of a students personal accidents insurance policy (the "**Policy**") to the policyholders and their families, and the non-publication of the policy, the policyholders do not exercise their right to compensation by virtue of the policy, and incur damages.	Ordering the defendants and the Commissioner of Insurance to disclose documents and information; ordering the extension of the prescription period; ordering the appointment of a committee which will include independent entities, and which will be authorized to discuss and decide regarding all of the personal claims under the policy, for a period of three years, regarding all of the cases prior to October 25, 2016 (the "**Committee**"), and which will also be authorized to discuss the issue of policy submission; ordering a procedure of shifting the burden of proof; Issuance of a mandamus order obligating the defendants to compensate the plaintiffs, in accordance with the committee's decision; Ruling special damages for the plaintiffs, and legal fees for its representatives.	The motion classifies the plaintiffs into two sub-groups, which are primarily defined as follows: Any school or kindergarten student in the State of Israel, who was covered by the defendants under a personal accidents insurance policy, and who did not receive a personal accidents insurance policy at their home, beginning with the school year which began in September 2006, and/or any student whose claim against the insurance company has been prescribed; The motion also includes the definition of two sub-groups with respect to students who were born after October 25, 1995, and who, between the ages of 3 and 19 (the period of their studies in Israel, from kindergarten until the end of high school in 12th or 13th grade), suffered an accident, which caused them to suffer physical injury, and who did not receive insurance benefits under the policy, divided into sub-groups, according to the heads of damage which were specified in the motion; Additionally, the sub-group of people born in the years 1974 to 1995 - whose members include people and/or parents and/or heirs who were born and/or studied in Israel between the years 1974 and 1995, and who were injured or killed after 1992, and who did not claim, because they were not aware of the policy, and its scope; and the sub-group of all policyholders - all students and their parents from September 1992 to September 18, 2016, distributed into sub-groups according to the heads of damage specified in the claim.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action. It is noted that motions and claims which are similar to this motion and claim were struck out by the Court on procedural grounds in January 2020; see section (a)(a3)(8) below.	The plaintiffs estimate the alleged damage against Clal Insurance at a total of approximately NIS 1.4 billion, plus damages in the amount of approximately NIS 1.5 billion, which are attributed to the two defendants with respect to harm to autonomy.

Note 42: Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A3. Material class actions and motions to approve class action status for material claims which concluded during the reporting period, until its signing[18].

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
1.	5/2018 Regional Labor Court of Tel Aviv	Clal Pension and Provident Funds	According to the plaintiff, a member of the comprehensive pension fund and supplementary pension fund which are managed by Clal Pension and Provident Funds, Clal Pension and Provident Funds retroactively collects, from the members of the pension funds which it manages, costs of insurance coverage for disability and mortality risks, with respect to periods regarding which, allegedly, she does not and cannot bear any insurance risk.	To order Clal Pension and Provident Funds to compensate the plaintiff and the class members with respect to the damages which they incurred, and to reimburse them for the amounts which were collected from them in the alleged circumstances, in the amount of their damages, and as a minimum, in the amount estimated in the claim; to order the provision of any other remedy in favor of the class.	Anyone who was a member of the pension funds which are managed by Clal Pension and Provident Funds during the last seven years, and from whom insurance coverage costs were retroactively collected.	In June 2019, the Court approved the plaintiff's motion to withdraw the claim.	The cumulative damage incurred by the class members was estimated by the defendant at a total of NIS 21,415,031.

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[18] This section includes details regarding claims which concluded during the reporting year, and which were not reported in the financial statements for 2018, and also applies to claims in which a decision was made to strike out the claim, or in which a ruling was given, including a ruling to approve a settlement arrangement. This section does not refer to followup on the implementation of the arrangements (including changes made thereunder) which were determined in the aforementioned decisions, and which may continue over time.

Note 42: Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A3. Material class actions, material claims and motions to approve class action status for material claims which concluded during the reporting period, until its signing (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
2.	11/2012 District - Tel Aviv	Clal Insurance	The plaintiff contends that Clal Insurance modifies the terms of the life insurance policy when transferring an employee policyholder from one employer to another, by way of changing the component known as "sub-annual installments", which the plaintiff contends were collected with respect to the interest to which the insurance company was allegedly entitled in circumstances wherein the premium is paid in installments throughout the year, and not as a lump sum at the start of the year (hereinafter: "**Sub-Annual Installments**"). The plaintiffs contend that this change was made by Clal Insurance unilaterally and with no contractual foundation, and therefore constitutes a breach of the policy terms.	The reimbursement of overcollected amounts with respect to the sub-annual installments component which was performed until the date of approval of the claim as a class action, and discontinuation of the overcollection of this component in the future.	All customers of Clal Insurance, employers and/or employees, from whom sub-annual installments were collected in life insurance policies, which were higher than the rates that had been agreed upon in the policy, following a change of ownership of the policy. In the petitioners' estimation, this involves 10,000 policyholders in the last 30 years.	In May 2015, a motion to approve a settlement agreement regarding the claim (hereinafter: the "**Settlement Agreement**") was filed with the Court. As part of the settlement agreement, the Court was requested to order the amendment of the motion to approve regarding the definition of the Group and the expansion thereof to include all policyholders where the rate of sub-annual installments charged from them was increased without their consent. In accordance with the settlement agreement, Clal Insurance will repay, to the class members who will be included in the settlement agreement, various rates out of the amount of the addition that was charged from them with respect to the increase of sub-annual installments, in accordance with the circumstances in which the rate of paid sub-annual installments was increased, and with reference to various periods which were defined in the settlement agreement; Additionally, Clal Insurance will send notice to the paying entity, in which Clal Insurance will allow the paying entity to choose regarding the future premium payment terms, and the associated cost from this point onwards. . In September 2016, the parties filed a joint motion for an addendum to the settlement agreement, and the addition of a third group, including all policyholders of the respondent in life insurance policies which include a sub-annual installments component, and which are of the "individual insurance" and "pure risk" types, including "compensation for the self-employed", as well as all policyholders of the respondent who are covered under health and long-term care insurance policies which include a sub-annual installments component, for whom, until the effective date, the respondent raised the rate of sub-annual installments in their policy. . In October 2019, the Court approved the settlement arrangement in the claim, and gave it force of ruling.	The total damage claimed for all of the class members against Clal Insurance amounts, in the plaintiff's estimate, to a total of NIS 120 million.

Note 42: Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A3. Material class actions, material claims and motions to approve class action status for material claims which concluded during the reporting period, until its signing (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
3.	1/2016 Regional Court of Tel Aviv	Clal Pension and Provident Funds, and three additional managing companies of pension and provident funds	According to the plaintiffs, the defendants invested in low rated bonds, in a manner which deviated from the investment rate which was permitted, at the time, in accordance with Regulation 41(d)(2) of the Income Tax Regulations (Rules for Approval and Management of Provident Funds), 1964, and that despite these deviations, the defendants collected management fees from the plaintiffs, in breach of the provisions of the law.	The remedies requested by the plaintiffs include, inter alia, reimbursement of the management fees which were collected by the defendants in case of deviation from the investment restrictions, compensation of the class members with respect to the deviation from the investment restrictions, as well as any other remedy in favor of the class, in whole or in part, or in favor of the public, as considered appropriate and just in the Court's discretion, in light of the circumstances.	All persons who were members of the pension funds and provident funds which were managed by the defendants during the period from January 1, 2009 to July 4, 2012.	In September 2019, further to the plaintiffs' agreed-upon motion which was filed with the Court, following its recommendation to withdraw the motion to approve and the claim, a ruling was given in which the plaintiffs' withdrawal was approved.	According to the plaintiff, the direct damages which it incurred amounts to NIS 76 (and the damage incurred by all plaintiffs with respect to the collection of management fees allegedly amounts to NIS 563), with the addition of linkage differentials and interest. In the claim, it was stated that the claim amount for all of the class members cannot be estimated.

Note 42: Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A3. Material class actions, material claims and motions to approve class action status for material claims which concluded during the reporting period, until its signing (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
4.	9/2016 Regional Labor Court of Tel Aviv	Clal Insurance	The claim involves the assertion that Clal Insurance makes the release of the severance pay component which has accrued in managers insurance policies (hereinafter: the "**Policies**"), by virtue of the Extension to Compulsory Pension Ordinance (hereinafter: the "**Extension Order**") conditional upon the employer's consent. Clal Insurance thereby collaborates with the employer, allows the employer, over years, to argue against the transfer to the accrued severance pay to the employees, and during that time, continues collecting management fees out of the funds which remain accrued in the policies.	Declaratory relief, primarily determining that the class members are entitled to receive the accrued severance pay for which the employer made deposits in their name to the pension arrangement by virtue of the extension order, without any condition or restriction whatsoever. The plaintiff is also petitioning to order Clal Insurance to notify the class members regarding their right to withdraw the severance pay component unconditionally, and to determine the manner by which the notice will be given to the Group members.	All those covered by pension insurance in Clal Insurance, in whose favor severance pay accumulated in the pension arrangement beginning on January 1, 2008, the application date of the extension order, who concluded their employment, and to whom the employer's approval was not given to release the accrued severance pay funds which are recorded under their names. The plaintiff estimates the number of class members as 70,500 policyholders.	In May 2019, the class action plaintiff filed with the Regional Labor Court of Tel Aviv a motion to strike the claim, without ordering expenses, which was approved in October 2019.	The amount of the class action against the defendant amounts to a total of approximately NIS 479 million.

Note 42: Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A3. Material class actions, material claims and motions to approve class action status for material claims which concluded during the reporting period, until its signing (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
5.	4/2008 Regional Labour Court of Jerusalem	Clal Insurance and additional insurance companies	The plaintiff contends that the defendants determined, in the managers' insurance policy, that the annuity factor which will be used for the payment of insurance benefits to female policyholders upon reaching retirement age, will be lower than that used for male policyholders, due to the longer life expectancy of women. However, on the other hand, the defendants collected and continue to collect from female policyholders a risk premium which is identical to male policyholders, in spite of the fact that the mortality rates of women are lower than those of men. According to the plaintiff, in 2001, or proximate thereto, the defendants amended the policies; however, this amendment applied to new policies only.	To order that: A. The discrimination practiced by the defendant is in contravention of the law, and any provision in the policy and/or any action taken by virtue of such discrimination is hereby null and void. B. Allowing the class members to choose between: (1) Comparing the annuity factors for a female policyholder to a male policyholder, and, in case of a one-time payment instead of a pension, increasing it. (2) Reducing, retrospectively and prospectively, the risk premium amounts which were charged, where the amounts which will be reduced will be added to the accrual and savings amounts.	All women who acquired managers insurance policies from the defendant, in which a distinction was made between men and women regarding the pension payment, although a distinction was not made between the genders regarding the risk premium.	In August 2014, the Regional Labor Court of Jerusalem accepted the motion to approve class action status, while determining that the elements required to accept the motion at this preliminary stage of the hearing had been fulfilled. In December 2016, the position of the Attorney General of Israel was submitted (which he also repeated in the Court hearing which was held in April 2017) which, in general, supported the position of the defendants, and determined, inter alia, that a class action is not the most efficient and fair way of resolving the dispute, in light of the circumstances, and that the chances of the process are such that there is no reasonable possibility that the relevant question will be determined in favor of the class, since no unlawful discrimination was involved. In December 2019, the National Labor Court issued a ruling determining that the appeal of Clal Insurance and the additional insurance companies was accepted, and accordingly, the decision to approve was canceled.	The plaintiff did not specify the damage amount which was caused to her, and in the absence of the data required to estimate the exact scope of damages, she estimated the total amount of damages caused to the class members as hundreds of millions of NIS.

Note 42: Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A3. Material class actions, material claims and motions to approve class action status for material claims which concluded during the reporting period, until its signing (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
6.	6/2013 District - Tel Aviv	Clal Insurance	The plaintiff, who is a holder of collective long-term care insurance through a comprehensive pension fund, and who was recognized as requiring long-term care, contends that Clal Insurance pays to its policyholders reduced and insufficient insurance benefits, in a manner which does not include the addition of linkage differentials and interest.	Motion to issue a declaratory ruling and a reimbursement order, for the payment of duly calculated linkage differentials and interest, from the date of the occurrence of the insurance event until the date of actual payment, in accordance with section 28 of the Insurance Contract Law, 1981; and the prospective correction of the omission.	Anyone who received, during the 7 years prior to the filing of this claim and/or who will receive, until a ruling has been given on the claim, insurance benefits from Clal Insurance, where duly calculated interest and linkage differentials were not added to the insurance benefits.	In October 2015, the State Attorney filed its position with the Court, according to which it supports the position of Clal Insurance on the aforementioned matter. In February 2017, the Court approved the claim as a class action. The Group which was approved includes all beneficiaries in the original and renewed collective insurance policy of Makefet policyholders, who received from the respondent, during the 7 years prior to the filing of the motion to approve, insurance benefits with no additional linkage differentials. The requested remedy is payment of the entire linkage differentials to which the class members are entitled. In June 2018, the parties filed with the Court a motion to approve a settlement arrangement. In accordance with the settlement arrangement, partial compensation will be paid to the class members in whose name the claim was filed, and who meet the conditions specified in the settlement agreement. The Attorney General of Israel filed a position with respect to the proposed settlement arrangement, in which it was stated that he did not consider it appropriate to object to the proposed settlement. In December 2019, after receiving a report produced by the court-appointed examiner, the Court approved the amended settlement arrangement.	The total damage claimed for all of the class members against Clal Insurance amounts, in the plaintiff's estimate, to a total of approximately NIS 473.8 million.

Note 42: Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A3. Material class actions, material claims and motions to approve class action status for material claims which concluded during the reporting period, until its signing (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
7.	7/2017 District - Tel Aviv	Clal Insurance	The plaintiffs contend that Clal Insurance unilaterally implemented changes to managers insurance policies of the "Adif" type (hereinafter: the "**Policies**") by reducing the savings component and increasing the risk component, while transferring the ownership of the policy to a new employer, at the end of the "temporary risk" period, and thereby caused the policyholders in the class to incur damages.	To order Clal Insurance to supplement the savings up to the amount which would have been accumulated in the policies if not for the aforementioned unilateral change, and to prohibited it from unilaterally changing the policy terms in the future. Alternatively, to pay compensation to the class members for the damage which they incurred, according to the difference between the savings amounts which would have accumulated in the policies if not for the unilateral changes, and the savings amounts which actually accrued in the policies, or to order Clal Insurance to pay an adequate and appropriate amount to the public interest.	All of "Adif" policyholders for whom Clal Insurance unilaterally reduced the savings component and increased the risk component while transferring the ownership of the policy to a new employer at the end of the "temporary risk" period.	In May 2019, the parties filed with the District Court of Tel Aviv a motion to approve a settlement arrangement (hereinafter: the "Settlement Arrangement"), according to which Clal Insurance undertook to pay, to the members of the class which was defined in the settlement arrangement, compensation according to the amounts and rates which were determined in the settlement arrangement. The settlement arrangement includes provisions regarding the method used to effect the payment to the class members, regarding the sending of notices, and a future arrangement regarding the which form the subject of the settlement. In September 2019, the Attorney General filed objections to certain provisions of the settlement arrangement, due to the fact that, according to his position, it does not reflect the best interests of the class members, and accordingly, the parties filed an amended settlement arrangement. In February 2020, the Court approved the amended settlement arrangement. .	The plaintiffs estimate, based on various assumptions which they performed, that the damage incurred by the class members amounts to approximately NIS 343 million.

Note 42: Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A3. Material class actions, material claims and motions to approve class action status for material claims which concluded during the reporting period, until its signing (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
8.	11/2016 District - Tel Aviv (1) 09/2016 District Tel Aviv (2)	Clal Insurance and an additional insurance company	The claims involve the assertion that due to "lack of knowledge" because of the non-provision and publication of a students personal accidents insurance policy (the "Policy") for the policyholders and their families, the policyholder avoid exercising their right to compensation by virtue of the policy.	The plaintiffs in claim (1) request the issuance of orders against the defendants and the Commissioner of Insurance, and request, inter alia, the appointment of a committee, with the participation of external representatives, which will be authorized to discuss and determine all of the claims, and the transfer of the burden of proof to the insurer. The plaintiffs in claim (2) request, inter alia, the issuance of mandamus orders for compensation with respect to the hassle and cost of printing, in a total amount of NIS 1.5 for each class member, and an extension of the prescription period, including a determination stating that the prescription period was suspended in September 2006.	The plaintiff in claim (1) classified the plaintiffs into several groups, with respect to students who were born after October 25, 1995, and who, from ages 3 to 19 (the period of their studies in Israel, from kindergarten until the end of high school in 12th or 13th grade), went through an accident, due to which they suffered a physical injury, and who did not receive insurance benefits under the policy, as follows: (1) the "tooth fracture" group, (2) the "medical expenses" group, (3) the "disability" group, (4) and the "cases of death" group. The plaintiff further requests the establishment of an additional sub-group for each of the Groups of plaintiffs mentioned above, whose members are people and/or their parents and/or their heirs who were born and/or who studies in Israel between the years 1974 and 1995, and who were injured after 1992, and who claimed that they were not aware of the scope of the policy, and on behalf of all policyholders - all students and their parents from September 1992 until now - who were injured. The plaintiff in claim (2) requests to represent all students, at school or at home or at kindergarten, in the State of Israel, who were covered under a policy and who did not receive it at their house, beginning with the school year beginning in September 2006 and/or any student whose cause of action against the insurance company prescribed, beginning in September 2006.	In April 2018, following the plaintiffs' joint motion regarding the two claims, it was determined that the two claims would be consolidated into a single claim, accordingly, in July 2019, and the parties filed a joint motion to approve the class action. In January 2020 the claim was struck out on procedural grounds, after the plaintiffs had deviated from the Court's decision, while ruling expenses for the plaintiffs in an immaterial sum.	According to the plaintiffs in claim (1), their alleged personal damages are in the range from NIS 150 to NIS 6,260. The plaintiffs estimate the alleged damage for the members of the "tooth fracture", "medical expenses" and "all defendants" groups together, as a total of approximately NIS 1.439 billion. The plaintiffs have not specified an estimate regarding the damage caused to the other groups. According to the plaintiffs in claim (2), the damage claimed for all class members amounts to a total of approximately NIS 23 million, plus interest and linkage, beginning with the school year of September 2006.

Note 42: Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A4. Presented below are additional details regarding exposure to immaterial class actions which have not yet been filed and to additional expenses

1. In addition to the material class actions which are described in Note 42(a)(a1), the pending motions for the approval of class action status for material claims, as described in Note 42(a)(a2), and the motions to approve class action status for material claims which were withdrawn during the reporting period, as described in Note 42(a)(a3), there are pending against the Company and/or its subsidiaries motions to approve class actions which, according to the Company's estimate, are immaterial[19], and regarding which a detailed description was therefore not included in the financial statements. As of the reporting date, 17 claims of this kind are being conducted against the Company and/or its subsidiaries, where the total amount specified by the plaintiffs in the aforementioned claims amounts to approximately NIS 493 million[20].

2. In addition to the aforementioned legal proceedings, from time to time, potential exposures exist which, at this stage, cannot be estimated or quantified, with respect to alerts regarding the intention to file class actions on certain matters, or legal proceedings and specific petitions which may in the future develop into class actions or third party notices against the Group's member companies, and potential exposure also exists, which at this stage cannot be estimated or quantified, to the possibility that additional class actions will be filed against the Group's member companies due to the complexity of the companies' insurance products, along with the complexity of the regulations that apply to the member companies' activities, which may result in disputes regarding the interpretation of the provisions of the law or of an agreement, or regarding the manner of implementation of the provisions of the law or an agreement, or the method by which claims are settled in accordance with an agreement, as these apply to the relationship between the Group's member companies and the customer.

   This exposure is particularly increased in the long term savings and long term health insurance branches, in which Clal Insurance is engaged, inter alia, due to the fact that, in those areas, some of the policies were issued decades ago, whereas today, due to significant regulatory changes, and due to the development in case law and in the Commissioner's position, the aforementioned policies may retroactively be interpreted differently, and may be subject to different interpretations than those which were in practice at the time when they were written. Moreover, the policies in the aforementioned segments have been in effect for decades, meaning that exposure exists to the possibility that in cases where the customer's claim is accepted and a new interpretation is provided for the terms of the policy, the future profitability of the Company in question will be affected by the existing policy portfolio. This is in addition to compensation that may be provided to customers with respect to past activity.

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[19] See note 1 above regarding the significance threshold.

[20] The foregoing number includes one filed claim whose status as a class action has been approved, one claim in which Clal Insurance is a formal defendant, and no remedies are requested against it, and two claims in which the amount claimed was not attributed to the Company only, but to additional companies as well. The aforementioned amount does not include two claims in which the plaintiff did not specify the claim amount, but estimated it at tens of millions of NIS, and one claim in which the plaintiffs did not specify the claim amount, but estimated it as millions of NIS. For additional information regarding all class actions, see Note 42(c) below.

Note 42: Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A4. Presented below are additional details regarding exposure to immaterial class actions which have not yet been filed and to additional expenses (Cont.)

2. (Cont.)

The 2015 amendment to the Control of Financial Services (Insurance) Law, 1981, which reflects a significant reform in the field of approval of insurance plans and supplementary arrangements which were published, set forth various provisions and restrictions with respect to provisions which should or should not be included in insurance plans, and address a reduction of the exceptions which may be included in the policies (hereinafter, jointly: "**Insurance Plan Reform**"). The insurance plan reform allows the sale of insurance products after they have been submitted in advance to the Commissioner, with no need for explicit approval, and also allows the Commissioner, under certain conditions, to order an insurer to discontinue its provision of insurance plans or to order an insurer to implement a change in an insurance plan, including with respect to policies which have already been marketed by the insurer. It is not possible to predict in advance and to what degree the insurers are exposed to claims with respect to the policy's provisions, to the manner of application of the Commissioner's authorities in accordance with the insurance plan reform, nor its implications, which may be raised, inter alia, through the procedural mechanism set forth in the Class Action Law.

There is also exposure, which at this stage cannot be estimated or quantified, to errors in the methods used to operate products in the long term savings and health segments. It is not possible to predict in advance all types of claims which may be brought in this context and/or the possible exposure due to them which may be brought up, inter alia, by means of the procedural mechanism for class actions and/or industry-wide decisions of the Commissioner.

Such exposure is due, inter alia, to the complexity of the aforementioned products, which are characterized by a very lengthy lifetime, and are subject to frequent, complex and material changes, including changes in regulatory and taxation directives. The complexity of the changes, and the application thereof over a large number of years, creates increased operational exposure, also due to the multiplicity and limitations of the automation systems used in the Group's institutional entities, due to additions / changes to the basic product structure, and due to multiple, frequent changes implemented over the product's lifetime, including by regulatory authorities, customers (employees) and/or by employers and/or by other parties acting on their behalf, with respect to insurance coverages and/or with respect to savings deposits.

The above complexity and changes affect, inter alia, the volume and amounts of deposits, the various components of the product, the manner in which funds are associated with employees (including due to inconsistencies between the employer's reports and the policy data), products and components, their charging dates, the identification of arrears in deposits and the handling of such cases, and the employment, personal and underwriting status of customers, and affects, inter alia, the information which is given to them. The aforementioned complexity is increased in light of the large number of parties acting vis-a-vis the companies in the Group regarding the management and operation of the products, including, inter alia, distributing entities, employers, customers and reinsurers, including as regards the ongoing interface with them, and contradictory instructions which may be received from them, or from their representatives. The member institutional entities in the Group routinely investigate, identify and handle issues which may arise due to the aforementioned complexities, both with respect to individual cases, and with respect to customer types and/or product types.

Note 42: Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A4. Presented below are additional details regarding exposure to immaterial class actions which have not yet been filed and to additional expenses (Cont.)

2. (Cont.)

The entry into effect of the Control of Financial Services Regulations (Provident Funds) (Payments to Provident Funds), 2014, which were replaced by the circular regarding the method for depositing of payments in provident funds (the "Payment Regulations"), intensify and increase, in the short term, the aforementioned complexity, and even resulted in delays in the fund intake process, although in the long term, they are expected to reduce it with respect to deposits which have been made since the application date of the regulations. In the short term, as reflected in the market and in the Group's institutional entities, delays were caused in the fund intake process, as well as delays in the distribution of some of the deposits, particularly due to inconsistencies between the reports of employers and the policy data, and specific inconsistencies arose regarding which, at this stage, it is not possible to predict their cumulative implications, with respect to the relevant periods. The process of implementing the handling of the issue in the systems of the institutional entities during the reporting year resulted in an improvement in the scope of pension monies which were received in the Company from employers and associated in the systems to members and policyholders, relative to the previous period; however, institutional entities in the Group are still in the process of implementing and addressing the issues which come up as part of the adoption of the circular regarding the payment deposit method. The implementation of the Payment Regulations also resulted in possible temporary delays in reporting to members, in difficulties in identifying arrears, for the purpose of making direct contact with employers and operating entities, and in an increase of operating and automation expenses. The process of implementing the treatment of this issue in the systems of the Group's institutional entities resulted, during the reporting year, in a significant improvement in the treatment of the pension monies which were received by the Company from employers, within the framework of the circular regarding the method of depositing payments and accepting them in the systems of institutional entities. The Group's institutional entities are still in the process of implementing and handling the issues which come up during the implementation of the circular regarding the payment deposit method, and are working to reduce the aforementioned gaps, including by improving the automation system and the workflows. However, it is noted that the entry into effect of the directive regarding the reporting requirement on the level of the policyholder, as part of the employers interface (as opposed to reporting on the level of each pension product), is expected to add operational difficulty to the association of the deposits to the various pension products of policyholders and members.

Following the Commissioner's audit report, which was received by Clal Insurance and which noted deficiencies, mostly pertaining to the manner of implementation of the Payment Regulations, Clal Insurance submitted to the Commissioner a response to address the findings of the report, which was implemented during the reporting year. Clal Insurance is reporting to the Authority regarding the progress on the implementation of the plan.

Note 42: Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A4. Presented below are additional details regarding exposure to immaterial class actions which have not yet been filed and to additional expenses (Cont.)

2. (Cont.)

Additionally, further to the provisions of the Commissioner's circular from November 2012, regarding data with respect to members' rights (institutional entities circular 2014-9-13) (the "**Circular**"), which obligated the institutional entity to cleanse the data which confer rights upon members, in order to ensure that the recording of members' rights in the information systems is as reliable, complete, accessible and retrievable as possible, until the middle of 2016. The Group's institutional entities implemented, after the publication of the circular, in 2013, a gap survey with respect to the members and policyholders who manage policies and/or accounts in the Group's institutional entities ("**Cleansing Tasks**"), and also worked during the reporting period on the implementation of a comprehensive process of data cleansing with respect to the systems in the long-term savings segment. In general, as of the publication date of the report, most of the tasks involving the cleansing of data regarding accrued balances of policyholders have been completed. The Group's institutional entities are continuing their data cleansing activities with respect to members and policyholders, including with reference to additional gaps which are identified from time to time, including as regards the automation of classification of funds, in accordance with the layers of the regulatory directives, over the years, and these are in the final stages of handling. At this stage, the institutional entities in the Group are unable to estimate the scope, cost, and full implications of the aforementioned activities, or the scope of the future gaps in data cleansing, which may result from regulatory changes, due, inter alia, to the complexity of the products, the fact that they are long term products, due to the multiplicity of automation systems in the segment, and their limitations. The Group's institutional entities update their insurance liabilities from time to time, as required.

There is also exposure, which at this stage cannot be estimated or quantified, to changes and to significant regulatory intervention in the various insurance and savings segments, including, inter alia, those which are intended for the direct or indirect reduction of premiums and management fees, the intervention in sale processes, including different use of various regulatory tools, which may affect the process of engagement, the structure of engagement and the reciprocal relationships between institutional entities, agents, employers and customers, in a manner which could affect loads, operating expenses and profitability, on the retention of current products, including with respect to the business model of the branch and the current portfolio of products.

The exposure to unfiled claims of member companies in the Group is brought to the Company's attention in several ways. This is performed, inter alia, through requests from customers, employees, providers or other parties on their behalf to entities in the companies, and particularly to the ombudsman in member companies in the Group, through customer complaints to the public appeals unit in the Office of the Commissioner, through (non-class action) claims which are filed with the Court, and through position papers issued by the Commissioner.

It is noted that insofar as the customer's complaint is submitted to the public appeals unit in the Office of the Commissioner, in addition to the risk that the customer will choose to bring its claims also within the framework of a class action, the member companies in the Group are also exposed to the risk than the Commissioner will reach a determination regarding the complaint by way of a sector-wide determination, which will apply to a broad group of customers. In recent years, an increase has occurred in the exposure to the aforementioned risk, due to the Commissioner's increasing through audits, handling of customer complaints which are received by the Authority, including in light of the fact that, from time to time, the Commissioner tends to determine positions in principle by way of industry-wide determinations, position papers and draft position papers which are published by him, and in operative directives which are given as part of audit reports. For additional details regarding industry-wide determinations and position papers, see section D below.

Note 42: Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A4. Presented below are additional details regarding exposure to immaterial class actions which have not yet been filed and to additional expenses (Cont.)

2. (Cont.)

On this matter, it is noted that in November 2016, an amendment was published to the circular regarding the investigation and settlement of claims and the handling of public appeals, according to which, in cases where the public inquiry indicates a systemic and significant deficiency, which may be repeated, in the conduct of an institutional entity, the institutional entity must work to identify similar cases in which a similar deficiency took place, and insofar as similar cases are identified - it must conduct a lesson learning process, and rectify the defects within a reasonable period of time, and submit a report on the matter to the Commissioner once per year. This amendment may expand the Group's exposure to the broad implications with respect to such deficiencies, and in the future may have a significant effect; however, at this stage, it is not possible to estimate its implications.

The member companies in the Group are unable to predict in advance whether a customer claim which has been brought to the companies' attention will eventually lead to the filing of a class action, or will lead to an industry-wide determination, or will have industry-wide implications, even in cases where the customer threatens to do so, and additionally, the member companies in the Group are unable to estimate the potential exposure that may be created due to the aforementioned claims, insofar as these may be heard and found justified by a competent authority.

Note 42: Contingent Liabilities and Claims (Cont.)

B. Material claims and derivative claims

B1. Current or concluded material claims which are not in the ordinary course of business or exposure to such claims

1. Clal Insurance engaged, from January 2004 to June 2013, with Hadassah Medical Organization (hereinafter: "**Hadassah**"), in a renewing annual agreement with respect to second layer professional liability insurance, providing insurance coverage for claims in an amount exceeding the self insurance amount, which was given by Hadassah (hereinafter: the "**First Layer**"). The liability limit which was given by Clal Insurance in the second layer was changed over the insurance years, where the insurance liability in the last insurance period, which began in January 2012 and concluded in June 2013, was with respect to a claim whose amount was over approximately NIS 8.8 million, and up to a total of approximately NIS 18 million per event and approximately NIS 36 million for all policyholders with respect to that insurance period (the aforementioned amounts are linked to the consumer price index from January 1, 2012). In February 2014, Hadassah filed with the District Court of Jerusalem a motion to issue a stay of proceedings and for the appointment of a trustee for the purpose of formulating a recovery plan and creditors' settlement in accordance with sections 350b(d)(1) and 350(d) of the Companies Law (hereinafter: the "**Motion**"). As part of the proceedings which were conducted within the framework of the motion, claims were heard alleging that the insurance companies which provided professional liability insurance to Hadassah, including Clal Insurance, should bear the monetary costs which may be imposed in the first layer, beyond the amount of the designated deposit which Hadassah deposited for this purpose, in case Hadassah does not pay the claims itself. Clal Insurance clarified to the trustee that its position is different, and that it is responsible for the second layer only. To the best of the Company's knowledge, on May 22, 2014, the recovery plan was approved by the Court, and the stay of proceedings was lifted.

2. In May 2019, a motion for leave to appeal was struck out, with the petitioner's consent, with respect to a decision to dismiss (which was given in September 2018) a claim which had been filed with the District Court of Tel Aviv-Yafo for the cancellation of a ruling against Clal Finance Batucha Investment Management Ltd. and Clal Finance Management Ltd. (companies which were previously under the Company's control, hereinafter, jointly: the "**Clal Finance Companies**"). The dismissed claim pertained to the cancellation of a ruling which was given in February 2009, in which an arbitration award was canceled, which was given with respect to a dispute between the plaintiffs and the Clal Finance companies, in connection with actions which were performed by the Clal Finance companies with respect to the plaintiff's investment portfolio, in which the Clal Finance companies were ordered to pay to the plaintiffs, through arbitration, a total amount of approximately NIS 95 million, plus linkage differentials and interest, from the date of the arbitrator's decision until the date of actual payment.

The Company is not party to the aforementioned proceedings; however, it received notice regarding the filing of the claim from Bank of Jerusalem Ltd., in accordance with the agreement for the sale of Clal Finance Batucha Investment Management Ltd. to Bank of Jerusalem, according to which the Company has an undertaking to indemnify. It is noted, in this regard, that in accordance with the provisions of the agreement from October 2002, in which Clal Finance Batucha Investment Management Ltd. was acquired, IDB Development Corporation Ltd. and Discount Investment Corporation Ltd. are required to indemnify the Company for any direct damage, expense or loss which the Company (or any of its subsidiaries) has incurred, including due to claims or demands whose cause of action materialized before the date specified in the aforementioned agreement.

Note 42: Contingent Liabilities and Claims (Cont.)

B. Material claims and derivative claims (Cont.)

B2. Immaterial derivative claims

Serial number	Date and instance	Defendants	Main claims and causes of action	Status / additional details	Claim amount
1.	2/2017 District - Tel Aviv	DIC, directors and corporate officers of DIC, and against certain other shareholders of DIC who are associated with IDB Development or with the controlling shareholders of DIC during the period from May 2010 up to and including March 2011, including Clal Holdings and Clal Finance (all, jointly: the **Respondents**”).[21].	Claim regarding an unlawful dividend distribution by DIC. It is noted that the amounts attributed to the Company and to Clal Finance, who held DIC shares, and who therefore received dividends, are primarily amounts which were received for customers of the Group’s member companies.	A motion to approve a derivative claim and a derivative claim (hereinafter: the “**Derivative Claim**”), which included assertions against dividend distributions which DIC had declared, during the period from May 2010 up to and including March 2011. In November 2019, the Court approved an agreed-upon motion to dismiss the derivative claim against the Company and against Clal Finance, without ordering expenses.	The claim amount attributed to the Company, to Clal Finance and to two additional shareholders who are associated with IDB Development or with the controlling shareholders of DIC, amounts to approximately NIS 44 million, including the amounts which were distributed as dividends, as stated above, and interest on the aforementioned amounts until the filing date of the motion (the aforementioned amount was not divided among the shareholders of the defendants).

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[21] The Company and Clal Finance are defendants, due to their status as shareholders of DIC during the relevant period.

Note 42: Contingent Liabilities and Claims (Cont.)

C. Summary details regarding exposure to claims

Presented below are details concerning the total amount claimed in class action suits, both material and immaterial, which were approved for filing as class actions, in pending motions to approve claims as class actions, in pending motions to approve derivative claims and other materials claims, as specified by the plaintiffs in their claims (nominally) within the framework of the statements of claim which were filed against companies in the Group. It is noted that in most of the cases the amount claimed by the plaintiffs is an estimated amount only, and that the exact amount will be decided within the framework of the legal proceedings. It is noted that the above amount does not include claims for which the representative plaintiff has not stated an amount. Furthermore, it is hereby clarified that the claimed amount does not necessarily constitute quantification of the Company's actual exposure amount, which may eventually turn out to be lower or higher[22].

Type of claim	Number of claims	Amount claimed in millions of NIS
A. Claims approved as class actions	Audited	
1. Amount pertaining to the Company specified	7	2,214
2. The claim was filed against a number of entities, with no specific amount attributed to the Company	1	225
3. Claim amount not specified	1	-
4. Annual amount specified (and accordingly, the total amount is period-dependent)[23]	1	107
B. Pending motions to approve claims as class actions		
1. Amount pertaining to the Company specified	29	7,434
2. The claim was filed against a number of entities, with no specific amount attributed to the Company[24]	7	6,101
3. Claim amount not specified / possible range specified [25]	12	-
C. Derivative claims		
1. Amount pertaining to the Company specified	-	-
2. The claim was filed against a number of entities, with no specific amount attributed to the Company	-	-
3. Claim amount not specified	-	-

In addition to the details provided in sections (a) and (b) above, the Company and/or the consolidated companies are also party to other legal proceedings, which are not in the ordinary course of business, are not class actions / derivative claims, and are not material claims, which were initiated by customers, former customers and various third parties, for a total sum of approximately NIS 61 million (a total of approximately NIS 70 million as of December 31, 2018). The causes of action claimed against the Company and/or the consolidated companies in these proceedings are multiple and varied.

D. Exposure due to regulatory provisions, audits and position papers

Additionally, and in general, in addition to the overall exposure to which the institutional entities in the Company's group are exposed, with respect to future claims, as specified in section (a)(a4)(2) above, from time to time, including due to complaints by policyholders, audits and requests for information, there is also exposure to alerts concerning the Insurance Commissioner's intention to impose on the above entities financial sanctions and/or directives issued by the Commissioner regarding correction and/or repayment and/or performance of certain actions with respect to a policyholder or a group of policyholders, and/or exposure with respect to industry-wide decisions, through which the Commissioner is also authorized to order the

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[22] It is further noted that the specified amounts do not include amounts demanded by the plaintiffs with respect to compensation to the class action plaintiff, and legal fees for his representative, and do not include a claim against reserves, as specified in section (a)(a2)(9).

[23] The specified amount refers to an estimation of the claim with respect to one damage year only. It is noted that the claim was filed in March 2010, with respect to a legislative amendment from 2008.

[24] Includes one claim in which Clal Insurance is a formal defendant and no remedies are requested against it, and one claim in which a total of approximately NIS 1,413 million is attributed to the Company, and an additional total of approximately NIS 1,507 million was not attributed to the Company.

[25] These motions include one motion for inclusion as a formal defendant, one motion in which the plaintiff did not specify the claim amount, but estimated it as many millions of NIS, another motion which was estimated at hundreds of millions of NIS, and three motions which were estimated at tens of millions of NIS.25

performance of a repayment to customers or other remedies with respect to the deficiencies which are referenced in the alerts or determinations and/or position papers published by supervisory entities, and whose status and degree of impact are uncertain. Additionally, from time to time, the institutional entities are involved in the hearing and/or discussion stages vis-à-vis the Control of Insurance Office concerning notices and/or determinations, and at times, enforcement authorities are implemented against them, including the imposition of financial sanctions.

The institutional entities in the Group are evaluating the need to perform provisions in the financial statements, in connection with the aforementioned proceedings, based on the opinion of their legal counsel and/or are currently evaluating the significance of the aforementioned proceedings, as required and as appropriate.

Presented below are details regarding the Commissioner's positions or draft positions, or determinations in principle which have or may have an impact on the class, as follows:

Note 42: Contingent Liabilities and Claims (Cont.)

D. Exposure due to regulatory provisions, audits and position papers (Cont.)

1. In April 2016, an industry-wide determination in principle was published regarding the method for marketing of personal accidents policies (hereinafter: "**Determination**"). The determination referred to the holders of individual personal accident policies for periods exceeding one year, who acquired personal accident insurance from the insurers, after they had a previous health insurance policy at that insurer, beginning in January 2014, and in accordance with the terms which were determined in the determination (hereinafter, respectively: the "**Insurance**" and the "**Policyholders**" or the "**Policyholder**"). According to the determination, the insurance company was required to conduct, an evaluation which will include evaluating the method by which the insurance is marketed, and according to its results, to contact policyholders by telephone, and to receive their express consent for the continuation of their coverage under the aforementioned insurance, and to cancel the insurance coverage and to reimburse the premiums which were paid, with the addition of duly calculated linkage differentials and interest, if the policyholder has not approved (the "**Obligation to Verify Consent**"). Clal Insurance performed the aforementioned evaluation, and submitted its results to the Commissioner, who also requested data. In November 2017, Clal Insurance received a final determination on the matter (hereinafter: the "**Determination**"), according to which Clal Insurance was obligated to verify consent, with respect to some of the policyholders to whom personal accident insurance was sold (even if they did not previously have a health product). According to the determination and the subsequently approved outline, the Company is required to contact policyholders who were added to personal accidents insurance from January 1, 2014 until the end of 2016, through certain marketing centers which were specified therein, and to verify that those policyholders are aware of the existence of the personal accidents insurance. Insofar as a policyholder has announced that he is not aware of the aforementioned insurance, Clal Insurance is required to give him an option to cancel the insurance, and to receive reimbursement for the premiums which he paid, from the date of their addition, plus duly calculated linkage differentials and interest.

   At this stage, the Company is implementing the outline, and it is still unable to estimate its full implications, which depend, inter alia, on the conduct of policyholders, and on the effective framework for implementation.

2. The Company held discussions with the Commissioner in the past, in connection with the draft determination regarding it, with respect to one-time deposits of policyholders in guaranteed return policies (hereinafter: the "**Policies**"). In accordance with the draft, the Company is obligated to take certain actions with respect to policyholders whose actual rate of deposits, which bore the returns of the portfolio of investment-linked insurance contracts, was equal to or greater than the returns guaranteed in the policies, and certain actions with respect to policyholders whose actual one-time deposit returns were lower than the guaranteed returns. Therefore, at this stage, in light of the fact that the final wording of the draft is not known, if and insofar as it will be received, the Company is unable to assess its implications and the degree of its impact on the Company, if and insofar as it will be published.

3. In accordance with Atudot's financial statements, an investee held by Clal Insurance (50%), in 2017 an audit of the pension fund was conducted on behalf of the Commissioner, on the subject of members' rights. On August 7, 2019, Atudot received the draft audit report for the Company's response. The draft audit report pertains to major issues associated with the pension fund's activity, including the issue of groups, the fund regulations, management fees and management expenses, data cleansing, actuarial reporting, and withdrawal of monies from the fund. In accordance with Atudot's reports, Atudot filed its response to the findings of the draft audit report by the specified deadline. Additionally, on August 7, 2019, the Company received a letter from the Commissioner which included, in light of the draft audit report which was sent, an immediate directive regarding a change to the method used to pay members upon the withdrawal of funds. In accordance with the Commissioner's demand, Atudot responded separately on this matter, though even after Atudot's response, the Commissioner's position did not change. Atudot contacted the Commissioner again, and presented to him additional data supporting its position, and is awaiting his response. The Company was informed that as of the approval date of the financial statements, until all of the discussion processes vis-à-vis the Capital Market Authority have been concluded, and until the official report has been received, Atudot is unable to estimate the impact of the draft report.

Note 42: Contingent Liabilities and Claims (Cont.)

E. With respect to the costs that may arise due to the claims and exposures described in sections (a), (b), (c) and (d) above, provisions are made in the financial statements of the relevant consolidated companies, only if it is more likely than not (i.e., probability of over 50%) that a payment liability due to past events will materialize, and that the liability amount will be quantifiable or estimable within a reasonable range. The executed provision amounts are based on an estimate of the risk level in each of the claims as of a date proximate to the publication date of this report (excluding the claims which were filed during the last two quarters, regarding which, due to their preliminary stages, it is not possible to estimate their chances of success). On this matter, it is noted that events which take place during the litigation process may require a re-evaluation of this risk. Insofar as the Company has a right of indemnification from a third party, the Company recognizes such right if it is virtually certain that the indemnification will be received in the event that the Company settles the obligation.

The assessments of the Company and of the consolidated companies concerning the estimated risk in the claims which are being conducted are based on the opinions of their legal counsel and/or on the estimates of the relevant companies, including concerning the amounts of the settlement arrangements, which the managements of the Company and of the consolidated companies expect are more likely than not to be paid by them.

It is hereby emphasized that, in the attorneys' opinion, concerning the majority of motions to approve class action status with respect to which no provision was made, the attorney's evaluation refers to the chances of the motion to approve class action status, and does not refer to the chances of the claim on the merits, in the event that it is approved as a class action. This is due, inter alia, to the fact that the scope and content of hearing of the actual claim, once granted class action status, would be affected by the Court's decision with respect to the granting of class action status, which usually refers to the causes of action that were approved or not approved, to reliefs that were approved or not approved, etc.

At this preliminary stage, it is not possible to estimate the chances of the motions to approve the claims as class actions which are specified in sections (a)(a2)(24), (a)(a2)(25), (a)(a2)(26), (a)(a2)(27), and (a)(a2)(28).

The provision which is included in the financial statements as of December 31, 2019, with respect to all of the legal claims and exposures specified in sections (a), (b), (c) and (d) above, amounted to a total of approximately NIS 146 million (a total of approximately NIS 154 million as of December 31, 2018).

Note 43: Additional Events During and After the Reporting Period

A. Actuarial estimates

1. The low interest rate environment and its effect on discount rates in life insurance and in the long-term care branch in health insurance and non-life insurance

   During the reporting period, the risk-free interest rate curve decreased, as did the estimated rate of return in the portfolio of assets held against insurance liabilities. For additional details, see Note 39(e)(e1)(d)(1).

2. Change in provisions pertaining to life insurance plans combined with savings, which include “annuity factors representing a life expectancy guarantee”. For additional details, see Notes 39(e1)(a)(4).

3. Annuity withdrawal rate upon retirement. For additional details, see Note 39(e).

4. Changes in estimates with respect to the calculation of outstanding claims in non-life insurance

   See Note 39(e)(e2)(4)(f) for details regarding the update to the provision in light of the recommendations of the Winograd and Kaminetz Committees, in accordance with the Company’s estimate.

B. Changes to the control structure - For details regarding the Commissioner’s letter dated December 8, 2019, in which it was stated that, as of the date of the letter, there is no entity which holds, directly or indirectly, the Company’s means of control, and regarding changes in IDB’s stake in the Company, see Note 1.

C. Shelf prospectus of the Company and of Clalbit Finance

On August 29, 2019, the Company published a shelf prospectus. The shelf prospectus allows the Company, inter alia, to issue ordinary Company shares, preferred shares, bonds (including by way of extension of existing series of the Company’s bonds, insofar as any have been issued), bonds convertible into Company shares, warrants exercisable into Company shares, warrants exercisable into bonds, bonds convertible into Company shares, marketable securities, and any other security which by law may be issued by virtue of a shelf prospectus on the relevant date.

Additionally, on August 29, 2019, Clalbit Finance published a shelf prospectus. The shelf prospectus allows Clalbit Finance, inter alia, to issue bonds (including by way of extension of existing series of bonds of Clalbit Finance, insofar as any will be issued), warrants exercisable into bonds, and marketable securities. In general, the consideration for the bonds which will be issued by Clalbit Finance by virtue of the shelf prospectus will be deposited in Clal Insurance, which will be responsible for their repayment towards the bondholders, and which will be recognized by Clal Insurance as Tier 2 capital.

D. Issuance of share capital - During the reporting period, the Company performed an equity issuance in accordance with a shelf prospectus. See Note 16(d)2.

E. Issuance of Tier 2 capital - In September 2019 Clal Insurance issued, through Clalbit Finance, deferred liability notes (Series K). For additional details, see Note 25(f).

Note 43: Additional Events During and After the Reporting Period (Cont.)

F. Termination of engagement with Maccabi and Leumit health funds

In 2018, Maccabi and Leumit health funds published new tenders for the selection of an insurer in a different framework of engagement, such that the winning insurer will bear 20% of the risk (as opposed to the situation whereby Clal Insurance bore the entire insurance risk). In accordance with the notices given by the funds, Clal Insurance did not win the tender. Therefore, beginning on January 1, 2019, Clal Insurance ceased being the insurer of Maccabi health fund, and beginning on April 1, 2019, Clal Insurance ceased being the insurer of Leumit health fund.

Accordingly, as from January and April 2019, respectively, the Company does not collect premiums with respect to collective policyholders of Maccabi and Leumit health funds. These premiums amounted, in 2018, to a total of approximately NIS 745 million and approximately NIS 129 million, respectively.

The termination of the engagement with Maccabi and Leumit health funds is expected to result in a gradual reduction of the direct expenses with respect to the discontinued activity, over a period of 3 years. Total direct expenses in 2018 with respect to the Maccabi and Leumit transactions amounted to a total of approximately NIS 18 million. Additionally, indirect expenses which had been attributed to the Maccabi and Leumit transactions, in the amount of approximately NIS 25 million, were re-allocated in 2019 to the various activities, mostly in the health segment. This allocation also affected the cash flow forecast, and increased the insurance reserves for 2018 in the individual health branch (which are calculated using the gross premium reserve method), in the amount of approximately NIS 14 million.

In 2018, the impact of the Maccabi and Leumit health funds transaction on the results for 2018 amounted to loss of approximately NIS 94 million and of approximately NIS 8 million, respectively. The main components of loss in 2018 from the Maccabi and Leumit health funds transaction were due to the deficiency of investment income required to cover the increase in insurance liabilities, and the update to the actuarial model in the long-term care branch, inter alia, in light of the negative development in claims, and the implications due to the publication of the amendment to the provisions of the consolidated circular regarding the settlement of long-term care claims.

During the reporting period, the impact of the Maccabi and Leumit health funds transaction amounted to loss of approximately NIS 53 million and loss of approximately NIS 4 million, respectively. During the current quarter, the impact of the Maccabi and Leumit health funds transaction was loss of approximately NIS 32 million and NIS 7 million, respectively.

It is hereby clarified that the books of Clal Insurance include a liability with respect to long-term care claims, which originated during the period of long-term care insurance with the health funds, which concluded, as stated above, and which will be paid after the reporting date.

In light of the new framework for engagement in the funds' long-term care insurance segments, the winning insurer's scope of insurance liability is significantly lower than that which applied to Clal Insurance in those insurance segments, according to the previous framework. Additionally, in consideration of the preliminary phase of the regulatory changes with respect to claim settlement in the long-term care insurance segment, which were published in the circular regarding the settlement of long-term care claims, and in consideration of the prices at which, to the best of Clal Insurance's knowledge, the funds engaged with the insurers that won the tenders, Clal Insurance estimates that the profit which it would have gained from the transactions, had it won, would have been low.

G. **Three-year strategic plan** - During the reporting period, the Company prepared a three-year business strategy program for sustainable accelerated growth and for increased operational efficiency, and is working to implement it.

H. **Publication of economic solvency ratio report** - For details regarding the calculation of the Company's economic solvency ratio as of June 30, 2019, see Note 16(e).

I. **Exchange of deferred liability notes** - In December 2019, Clal Insurance performed, by way of an exchange offer, an exchange of NIS 698 million par value of liability certificates (Series C), in consideration of the issuance of 806 par value of Series K, for the purpose of extending the average lifetime of its liabilities. For additional details, see Note 25(g).

Note 43: Additional Events During and After the Reporting Period (Cont.)

J. Draft update to the LAT circular

Further to that stated in Note 3(d)1(d) regarding the performance of the liability adequacy test with respect to groups of policies which were defined in the LAT circular, in a manner whereby a separation is required between individual and collective policies, and such that, in individual policies, the test is performed for groups of insurance contracts (including their annexes) which were issued in various periods, according to participation types, and separately for basic risk policies. In March 2020, a draft update to the LAT circular was published, which updated the level of the group on which the evaluation is performed, beginning with the financial statements as of March 31, 2020, in a manner which allows the testing of all life insurance products together, excluding long-term care, while retrospectively applying a change in the policy regarding financial reporting. The Company estimates, according to a preliminary estimate, and assuming that it will be possible to reduce the balance of the liability with respect to the liability adequacy test in life insurance, that the insurance reserves as of December 31, 2019 will decrease, and accordingly, equity will increase in the amount of approximately NIS 794 million before tax (a total of approximately NIS 500 million after tax), which will be mostly attributed to the reporting period, as specified in Note 39(e)(e1)(d).

In light of the above, the sensitivity tests to interest rate changes, as specified in Note 39(c)2 above, will be changed and updated accordingly.

K. Events after the balance sheet date

After the balance sheet date, and until the publication date of the report, several significant events occurred, including the following:

Following the outbreak of the coronavirus in China, and its spread to many other countries, economic activity has declined around the world, including in Israel (the "**Crisis**"). These changes have affected, and continue to affect, the Company's activity and profitability. Regulatory directives were also published which, insofar as they are accepted as final directives, will have a positive impact. Details regarding the events are provided below:

Capital markets

Subsequent to the reporting date, a significant decline was recorded in global and Israeli capital markets, due to the coronavirus outbreak. Declines in capital markets reduce the value of the assets which are managed by the Group's institutional entities, both on its own behalf (nostro), and on behalf of members and policyholders.

As of proximate to the publication date of the report, the Company recorded impairment with respect to marketable investments only, in the nostro portfolios, in the amount of approximately NIS 0.6 billion before tax. The Company is also exposed to the impairment of non-marketable investments, which at this stage cannot be quantified.

There was also a decrease in the value of assets managed by the Group through investment-linked policies, provident funds and pension funds, which is estimated at around 10%, and which is also expected to affect the scope of variable and fixed management fees collected by the Company from its managed assets. As of proximate to the publication date of the report, negative real returns were recorded in the profit sharing insurance policies which, until the loss has been recouped, will prevent the Company from collecting variable management fees in the amount of approximately NIS 0.7 billion before tax.

It is noted that the returns are not final, and the Company's results are affected by the returns of the non-marketable portfolio, the Group's other revenues, and expenses. Additionally, due to the sharp volatility of financial markets, the effects described above may change significantly, depending on developments in the capital market.

Note 43: Additional Events During and After the Reporting Period (Cont.)

Implications for the Group's business activities

Due to the crisis, the exposure to credit defaults in the credit insurance activity has increased, and a certain increase has occurred in the scope of member redemptions, and the Company estimates that a significant decline may occur in future deposits to long term savings products, in light of the significant decrease in the scope of employment in the economy, according to public reports. Redemptions and the decrease in the scope of deposits are expected to affect both the scope of variable and fixed management fees which the Company collects from its managed assets, and future premium revenues, and accordingly, the recoverability of the Company's intangible assets. The Company also granted a benefit to a considerable part of its policyholders who have been furloughed, in which free risk and loss of working capacity insurance coverage was given for a period of three months.

The prolongation and intensification of the coronavirus crisis around the world and in Israel may also cause significant harm to the Company's business operations, if the crisis deepens into a recession, both in the local market and in the global markets. This could adversely affect the stability of reinsurers, and could impair the value of other investment assets, and credit defaults in the credit insurance activity may increase. The consequences of the crisis may also lead to conflicting results in the life insurance segment, which means that the overall impact on this subject cannot be quantified. A certain decline in results is possible in health insurance, due to changes in the cost of claims, and due to the decline in the sale of international travel insurance, as well as a certain increase in the scope of claims with respect to these policies. In non-life insurance, the policies do not cover pandemic events, and there a certain decline may even occur in the scope and frequency of claims, due to the reduction in economic activity. On the other hand, the situation described above may result in a decline in the scope of premiums charged, mostly in the business insurance segments. The Company is evaluating its actions in a challenging and changing business environment, including in connection with covers which were sold and changes in demand which may result in the future.

Operational implications

On March 18, 2020, the Commissioner published an announcement regarding the transition of institutional entities to work in a reduced format, and on March 21, 2020, the State of Emergency Regulations (Limit on Number of Employees Due to the Novel Coronavirus Outbreak), 2020, were signed, which are intended to prevent the spread of the coronavirus and to protect public health, and dictate that, in general, no more than 30% of the workforce may be present at a workplace. However, the regulations do not apply to the entities specified therein, provided that those entities have reduced their activities to critical activities only. the Group's institutional entities are included on the list of entities which are not subject to the regulations, as well as entities which provide services or products for the purpose of allowing the continued proper operation of entities which were excluded from the scope of the directive. In light of the foregoing, and in light of the restrictions on movement and employment, the Group has begun working in a limited format, in which a considerable number of employees were placed on continuous leave, and were given the opportunity to use accumulated vacation days, or alternatively, to be furloughed. Additionally, other Company employees will be instructed to use vacation days, in accordance with the guidelines given by managers, and in accordance with the Company's needs, in a manner which reflects, on average, one weekly vacation day per employee. The Company is preparing for remote work, including for the provision of service by the operating teams during the crisis period, and particularly with respect to critical processes which were defined. However, the longer the situation continues, and/or the more severe the restrictions become, difficulties may arise in the ability to continue providing orderly service.

Additional implications affecting the Group's results

From the reporting date until proximate to the publication date, the interest rate curve increased both in the short term and, more moderately, in the long term. In addition to the impairment of marketable assets due to these changes, as described above, these changes also affect insurance liabilities, further to that stated in Note 39(e)(e1) and (e2). However, due to the fact that the change was not made in parallel, and due to effects in opposite directions on the calculation components, at this stage it is not possible to quantify the full impact of the change in the interest rate curve.

It is noted that, insofar as the changes proposed in the draft LAT circular (see section J above) are adopted, according to which retrospective adoption of the financial reports will be performed, the Company estimates that, according to a preliminary estimate, and assuming that it will be possible to reduce the balance of the liability with respect to the liability adequacy test in life insurance, that the insurance reserves as of December

31, 2019 will decrease, and accordingly, equity will increase in the amount of approximately NIS 794 million before tax (a total of approximately NIS 520 million after tax), which will be mostly attributed to the reporting period. These changes are also expected to affect the sensitivity to changes in interest rates, relative to the current sensitivity, as specified in Note 39(c)(2) regarding risk management in the consolidated annual financial statements.

Regarding the solvency ratio of Clal Insurance as of December 31, 2019, which was scheduled for publication in May 2020, and which was expected to be negatively affected by the interest rate cut in the second half of 2019, the Company estimates that it will meet its capital requirements, taking into account the current distribution provisions.

Additionally, in light of the provisions of the draft amendment to the provisions of the economic solvency regime, which was published on March 19, 2020, and the Commissioner's letter which was published on that date, it is expected that if and when the draft circular becomes final, the required solvency ratio will improve relative to the ratio which would have been calculated according to the current format, and will be published until August 2020. For details, see Note 16(e)6(d) to the financial statements,

Regarding the solvency ratio in the period after the reporting date, at this stage, it is not possible to fully quantify these effects, due to the opposing effects of the different factors on the solvency ratio. The calculation which will take into account the above and other developments, and is expected to be calculated as of December 31, 2020, and to be published in May 2021, and by that date, the regulatory directives on this matter are expected to be clarified as well.

Summary

As of the reporting date, the Company is unable to estimate the total impact of all of the aforementioned events on the business activities of the Company and its subsidiaries, in the aforementioned respects, in a challenging business environment, or additional aspects of which it is not aware at the present time, or its results, since the event is ongoing, and is not under the Company's control, including factors such as the continued spread of the virus, or the containment thereof, and the period of disruption to business activity could affect the Company's medium term and long term preparations, including in connection with preparations for future sales. The Company is continuously monitoring developments in Israel and around the world, and is evaluating the implications for its activities and asset value, including with respect to the results for the first quarter of 2020, and the economic solvency ratio of Clal Insurance. The aforementioned uncertainty is affected, inter alia, by the fact that some of these regulatory directives are in stages of regulation or implementation, and there is no certainty regarding their final wording, if and insofar as they are accepted, and/or regarding their effects, including regarding the issues regulated therein, and whose full manner of implementation not yet been determined / clarified.
For details regarding sensitivity tests to market risks, see Note 39(c)(2) regarding risk management in the consolidated financial statements.

For details regarding the method used to collect variable management fees, see Note 3(n)(3)(a).

Annex A - Details of Other Financial Investments of Consolidated Insurance Companies Registered in Israel

The following data were included in the consolidated financial statements:

	As of December 31, 2019			
NIS in thousands	Fair value through profit and loss	Available for sale	Loans and receivables	Total
Marketable debt assets (1)	**86,755**	**5,848,653**	**-**	**5,935,408**
Non-marketable debt assets	**2,854**	**-**	**22,467,002**	**22,469,856**
Stocks (2)	**-**	**1,357,640**	**-**	**1,357,640**
Others (3)	**237,670**	**2,360,844**	**-**	**2,598,514**
Total other financial investments	**327,279**	**9,567,137**	**22,467,002**	**32,361,418**

	As of December 31, 2018			
NIS in thousands	**Fair value through profit and loss**	**Available for sale**	**Loans and receivables**	**Total**
Marketable debt assets (1)	128,088	5,087,775	-	5,215,863
Non-marketable debt assets	3,411	-	21,986,582	21,989,993
Stocks (2)	-	1,416,905	-	1,416,905
Others (3)	166,784	2,695,537	-	2,862,321
Total other financial investments	298,283	9,200,217	21,986,582	31,485,082

1. Marketable debt assets

	As of December 31			
	2019		**2018**	
NIS in thousands	**Book value**	**Amortized cost**	**Book value**	**Amortized cost**
Government bonds				
Available for sale	**3,691,097**	**3,420,760**	3,179,217	3,190,229
Total government bonds	**3,691,097**	**3,420,760**	3,179,217	3,190,229
Other debt assets				
Non-convertible				
Presented at fair value through profit and loss:				
Designated upon initial recognition	**86,755**	**82,333**	128,088	129,715
Available for sale	**2,157,556**	**2,089,681**	1,908,558	1,931,885
Total other non-convertible debt assets	**2,244,311**	**2,172,014**	2,036,646	2,061,600
Total marketable debt assets	**5,935,408**	**5,592,774**	5,215,863	5,251,829
Fixed impairments charged to income statement (cumulative)	**5,622**		17,148	

Annex A - Details Regarding Other Financial Investments of Consolidated Insurance Companies Registered in Israel (Cont.)

2. Stocks

	As of December 31			
	2019		2018	
NIS in thousands	Book value	Amortized cost	Book value	Amortized cost
Marketable				
Available for sale	**1,038,662**	**917,490**	1,125,663	1,080,466
Total marketable stocks	**1,038,662**	**917,490**	1,125,663	1,080,466
Non-marketable				
Available for sale	**318,978**	**348,772**	291,242	304,336
Total non-marketable stocks	**318,978**	**348,772**	291,242	304,336
Total stocks	**1,357,640**	**1,266,262**	1,416,905	1,384,802
Fixed impairments charged to income statement (cumulative)	**112,468**		148,232	

3. Other financial investments

	As of December 31			
	2019		2018	
NIS in thousands	Book value	Amortized cost	Book value	Amortized cost
Marketable				
Presented at fair value through profit or loss:				
Designated upon initial recognition	**141,052**	**141,054**	87,682	87,686
Available for sale	**578,917**	**561,670**	1,049,234	1,027,569
Derivative instruments	**1,821**	**2,056**	34,557	23,992
Total marketable financial investments	**721,790**	**704,780**	1,171,473	1,139,247
Non-marketable				
Presented at fair value through profit or loss:				
Designated upon initial recognition	**5,643**	**14,583**	17,981	26,717
Available for sale	**1,781,927**	**1,363,324**	1,646,303	1,241,792
Derivative instruments	**89,154**	**2,873**	26,564	-
Total non-marketable financial investments	**1,876,724**	**1,380,780**	1,690,848	1,268,509
Total other financial investments	**2,598,514**	**2,085,560**	2,862,321	2,407,756
Fixed impairments charged to income statement (cumulative)	**46,187**		85,994	

Company name	:	Clal Insurance Enterprises Holdings Ltd. (hereinafter: the "**Company**")
Company number in registrar	:	52-003612-0
Address	:	36 Raul Wallenberg St., Kiryat Atidim, Tower 8, Tel Aviv 6136902
Email address	:	Talc@clal-ins.co.il
Telephone	:	03-6387504
Fax	:	03-7965678
Balance sheet date	:	31.12.2019
Publication date of the report	:	26.03.2020

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1. Details required in connection with a material valuation (Regulation 8B)

None

Attn.:
Shareholders of Clal Insurance Enterprise Holdings Ltd.

Re: Auditors' Special Report Regarding the Separate Financial Information in Accordance with Regulation 9C In Accordance with the Securities Regulations (Periodic and Immediate Reports), 1970.

We have audited the separate financial information presented in accordance with Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 1970, of Clal Insurance Enterprises Holdings Ltd. (hereinafter: the "**Company**") as of December 31, 2019 and 2018, and for each of the three years the last of which ended December 31, 2019, and which is included in the Company's periodic report. The Company's Board of Directors and management are responsible for the separate financial information. Our responsibility is to express an opinion regarding the separate financial information, based on our audit.

We have conducted our audit in accordance with generally accepted auditing standards in Israel. In accordance with these standards, we are required to plan and perform the audit in order to obtain a reasonable measure of assurance that the financial statements are free of any material misrepresentation. Performing an audit includes testing, on a sample basis, the evidence provided to support the amounts and details presented in the separate financial information. An audit also includes performing an evaluation of the accounting principles which were applied in the preparation of the separate financial information and of the significant estimates which were made by the Company's Board of Directors and management, as well as an evaluation of the overall adequacy of presentation of the separate financial information in its entirety. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit, the separate financial information was prepared, in all material respects, in accordance with the provisions of Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 1970.

Tel Aviv,
March 26, 2020

Somekh Chaikin
Certified Public Accountants

Kost Forer Gabbay and Kasierer
Certified Public Accountants

Joint Auditors

Interim Data Regarding the Financial Position

NIS in thousands	Additional information	As of December 31 2019	2018
Assets			
Investments in investee companies	2.5	**4,508,162**	4,855,501
Loans and balances of investee companies	2.5	**14**	14
Other accounts receivable		**117**	67
Other financial investments:			
Marketable debt assets		**-**	14,864
Stocks		**117**	70
Others		**42**	56
Total other financial investments	2.2(a)	**159**	14,990
Cash and cash equivalents	2.3	**677,535**	33,441
Total assets		**5,185,987**	4,904,013
Capital			
Share capital	2.6	**155,448**	143,382
Premium on shares	2.6	**1,636,478**	1,009,801
Capital reserves		**817,419**	587,118
Retained earnings		**2,571,083**	3,157,874
Total capital		**5,180,428**	4,898,175
Liabilities			
Other accounts payable	2.2(b)	**5,559**	5,657
Balances of investee companies		**-**	181
Total liabilities		**5,559**	5,838
Total capital and liabilities		**5,185,987**	4,904,013

The attached supplementary information constitutes an inseparable part of the Company’s separate interim financial data.

March 26, 2020				
Approval date of the financial statements	Danny Naveh Chairman of the Board	Yoram Naveh Chief Executive Officer	Eran Cherninsky Executive VP Finance Division Manager	Tal Cohen Senior VP, Comptrollership Division Manager

Interim Data Regarding Income

NIS in thousands	For the year ended December 31 2019	 2018	 2017
Company's share in the income (loss) of investee companies, net of tax	**(553,648)**	(89,475)	207,609
Others	**75**	255	(117)
Total income	**(553,573)**	(89,220)	207,492
General and administrative expenses	**2,846**	2,890	3,337
Financing expenses	**-**	-	1,044
Other expenses	**497**	(665)	15
Total expenses	**3,343**	2,225	4,396
Income (loss) before taxes on income	**(556,916)**	(91,445)	203,096
Taxes on income (tax benefit)	**-**	-	-
Income (loss) for the period	**(556,916)**	(91,445)	203,096

The attached supplementary information constitutes an inseparable part of the Company's separate interim financial data.

Interim Data Regarding Comprehensive Income

	For the year ended December 31		
NIS in thousands	2019	2018	2017
Income (loss) for the period	**(556,916)**	(91,445)	203,096
Other comprehensive income: Components of other comprehensive income which, following initial recognition in comprehensive income, have been or will be transferred to profit and loss:			
Change, net, in the fair value of available-for-sale financial assets applied to capital reserves	**85**	28	(53)
Change, net, in the fair value of available-for-sale financial assets transferred to profit and loss	**-**	(39)	(68)
Other comprehensive income (loss) with respect to investee companies	**230,216**	(62,835)	165,920
Other comprehensive income (loss) for the period which has been or will be transferred to profit and loss, before tax	**230,301**	(62,846)	165,799
Taxes (tax benefit) with respect to other components of comprehensive income (loss)	**-**	-	-
Other comprehensive income (loss) for the period which following initial recognition in comprehensive income has been or will be transferred to profit and loss, net of tax	**230,301**	(62,846)	165,799
Components of other comprehensive income which will not be transferred to profit and loss:			
Other comprehensive income with respect to investee companies which will not be transferred to profit and loss, net of tax	**(11,309)**	5,814	1,177
Other comprehensive income for the period which will not be transferred to profit and loss, net of tax	**(11,309)**	5,814	1,177
Other comprehensive income (loss) for the period	**218,992**	(57,032)	166,976
Total comprehensive income for the period	**(337,924)**	(148,477)	370,072

The attached supplementary information constitutes an inseparable part of the Company's separate interim financial data.

Interim Data Regarding Cash Flows

NIS in thousands	For the year ended December 31 2019	2018	2017
Cash flows from operating activities			
Income (loss) for the period	**(556,916)**	(91,445)	203,096
Adjustments:			
Company's share in the income (loss) of investee companies	**553,648**	89,475	(207,609)
Dividends from investee companies	**-**	9,038	15,045
Interest accrued with respect to liabilities to banking corporations	**-**	-	1,044
Income from other financial investments	**504**	588	1,337
	554,152	99,101	(190,183)
Changes to other items in the data regarding financial position, net:			
Change in other accounts receivable	**(50)**	84	(70)
Change in other accounts payable	**(98)**	(1,646)	(51)
	(148)	(1,562)	(121)
Net cash from operating activities with respect to transactions with investee companies	**(189)**	(349)	2,062
Net cash from operating activities	**(3,101)**	5,745	14,854
Cash flows from investing activities			
Investment in available for sale financial assets	**-**	(15,054)	(9,916)
Consideration from sale of available for sale financial assets	**14,412**	26,098	28,380
Net cash from (used in) investing activities	**14,412**	11,044	18,464
Cash flows from financing activities			
Consideration from issuance of share capital	**632,783**	-	-
Repayment of liabilities to banking corporations	**-**	-	(70,000)
Interest paid with respect to liabilities to banking corporations	**-**	-	(1,194)
Net cash used in financing activities	**632,783**	-	(71,194)
Increase (decrease) in cash and cash equivalents	**644,094**	16,789	(37,876)
Cash and cash equivalents at beginning of period	**33,441**	16,652	54,528
Cash and cash equivalents at end of period	**677,535**	33,441	16,652

2.1 General

Presented below are financial data regarding the Company's consolidated financial statements as of December 31, 2019 (hereinafter: the "**Consolidated Reports**") which are published within the framework of the periodic reports (in Chapter C - financial statements), which are attributed to the Company itself (hereinafter: the "**Separate Financial Information**"), and which are presented within the framework of Regulation C9 and the Tenth Addendum to the Securities Regulations (Periodic and Immediate Reports), 2010 (hereinafter: the "**Regulation**" and the "**Tenth Addendum**", respectively), regarding the corporation's separate financial data. The separate financial information should be read together with the consolidated reports.

Significant accounting policies applied in the separate financial information:

The accounting policies specified in the consolidated reports were applied consistently in all periods which are presented in the separate financial information by the Company, including the manner in which the financial data were classified in the consolidated reports, with the required adjustments, as specified below:

A. Presentation of financial data

1. <u>Data regarding the financial position</u>

These data include information regarding the amounts of assets and liabilities which are included in the consolidated reports attributed to the Company itself (except with respect to investee companies), including details by types of assets and liabilities. These data also include information regarding the net amount, based on the consolidated reports, attributed to the shareholders of the Company itself, of the total assets less total liabilities with respect to investee companies, including goodwill.

2. <u>Data regarding comprehensive income</u>

These data include information regarding the amounts of assets and liabilities which are included in the consolidated report, segmented between profit and loss and other comprehensive income, as attributed to the Company itself (except with respect to investee companies), including details by types of assets and liabilities. The data also include information regarding the net amount, based on the consolidated reports, attributed to the shareholders of the Company itself, of the total income less total expenses with respect to the results of operations of investee companies, including impairment of goodwill, impairment or cancellation of investment in an associate company, and impairment or cancellation of an investment in a company under joint control accounted by the equity method.

3. Data regarding cash flows

These data include details regarding the cash flow amounts which are included in the consolidated reports attributed to the Company itself (excluding with respect to investee companies), and are taken from the consolidated statement of cash flows, segmented by cash flows from operating activities, investing activities and financing activities, including specification of their components. Cash flows with respect to operating activities, investing activities and financing activities in respect of transactions with investee companies are presented separately, net, under the relevant activity, according to the characteristics of the transaction.

B. Transactions between the Company and investee companies

1. Presentation

The inter-company balances in the Group, and income and expenses due to inter-company transactions, which were canceled within the framework of the preparation of the consolidated reports, were presented separately from the balance with respect to investee companies and income with respect to investee companies, together with similar balances vis-à-vis third parties.

Unrealized profit and loss which are due to transactions between the Company and its investee companies were presented under the balance with respect to investee companies and under income with respect to investee companies.

2. Measurement

Transactions which were performed between the Company and its consolidated companies were measured in accordance with the principles of recognition and measurement, as set forth in International Financial Reporting Standards, which establish the accounting treatment for transactions of this kind which are performed vis-à-vis third parties.

2.2 Financial instruments

A. Financial investments

The composition is as follows:

NIS in thousands	As of December 31 2019	2018
Marketable debt assets		
Government bonds	**-**	14,864
Total marketable debt assets	**-**	14,864
Stocks (1)		
Non-marketable - available for sale	**10**	10
Marketable - available for sale	**107**	60
Total stocks	**117**	70
Other financial investments	**42**	56
Total financial investments	**159**	14,990

(1) The forecasted exercise date of the shares has not yet been determined.

B. Other accounts payable

The composition is as follows: *)

NIS in thousands	As of December 31 2019	2018
Expenses payable	**517**	577
Suppliers	**72**	22
Others **)	**4,970**	5,058
Total	**5,559**	5,657

*) The balances of payables are unlinked.

**) Primarily with respect to the provision for claims. For additional details, see Note 42 to the consolidated reports.

2.3 Cash and cash equivalents

Composition and linkage:

NIS in thousands	Interest as of December 31, 2019 %	As of December 31 2019	2018
Unlinked NIS		**677,078**	32,944
Linked to the EUR	0.0-0.1	**253**	279
Linked to the USD	-	**203**	214
Linked to the GBP	-	**1**	4
Total		**677,535**	33,441

Most of the cash and cash equivalents are checking account balances and daily deposits in banking corporations. The interest rates on checking account balances are based on interest rates with respect to daily deposits.

2.4 Taxes on income

A. For details regarding the tax environment in which the Company operates, including the change to the corporate tax rate, see Note 23(a) to the consolidated reports.

B. For details regarding deferred tax liabilities which were not recognized, and losses and deductions for tax purposes which are transferable to subsequent years, see Note 23(f) to the consolidated reports.

2.5 Investee companies - investments, balances, engagements and material transactions

The composition is as follows:

	As of December 31	
NIS in thousands	**2019**	**2018**
Investments in investee companies	**4,508,162**	4,855,501
Current balances	**14**	14
Total	**4,508,176**	4,855,515

A. For details regarding the list of main investee companies, see Note 9(b) to the consolidated reports.

B. For details regarding the Company’s undertakings regarding the capital supplementation required of its investee companies, and insofar as may be required upon the application of the economic solvency regime, see Note 16(e) to the consolidated reports.

C. The Company has agreements in immaterial amounts with investees which include management fees to the Company.

2.6 Issuance of Company shares

On December 19, 2019, the Company issued 12,066,000 shares with a par value of NIS 1 each, as part of a public offering in accordance with the Company’s shelf offering report dated December 15, 2019, which was published by virtue of the shelf prospectus dated August 29, 2019. The net issuance consideration amounted to a total of approximately NIS 633 million. For additional details, see Note 16 to the consolidated financial statements.

3. Report regarding the liabilities of the reporting corporation and its consolidated companies by repayment dates as of December 31, 2019 (Regulation 9D)

As of December 31, 2019, the Company and the consolidated companies have no liabilities in accordance with Regulation 9D.

4. Condensed quarterly statements of comprehensive income (Regulation 10A)

Condensed quarterly statements of comprehensive income for 2019

NIS in thousands	Q1	Q2	Q3	Q4	Total
Gross premiums earned	2,411,036	2,426,620	2,403,348	2,425,112	9,666,116
Premiums earned by reinsurers	309,779	312,871	326,557	315,678	1,264,885
Premiums earned on retention	2,101,257	2,113,749	2,076,791	2,109,434	8,401,231
Income(loss)from investments, net, and financing income	3,392,909	2,278,287	1,107,060	2,902,213	9,680,469
Income from management fees and portfolio management	395,418	263,569	315,357	435,633	1,409,977
Income from commissions	74,124	70,396	71,954	67,444	283,918
Other income	6	(17)	21	39	49
Total income	**5,963,714**	**4,725,984**	**3,571,183**	**5,514,763**	**19,775,644**
Payments and changes in liabilities with respect to insurance contracts and investment contracts, gross	5,396,413	4,346,983	4,081,136	4,940,379	18,764,911
Share of reinsurers in payments and change in liabilities with respect to insurance contracts	289,131	368,428	280,076	379,043	1,316,678
Payments and changes in liabilities with respect to insurance contracts and investment contracts on retention	5,107,282	3,978,555	3,801,060	4,561,336	17,448,233
Commissions, marketing expenses and other acquisition costs	467,093	535,968	509,922	487,120	2,000,103
General and administrative expenses	224,141	222,610	217,610	226,894	891,255
Impairment of intangible assets	-	-	-	17,241	17,241
Other expenses	3,345	3,108	2,362	814	9,629
Financing expenses	34,002	73,972	21,465	106,849	236,288
Total expenses	**5,835,863**	**4,814,213**	**4,552,419**	**5,400,254**	**20,602,749**
Share in the results of associate companies accounted by the equity method, net	(2,021)	4,349	(6,561)	(2,895)	(7,128)
Income (loss) before taxes on income	125,830	(83,880)	(987,797)	111,614	(834,233)
Taxes on income (tax benefit)	40,783	(43,104)	(319,761)	41,494	(280,588)
Income (loss) for the period	**85,047**	**(40,776)**	**(668,036)**	**70,120**	**(553,645)**
Company shareholders	84,245	(41,598)	(668,890)	69,327	(556,916)
Minority interests	802	822	854	793	3,271
Income (loss) for the period	85,047	(40,776)	(668,036)	70,120	(553,645)
Earnings per share attributable to Company shareholders					
Basic earnings (loss) per share (in NIS)	1.52	(0.75)	(12.03)	1.32	(9.94)
Diluted earnings (loss) per share (in NIS)	1.52	(0.75)	(12.03)	1.32	(9.94)
Number of shares used to calculate earnings per share					
Basic	55,579	55,579	55,579	56,043	56,043
Diluted	55,576	55,579	55,579	56,043	56,043

4. Condensed quarterly statements of comprehensive income (Regulation 10A) (Cont.)

Condensed quarterly statements of comprehensive income for 2019 (Cont.)

NIS in thousands	Q1	Q2	Q3	Q4	Total
Income for the period	85,047	(40,776)	(668,036)	70,120	(553,645)
Components of other comprehensive income					
Foreign currency translation differences for operations applied to capital reserves	(8,205)	(11,154)	(8,867)	249	(27,977)
Foreign currency translation differences applied to profit and loss	-	11,466	-	439	11,905
Change, net, in the fair value of available for sale financial assets applied to capital reserves	306,033	140,495	261,237	245,019	952,784
Change, net, in the fair value of available for sale financial assets transferred to profit and loss	(104,078)	(108,821)	(96,906)	(306,239)	(616,044)
Impairment loss with respect to available for sale financial assets transferred to profit and loss	2,034	9,160	10,507	11,749	33,450
Tax impact	(67,750)	(14,167)	(57,721)	16,750	(122,888)
Total components of net profit which will subsequently be reclassified to profit and loss	128,034	26,979	108,250	(32,033)	231,230
Actuarial gains (loss) from defined benefit plan	(3,116)	(3,845)	(5,945)	(3,431)	(16,337)
Taxes with respect to other components of comprehensive income	911	1,162	1,774	1,105	4,952
Total components of net income (loss) which will not subsequently be reclassified to profit and loss	(2,205)	(2,683)	(4,171)	(2,326)	(11,385)
Other comprehensive income (loss) for the period, before taxes on income	125,829	24,296	104,079	(34,359)	219,845
Other comprehensive income (loss) for the period	210,876	(16,480)	(563,957)	35,761	(333,800)
Attributable to:					-
Company shareholders	209,451	(17,295)	(565,029)	34,949	(337,924)
Non-controlling interests	1,425	815	1,072	812	4,124
Total comprehensive income (loss) for the period	210,876	(16,480)	(563,957)	35,761	(333,800)

5. Use of consideration from securities (Regulation 10C)

On December 19, 2019, the Company issued 12,066,000 shares with a par value of NIS 1 each, as part of a public offering in accordance with the Company’s shelf offering report dated December 15, 2019, which was published by virtue of the shelf prospectus dated August 29, 2019. The net issuance consideration amounted to a total of approximately NIS 633 million.

In accordance with the shelf prospectus and the offering report, the consideration will be used to finance the Company’s operating activities, as determined by the Company from time to time, and in accordance with instructions of the Company’s Board of Directors, including for the purpose of strengthening the capital of Clal Insurance under the economic solvency regime with which it is required to comply in accordance with the regulatory directives, and allowing flexibility in the management of its capital structure. It is hereby clarified that the Company may, from time to time, in its exclusive discretion, change the designation of the issuance consideration. The designation of the issuance has not yet been determined by the Company’s Board of Directors, and depends, inter alia, on the regulatory directives which apply to Clal Insurance with respect to the capital regime, including the draft regarding the distribution provisions with respect to the solvency ratio, dated March 19, 2020 (see Note 16 to the financial statements), regarding the solvency ratio of Clal Insurance for 2019, and the capital target which will be determined by the Board of Directors of Clal Insurance.

It is noted that, after the net issuance consideration was transferred from the issuance coordinator to the Company, and until the issuance consideration has been used, in the manner described above, and in accordance with the shelf prospectus, the Company is investing the issuance consideration in stable channels, as will be determined by the Company’s Board of Directors and/or an investment committee on its behalf, from time to time. It is hereby clarified, in this regard, that the stable management of the portfolio may include, inter alia, but not exclusively, stable channels such as investment in financial assets which are exposed to insignificant changes in the value of the investment (short term deposits, short term bills, government bonds, etc.).

6. Investments in subsidiaries and related companies which are material active companies as of the date of the statement of financial position (Regulation 11)

Company name	Stock number on the stock exchange	Share class and par value	Number of shares	Total par value in NIS	Value in the separate financial report, as defined in Regulation 9C, in thousands of NIS	Holding rates in %			Country of incorporation other than Israel
						In capital	In voting rights	In right to appoint directors	
Clal Insurance Company Ltd. ("Clal Insurance") [1]		Ordinary shares with a value of NIS 1	119,037,074	119,037,074	4,372,563	99.98	99.98	99.98	
Clal Agency Holdings (1998) Ltd. ("Clal Agencies")		Ordinary shares with a value of NIS 1	99	99	88,079	100.00	100.00	100.00	
Clalbit Systems Ltd. ("Clalbit Systems) [2]		Ordinary shares with a value of NIS 1	1,000	1,000	9,411	100.00	100.00	100.00	
<u>Subsidiaries and related companies of Clal Insurance</u>									
Clal Credit Insurance Ltd. ("Clal Credit") [3]		Ordinary shares with a value of NIS 1	8,537,280	8,537,280	201,799	80.00	80.00	80.00	
ADC Holdings Ltd. [4]		Ordinary shares with a value of NIS 1	500	500	12,310	33.00	33.00	33.00	
Clal Insurance Company Property Ltd. [5]		Ordinary shares with a value of NIS 0.0001	100	0.1	20,576	100.00	100.00	100.00	
Clal Pension and Provident Funds Ltd. [6] ("Clal Pension and Provident Funds")		Ordinary shares with a value of NIS 1	124,638	124,638	681,881	100.00	100.00	100.00	
Clalbit Finance Ltd.		Ordinary	1,000	1,000	-	100.00	100.00	100.00	

Company name	Stock number on the stock exchange	Share class and par value	Number of shares	Total par value in NIS	Value in the separate financial report, as defined in Regulation 9C, in thousands of NIS	Holding rates in %			Country of incorporation other than Israel
						In capital	In voting rights	In right to appoint directors	
		shares with a value of NIS 1							
Clal Insurance Company Property Ltd. [7]		Ordinary shares with a value of NIS 1	100	100	9,193	100.00	100.00	100.00	

[1] For details regarding the Company's undertaking to supplement the equity of Clal Insurance and the validity thereof, see Note 16(d)(8) to the financial statements. On May 27, 2019, the merger of Clal Credit and Finance Ltd. (a subsidiary of Clal Holdings), Clal Consumer Credit and HaClal HaRishon Ltd. (subsidiaries of Clal Insurance) into Clal Insurance was completed.

[2] Includes holding of 1 ordinary share through Betach - Thorne Insurance Agency Ltd.

[3] For details regarding an undertaking of Clal Insurance to supplement the equity of Clal Credit Insurance and the validity thereof, see Note 16(e)(9) to the financial statements.

[4] Formerly Shagrir Towing Services Ltd.

[5] Includes holding of 1 ordinary share through Canaf - Clal Financial Management Ltd.

[6] For details regarding an undertaking of the Company to supplement the equity of Clal Pension and Provident Funds and the validity thereof, see Note 16(e)(8) to the financial statements.

[7] Includes direct holding of 1 ordinary share through the Company.

6. Investments in subsidiaries and related companies which are material active companies as of the date of the statement of financial position (Regulation 11) (Cont.)

Company name	Stock number on the stock exchange	Share class and par value	Number of shares	Total par value in NIS	Value in the separate financial report, as defined in Regulation 9C, in thousands of NIS	Holding rates in % In capital	Holding rates in % In voting rights	Holding rates in % In the right to appoint directors	Country of incorporation other than Israel
Atudot Pension Fund for Workers & Independent Workers Ltd.		Ordinary shares with a value of NIS 1	4,000,000	4,000,000	43,276	50.00	50.00	50.00	
Canaf - Clal Financial Management Ltd. (“Canaf”)		Ordinary shares with a value of NIS 1	1,000	1,000	4,820	100.00	100.00	100.00	

6. Investments in subsidiaries and related companies which are active companies as of the date of the statement of financial position (Regulation 11) (Cont.)

Company name	Stock number on the stock exchange	Share class and par value	Number of shares	Total par value in NIS	Value in the separate financial report, as defined in Regulation 9C, in thousands of NIS	Holding rates in %			Country of incorporation other than Israel
						In capital	In voting rights	In the right to appoint directors	
<u>Subsidiaries and related companies of Clal Agencies</u>									
Betach - Thorne Insurance Agency Ltd. (Betach - Thorne) [8]		Ordinary shares with a value of NIS 1	20,339	20,339	44,726	100.00	100.00	100.00	
Tmura Insurance Agency (1987) Ltd. ("Tmura")		Class A management shares with a value of NIS 1	418	418		-	-	100.00	
		Class B management shares with a value of NIS 1	418	418	49,969	-	-	100.00	
		Ordinary shares with a value of NIS 1	4,359	4,359	-	100.00	100.00	-	
		Preferred shares with a value of NIS 1	1,392	1,392	-	100.00	-	-	
<u>Subsidiaries and related companies of Tmura</u>									
Tmura Mele'a Insurance Agency Ltd.		Ordinary shares with a value of NIS 0.001	100,000,000	100,000	(3,397)	100.00	100.00	100.00	
<u>Subsidiaries and related companies of Batach Thorne</u>									
Batach Thorne International Underwriters Non-Life Insurance Agency (2019) Ltd.		Ordinary shares with a value of NIS 1	1,000	1,000	0	100.00	100.00	100.00	

[8] Formerly Batach Ltd.

6. Investments in subsidiaries and related companies which are material active companies as of the date of the statement of financial position (Regulation 11) (Cont.)

Company name	Stock number on the stock exchange	Share class and par value	Number of shares	Total par value in NIS	Value in the separate financial report, as defined in Regulation 9C, in thousands of NIS	Holding rates in %			Country of incorporation other than Israel
						In capital	In voting rights	In the right to appoint directors	

7. Loans and capital notes to the Company's subsidiaries and related companies

Loan provider	Loan recipient	Balance of loans and capital notes (including accrued interest), NIS thousands	Interest rate in %	Linkage type	Repayment years
Loans from Clal Insurance					
Clal Insurance	Clal Insurance Company Property Ltd.	10,572	-	Unlinked capital note	Undetermined
Clal Insurance	Companies of Clal Insurance Company Ltd.	65,835	-	Unlinked capital note	Undetermined
Loans to Clal Insurance					
From ADC Holdings	Clal Insurance	12,283	3.06%		Loan until 2021
Loans from Clal Agencies					
Clal Agencies	Clal Leaders Insurance Agency Ltd. [9]	15,176	-	Unlinked capital note	Undetermined

[9] Inactive

7.1 Changes in loans to subsidiaries and to related companies during the reporting period (Regulation 12)

Clal Holdings and subsidiaries

The Company	Date	Name of investee company	Description of change	Amounts in thousands of NIS
Clal Insurance				
Clal Insurance	December 2019	Clal Agencies	Final repayment of loan	3,000
Clal Agencies				
Tmura				
Tmura Insurance Agency (1987) Ltd.	March 2019	Clal Agencies	Final repayment of loan	1,816

8. Income and loss of material active subsidiaries and active related companies, and (direct and indirect) income from them, for the year ended December 31, 2019 (Regulation 13)

8.1 Clal Holdings and subsidiaries

	Income (loss) for the year		Other comprehensive income (loss) for the year		Total comprehensive income (loss) for the year		Revenue		
	Attributable to company owners	Attributable to non-controlling interests	Attributable to company owners	Attributable to non-controlling interests	Attributable to company owners	Attributable to non-controlling interests	Dividend	Interest	Management fees and directors compensation
					NIS in thousands				
Subsidiaries of Clal Holdings through direct holding									
Clal Insurance Company Ltd.	(707,926)	3,271	222,171	790	(485,755)	4,064	-	-	-
Clal Agency Holdings (1998) Ltd.	11,673	-	(2,262)	-	9,411	-	-	-	-
Clalbit Systems Ltd.	2.260	-	(866)	-	1,394	-	-	-	-

8. Income and loss of material active subsidiaries and active related companies, and (direct and indirect) income from them, for the year ended December 31, 2019 (Cont.) (Regulation 13)

8.1 Clal Holdings and subsidiaries (Cont.)

	Income (loss) for the year		Other comprehensive income (loss) for the year		Total comprehensive income (loss) for the year		Revenue		
	Attributable to company owners	Attributable to non-controlling interests	Attributable to company owners	Attributable to non-controlling interests	Attributable to company owners	Attributable to non-controlling interests	Dividend	Interest	Management fees and directors compensation
					NIS in thousands				
Subsidiaries and related companies of Clal Insurance									
Clal Credit Insurance Ltd.	13,081	3,271	3,173	793	16,254	4,064	-	-	-
ADC Holdings Ltd.	1,084	-	-	-	1,084	-	-	-	-
Clal Pension and Provident Funds Ltd.	(14,817)	-	3,050	-	(11,767)	-	-	-	-
Atudot Pension Fund for Workers & Independent Workers Ltd.	958	-	413	-	1,371	-	-	-	3,061
Canaf - Clal Financial Management Ltd.	1,529	-	(1,140)	-	389	-	-	-	-

8. Income and loss of material active subsidiaries and active related companies, and (direct and indirect) income from them, for the year ended December 31, 2019 (Cont.) (Regulation 13)

8.1 Clal Holdings and subsidiaries (Cont.)

	Income (loss) for the year		Other comprehensive income (loss) for the year		Total comprehensive income (loss) for the year		Revenue		
	Attributable to company owners	Attributable to non-controlling interests	Attributable to company owners	Attributable to non-controlling interests	Attributable to company owners	Attributable to non-controlling interests	Dividend	Interest	Management fees and directors compensation
	NIS in thousands								
Subsidiaries and related companies of Clal Agencies									
Betach - Thorne Insurance Agency Ltd.	2,302	-	(179)	-	2,123	-	2,000	-	380
Tmura Insurance Agency (1987) Ltd.	9,114	-	(2,083)	-	7,031	-	4,000	14	380

9. List of groups of loan balances which were given as of the date of the statement of financial position (Regulation 14)

N/A.

10. Trading on the stock exchange (Regulation 20)

A. Securities listed for trading during the reporting year

During the reporting year, 12,066,000 ordinary Company shares were listed for trading, which were issued within the framework of the public shelf offering report dated December 15, 2019.

B. Suspension of trading of securities during the reporting year

During the reporting year, the trading of ordinary company shares on the stock exchange was suspended (excluding timed suspensions with respect to the publication of financial statements and/or other material reports).

11. Compensation to interested parties and corporate officers (Regulation 21)

Presented below are details regarding the compensation which was given in 2019 (NIS in thousands), as recognized in the financial statements for 2019:

1. Each of the five highest recipients of compensation among the corporate officers in the Company or in companies under its control, if the compensation was given in connection with their tenure in the Company or in companies under its control, and regardless of whether the compensation was given by the Company or by companies under its control;
2. Each of the three highest recipients of compensation in the Company, to whom the compensation was given in connection with their tenure in the Company itself, and who is not listed in section 1 above;
3. Any interested party in the Company who is not listed in sections 1 and 2 above, except for a subsidiary of the Company, if the compensation was given to them by the Company or by a corporation under its control, in connection with the services which they provided as a senior position holder in the corporation or in a corporation under his control, regardless of whether or not a employer - employee relationship exists, including if the interested party is not a corporate officer.

	Details of compensation recipient							Compensation for services					Other compensation			Total
Name	Gender	Position	Scope of position	Holding rate in the corporation's capital	Salary [1]	Additional provision [7]	Bonus [2]	Share-based payment	Management fees	Consulting fees	Commission	Other	Interest	Rent	Other	
Yoram Naveh [3]	Male	Company CEO	100%	0.01	3,022[1]	-	-	-	-	-	-	-	-	-	-	3,022
Akiva Kaliman [5] [6]	Male	CEO of Tmura	100%	-	1,346	-	1,000	-	-	-	-	-	-	-	-	2,346
Danny Naveh [4]	Male	Chairman of the Board	85%	-	2,314	-	-	-	-	-	-	-	-	-	-	2,314
Eran Cherninsky [5] [7]	Male	Finance Division Manager	100%	-	1,926	225	-	-	-	-	-	-	-	-	-	2,151
Adi Kaplan [5] [8]	Male	CEO of Clalbit Systems	100%	-	1,719	-	-	-	-	-	-	-	-	-	-	1,719
It is hereby clarified that the details regarding the compensation which was given in 2019, as provided in the table above, are as recognized in the financial statements for 2019, and are not necessarily identical to the calculation which is performed for the purpose of the correspondence between the corporate officers' compensation and the Company's compensation policy, which is attached as an annex to the periodic report for 2019.																

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[1] It is noted that Mr. Yoram Naveh's salary, excluding provisions for compensation, including loss of working capacity and the lawful provision for severance pay, amounted to approximately NIS 2.4 million. Added to this amount were provisions for compensation, for loss of working capacity insurance and for severance pay, with respect to 2019, in the amount of approximately NIS 591 million. The amount does not include a non-recurring provision with respect to senior severance pay debt in the amount of approximately NIS 290 thousand. See Note 40(b)(5) to the Company's financial statements.

11. Compensation to interested parties and corporate officers (Regulation 21) (Cont.)

Notes regarding the data in the table:

1. Salary linked to the consumer price index, according to the definition of CPI linkage in the Company's compensation policy (see section 1 of the compensation policy) ("CPI Linkage"), except with respect to the CEO and the Chairman, whose salaries were restricted during the reporting year, according to the compensation limit set forth in section 2(a) of The Compensation of corporate officers in Financial Corporations Law ("Special Approval and Non-Permission of Expense for Tax Purposes Due to Extraordinary Compensation"), 2016 (in this section: the **Executive Compensation Law**" and the "**Compensation Limit**"), and it is linked to the CPI, in accordance with the mechanism specified therein. The amount specified in the table includes provisions for compensation including loss of working capacity, and the provision for severance pay as required by law for all components of compensation (which are not included in the calculation of the compensation limit), severance provisions, annual holiday and/or redemption of vacation days for those who have concluded their tenure, convalescence pay and other benefits, including grossing-up of vehicle and cellphone expenses. According to the mechanism set forth in the Executive Compensation Law, the cost of salary of an employee in a financial corporation which exceeds the compensation limit will not be permitted for deduction for tax purposes by the Company, in accordance with the mechanism set forth in the Executive Compensation Law. It is noted that, in accordance with the compensation policy, the Company may bear an additional expense with respect to excess employment cost, as required, with respect to components which were paid which exceed that cost.

2. In light of the market crisis due to the coronavirus outbreak, which occurred after the reporting period, the Company decided to postpone the decision regarding the provision of variable bonuses to a later date, and at this stage, it included a collective provision in the Company's books with respect to those bonuses, whose maximum amount, with respect to a particular officer, will not exceed 3 monthly base salaries, in accordance with the Company's compensation policy, in light of the fact that the conditions for receiving variable compensation in accordance with the Company's compensation policy have not been met, and therefore, only the discretionary bonus component may possibly be granted. The granting of bonuses is subject to the approval of the Group's competent organs, which is uncertain.

   In general, the data refer to the entire amount of the variable bonus, paid in cash, to which a corporate officer is entitled with respect to the reporting year, without taking into account the distribution arrangements with respect to the deferred bonus. The amounts of variable compensation, if and insofar as any are paid, which are effectively received, are lower such that, with respect to corporate officers and senior positions holders, 50% of the bonus with respect to a given year is paid in cash, and 50% is deferred to be paid CPI-linked, over 3 years, and its payment is made conditional upon the fulfillment of the targets specified in the relevant compensation policy. There is no certainty that the deferred compensation amount will be paid. It is noted that insofar as the total compensation given to a senior position holder in a certain year does not exceed the payment cap[2], and does not exceed 40% of the fixed component in that year, the distribution mechanism will not apply, as specified in the Company's compensation policy

3. For details regarding the employment terms of Mr. Yoram Naveh, the Company's CEO, see Note 40(b)(5) to the Company's financial statements.

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[2] As defined in section 32(17) of the Income Tax Ordinance (New Version).

11. Compensation to interested parties and corporate officers (Regulation 21) (Cont.)

4. For details regarding the employment terms of Mr. Danny Naveh, see Note 40(b)(4) to the Company's financial statements.

5. In general, the employment terms of the Company's corporate officers, including those specified in the above table (excluding the CEO and the Chairman, and unless specified otherwise), (hereinafter in this section: the "**corporate officers**"), were specified in a personal employment agreement which defines the base salary and the social and pension conditions, according to the conventional practice for corporate officers in Clal Group, including provisions for pension insurance with respect to the severance, compensation, holiday and convalescence components. In accordance with the terms of the corporate officers' employment agreements, in case of dismissal or resignation, the party terminating the engagement must provide notice to the other party two or fourth months in advance. In general, in case of termination of employment, as stated above, the corporate officers will be entitled, in addition to the severance pay, to a one-time bonus in the amount of 4.5 to 6 monthly salaries (base salary), without social benefits and without a vehicle, provided that the termination of the working relationship was not due to the resignation of the corporate officer during the period of two years following the employment commencement date (except if the resignation took place within 12 months after the date of transfer of the control of the Company), subject to the fulfillment of the terms of the compensation policy, and with reference to the transitional provisions which were determined in the compensation circular, as relevant (the "Severance Package"). The corporate officers are entitled to receive severance pay, whether upon resignation or upon dismissal, except in case which by law do not confer eligibility for severance pay. As part of their employment terms, the corporate officers are entitled to vehicles which the Company provides to them, and regarding which the Company bears the applicable grossing-up of tax. The corporate officers are also entitled to an annual bonus in accordance with the conventional criteria in the Group for managers of their rank, and in accordance with the Company's compensation policy (as published in the Company's periodic report), where the target bonus of the corporate officers during the reporting year was a maximum rate of 0.266% of comprehensive income, and their eligibility for the bonus is in accordance with the Company's fulfillment of the minimum conditions for the receipt of an annual bonus, in accordance with the compensation policy and the corporate officers' fulfillment of the targets (which refer to their personal performance and/or to the performance of the unit for which they are responsible and/or for the Company's performance, where the goals may be quantitative or qualitative, measurable or discretionary). The targets will be determined for the officers on an annual basis, except with respect to the discretionary component, which is not conditional upon the fulfillment of targets, and which will not exceed 3 monthly base salaries, except with respect to special bonuses, as defined in the Company's compensation policy. In any case, the corporate officers will not be entitled to an annual bonus exceeding NIS 1 million. For additional details, see the annex to the periodic report.

   It is noted that the compensation policy will not prejudice any rights which have accrued and/or which will be accrued with respect to previous periods prior to the application dates of the compensation circular and of the Executive Compensation Law, subject to and in accordance with the provisions of the law.

   The Company acquires corporate officers insurance for the corporate officers in the Group, and letters of exemption and letters of indemnity from the Company were given to each of the Company's corporate officers.

6.

   Mr. Akiva Kaliman has served as the CEO of Tmura, a second-tier subsidiary of the Company, since November 2013. His employment terms were specified in a personal employment agreement with Tmura, which defines the base salary and the social and pension conditions, according to the conventional practice for corporate officers in Clal Group, including provisions for pension insurance with respect to the severance, compensation, holiday and convalescence components. In accordance with the terms of the employment agreement of Mr. Kaliman, in case of dismissal or resignation, the party terminating the engagement must provide notice to the other party three months in advance. In general, upon conclusion of employment, Mr. Kaliman will be entitled to severance pay, and additionally, in case the employment is concluded, as stated above, by Tmura, Mr. Kaliman will also be entitled to receive a one-time bonus in the amount of 3 monthly salaries (base salary), excluding social benefits and excluding a vehicle. Mr. Kaliman is entitled to receive severance pay, whether upon resignation or upon dismissal, except in case which by law do not confer eligibility for severance pay. As part of his employment terms, Mr. Kaliman is entitled to a vehicle which Tmura provides to him, and Tmura bears the grossing-up of tax which applies to him with respect thereto. Mr. Kaliman received no warrants of the Company. Mr. Kaliman is also entitled to an annual bonus in accordance with his fulfillment of a personal targets plan which was determined for him (which refers to his personal performance and/or to the performance of Tmura, whereby the targets may be quantitative or qualitative, measurable or discretionary). The targets are determined on an annual basis, except with respect to the discretionary component. The maximum bonus of Mr. Kaliman for 2019 was set as a total of NIS 1 million, subject to Tmura's fulfillment of the profit target which was set for it. It is noted that the aforementioned compensation constitutes maximum variable compensation, which may be paid to Mr. Kaliman with respect to 2019, and a corresponding provision was made in the Company's books with respect to that year. However, in light of the crisis in markets due to the coronavirus outbreak, which occurred after the reporting period, it was decided, at this stage, to delay the approval of the bonus, and the issue will be discussed at a later stage. The granting of bonuses is subject to the approval of the Group's competent organs, which is uncertain. It is hereby clarified that Mr. Kaliman is not subject to the provisions of the compensation policy and the Executive Compensation Law.[3]

7. Mr. Eran Cherninsky, Executive VP, has served as Financial Division Manager since October 2018. His employment terms were defined in the personal employment agreement which generally corresponds to the employment agreement specified in subsection 5 above. In accordance with Mr. Cherninsky's employment terms, he is entitled to a signing bonus in the amount of 6 salaries, which was partly recorded in 2018, and partly recorded during the reporting year, as specified in the above table, under "other provision". As of the present date, no warrants have been allocated to him. For details regarding optional annual bonuses, see subsection 2 above.

8. Adi Kaplan, Executive VP of Clal Insurance, has served as the CEO of Clalbit Systems Ltd. since June 2018. His employment terms were defined in the personal employment agreement which generally corresponds to the employment agreement specified in subsection 5 above. As of the present date, no warrants have been allocated to Mr. Kaplan. For details regarding optional annual bonuses, see subsection 2 above.

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[3] It is noted that this figure does not include payments with respect to business engagements between Tmura and Clal Insurance, and a company in which Mr. Kaliman is a shareholder.

11. Compensation to interested parties and corporate officers (Regulation 21) (Cont.)

A. Compensation plans

For details regarding the Company's capital compensation plans, see Note 41(a) to the Company's financial statements.
For the Company's compensation policy, see the annex "**Compensation Policy**" in Part A of the Periodic Report.

B. Directors' compensation

The Company's payments in each of the years 2019 and 2018 to the Company's directors, with respect to their tenure on the Company's Board of Directors and in the various committees (excluding payments to the Chairman of the Company's Board of Directors), amounted to a total of approximately NIS 1,299 thousand and approximately NIS 1,928 thousand, respectively. The compensation paid to directors in the Company and in Clal Insurance in 2018 and during the reporting year was the maximum compensation allowed in accordance with the Company's classification for directors without expertise (the compensation does not include taking into consideration any expertise), in accordance with the Companies Regulations (Rules Regarding Compensation and Expenses of External Director), 2000, as approved on June 18, 2008. The Company participates in 20% of the cost of salary of the joint director, who serves both in the Company and in Clal Insurance (not including the salary of the Chairman of the Board, which is paid separately by Clal Insurance) and Clal Insurance bears 80% of the cost. The aforementioned amounts are after the participation of Clal Insurance in the aforementioned insurance. Beginning in 2020, and in accordance with the Board of Directors' resolution on December 30, 2019, both the outside directors and the other directors who are not controlling shareholders of the Company, excluding the Chairman of the Board, will be paid the maximum amount permitted for an expert outside director, in accordance with the Company's level, and in accordance with the Company's compensation policy. See also the Company's immediate report dated December 31, 2019.

For details regarding the salary of the Company's Chairman of the Board, which is not included in the aforementioned amount, see the table above and Note 40(b)(4) to the Company's financial statements.

12. Controlling shareholder of the corporation (Regulation 21A)

On December 8, 2019, the Company received a letter from the Commissioner (the "Commissioner's Letter"), in which the Commissioner announced, inter alia, that in light of the changes which have occurred in the holding rate of IDB Development Corporation Ltd. ("IDB Development") in the Company, the Commissioner evaluated the issue of the control of the Company. In accordance with the Commissioner's letter, as part of the aforementioned evaluation, the positions of the Ministry of Justice, the Israel Securities Authority and the Competition Authority were received as well. The findings of the aforementioned evaluation, which, according to the Commissioner's position, are based on the Company's representations, indicated that, as of the present date, there is no entity which holds, directly or indirectly, the Company's means of control, In a manner which would create an obligation to obtain a permit for the control of the Company in accordance with section 32(b) of the Control of Financial Services (Insurance) Law, 1981 (the "Insurance Law"), and therefore, the Company is required to receive a permit for the control of Clal Insurance from the Commissioner.

The Commissioner also determined, in consideration of the presumption which was established in the definition of an "insurer", in accordance with section 31A of the Control Law, that the provisions of the Control Law regarding arrangements for the appointment of directors in an insurer with no controlling shareholder apply both to the Company and to Clal Insurance. In light of these circumstances, the Commissioner determined that it would be appropriate to establish, in the conditions of the permit for control of Clal Insurance, provisions which regulate, inter alia, the appointment of directors in the Company and in Clal Insurance.

For the sake of caution, during the period until the Commissioner's aforementioned letter was received, the Company considered IDB Development as the Company's controlling shareholder for the purpose of Regulation 21A[4].

Accordingly, IDB Development is no longer considered the Company's controlling shareholder, for the purpose of the provisions of the Companies Law, 1999 (the "Companies Law")[5], the provisions of the Securities Law, 1968, and the provisions of the Law to Promote Competition and Reduce Concentration, 2013 (the "Concentration Law").

The Commissioner also determined, in consideration of the presumption which was established in the definition of an "insurer", in accordance with section 31A of the Control Law, that the provisions of the Control Law regarding arrangements for the appointment of directors in an insurer with no controlling shareholder apply both to the Company and to Clal Insurance. In light of these circumstances, the Commissioner determined that it would be appropriate to establish, in the conditions of the permit for control of Clal Insurance, provisions which regulate, inter alia, the appointment of directors in the Company and in Clal Insurance. As of the present date, a permit for the control of Clal Insurance has not yet been received, and the Company is holding discussions with the Commissioner on the matter.

It is noted that the Control Law prescribes unique provisions regarding an insurer without a control core, inter alia, in connection with the method of appointment of directors and reports regarding the holding of means of control of an insurer with no controlling shareholder. Due to the fact that some of the aforementioned provisions apply to an insurer with no controlling shareholder, while the Company controls Clal Insurance, some of the aforementioned issues may be regulated in the control permit, insofar as it will be received.

In light of the aforementioned circumstances, including, inter alia, due to the fact that institutional entities have different characteristics, which not every public company has, and whose existence justifies different treatment, inter alia, in light of the fact that the institutional entities manage members' funds, on March 12 and 26, 2020, the Company's Audit Committee and Board of Directors approved a policy regarding approval of transactions with parties which are considered interested parties of the Company (who are not controlling shareholders), directors, and other entities, which included the determination of procedures for approving transactions with and investments in related parties, and the establishment of limits on exposure to related parties.

For additional details regarding the aforementioned related parties policy, see section G above; for the guidelines regarding the classification of a transaction as an insignificant transaction, for the purpose of approval and disclosure regarding transactions with interested party in the Company, and for additional details regarding the policy with respect to the evaluation of significance, regarding the obligation to submit a corresponding immediate report, by virtue of Regulation 36 of the Periodic Report Regulations, and regarding the requirement to classify the transactions specified in section 270(1), (4) and (4a) of the Companies Law, see sections 13, D, E and F below.

For additional details regarding the sale of holdings and the demand to sell additional holdings of IDB Development in the Company, see the Commissioner's letters, as specified in Note 1 to the financial statements.

13. Transactions with the controlling shareholder (Regulation 22)[6]

As stated above, until December 9, 2019, the Company viewed IDB Development and its controlling shareholders as the Company's controlling shareholders, including the trustee for the control shares, and as a precaution only[7], and accordingly, it also viewed transactions with companies in which the aforementioned entities are interested parties (the "**Entities from the IDB Group**") as transactions in which the Company's controlling shareholder has a personal interest. In light of the provisions of section 12 above, the transactions described in this section include, inter alia, transactions which were implemented during the reporting year and/or which were in effect during the reporting year, with entities which, as of the agreement date, were considered, for the sake of caution, controlling shareholders or transactions in which the controlling shareholders were considered, at the time of the engagement, as having a personal interest.

A. Insignificant transactions

The Company's Audit Committee and Board of Directors adopted guidelines and rules for the classification of a transaction of the Company or its consolidated company with an interested party therein as an insignificant transaction, as determined in Regulation 41(a3)(a)(1) of the Securities Regulations (Annual Financial Statements), 2010 (the "**Financial Statements Regulations**"). These rules and guidelines also serve to evaluate the scope of disclosure in the periodic report and in the prospectus (including in shelf

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[6] It is noted that, in light of the provisions of section 12 above, the transactions described in this section include, inter alia, transactions which were implemented during the reporting year and/or which were in effect during the reporting year, with entities which, as of the agreement date, were considered, for the sake of caution, controlling shareholders or transactions in which the controlling shareholders were considered, at the time of the engagement, as having a personal interest.

offering reports) regarding a transaction of the Company, a corporation under its control, or its related company, with the controlling shareholder, or regarding which the controlling shareholder has a personal interest in its approval, as determined in Regulation 22 of the Securities Regulations (Periodic and Immediate Reports), 1970 (the "**Periodic Reports Regulations**") (hereinafter: "**Interested Party Transactions**"). It is noted that the aforementioned guidelines and rules are also used for transaction classification purposes, in accordance with the provisions of section 117(2a) of the Companies Law.

As stated above, as of the present date, the Company has no controlling shareholder, and accordingly, the criteria will be used by the Company in the future mostly for the for the purpose of classifying transactions with interested parties who which not controlling shareholders, as specified in the policy regarding related parties, in section G below, and regarding the method for approving transactions with officers or in which officers have a personal interest, in accordance with the policy for the identification and approval of interested party transactions, as specified in section D below.

On March 12 and March 26, 2020, the Company's Audit Committee and Board of Directors, respectively, discussed the aforementioned guidelines and rules, and the criteria which had been determined, and as part of the above, they were presented with the findings of the control unit on the subject (in accordance with the policy as specified in section D below), and resolved to ratify them, subject to immaterial changes.

In their ordinary course of business, the Company, its consolidated companies and its related companies perform, or may perform, non-extraordinary insignificant transactions, with interested parties or with companies in which the interested party has a personal interest, and also with entities which have, or may have, undertakings to perform transactions, including transactions of the types and characteristics specified below:

1. Transactions involving the purchase of services and/or products and/or investments:

   (**A**) Transactions with banking corporations and financial institutions, including deposits and associated banking services, credit agreements and credit facilities; **(B)** Transactions involving the purchase of products and services (such as telecommunication and telephony products and services; **(C)** Purchases and/or subsidies for purchases of voucher cards; (**D**) Transactions involving the purchase of travel and tourism services; (**E**) Event production services; (**F**) Management and other services for income-generating properties; (**G**) Financial investments within the framework of a consortium and/or the acquisition of securities within the framework of public offerings and/or private issuances to institutional entities and/or private transactions; (**H**) Investments in funds and/or acquisition of rights in funds; (**I**) IT and organizational consulting; (**J**) Company rating services or issuances and underwriting for securities distribution, securities agency and brokerage; (**K**) Agency services with respect to insurance, pension and provident funds by insurance agencies;

   (**L**) Leasing, management and rental of properties; (**M**) Acquisition and sale of properties together with interested parties; (**N**) Investment/credit management services, including credit rating; (**O**) Acquisition of financial and/or economic services, including economic and business consulting, underwriting services, underwriting and investment banking services; (**P**) IT and software services.

2. Transactions involving the sale of services and/or products

   (**A**) Sale of insurance policies which were issued by the insurers in Clal Group, in all insurance branches, to the interested parties in the Company and/or to other parties, in cases where the interested parties have a personal interest in the engagement and/or in the employees of the aforementioned entities, including policies which are shared by the Company and/or IDB and additional member companies in the Company's group and/or in IDB Group (including employee trust insurance, real estate, property and liabilities insurance, managers' insurance, professional liability insurance, etc.); **(B)** Provision of insurance activity agency services by insurance agencies; **(C)** Provision of provident fund and/or pension fund management services to corporations and/or their employees; **(D)** Provision of banking, financial and/or economic services, including factoring, financing and mortgages; **(E)** Property rentals.

   It is noted that the approval process for related party claims, with respect to the receipt of insurance benefits, although it constitutes the implementation of the policy terms, was approved, for the sake of caution, by the Audit Committee and the Board of Directors, within the framework of a separate policy, in which policies were pre-approved with respect to the approval processes of such claims.

The evaluation of the insignificance of a transaction will be performed according to the relevant criteria from among those specified in section E below. The evaluation of the significance of a transaction will be performed according to the criteria set forth in the Company's significance policy, as specified in section F below.

In case of a transaction with the controlling shareholder, or in which the Group's controlling shareholder has a personal interest, or in case of a transaction with an interested party which is a shareholders of the Company, the question of insignificance will be evaluated with respect to the operations and results of Clal Holdings.

In case of a transaction with a corporate officer in which the controlling shareholder does not have a personal interest, the question of insignificance will be evaluated with respect to the operations and results of the Company which is engaging in the transaction.

Each case will be evaluated on its own merits, and a quantitative and qualitative evaluation will be conducted regarding the relevant event, based on the entire set of information, data, facts and estimates pertaining to the case, in light of the entire set of circumstances which are relevant to the Company.

B. Transactions which are not specified in section 270(4) of the Companies Law, and which are not insignificant

During the reporting year, the Company and the Group's member companies did not engage in transactions with entities from the IDB Group and/or with other parties in which IDB and/or the trustee have a personal interest, and which were not listed in section 270(4) of the Companies Law, and are not insignificant, and no such transactions were in effect as of the reporting date, except as specified below:

In June 2019, Clal Insurance engaged in a transaction for the provision of insurance coverage to the business insurance unit of Shufersal Ltd. (which is considered a member company of the IDB Group for transactions of this kind), for a period of 15 months, beginning on July 1, 2019. On June 20, 2019, the Audit Committee of Clal Insurance and of the Company, for the sake of caution, determined that the engagement in the aforementioned transaction for the provision of the insurance coverages does not constitute an "extraordinary transaction", as defined in the Companies Law.

C. Transactions specified in section 270 (4) of the Companies Law

Presented below are details, to the best of the Company's knowledge, regarding extraordinary transactions of the Company with the Company's controlling shareholder, including with a company under their control, or extraordinary transactions of the Group with third parties in which the Company's controlling shareholder, or any company under their control, have a personal interest, where the engagement in the aforementioned transactions was performed during the year preceding the date of this report, or which are in effect as of the date of this report:

1. **Directors and officers liability insurance** - On July 28, 2013, the general meeting of the Company's shareholders approved the engagement in a framework transaction jointly with additional member companies of the IDB Group, or separately, for liability insurance with respect to the directors and officers in the Company and in some of its investee companies, including officers who are, or whose relatives are, the Company's controlling shareholders, for a period of 3 years beginning on August 1, 2013. The insurance period of the insurance transactions which were performed as part of the framework transaction has concluded; however, the insurance which was purchased in the past continues to cover claims which were filed before the end of the insurance period. For additional details, see section 23(d) below and Note 42(b)(6)(a) to the Company's financial statements.

   Personal interest of the controlling shareholder in the transaction - To the best of the Company's knowledge, the entities which may be considered, for the sake of caution, as interested parties in the transaction, are IDB Development and the controlling shareholder of IDB Development, due to the fact that IDB Development or companies under its control may be considered as beneficiaries in accordance with the insurance policies, and due to the tenure of the former or current controlling shareholders and/or the tenure of their relatives (as the term "Relative" is defined in the Companies Law) as directors in the other companies which are participating in the insurance policies, which will be and/or may be beneficiaries under the insurance policies. It is noted that, as of the reporting date, the insurance period concluded of the directors and officers liability insurance policies which were obtained in collaboration with IDB Development and/or companies under its control, which are no longer the Company's controlling shareholders; however, claims are still being conducted with respect to them.

13. Transactions with the controlling shareholder (Regulation 22) (Cont.)

It is noted that in recent years, various claims were filed against member companies of the IDB Group and against corporate officers in member companies of the IDB Group, which purchased insurance from Clal Insurance, as specified above, and in similar previous transactions, as well as alerts with respect to additional claims against them, amounting to totals of billions of NIS.

The aforementioned claims and alerts refer to different underwriting years, each of which included coverage in separate policies, as stated above. Some of the claim and demand amounts are beyond the liability limits in the policies.

It is noted that member companies of the IDB Group, and its controlling shareholder, purchase, from time to time, directors and officers liability insurance from Clal Insurance. These engagements are insignificant for the Company. Clal Insurance is covered, through these policies, in 100% reinsurance, whereby the reinsurers in the policies are international reinsurers with an international rating of at least A-. For details regarding the exposure to reinsurers, see Note 39(f) to the financial statements.

It is hereby clarified that non-fulfillment of the reinsurers' undertakings towards Clal Insurance will not release Clal Insurance from its liabilities towards the policyholder according to the insurance policies. A reinsurer which does not fulfill its undertakings in accordance with the reinsurance contracts may cause the Company to incur losses.

2. **Indemnification of directors and corporate officers** - On May 3, 2012, the general meeting of the Company's shareholders approved the provision of new letters of indemnity to corporate officers and directors. On July 28, 2013, an amendment to the letters of indemnity was approved. For details on this matter, see section 23(d)(2) below.

   Personal interest of the controlling shareholder in the transaction - To the best of the Company's knowledge, the entities which may be considered as interested parties in the transaction include those who were the Company's controlling shareholders at the time when the transaction was executed, who ceased being the Company's controlling shareholders, due to their tenure and/or the tenure of their relatives as directors and/or as controlling shareholders in the Company and/or in companies under the Company's control, who were entitled to indemnification in accordance with the aforementioned decision.

3. **Investment in Emerging Markets Credit Opportunity Fund (EMCO)** - On August 11, 2010, the Company's Audit Committee and Board of Directors approved its engagement in a transaction in which entities from Clal Group and Koor Industries Ltd., a member company of IDB Development Group, which was the Company's controlling shareholder at that time (hereinafter: "**Koor**")F37[8], will undertake to invest a total amount of USD 250 million – USD 125 million by Clal Group (approximately USD 33 million out of funds held against non-investment-linked liabilities, and the remainder from members' funds) and USD 125 million by Koor, in Credit Suisse Emerging Markets Opportunity Fund L.P. (hereinafter: the "**Fund**"), which is a private investment fund which was managed by corporations from the Swiss banking group Credit Suisse (hereinafter: "**Credit Suisse**"), and whose purpose is to invest in emerging markets, primarily through debt products.

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13. Transactions with the controlling shareholder (Regulation 22) (Cont.)

4. Investment in Emerging Markets Credit Opportunity Fund (EMCO) (Cont.)

An agreement was signed between member companies of the Clal Group and Koor in order to formalize their mutual rights and obligations in the fund. It was further approved, in accordance with Regulation 1(4) of the Companies Regulations (Easements Regarding Transactions with Interested Parties), 2000, that the terms of the joint investment in the fund, with respect to Clal Group, are not materially differently from its terms with respect to Koor, in consideration of their relative share in the joint investment. As of the reporting date, there is no balance of liabilities of the investors in the fund, except for the possibility to offset management fees, in negligible amounts, from future distributions. The cumulative scope of Clal Group's investments in EMCO amounts to a total of approximately USD 45 million. The balance of the Clal Insurance Group's investment as of the reporting date, after deducting repayments in the amount of approximately USD 40.8 million which were received, amounts to approximately USD 2.4 million.

Personal interest of the controlling shareholder in the transaction - To the best of the Company's knowledge, the entities which may be considered, for the sake of caution, as interested parties in the engagement (excluding a personal interest which is due to an interest of the Company and/or of companies under its control), during the reporting year, are IDB Development and its controlling shareholder, which were considered, as a precaution, until December 9, 2019, as the Company's controlling shareholders. The personal interest is due to the fact that Koor is a wholly owned subsidiary of Discount Investment Corporation Ltd., a public company which is controlled, directly and indirectly, by Mr. Eduardo Elsztain, and which is a fellow subsidiary of IDB Development, and due to the fact that the investors in the fund (including Koor) are or were related parties of Credit Suisse, or were among its primary shareholders or entities related thereto. In this context, it is noted that in accordance with Koor's reports in the second half of 2013, up to and including January 2014, Koor disposed of its entire holding in Credit Suisse shares, and as of the publication date of the report, no longer holds Credit Suisse shares.

D. Policy regarding the identification and approval of transactions with interested parties

The Companies Law determines that certain transactions in which the Company's corporate officers have a personal interest, and transactions of public companies with the controlling shareholder (including those in which the controlling shareholder has a personal interest) (hereinafter, jointly: "**Transactions With Interested Parties**"), require the receipt of special approvals, in accordance with the party to the transaction, the type of the transaction, and the transaction terms. It is emphasized that according to the conventional interpretation of the Companies Law, a transaction of a private company which is under the Company's control, with a controlling shareholder or in which the controlling shareholder has a personal interest, may be considered as a transaction of the Company, as a public company (even if the public company is not party to the transaction), and require the receipt of approvals in the Company.

On November 23, 2014, the Audit Committee adopted a policy regarding the identification and approval of transactions with interested parties, which regulates engagements of the Company with controlling shareholders and officers. **Presented below are the main details of the policy which was approved, subject to immaterial changes, by the Audit Committee on March 12, 2020.** [9]

Transaction approval processes:

- **Transaction with the controlling shareholder or in which the controlling shareholder has a personal interest:**
  - **Extraordinary transactions** - will be approved in accordance with the provisions of the Companies Law.
  - **Non-extraordinary and non-insignificant transactions** - will be presented for approval to the Audit

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[9] With respect to controlling shareholder transactions, the policy formalizes the method used to perform a competitive process and alternative processes, as well as procedures regarding the process of classifying and approving transactions of this kind in light of the fact that, as of the present date, the Company has no controlling shareholder, and accordingly, those criteria are irrelevant to the Company. These criteria were specified in the Company's periodic report for 2018.

Committee, for classification of the transaction and approval of the transaction itself.

  - **Non-extraordinary and insignificant transactions** - will be pre-approved, provided that they are implemented in accordance with the provisions of the policy. The evaluation pf the aforementioned transactions will be performed by the corporate officer who is responsible for the relevant segment in the Group (and insofar as he has a personal interest in the performance of the transaction - by his supervisor).

- **Transactions with corporate officers or in which corporate officers have a personal interest** .[10]
  - **Extraordinary transactions** - will be presented to the Audit Committee and Board of Directors for approval.
  - **Non-extraordinary and non-insignificant transactions**.[11] - Will be presented to the Audit Committee or Board of Directors for approval.
  - **Non-extraordinary and insignificant transactions** - On February 17, 2009, an amendment was implemented to the Company's bylaws, in which it was determined that a transaction with a corporate officer, or a transaction in which a corporate officer has a personal interest, will be approved by another corporate officer, provided that it is not an extraordinary transaction (excluding a transaction which pertains to terms of tenure and employment). The Company's Board of Directors determined, on the same date, that the evaluation regarding whether the transaction is insignificant will be performed by a relevant corporate officer, in accordance with an internal company policy regarding the on the same date and approval of transactions with interested parties, as approved by the Audit Committee and Board of Directors on an annual basis.
- **Non-extraordinary and highly insignificant retail transaction** - Pre-approval (including with respect to outside directors) for the performance of "retail" transactions of the Group's products, in accordance with the price list, as specified in section E below.

Criteria for the classification of transactions

The Companies Law determines that an "extraordinary transaction" is a transaction which fulfills one of the following three criteria:

(A) A transaction which is not in the Company's ordinary course of business; (B) a transaction which is not executed in market conditions; (C) a transaction which may significantly affect the Company's profitability, property or liabilities.

The relevant corporate officer, or the relevant organ, as stated above, will evaluate the transaction in question, and will determine whether the transaction fulfills the three criteria for qualification as an **extraordinary transaction**.

- For the purpose of the evaluation of exceptionality, a transaction will be considered a transaction **in the Company's ordinary course of business** following a factual evaluation, in light of the ordinary economic activity of the Company which is engaging in the transaction, in a manner whereby the type of product or service which are purchased, the liabilities or which are accepted in the Company's ordinary course of business, are within its operating segments, are required for its operations.
- For the purpose of the aforementioned exceptionality, a transaction will be classified as a **material transaction** in accordance with the significance policy which has been adopted by the Company, as specified in section F below. A transaction will be classified as an **insignificant transaction** in accordance with the insignificant policy which has been adopted by the Company, as specified below.
- For the purpose of the aforementioned evaluation of exceptionality, the evaluation of **market conditions** will be performed based on an external, objective indication of the market conditions of the transaction, and therefore, market condition identify similar transactions to those conducted with the controlling shareholder

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[10] Investment transactions with a related party in the investment segment will also be subject to the current provisions, in accordance with the law, and therefore, transactions involving members' funds or the funds of profit sharing policies will be presented for approval to the relevant Investment Committee, in addition to, or instead of, the approval of the aforementioned organs, and investment transactions involving nostro funds will be presented to the Audit Committee for approval, in addition to, or instead of, the aforementioned organs.

[11] For the purpose of this policy, an "**Insignificant Transaction**" will be as defined in the Company's insignificance policy, as specified in section E below.

or with the corporate officer, which were performed with non-related parties, and to compare those transactions. The comparison will be performed, where possible, against similar transactions in terms of operating segment, type of product or service, and in terms of the financial scope of the engagement, with non-related parties, except in special cases, and for reasons which will be specified. As part of the above, efforts will be made to evaluate also similar transactions which were performed on the market by other companies.

The Company will followup, for the purpose of evaluating the adequacy of actual classification of the transactions by management, in accordance with the criteria which were determined;

- The relevant control units will periodically follow up on transactions with related parties.
- The Internal Auditor will conduct an internal audit regarding the compliance with the provisions of the policy once every two years.
- The Audit Committee will hold a discussion regarding the criteria established in this policy each calendar year, in which it will receive reports regarding the audit report, and any significant control findings, as stated above.

E. **Policy regarding the evaluation of insignificance**

Without derogating from the generality of the foregoing, the quantitative and qualitative evaluations will be conducted in the following manner:

1. Quantitative evaluation

A. Insurance transaction

In the absence of special qualitative considerations which arise in light of the entire set of relevant circumstances, a transaction of this kind which is implemented in market conditions, in the ordinary course of business, and which does not have a significant influence on the Company, will be considered an insignificant transaction if its scope is lower than NIS 15 million. For the avoidance of doubt, it is hereby clarified that the scope of the transaction will be evaluated according to the total income from the transaction in a calendar year, and in life insurance and long term saving products transactions, the scope of the transaction will be evaluated according to the total management fees with respect to the transaction in a calendar year.

B. Transactions involving the acquisition of products and/or services

In the absence of special qualitative considerations in light of the entire set of relevant circumstances, a transaction of this kind which is performed in market conditions, in the ordinary course of business, and which does not have a significant influence on the Company, will be considered an insignificant transaction if it is in a scope lower than NIS 10 million, and if it does not involve the receipt of services from the controlling shareholder (management agreement) in accordance with section 270(4) of the Companies Law.

C. Transactions involving investment and/or acquisition or sale of property, plant and equipment (non-current assets) / acceptance of monetary liability

In the absence of special qualitative considerations which arise in light of the entire set of relevant circumstances, a transaction of this kind which is performed in market conditions, in the ordinary course of business, and which does not have a significant influence on the Company, will be considered an insignificant transaction if all of the following criteria amount to a rate of less than one tenth of a percent (0.1%).

It should be noted that the evaluated data will be based on the Company's consolidated financial statements, audited or reviewed (the last statements to be published before the performance of the transaction).

D. Transactions involving investment and/or acquisition or sale of property, plant and equipment (non-current assets)

Two cumulative tests are applied:

- In a transaction involving nostro assets and/or profit sharing policies - the scope of assets which is the subject of the transaction, out of the aforementioned sources, divided by the total assets in the Company's consolidated balance sheet.

- In a transaction involving the assets of provident funds and/or pension funds - the scope of assets involved in the transaction from the aforementioned sources, divided by total members' assets in the provident funds and pension funds which are managed by the Group.
- In a sale transaction from nostro assets - the annual profit/loss attributed to the Company's shareholders, net, after tax, in terms of profit and loss or comprehensive income, actual or forecasted, as attributed to the transaction (whichever is more stringent), divided by the profit or loss attributed to the Company's shareholders, net after tax, in terms of the Company's average profit and loss or annual comprehensive income (in other words, over four quarters) over the last three years, calculated based on the last 12 quarters prior to the performance of the transaction, and for which audited or reviewed financial statements have been published. It is hereby clarified that the profit/loss in each quarter is calculated according to absolute values.

E. Acceptance of monetary financial liability

The scope of the liability which is the subject of the transaction, divided by the total assets in the Company's consolidated balance sheet.

If the transaction involves a subsidiary or associate company of the Company ("**Investee Company**"), an evaluation should be performed regarding the impact of the transaction on the Company's relative share, i.e., relative to the Company's holding rate in the investee company, while applying the insignificance tests specified above.

2. Qualitative test

The evaluation of the qualitative considerations of the interested party transaction may lead to a situation wherein a transaction will be determined as insignificant, even though according to the quantitative evaluation in accordance with section 1 above, it has qualified as an insignificant transaction. Thus, for example, and for the sake of example only, a transaction will generally not be considered insignificant if it is perceived by Company management to be a highly significant event, even if it is insignificant according to the quantitative criteria specified above, such as in cases where the transactions involved highly significant chances, risks or exposures, or if the transaction involves entry into a new and significant operating segment, or departure from a current and significant operating segment. It is hereby clarified, with respect to transactions which involve transferring all or part of a corporation's activity (including by way of transfer of securities), the tests set forth in Regulation 6(b) of the Securities Regulations (Transaction Between a Company and its Controlling Shareholder), 2001, will be taken into account.

Separate transactions which are dependent on one another, in a manner whereby they effectively constitute a part of the same engagement (for example, conducting centralized negotiations with respect to the entire set of transactions), will be evaluated as a single transaction.

A transaction which should be classified as an insignificant transaction by an investee company will be considered as an insignificant transaction also on the level of the holding company. A transaction of an investee company which should be classified as a non-insignificant transaction in an investee company may be classified as an insignificant transaction according to the relevant criteria on the level of the holding company.

3. Non-extraordinary and highly insignificant retail transaction

Pre-approval was given for the performance of "retail" transactions in which the member companies in the Group sell deviation to private entities and small businesses, including non-life, health and life insurance policies, pension funds and provident funds and associated services, which are provided to individuals and to small employers. These transactions are approved insofar as the premium amount or management fees with respect to the transaction, as applicable, according to the Company's price list, do not exceed NIS 50,000 per year, except with respect to deposits to pension products. Insofar as the matter involves a deposit to a pension / savings product, a highly insignificant transaction is a transaction where the management fees collected with respect thereto are in accordance with the

Company's price list F43[12], provided that, in the case of a one-time deposit, it does not exceed NIS 1.5 million per year. The aforementioned approval was given on the condition that the aforementioned transactions are performed in accordance with price lists which include prices (premiums, management fees), discount grades and predetermined underwriting terms, and apply to all of the Company's retail engagements (hereinafter: "**Highly Insignificant Current Transaction**").

13. Transactions with the controlling shareholder (Regulation 22) (Cont.)

F. Policy regarding the evaluation of significance

With respect to the evaluation of significance, the Company adopted a policy which was first approved by the Company's Board of Directors on August 20, 2008 (and recently approved in September 2019), in which the Company established for itself guidelines and rules regarding the evaluation of whether a certain event or affair of the Company and/or its investee company (the "**Event**") is significant to the Company, with respect to the obligation to file an immediate report regarding it by virtue of Regulation 36 of the Securities Regulations (Periodic and Immediate Reports), 1970, and for the purpose of the classification of the transactions specified in section 270(1), (4) and (4a) of the Companies Law. The main principles of the policy are as follows:

In principle, each case will be evaluated on its own merits, and a quantitative and quantitative evaluation will be conducted regarding the relevant event, based on the entire set of information, data, relevant facts and assessments, in light of the entire set of circumstances which are relevant to the Company. Without derogating from the generality of the foregoing, the quantitative and qualitative evaluations will be conducted in the manner described below.

1. Quantitative evaluation

A. Regarding any event which fulfills the significance test, all of the relevant indicators will be taken into account, as applicable, among the following indicators, with reference to and based on the last published consolidated financial statements (audited or reviewed) of the Company, and the data included therein: (A) Assets ratio - the total scope of assets involved in the event (assets acquired or sold) divided by total assets [13]; (B) Profit ratio - comprehensive income or comprehensive loss, actual or forecasted, which are attributed to the event, divided by the average annual comprehensive income or comprehensive loss (i.e., over four quarters) in the last three years, calculated based on the last 12 quarters for which audited or reviewed financial statements have been published; It is hereby clarified that the income/loss which is attributed to the event, and the income/loss in each quarter, are calculated according to absolute values. (C) Equity ratio - the increase or decrease in equity, divided by equity before the event; (D) Liabilities ratio - the financial liability associated which the event, divided by the Company's total assets in the consolidated balance sheet before the event.

B. Without derogating from the need to estimate, with respect to each event whose significance is evaluated, which of the indicators specified in section 1(a) above are relevant, the following indicators will be considered relevant to the transactions specified below:

- Acquisition of an asset - assets ratio
- Sale of an asset - profit ratio, assets ratio
- Acceptance of a loan - assets ratio
- Service provision transaction, including insurance transaction - income ratio, profit ratio (according to the profit expected from the transaction).
- In the absence of special qualitative considerations which arise in light of the entire set of relevant circumstances, an event will be considered significant if one of the relevant indicators which are calculated for it, as specified in section 1(a) above, exceeds 10%.
- In the absence of special qualitative considerations which arise in light of the entire set of relevant circumstances, an event will be considered insignificant if all of the relevant indicators which are calculated for it, as specified in section 1(a) above, are lower than 5%.

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[12] It is hereby clarified that, in managers insurance or in a pension fund or provident fund, the Company's price list will be in accordance with the conventional arrangement for Company employees, including with respect to interested parties.

[13] In a transaction performed with the assets of the nostro and/or profit sharing portfolio, the assets ratio will be evaluated relative to the total assets in the Company's consolidated balance sheet. In a transaction performed with the assets of provident funds and/or pension funds, the assets ratio will be evaluated relative to total members' asset in the provident funds and pension funds which are managed by the Group.

- Events which are not classified under sections 1 and 2 above may be considered significant, and an evaluation of qualitative considerations should be performed regarding them, taking into account the entire set of information, and the entire set of relevant circumstances.

13. Transactions with the controlling shareholder (Regulation 22) (Cont.)

F. Policy regarding the evaluation of significance (Cont.)

1. An evaluation of the significance of an event which is expected to take place in the future should include taking into account the likelihood of the event's materialization, and the importance and expected impact of the event, if it materializes.
2. In case of an event which pertains to a subsidiary or associate company of the Company ("**Investee Company**"), an evaluation should be performed regarding the event's impact on the Company's relative share in the event, i.e., relative to the Company's holding rate in the investee company, including application of the relative share tests specified above.
3. In case of an event which does not constitute an investment in the securities of any corporation, such as engagement in service receipt agreements, etc., an evaluation should be performed regarding the consequences of the relevant event on the Company, also with respect to additional relevant accounting items, which pertain to the characteristics of the event in question.

2. <u>Qualitative test</u>

The significance of the event will be evaluated, as stated above, also in terms of qualitative considerations. The qualitative evaluation may lead to the refutation of presumptions arising from the quantitative test, with respect to the significance or insignificance of the event. The qualitative evaluation regarding the significance of the event may include taking into account its consequences and implications on the Company, in light of one or more of the following considerations:

A. It involves significant chances, risks or exposures. The evaluation of this aspect will include taking into account if, and to what extent, the risks associated with the event reflect risk factors to which the Company is exposed, and which were included in its previous reports. Additionally, an evaluation will be performed regarding whether or not the event involves the materialization of a risk factor which was reported to the investor public before the event took place;
B. If the event involves entry into a new and significant operating segment, or departure from a current and significant operating segment;
C. If the disclosure of the event may result, with a reasonable degree of certainty, and based on past experience, and with respect to evaluation and reference models conventionally applied by investors and analysts, in a significant change in the price of the Company's securities;
D. If the event may have a special impact on the Company's financial statements (such as on the reclassification of certain components, on the segmental note, etc.), or on another business component of the Company, which has an important role in all matters pertaining to the analysis of its business operations and profitability;
E. The event has the potential to affect the Company's compliance with significant regulatory requirements, significant financial covenants, which may impose significant difficulties on the Company, or on other significant contractual requirements;
F. The event may significantly affect analysts and/or investors in their analysis of the Company's activities and results.
G. The event is perceived as a significant event by Company management, and is used as the basis for reaching managerial decisions. Events which do not receive special managerial attention, and à fortiori those which are not brought to the attention of Company management, will generally be considered immaterial events from a qualitative perspective.

3. <u>Legal claims (including class actions)</u>

Without derogating from the generality of the foregoing, in an event which involves the filing of a claim, including a class action, against the Company or its investee company, the materiality of the event will be evaluated as follows: (1) Quantitative evaluation - will be conducted based on the Company's estimate regarding the amount of the claim, multiplied by the Company's holding rate in the sued company, in the case of an investee company, regardless of whether it is an associate company or consolidated company. If an estimate of the claims' chances is available during the stage involving the evaluation of significance, these chances will be taken into account, and the prediction regarding the claim assessment will be taken into account. The relevant quantitative indicator for the evaluation of the significance of claims will be the profit ratio. In other words, the weighted claim amount which will be obtained from the performance of the aforementioned calculations will be divided by the average annual comprehensive income or comprehensive loss during the last three years, calculated based on the last 12 quarters for which audited or reviewed financial statements were published. The ratio which will be obtained from the performance of the aforementioned calculation, in light of the ordinary quantitative evaluation policies specified in section A above. (2) Qualitative evaluation - including the evaluation regarding whether or not the filing of the claim or threat of its filing[14] significantly affect the entire set of information which serves as the basis for reaching investment decisions, by the investor public, with respect to the Company's securities. As part of the foregoing, one or more of the relevant considerations will be taken into account, including: the identity of the plaintiff; the group of plaintiffs; the group of defendants; The expected effects in case the claim is approved as a class action, and in case it is accepted by the judicial instance; The existence of similar claims against the Company, which pertain to a similar matter, and the extent of the impact of the additional claim on the entire set of information which is available to the investors; reference to the class action in the Company's financial statements.

Notwithstanding the foregoing, with respect to an event which involves an insurance claim, the quantitative evaluation will be performed in the manner stated below:

An event which involves an insurance claim will be considered significant, in quantitative terms, if the following two conditions cumulatively apply to it:

- The amount claimed, less reinsurance (retention), interest and expenses, exceeds 1% of equity.
- The amount claimed (gross) exceeds 5% of Company's equity.

Additionally, an event involving an insurance claim will be considered significant in quantitative terms if the gross amount claimed exceeds 20% of the Company's equity.

4. <u>With respect to administrative or criminal proceedings</u> - in case of an event which involves a criminal investigation being conducted against the Company, on a material issue, by the proceeding, the Israel Securities Authority, or another regulatory authority, and events which involve criminal or administrative proceedings against the Company regarding a significant matter, excess weight will be given to the qualitative evaluation of the significance of the event, and particularly, an on the subject will be placed on the way in which the event may affect investors and/or analysts in their analysis of the Company's activities and results, and the reference of investors to the manner in which the Company conducts its business affairs.

G. Transaction with an interested party or in which an interested party has a personal interest - related parties policy

As stated above, in December 2019, the Company became a company without a control core. In parallel, additional shareholders acquired and/or increased their holdings in the Company, in a manner whereby some of them received holding permits, and became interested parties in the Company. In general, as of the present date, the law does not include provisions regarding the method for approving transactions with entities which may have a personal interest in the Company who are not officers or controlling shareholders, due to the fact that institutional entities have different characteristics, which not every public company has, and whose existence justifies different treatment, inter alia, in light of the fact that the institutional entities manage members' funds, the Company considered it appropriate, due to the status of a group without a control core, to adopt a policy which defines its internal conduct, with respect to potential conflicts of interest which may arise between different entities, in their roles as shareholders on the one hand, and as business partners / customers on the other. In March 2020, the Audit Committee and Board of Directors approved a related parties policy which defines related parties and formalizes the method of engaging with them, on any matter associated with transactions involving investment, purchasing and insurance. The policy was also approved in March 2020 by the Audit Committee, Investment Committee and Board of Directors of Clal Insurance.

For the purpose of this policy, related parties were defined as follows: Any of the following entities, to the best of the Company's knowledge: Anyone who holds over 5% of any kind of the Company's means of control, and any relative of theirs; Anyone who has proposed by a candidate director, and any relative of theirs; Directors and candidate directors, and any relative of theirs; [15] Any corporation whose director serves

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[14] It is hereby clarified that a threat to file a claim does not require the submission of an immediate report, since it constitutes an immaterial event (in quantitative or qualitative terms), which will not necessarily lead with the filing of a claim, unless the Company believes that there is a special qualitative reason to report the receipt of the warning.

[15] In case of reference to a candidate director, the foregoing will apply from the date of the offer until the end of

as the CEO or Chairman of the Board; Any corporation which controls and/or is controlled by any of the above; Anyone whom the Related Parties Committee (the relevant investment committee and/or the Audit Committee, as applicable) has designated as such, excluding institutional entities, banks and investment houses, provided that they have proposed a director, or that the related parties committee has not decided otherwise in their case.

The policy includes quantitative restrictions on engagements with related parties, including with any controller of theirs, or any entity controlled by them, and also formalized the method of engaging with them, in a manner whereby non-insignificant transactions will be presented for approval to the relevant investment committee and/or to the Audit Committee, as applicable, and insignificant transactions will be presented for approval to the relevant investment committee with respect to investment transactions, and regarding other transactions – the evaluation will be performed the officer who is responsible for the relevant department in the Group.

In accordance with the decision of the Audit Committee and Board of Directors, the policy will be presented for review and update as required.

14. Holdings of interested parties and corporate officers (Regulation 24)

14.1 In the corporation

A. **Stocks and other securities which are held by interested parties in the corporation** -
See the immediate reports dated January 7, 2020 (reference number 2020-01-003300), January 8, 2020 (reference number 2020-01-003393), January 9, 2020 (reference number 2020-01-004044), January 23, 2020 (reference number 2020-01-009327), and February 5, 2020 (reference number 2020-01-013611).

B. **Holding of the Company's warrants by corporate officers** - On this matter, see the immediate reports dated January 7, 2020 (reference number 2020-01-003300), January 23, 2020 (reference number 2020-01-009327) and February 5, 2020 (reference number 2020-01-013611).

C. **Holding of the Company's liability certificates** - None

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tenure, or until the date when the candidacy expires;

14.2 Stocks and other securities which are held by an interested party in the Company whose activity is material to the corporation's activity, as of March 15, 2020

Name of interested party	Company number	Name of security	Number of security on the stock exchange	Amount	% of total outstanding bonds
Phoenix Insurance Company Ltd.					
		Clalbit Finance Ltd. - bonds (Series C)	1120120	1,075,089.99	1.40%
		Clalbit Finance Ltd. - bonds (Series F)	1132950	32,275,673.00	8.85%
		Clalbit Finance Ltd. - bonds (Series H)	1132968	17,630,188.00	3.76%
		Clalbit Finance Ltd. - bonds (Series I)	1136050	19,068,744.00	4.50%
		Clalbit Finance Ltd. - bonds (Series J)	1136068	110,578,163.13	11.52%
		Clalbit Finance Ltd. - bonds (Series K)	1160647	198,987,655.40	12.16%
Epsilon Mutual Funds Management (1991) Ltd. **	511576209				
		Clalbit Finance Ltd. - bonds (Series A)	1097138	39,179.84	0.11%
		Clalbit Finance Ltd. - bonds (Series F)	1132950	635,452	0.17%
		Clalbit Finance Ltd. - bonds (Series H)	1132968	125,464	0.03%
		Clalbit Finance Ltd. - bonds (Series I)	1136050	198,1546	0.47%
		Clalbit Finance Ltd. - bonds (Series J)	1136068	49,487	0.01%
		Clalbit Finance Ltd. - bonds (Series K)	1160647	587,000	0.04%
		Clalbit Finance Ltd. - bonds (Series K)	1160647	587,000	0.04%

* For details regarding the Company's holdings in subsidiaries, see Regulation 11 above.

** Epsilon Mutual Funds Management (1991) Ltd. ("**Epsilon Funds**") is an interested party in the Company by virtue of the aggregate holdings of the Elsztain Group in the Company. Epsilon Funds is a private company wholly owned and controlled by Epsilon Investment House Ltd. Discount Investment Corporation Ltd., a company controlled by Mr. Eduardo Elsztain, the controlling shareholder of IDB Development (an interested party in the Company), holds 68.75% of the issued share capital of Epsilon Investment House Ltd.

14.3 Dormant shares - The Company has no dormant shares.

15. Registered capital, issued capital and convertible securities (Regulation 24A)

A. **Number of shares included in the corporation's registered capital** - 100,000,000 ordinary shares with a par value of NIS 1 each

B. **Number of shares included in the corporation's issued share capital** - 67,644,867 ordinary shares with a par value of NIS 1 each.

C. **Number of shares included in the corporation's issued capital, less dormant shares** - 67,644,867 ordinary shares with a par value of NIS 1 each.

D. **Number of shares which do not confer voting rights** - None.

E. **There are no shares in the corporation's issued share capital which do not confer any rights whatsoever.**

F. **Convertible securities of the corporation -** See the immediate report dated March 17, 2020 (reference number 2020-01-025743).

16. Register of shareholders (Regulation 24B)

A. For details, see the immediate report dated March 17, 2020 (reference number 2020-01-025743).

17. Directors of the corporation as of December 31, 2019 (Regulation 26)

Name: **Danny Naveh, Chairman**	ID number 056480049
Year of birth:	1960
Address for service of process:	55 Hashikma St., Savyon
Citizenship:	Israeli
Membership in Board of Directors committees:	Chairman of the risk management and information technology committee and class actions committee
Outside director:	No
Employee of the corporation, or of a subsidiary, related company, or interested party:	YesF45[16], Chairman of the Board of Clal Insurance
Serves as a director since:	5.6.2013
Education:	Bachelor's degree in Law from The Hebrew University of Jerusalem
Activity in the last five years and corporations in which serves as a director:	Served as a director in Ilex Medical Ltd., Medtechnica Ltd., Consent MD Ltd. and C Squared Community Services Ltd. and Cann Pharmaceuticals Ltd. Serves as a director in the private companies I.I.Y. Mordechai Ltd., Consent MD Ltd., and Agyat N.M. Ltd., and founder of Agatejt Healthcare GP Ltd.
Family member of another interested party in the corporation, to the best of his knowledge, and to the best of the corporation's knowledge:	No
Defined as a director with accounting and financial expertise or professional qualifications:	Has accounting and financial expertise

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[16] For the sake of caution, it is noted that, prior to the appointment of Mr. Naveh as Chairman of the Board, subsidiaries of the Company invested in funds in which Mr. Naveh was a partner and manager. As of the present date, they are no longer partners in the fund. For details, see Note 40(b)4 to the financial statements.

17. Directors of the corporation as of December 31, 2019 (Cont.)

Name: **Varda Alsheich**	ID number 008059925
Year of birth:	1944
Address for service of process:	19 Yaakov Meridor St., Tel Aviv
Citizenship:	Israeli
Membership in Board of Directors committees:	Audit committee, compensation committee and class actions committee
Outside director:	No
Employee of the corporation, or of a subsidiary, related company, or interested party:	No
Serves as a director since:	2015
Education:	Bachelor's degree in Law from the Tel Aviv Branch of The Hebrew University of Jerusalem. Director training courses at IDC Herzliya and training courses in reading financial statements.
Activity in the last five years and corporations in which serves as a director:	Until 2013, served as Vice President of the District Court of Tel Aviv-Yafo, and as the Director of the Liquidation, Receivership, Recovery and Bankruptcy Department. Since 2013: served as consultant and advisor in debt settlements and sale processes, and as an arbitrator and mediator at the Institute for Mediation in Tel Aviv. Member of committees which were established by companies on issues including derivative claims, consulting to law firms, and provision of opinions regarding past field of occupation.
Family member of another interested party in the corporation, to the best of his knowledge, and to the best of the corporation's knowledge:	No
Defined as a director with accounting and financial expertise or professional qualifications:	Has accounting and financial expertise

Name: **Hana Mazal (Mali) Margaliot**	ID number 024138497
Year of birth:	1969
Address for service of process:	36 Tchernichovsky St., Jerusalem
Citizenship:	Israeli
Membership in Board of Directors committees:	Balance sheet committee, risk management and information technology committee and nostro committee of Clal Insurance and of the Company.
Outside director:	No
Employee of the corporation, or of a subsidiary, related company, or interested party:	No
Serves as a director since:	2016
Education:	Actuary (F.IL.A.A), full member of the Israel Association of Actuaries; M.B.A. with a specialization in Finance and Information Systems from The Hebrew University of Jerusalem; B.A. In Economics and Communication from The Hebrew University; Actuarial certificate studies at Magid Institute. Holds a Financial Risk Management (FRM) certificate issued by GARP. Chartered Enterprise Risk Actuary (CERA) certified by CGR.
Activity in the last five years and corporations in which serves as a director:	CEO and director in Galil Mor Financial Products Ltd., CEO of Mofet Financial Products Ltd. Serves as an independent director in Israel Petrochemical Enterprises Ltd. Served as an independent director in Greenergy Renewable Energy Ltd. (formerly Intercolony Investments Ltd.).
Family member of another interested party in the corporation, to the best of his knowledge, and to the best of the corporation's knowledge:	No
Defined as a director with accounting and financial expertise or professional qualifications:	Has accounting and financial expertise

17. Directors of the corporation as of December 31, 2019 (Cont.)

Name: **Avraham Knobel**	ID number 012594156
Year of birth:	1949
Address for service of process:	6 Wallach St., Kiryat Ono.
Citizenship:	Israeli
Membership in Board of Directors committees:	The Company's risk management committee, information technology committee, class actions committee and nostro investment committee.
Outside director:	No
Employee of the corporation, or of a subsidiary, related company, or interested party:	No
Serves as a director since:	2016
Education:	Bachelor's degree in Economics and Sociology from Tel Aviv University, Master's degree in Economics from Tel Aviv University, Doctorate in Economics from Tel Aviv University.
Activity in the last five years and corporations in which serves as a director:	Serves as an economic and financial consultant, served as a director in Idud Ltd. and in Binyanei HaUma Conference Center Ltd. Served as Chairman of the Board and investment committee member of the Managing Company of the Biochemical & Microbiological Association Study Fund Ltd.
Family member of another interested party in the corporation, to the best of his knowledge, and to the best of the corporation's knowledge:	No
Defined as a director with accounting and financial expertise or professional qualifications:	Has accounting and financial expertise

17. Directors of the corporation as of December 31, 2019 (Cont.)

Name: **Yosef Yagil**	ID number 042419911
Year of birth:	1947
Address for service of process:	14 Greenberg St., Haifa
Citizenship:	Israeli, Canadian
Membership in Board of Directors committees:	Audit committee chairman, balance sheet committee chairman, risk management and information technology committee, compensation committee chairman
Outside director:	Yes
Employee of the corporation, or of a subsidiary, related company, or interested party:	No
Serves as a director since:	2012
Education:	B.A. In Economics and M.B.A. with a specialization in Finance from The Hebrew University of Jerusalem; Ph.D. In Finance from Toronto University; Professor of Finance at University of Haifa.
Activity in the last five years and corporations in which serves as a director:	Served as Dean of the Faculty of Management, Chair of the Finance Department and Chairman of the English MBA Program at University of Haifa. Served as President of Carmel Academic Center and as Vice President of Western Galilee Academic College.
Family member of another interested party in the corporation, to the best of his knowledge, and to the best of the corporation's knowledge:	No
Defined as a director with accounting and financial expertise or professional qualifications:	Has accounting and financial expertise.

Name: **Sami Moualem**	ID number 047443072
Year of birth:	1947
Address for service of process:	10 Boaz St., Ramat HaSharon.
Citizenship:	Israeli
Membership in Board of Directors committees:	Audit committee, compensation committee, balance sheet committee and nostro investment committee
Outside director:	Yes
Employee of the corporation, or of a subsidiary, related company, or interested party:	No
Serves as a director since:	2016
Education:	Certified Public Accountant, Member of the Institute of Certified Public Accountants in Israel
Activity in the last five years and corporations in which serves as a director:	Independent economic consultant.
Family member of another interested party in the corporation, to the best of his knowledge, and to the best of the corporation's knowledge:	No
Defined as a director with accounting and financial expertise or professional qualifications:	Has accounting and financial expertise

18. Corporate officers of the corporation[36] as of December 31, 2019[17] (Regulation 26A)

Name: **Yoram Naveh**	ID number 028865301
Year of birth:	1971
Position in the corporation:	CEO
Position in a subsidiary, related company or interested party of the corporation:	CEO of Clal Insurance, Clal Finance and director in the subsidiaries[18].
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	Bachelor's degree in Law and Economics from University of Haifa, Master's degree in Law and Economics from Erasmus University of Rotterdam
Business experience in the last five years:	Executive VP and Head of Resources Division in Clal Insurance, CEO and director in Clal Finance
First year of tenure:	2014

Name: **Moshe Arnst**	ID number 24416604
Year of birth:	1969
Position in the corporation:	None
Position in a subsidiary, related company or interested party of the corporation:	Executive VP, Long Term Savings Division Manager in Clal Insurance and CEO of Clal Pension and Provident Funds, serves as a director of Atudot.
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	LL.B. from Bar Ilan University, M.B.A. with a specialization in Finance from Bar Ilan University.
Business experience in the last five years:	Served as Headquarters Division Manager in Clal Insurance. Served as a director in Clal Pension and Provident Funds, and as a director in Atudot and in subsidiaries of Clal Holdings Group.
First year of tenure:	2006

Name: **Eran Shahaf**	ID number 027985894
Year of birth:	1971
Position in the corporation:	Internal auditor
Position in a subsidiary, related company or interested party of the corporation:	Executive VP, Internal Auditor in Clal Insurance and in additional institutional entities of Clal Holdings Group
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	Attorney, LL.B., B.A. In Logistics and Economics and M.B.A. from Bar Ilan University, LL.M. from Tel Aviv University.
Business experience in the last five years:	Internal auditor of the Company and of member companies in Clal Holdings Group; Board member of the Institute of Internal Auditors in Israel (IIA Israel) and Chairman of the Internal Auditors Committee of the institutional entities in the Institute; Deputy Internal Auditor of the Company and of member companies in Clal Holdings Group;
First year of tenure:	2014

[36] Corporate officers in the Company, and, in accordance with the Company's decision regarding the classification of the Company's corporate officers, members of management of Clal Insurance, a subsidiary of the Company.

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[17] The officer's first year of tenure means the year when they began serving as an officer in the Company, and not necessarily in their current position.

[18] Began his tenure as CEO on July 1, 2018.

18. Corporate officers of the corporation as of December 31, 2019 (Regulation 26A) (Cont.)

Name: **Hadar Brin Weiss**	ID number 27788421
Year of birth:	1970
Position in the corporation:	General Counsel of the Company
Position in a subsidiary, related company or interested party of the corporation:	Executive VP, General Counsel and Head of the Legal Consulting and Regulation Division in Clal Insurance and in other member companies of Clal Holdings Group.
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	LL.B. and LL.M. from Tel Aviv University
Business experience in the last five years:	General Counsel and Head of the Legal Consulting and Regulation Division in Clal Group.
First year of tenure:	2013

Name: **Hila Conforti** [19]	ID number 058368408
Year of birth:	1963
Position in the corporation:	None
Position in a subsidiary, related company or interested party of the corporation:	Executive VP, Head of the Risk, Control and Enforcement Division of Clal Insurance and of institutional entities in Clal Holdings Group
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	Bachelor's degree in Economics and International Relations from The Hebrew University of Jerusalem, M.A. In Economics from Bar Ilan University
Business experience in the last five years:	Head of the Risk, Control and Enforcement Division of Clal Insurance and of institutional entities in Clal Holdings Group
First year of tenure:	2007

Name: **Tal Cohen**	ID number 027427681
Year of birth:	1974
Position in the corporation:	Comptrollership Division Manager
Position in a subsidiary, related company or interested party of the corporation:	Senior VP, Manager of the Comptrollership Division in the Company and Clal Insurance, CFO and director in Clalbit Finance Ltd., and director in member companies of Clal Holdings Group, including as Acting Chairman of the Board of Clal Pension and Provident Funds and of Clal Credit Insurance.
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	C.P.A., Bachelor's degree in Accounting from Tel Aviv University, Bachelor's degree in Economics and M.B.A from The Hebrew University
Business experience in the last five years:	Comptroller and Manager of the Comptrollership Division in the Company and in Clal Insurance; Comptroller in the Company, in Clal Insurance and in Clalbit Finance. Board member in companies of Clal Holdings Group.
First year of tenure:	2013

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[19] In February 2020, Ms. Hila Conforti announced the conclusion of her tenure as the Group's Chief Risk Officer. An employment conclusion date has not yet been determined.

18. Corporate officers of the corporation as of December 31, 2019 (Regulation 26A) (Cont.)

Name: **Elite Caspi**	ID number 59169730
Year of birth:	1964
Position in the corporation:	None
Position in a subsidiary, related company or interested party of the corporation:	Executive VP, Head of the Non-Life Insurance Division in Clal Insurance; Serves as Chairman of the Board of Betach-Thorne and as a director in Clal Holdings Group and in subsidiaries of Clal Holdings Group.
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	Bachelor's degree in Industrial Engineering and Management from Ben Gurion University; M.S.M. In Business Administration from Boston University in England.
Business experience in the last five years:	Head of the Non-Life Insurance Division in Clal Insurance
First year of tenure:	2013

Name: **Galli Schved**	ID number 22387260
Year of birth:	1967
Position in the corporation:	None
Position in a subsidiary, related company or interested party of the corporation:	Executive VP, Head of the Marketing, Strategy and Spokesmanship Division in Clal Insurance
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	Bachelor's degree in Food Sciences from The Hebrew University of Jerusalem, M.B.A. from UK Heriot Watt University
Business experience in the last five years:	Head of the Marketing, Strategy and Spokesmanship Division in Clal Insurance, VP Marketing and Strategy in Clal Insurance
First year of tenure:	2013

18. Corporate officers of the corporation as of December 31, 2019 (Regulation 26A) (Cont.)

Name: **Dror Sessler**	ID number 054307145
Year of birth:	1956
Position in the corporation:	None
Position in a subsidiary, related company or interested party of the corporation:	Executive VP, Claims Unit Manager in Clal Insurance, director in Clal Pension and Provident Funds
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	Bachelor's degree in Political Science from University of Haifa, Master's degree in Public Policy from University of Haifa
Business experience in the last five years:	Claims Unit Manager in Clal Insurance, Deputy Claims Unit Manager in Clal Insurance.
First year of tenure:	2015

Name: **Yaron Shamay**	ID number 033638693
Year of birth:	1977
Position in the corporation:	None
Position in a subsidiary, related company or interested party of the corporation:	Executive VP, Customers and Distribution Division Manager, director in Clal Pension and Provident Funds, and Chairman of the Board of Tmura.
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	Bachelor's in Business Administration with a major in Information Systems from Ruppin Academic Center, Master's in Business Administration with a major in Marketing, from Ruppin Academic Center
Business experience in the last five years:	Life Insurance Division Manager, Joint Head of the Long Term Savings Division in Clal Insurance, National Operations Manager in Clal Insurance, CEO of Tmura Insurance Agency (1987) Ltd. Served as a director in Atudot Pension Fund for Workers & Independent Workers.
First year of tenure:	2015

18. Corporate officers of the corporation as of December 31, 2019 (Regulation 26A) (Cont.)

Name: **Shlomi Tamman**	ID number 54141767
Year of birth:	1957
Position in the corporation:	None
Position in a subsidiary, related company or interested party of the corporation:	Executive VP, Business Unit Manager
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	Multidisciplinary Bachelor's from University of Haifa, Master's in Law from Bar Ilan University.
Business experience in the last five years:	Central Region Manager and Business Unit Deputy Manager in Clal Insurance in Clal Insurance, Central Region Manager in Clal Insurance and Tel Aviv Region Manager in Clal Insurance.
First year of tenure:	2015

Name: **Eran Cherninsky**	ID number 57693236
Year of birth:	1962
Position in the corporation:	Executive VP, Financial Division Manager
Position in a subsidiary, related company or interested party of the corporation:	Financial Division Manager in Clal Insurance; director in Clalbit Finance and in other subsidiaries of the Group.
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	B.A. In Economics and accounting from Tel Aviv University, Certified Public Accountant, Member of the Professional Committee of the Institute of Certified Public Accountants in Israel.
Business experience in the last five years:	CEO and CFO of Migdal Insurance and Financial Holdings Ltd. and of Migdal Insurance Agency Holdings and Management Ltd. Head of the Finance and Actuarial Division of Migdal Insurance Company Ltd.
First year of tenure:	2018

Name: **Nis Agmon**	ID number 058846767
Year of birth:	1964
Position in the corporation:	Executive VP, Resources Division Manager
Position in a subsidiary, related company or interested party of the corporation:	Resources Division Manager in Clal Insurance
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	B.A. In Business Administration from Derby University.
Business experience in the last five years:	Senior VP of Service and member of Phoenix's management board
First year of tenure:	2018

18. Corporate officers of the corporation as of December 31, 2019 (Regulation 26A) (Cont.)

Name: **Liat Strauss**	ID number 035881549
Year of birth:	1978
Position in the corporation:	None
Position in a subsidiary, related company or interested party of the corporation:	Executive VP, Manager of the Service, Operations and Collection Unit
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	Multidisciplinary Bachelor's degree, Tel Aviv University, Bachelor's degree in Humanities, University of Haifa.
Business experience in the last five years:	Senior VP, Service Department Manager in Clal Insurance.
First year of tenure:	2018

Name: **Yosef Gil Dori**	ID number 028047959
Year of birth:	1971
Position in the corporation:	Executive VP, Investments Division Manager
Position in a subsidiary, related company or interested party of the corporation:	CEO of Canaf, Investments Division Manager of Clal Insurance, director in subsidiaries of the Group
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	B.A. In Business Administration and MBA with a specialization in Finance, with honors, from The College of Management Academic Studies.
Business experience in the last five years:	CEO of Canaf, Nostro Division Manager in the Investments Division of Clal Insurance
First year of tenure:	2018

Name: **David Arnon**	ID number 027850791
Year of birth:	1970
Position in the corporation:	None
Position in a subsidiary, related company or interested party of the corporation:	Executive VP, Heath Division Manager of Clal Insurance, director in Clal Pension and Provident Funds
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	BA in Business Administration from the University of Maryland. MBA from Cornell University.
Business experience in the last five years:	CEO of Standard Insurance of Harel Group
First year of tenure:	2018

18. Corporate officers of the corporation as of December 31, 2019 (Regulation 26A) (Cont.)

Name: **Adi Kaplan**	ID number 025266727
Year of birth:	1973
Position in the corporation:	None
Position in a subsidiary, related company or interested party of the corporation:	Executive VP of Clal Insurance, CEO of Clalbit Systems Ltd., and Information Systems Supervisor in the institutional entities of Clal Group
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	MBA from The Open University and BA in Computer Science from The College of Management Academic Studies.
Business experience in the last five years:	Development Division Manager in Bank Hapoalim
First year of tenure:	2018

19. Authorized signatories of the corporation (Regulation 26B)

The Company has no independent authorized signatories.

20. Accountants of the Company (Regulation 27)

Kost Forer Gabbay and Kasierer: 144 Menachem Begin Rd., Tel Aviv.
Somekh Chaikin:17 Ha'arbaa St., Tel Aviv.

21. Changes to bylaws or articles of association (Regulation 28)

No changes were made during the reporting year to the Company's bylaws or articles of association.

22. Resolutions and recommendations of the Board of Directors (Regulation 29)

(A) Recommendations of the Board of Directors to the general meeting and resolutions of the Board of Directors which do not require approval from the general meeting regarding:

1. **Dividend payment or performance of a distribution by other means, or distribution of bonus shares:**

   No dividends were distributed during the reporting year.

2. **Changes to the Company's registered or issued capital**: None.
3. **Changes to the corporation's bylaws or articles of association**: None.
4. **Redemption of shares**: None.
5. **Early redemption of bonds**: None.
6. **Transactions in non-market conditions between the corporation and an interested party**: None.

(B) Resolutions of the general meeting which were passed without the recommendations of the managers: None.

(C) Resolutions of special general meetings:

In a special annual general meeting of the Company which was convened on October 27, 2019, a resolution was passed to re-appoint Mr. Sami Moualem as an outside director in the Company, for a (second) 3-year term, in accordance with the recommendation of the Company's Board of Directors, and to approve an update to the Company's compensation policy for corporate officers, in accordance with section 267 of the Companies Law.

23. Resolutions of the Company(Regulation 29A)

(A) Approval of actions in accordance with section 255 of the Companies Law, 1999 (hereinafter: the "Companies Law"): None.

(B) Actions in accordance with section 254(a) of the Companies Law, which were not approved: None.

(C) Transactions which require special approvals in accordance with section 270(1) of the Companies Law, provided that they constitute extraordinary transactions: None.

(D) Exemption, insurance or indemnity undertaking towards corporate officers which are in effect as of the reporting date:

1. Presented below is a description of the arrangements which apply with respect to insurance for directors and corporate officers in the Company:

For a description of the arrangement which applies with respect to liability insurance for the Company's directors and corporate officers during the years preceding the reporting year, see Note 40(b)6(a) to the financial statements, and section 13c(1) above. [20]

The Company's compensation policy, which includes a clause regarding exemption, indemnification and insurance for corporate officers (hereinafter: the "**Arrangements**"). In the compensation policy, it was determined that the Company will be entitled to acquire, for the corporate officers in the Group, corporate officers' liability insurance, in insurance amounts which will not exceed USD 400 million, and in consideration of an annual premium which will not exceed USD 1 million, and that the Company will be entitled to acquire runoff insurance for corporate officers, in case of the transfer of the control of the Company and/or of a subsidiary.

In accordance with the aforementioned resolution, the Company engaged in an insurance policy which was issued by an insurer which is a non-related party, for the period from December 1, 2018 to November 30, 2019 (the "**Policy for 2019**"), and later engaged in an insurance policy which was issued by an insurer which is a non-related party, for the period from December 1, 2019 to November 30, 2020 (the "**Policy for 2020**"), in which the Company acquired insurance coverage for the Company and its investee companies, including Clal Finance Ltd. and its investee companies. The overall liability limit of each of the insurance policies for 2019 is up to USD 200 million with respect to a single claim or cumulatively, and for 2020: up to USD 150 million with respect to a single claim or cumulatively.
In accordance with the aforementioned compensation policy, the total annual premium which was paid for corporate officers' liability insurance does not exceed USD 1 million.

2. Presented below is a description of the arrangements which apply to the indemnification of directors and senior officers in the Company:

2.1 On October 10, 2002, the general meeting of the Company's shareholders approved, after receiving approval for this purpose from the Company's Audit Committee and Board of Directors, its undertaking to indemnify directors and corporate officers in the Company, as specified below:

2.1.1 The Company undertook, insofar as is permitted by law, to indemnify its corporate officers and/or those of companies under the Company's control, as specified in section 2.9 below, with respect to any debt or expense, as specified below, which may be imposed on them due to actions which they performed (including actions before the date of the letter of indemnity) and/or which may be performed by virtue of their status as corporate officers in the Company, which are related, directly or indirectly, to one or more of the types of events specified in the letter of indemnity, or any part thereof, or any matter related thereto, directly or indirectly, provided that the maximum indemnification amount does not exceed the amount specified in section 2.1.3. below.

2.1.2 The undertaking to indemnify specified in section 2.1.1 above will apply with respect to any debt or expense which is indemnifiable by law, as follows:

For additional details regarding the Company's directors and corporate officers insurance policy, which was in effect until July 31, 2016, see Note 40(b)(6)(a) to the financial statements.

A. Any monetary debt which may be imposed on them towards another person, in accordance with a court ruling, including a court ruling issued in a settlement or a court-approved arbitration award;

B. Reasonable litigation expenses, including legal fees, which they may spend or be ordered to pay by the court, in proceedings which were filed against them by the Company or in its name or by another person, or with respect to a criminal indictment of which they are acquitted, or with respect to a criminal indictment of which they are convicted, in case of a crime which does not require proof of criminal intent;

2.1.3 The indemnification amount which the Company will pay (in addition to the amounts which will be received from the insurance company, if any, within the framework of insurance which the Company acquired and/or amounts which will be received, if any, as part of the indemnification of any party other than the Company) to all of the Company's corporate officers, cumulatively, in accordance with all of the letters of indemnity which will be issued for them by the Company in accordance with the indemnification resolution, with respect to one or more of the types of events specified in the letter of indemnity, will not exceed 25% (twenty five percent) of the Company's equity in accordance with its last financial statements which were published proximate to the actual date of indemnification (hereinafter: the **Maximum Indemnification Amount**").

23. Resolutions of the Company (Regulation 29A) (Cont.)

2. Presented below is a description of the arrangements which apply to the indemnification of directors and senior officers in the Company: (Cont.)

2.1 On October 10, 2002, the general meeting of the Company's shareholders approved, after receiving approval for this purpose from the Company's Audit Committee and Board of Directors, its undertaking to indemnify directors and corporate officers in the Company, as specified below:

2.1.4 if and insofar as the total indemnification amounts which the Company will be required to pay will exceed the maximum indemnification amount or the balance of the maximum indemnification amount (as calculated at the time), as stated above, the maximum indemnification amount, or the balance thereof, as applicable, will be divided between the corporate officers who will be entitled to indemnification, in a manner whereby the indemnification amount which each of the corporate officers will receive will be calculated according to the ratio between the indemnification amount owed to each of the aforementioned corporate officers, cumulatively, with respect to that event.

2.1.5 Upon the occurrence of an event for which the corporate officers may be entitled to receive indemnification in accordance with the foregoing, the Company will provide to him, from time to time, the funds which are required to cover the various expenses and other payments which are associated with the handling of those legal proceedings, including investigation proceedings, in a manner whereby they will not be required to pay or finance them independently, subject to the terms and provisions set forth in the letters of indemnity.

2.1.6 The undertaking to indemnify is subject to the terms which were specified in the letter of indemnity, with respect to the handling of legal proceedings, collaboration on the part of the indemnification recipient, reimbursement of excess amounts which were paid, etc.

2.1.7 The Company's undertakings will be available to the corporate officer also after the end of his tenure as a corporate officer in the Company, provided that the actions for which the exemption from liability or undertaking to indemnify were given were performed and/or will be performed in his period of tenure as a corporate officer in the Company.

2.1.8 The Company's undertakings in accordance with the letter of indemnity will be interpreted extensively and in a manner which is aimed towards the fulfillment, insofar as is permitted by law, of their intended purpose. In case of any discrepancy between any provisions of the letter of indemnity and the provisions of the law which cannot be made conditional, amended or added upon, the aforementioned provision of the law will take precedence, but without derogating from the validity of the other provisions of the letter of indemnity.

2.2 On April 16, 2008, the Company's Board of Directors approved, after approval was received for this purpose from the Company's Audit Committee, to amend, inter alia, the list of companies whose corporate officers (who do not serve as directors in the Company and who are not the Company's controlling shareholders or their relatives) are entitled to indemnification, and to clarify that the undertaking to indemnify will also apply with respect to the actions of the aforementioned corporate officers, within the framework of their status as corporate officers in subsidiaries and/or related companies of the aforementioned companies, and to update the types of events for which the letter of indemnity will be given (hereinafter: the "**Additional Letter of Indemnity**").

2.3 The additional letter of indemnity which was given will not prejudice or derogate from the Company's undertakings in accordance with previous letters of indemnity which were given, if any, before the date of the additional letter of indemnity, insofar as such undertakings are legally valid, and provided that the Company will not be obligated to indemnify the corporate officers with respect to that event, both in accordance with a previous letter of indemnity and in accordance with the additional letter of indemnity.

2.4 On May 3, 2012, the general meeting of the Company's shareholders approved the provision of new and amended letters of indemnity to the corporate officers of the Company and/or of additional member companies in the Group (hereinafter: the "New Letter of Indemnity"), in light of Amendment 16 to the Companies Law, and in accordance with the provisions of the Efficiency of Enforcement Procedures Law (Legislative Amendments), 2011, and the Law to Increase Enforcement in the Capital Market (Legislative Amendments), 2011 - on this matter, see the immediate report dated March 22, 2012 (reference number 2012-01-077232).

23. Resolutions of the Company (Regulation 29A) (Cont.)

2. Presented below is a description of the arrangements which apply to the indemnification of directors and senior officers in the Company: (Cont.)

2.5 On July 28, 2013, the general meeting of the Company's shareholders approved the implementation of a correction to omissions in the definitions of "administrative procedure" and "payment to injured party due to breach" in the letters of indemnity, which were approved in the Company's general meeting on May 3, 2012. For additional details, see the immediate report regarding the convention of a general meeting of the Company dated July 22, 2013 (reference number 2013-01-098091).

2.6 The provisions of the new letter of indemnity take precedence over any previous agreement or understanding (prior to the signing of the new letter of indemnity), whether verbal or in writing, between the Company and a corporate officer on the subjects specified in the new letter of indemnity, including with regard to events which took place prior to the signing of the new letter of indemnity. The above is subject to the condition that a previous letter of indemnity which has been provided to a corporate officer, if any, will continue to apply and will remain valid with respect to any events which occurred prior to the signing of the new letter of indemnity (including in the event that legal proceedings with respect to the above have been filed against a corporate officer after the signing of the new letter of indemnity), in the event that the terms of the new letter of indemnity worsen the reimbursement terms for the corporate officer with respect to the above event, subject to all laws.

2.7 The Company provides, from time to time, letters of indemnity to directors and/or corporate officers in the Company and/or in subsidiaries, as stated above, in accordance with the aforementioned resolutions.

2.8 In some of the Group's subsidiaries, letters of indemnity were provided to their corporate officers in a manner whereby the indemnification amount therein does not exceed 25% of the equity of those companies, or NIS 1 million.

2.9 On December 18, 2016, the general meeting of the Company's shareholders approved the compensation policy, which includes a clause regarding exemption, indemnification and insurance for corporate officers. Within the framework of the compensation policy, it was determined that the Company will be entitled to grant letters of indemnity, according to a wording which will be decided by the Company, and which has been approved and/or will be approved by the general meeting of the Company's shareholders. Insofar as the Company wishes to make changes to the letters of indemnity, for any reason whatsoever, the Company will present the amended letters of indemnity to the competent organs for approval, in accordance with the provisions of the law. This provision was also included in the Company's current compensation policy for the years 2020 - 2022, dated October 27, 2019.

1. Presented below is a description of the arrangements which apply with respect to the exemption for directors and senior officers in the Company:

1.1 On October 9, 2016, the Company's Compensation Committee and Board of Directors approved the provision of an exemption from liability to the Company's corporate officers due to a breach of duty of care towards it, subject to the receipt of the authorizations which are required by law in order to grant the exemption. The aforementioned exemption will not apply to any decision or transaction in which the controlling shareholder, or any corporate officer in the Company (including a different corporate officer than the one to whom the letter of exemption was given), have a personal interest.

1.2 On December 18, 2016, the general meeting of the Company's shareholders approved the compensation policy, in which it was determined that the Company will be entitled to grant such an exemption.

1.3 In accordance with the aforementioned resolutions, the Company granted letters of exemption to directors and corporate officers in the Company.

Clal Insurance Enterprises Holdings Ltd.

Danny Naveh **Chairman of the Board of Directors**	**Yoram Naveh** **Chief Executive Officer**

Date: March 26, 2020

Annual report regarding the effectiveness of internal control over financial reporting and disclosure in accordance with Regulation 9b(a)

Management, under the supervision of the Board of Directors of Clal Insurance Enterprises Holdings Ltd. (hereinafter: the "**Corporation**") is responsible for the establishment and implementation of adequate internal control over financial reporting and disclosure in the corporation.

For this purpose, the members of management include:

1. Yoram Naveh, CEO of the Company and of Clal Insurance, and CEO of Clal Finance Ltd.;
2. Eran Cherninsky, Executive VP of Clal Insurance, Financial Division Manager;
3. Yossi Dori, Executive VP of Clal Insurance, Investments Division Manager and CEO of Canaf;
4. Hadar Brin Weiss, Executive VP of Clal Insurance, Legal Counsel;
5. Eran Shahaf, Executive VP of Clal Insurance, Internal Auditor;
6. Moshe Ernst, Executive VP of Clal Insurance, Long Term Savings Division Manager;
7. Elite Caspi, Executive VP of Clal Insurance, Non-Life Insurance Division Manager;
8. David Arnon, Executive VP of Clal Insurance, Health Insurance Division Manager;
9. Yaron Shamay, Executive VP of Clal Insurance, Customers and Distribution Division Manager;
10. Nis Agmon, Executive VP of Clal Insurance, Resources Division Manager;
11. Liat Strauss, Senior VP of Clal Insurance, Service and Operations Unit Manager;
12. Dror Sessler, Executive VP of Clal Insurance, Claims Unit Manager;
13. Shlomi Taman, Executive VP of Clal Insurance, Business Unit Manager;
14. Hila Conforti, Executive VP of Clal Insurance, Chief Risk Officer;
15. Adi Kaplan, Executive VP of Clal Insurance, CEO of Clalbit Systems Ltd.;
16. Galli Schved, Senior VP of Clal Insurance, Marketing, Strategy and Spokesmanship Division Manager;

Internal control over financial reporting and disclosure includes controls and policies which are currently established in the corporation, which were planned by the CEO and the most senior corporate officer in the finance department, or under their supervision, or by the individuals who effectively perform the aforementioned positions, under the supervision of the corporation's Board of Directors, which were intended to provide a reasonable measure of assurance regarding the reliability of financial reporting and the preparation of the reports in accordance with the provisions of the law, and to ensure that the information which the corporation is required to disclose in the reports which it publishes in accordance with the provisions of the law was collected, processed, summarized and reported in accordance with the deadline and framework prescribed in law.

Internal control includes, inter alia, controls and policies which are intended to ensure that the information which the corporation is required to disclose, as stated above, is accumulated and transferred to the management of the corporation, including to the CEO and to the most senior corporate officer in the finance department, or to the person who effectively performs the aforementioned positions, in order to allow the reaching of decisions on the appropriate date, with respect to the disclosure requirement.

Due to its inherent restrictions, internal control over financial reporting and disclosure is not intended to provide absolute assurance that the presentation is incorrect, or that the omission of information in the reports will be prevented or discovered.

Management, under the supervision of the Board of Directors, conducted the test and evaluated the internal control over financial reporting and disclosure, and the effectiveness thereof;

The evaluation of the effectiveness of internal control over financial reporting and disclosure which was conducted by management, under the supervision of the Board of Directors, included: entity level controls, controls over the process of preparation and closure of the financial statements, general controls over information systems (ITGC) and controls over processes which are very material to the financial reporting and disclosure (these processes are carried out within the framework of Clal Insurance Company Ltd., a subsidiary of the corporation, which is an institutional entity, and which is subject to the following regarding institutional entities, as well as within the framework of Clalbit Finance Ltd., a subsidiary of the corporation).

Clal Insurance Ltd., a subsidiary of the corporation, is an institutional entity, which is subject to the directives of the Commissioner of the Capital Markets, Insurance and Savings Division in the Ministry of Finance, with respect to the evaluation regarding the effectiveness of internal control over financial reporting.

With respect to the aforementioned subsidiary, management performed, under the supervision of the Board of Directors, an evaluation and assessment of internal control over financial reporting and the effectiveness thereof, based on institutional entities circular 2009-9-10, regarding “responsibility of management for internal control over financial reporting”, institutional entities circular 2010-9-6, regarding “responsibility of management for internal control over financial reporting - amendment”, and institutional entities circular 2010-9-7, regarding “internal control over financial reporting - certifications, reports and disclosures”.

Based on this evaluation, the Company’s Board of Directors and management have concluded that the internal control over financial reporting, with respect to the internal control in an institutional entity, as at December 31, 2019, is effective.

Based on the evaluation of effectiveness which was conducted by management, under the supervision of the Board of Directors, as specified above, the Company’s Board of Directors and management have concluded that the internal control over financial reporting and disclosure in the corporation, as of December 31, 2019, is effective.

Executive Certification
Certification of the CEO

I, Yoram Naveh, hereby certify the following:

1. I have evaluated the periodic report of Clal Insurance Enterprises Holdings Ltd. (hereinafter: the “**Corporation**”) for 2019 (hereinafter: the “**Reports**”).

2. To the best of my knowledge, the reports do not include any incorrect representation of any material fact, and do not lack any representation of any material fact which is required in order for the representations which are included therein to not be misleading with respect to the period of the reports.

3. To the best of my knowledge, the financial statements and the other financial information included in the reports adequately reflect, in all material respects, the corporation’s financial position, results of operations and cash flows as of the dates and for the periods to which the reports refer.

4. I have disclosed to the corporation’s auditor, to the Board of Directors and to the balance sheet committee of the Company’s Board of Directors, based on my most current assessment regarding internal control over financial reporting and disclosure:

   A. All material deficiencies and material weaknesses in the establishment or implementation of internal control over financial reporting and disclosure, which may reasonably have an adverse effect on the corporation’s ability to collect, process, summarize or report financial information in a manner which could cast doubt on the reliability of the preparation of financial reporting and the preparation of the financial reports in accordance with the provisions of the law; And:

   B. Any fraud, whether material or immaterial, in which the CEO or any of his direct subordinates are involved, or in which are involved employees who have significant positions in the Company’s financial reporting control over financial reporting.

5. I, alone or together with others in the corporation:

   A. I have established controls and policies, or have verified the establishment and implementation, under my supervision, of controls and policies which are intended to ensure that material information pertaining to the corporation, including its consolidated companies, as defined in the Securities Regulations (Annual Financial Statements), 2010, is brought to my attention by others in the corporation and in the consolidated companies, particularly during the preparation period of the reports; And:

   B. I have established controls and policies, or have verified the establishment and implementation of controls and policies, under my supervision, which are intended to reasonably ensure the reliability of financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including in accordance with generally accepted accounting principles.

   C. I have evaluated the effectiveness of internal control over financial reporting and of the disclosure, and I have presented in this report the conclusions of the Board of Directors and management regarding the effectiveness of the said internal control, as of the reporting date.

The foregoing does not derogate from my liability, or from the liability of any other person, in accordance with any applicable law.

March 26, 2020

Yoram Naveh
Chief Executive Officer

Executive Certification
Certification of the Most Senior Position Holder in the Finance Department

I, Eran Cherninsky, hereby certify the following:

1. I have evaluated the financial statements and other financial information which is included in the reports of Clal Insurance Enterprises Holdings Ltd. (hereinafter: the "**Corporation**") for 2019 (hereinafter: the "**Reports**").

2. To the best of my knowledge, the financial statements and the other financial information which is included in the reports do not include any incorrect representation of any material fact, and do not lack any representation of any material fact which is required in order for the representations which are included therein to not be misleading with respect to the period of the reports.

3. To the best of my knowledge, the financial statements and the other financial information which is included in the reports adequately reflect, in all material respects, the Company's financial position, results of operations and cash flows as of the dates and for the periods to which the reports refer;

4. I have disclosed to the corporation's auditor, to the Board of Directors and to the balance sheet committee of the Company's Board of Directors, based on my most current assessment regarding internal control over financial reporting and disclosure:

   A. All material deficiencies and material weaknesses in the establishment or implementation of internal control over financial reporting and disclosure insofar as it pertains to the financial statements and to the other financial information which is included in the reports, which may reasonably have an adverse affect on the corporation's ability to collect, process, summarize or report financial information in a manner which could cast doubt on the reliability of the preparation of the financial reports and the preparation of the financial reports in accordance with the provisions of the law; And:

   B. Any fraud, whether material or immaterial, in which the CEO or any of his direct subordinates are involved, or in which are involved employees who have significant positions in the Company's financial reporting control over financial reporting.

5. I, alone or together with others in the corporation:

   A. I have established controls and policies, or have verified the establishment and implementation, under my supervision, of controls and policies which are intended to ensure that material information pertaining to the corporation, including its consolidated companies, as defined in the Securities Regulations (Annual Financial Statements), 2010, insofar as it is relevant to the financial statements and to the other financial information which is included in the reports, is brought to my attention by others in the corporation and in the consolidated companies, particularly during the preparation period of the reports; And:

   B. I have established controls and policies, or have verified the establishment and implementation, under our supervision, of controls and policies which are intended to reasonably ensure the reliability of financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including in accordance with generally accepted accounting principles.

   C. I have evaluated the effectiveness of internal control over financial reporting and disclosure, insofar as it relates to the financial statements and to the other financial information which is included in the reports, as of the reporting date. My conclusions with respect to my aforementioned evaluation have been presented to the Board of Directors and management, and are included in this report.

The foregoing does not derogate from my liability, or from the liability of any other person, in accordance with any applicable law.

March 26, 2020

Eran Cherninsky Executive VP of Clal
Insurance Financial Division Manager

Executive Certification
Certification of the Comptrollership Division Manager

I, Tal Cohen, hereby certify the following:

1. I have evaluated the financial statements and other financial information which is included in the reports of Clal Insurance Enterprises Holdings Ltd. (hereinafter: the "**Corporation**") for 2019 (hereinafter: the "**Reports**").

2. To the best of my knowledge, the financial statements and the other financial information which is included in the reports do not include any incorrect representation of any material fact, and do not lack any representation of any material fact which is required in order for the representations which are included therein to not be misleading with respect to the period of the reports.

3. To the best of my knowledge, the financial statements and the other financial information which is included in the reports adequately reflect, in all material respects, the Company's financial position, results of operations and cash flows as of the dates and for the periods to which the reports refer;

4. I have disclosed to the corporation's auditor, to the Board of Directors and to the balance sheet committee of the Company's Board of Directors, based on my most current assessment regarding internal control over financial reporting and disclosure:

   A. All material deficiencies and material weaknesses in the establishment or implementation of internal control over financial reporting and disclosure insofar as it pertains to the financial statements and to the other financial information which is included in the reports, which may reasonably have an adverse affect on the corporation's ability to collect, process, summarize or report financial information in a manner which could cast doubt on the reliability of the preparation of the financial reports and the preparation of the financial reports in accordance with the provisions of the law; And:

   B. Any fraud, whether material or immaterial, in which the CEO or any of his direct subordinates are involved, or in which are involved employees who have significant positions in the Company's financial reporting control over financial reporting.

5. I, alone or together with others in the corporation:

   A. I have established controls and policies, or have verified the establishment and implementation, under my supervision, of controls and policies which are intended to ensure that material information pertaining to the corporation, including its consolidated companies, as defined in the Securities Regulations (Annual Financial Statements), 2010, insofar as it is relevant to the financial statements and to the other financial information which is included in the reports, is brought to my attention by others in the corporation and in the consolidated companies, particularly during the preparation period of the reports; And:

   B. I have established controls and policies, or have verified the establishment and implementation, under our supervision, of controls and policies which are intended to reasonably ensure the reliability of financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including in accordance with generally accepted accounting principles.

   C. I have evaluated the effectiveness of internal control over financial reporting and disclosure, insofar as it relates to the financial statements and to the other financial information which is included in the reports, as of the reporting date. My conclusions with respect to my aforementioned evaluation have been presented to the Board of Directors and management, and are included in this report.

The foregoing does not derogate from my liability, or from the liability of any other person, in accordance with any applicable law.

March 26, 2020

Tal Cohen
Senior VP
Comptrollership Division Manager

Certifications regarding controls and policies with respect to disclosure in the financial statements of Clal Insurance Company Ltd.

Clal Insurance Company Ltd.
Certification

I, Yoram Naveh, hereby certify the following:

1. I have reviewed the annual report of Clal Insurance Company Ltd. (hereinafter: the "**Company**") for 2019 (hereinafter: the "**Report**").

2. Based on my knowledge, the report does not include any incorrect representation of any material fact, and does not lack any representation of any material fact which is required in order for the representations which are included therein, in light of the circumstances in which those representations were included, to not be misleading with respect to the period which is covered in the report.

3. Based on my knowledge, the financial statements and the other financial information which is included in the report adequately reflect, in all material respects, the Company's financial position, results of operations, changes in equity and cash flows as of the dates and with respect to the periods covered in the report.

4. I, and others in the Company who are making this certification, are responsible for the establishment and implementation of controls and policies with respect to the disclosure and control over financial reporting in the Company; And:

    A. We have established the aforementioned controls and policies, or have caused the establishment of the aforementioned controls and policies under our supervision, which are intended to ensure that material information pertaining to the Company, including its consolidated companies, is brought to our attention by others in the Company and in those companies, and particularly during the preparation period of the report;

    B. We have established internal control over financial reporting, or have overseen the establishment of internal control over financial reporting, which is intended to provide a reasonable measure of assurance regarding the reliability of the financial reporting, and that the financial statements have been prepared in accordance with IFRS and the directives of the Commissioner of Capital Markets;

    C. We have evaluated the effectiveness of controls and policies with respect to the Company's disclosure, and we have presented our conclusions regarding the effectiveness of the controls and policies with respect to the disclosure, as of the end of the period covered in the report, based on our evaluation; And:

    D. We have disclosed in the report any change in the Company's internal control over financial reporting which occurred during the fourth quarter, and materially influenced, or which could have been reasonably expected to materially influence, the Company's internal control over financial reporting; And:

5. I, and others in the Company who are making this certification, have disclosed to the auditor, to the Board of Directors and to the balance sheet committee of the Company's Board of Directors, based on our most current assessment regarding internal control over financial reporting:

    A. All material deficiencies and material weaknesses in the determination or implementation of internal control over financial reporting, which can reasonably be expected to harm the Company's ability to record, process, summarize and report financial information; And:

    B. Any fraud, whether material or immaterial, in which management is involved, or in which are involved employees who have significant positions in the Company's financial reporting control over financial reporting.

The foregoing does not derogate from my liability, or from the liability of any other person, in accordance with any applicable law.

March 26, 2020

Yoram Naveh
Chief Executive Officer

Clal Insurance Company Ltd.
Certification

I, Eran Cherninsky, hereby certify the following:

1. I have reviewed the annual report of Clal Insurance Company Ltd. (hereinafter: the "**Company**") for 2019 (hereinafter: the "**Report**").

2. Based on my knowledge, the report does not include any incorrect representation of any material fact, and does not lack any representation of any material fact which is required in order for the representations which are included therein, in light of the circumstances in which those representations were included, to not be misleading with respect to the period which is covered in the report.

3. Based on my knowledge, the financial statements and the other financial information which is included in the report adequately reflect, in all material respects, the Company's financial position, results of operations, changes in equity and cash flows as of the dates and with respect to the periods covered in the report.

4. I, and others in the Company who are making this certification, are responsible for the establishment and implementation of controls and policies with respect to the disclosure and control over financial reporting in the Company; And:

   A. We have established the aforementioned controls and policies, or have caused the establishment of the aforementioned controls and policies under our supervision, which are intended to ensure that material information pertaining to the Company, including its consolidated companies, is brought to our attention by others in the Company and in those companies, and particularly during the preparation period of the report;

   B. We have established internal control over financial reporting, or have overseen the establishment of internal control over financial reporting, which is intended to provide a reasonable measure of assurance regarding the reliability of the financial reporting, and that the financial statements have been prepared in accordance with IFRS and the directives of the Commissioner of Capital Markets;

   C. We have evaluated the effectiveness of controls and policies with respect to the Company's disclosure, and we have presented our conclusions regarding the effectiveness of the controls and policies with respect to the disclosure, as of the end of the period covered in the report, based on our evaluation; And:

   D. We have disclosed in the report any change in the Company's internal control over financial reporting which occurred during the fourth quarter, and materially influenced, or which could have been reasonably expected to materially influence, the Company's internal control over financial reporting; And:

5. I, and others in the Company who are making this certification, have disclosed to the auditor, to the Board of Directors and to the balance sheet committee of the Company's Board of Directors, based on our most current assessment regarding internal control over financial reporting:

   A. All material deficiencies and material weaknesses in the determination or implementation of internal control over financial reporting, which can reasonably be expected to harm the Company's ability to record, process, summarize and report financial information; And:

   B. Any fraud, whether material or immaterial, in which management is involved, or in which are involved employees who have significant positions in the Company's financial reporting control over financial reporting.

The foregoing does not derogate from my liability, or from the liability of any other person, in accordance with any applicable law.

March 26, 2020

Eran Cherninsky
Executive VP of Clal Insurance
Finance Division Manager

Clal Insurance Company Ltd.
Certification

I, Tal Cohen, hereby certify the following:

1. I have reviewed the annual report of Clal Insurance Company Ltd. (hereinafter: the "**Company**") for 2019 (hereinafter: the "**Report**").

2. Based on my knowledge, the report does not include any incorrect representation of any material fact, and does not lack any representation of any material fact which is required in order for the representations which are included therein, in light of the circumstances in which those representations were included, to not be misleading with respect to the period which is covered in the report.

3. Based on my knowledge, the financial statements and the other financial information which is included in the report adequately reflect, in all material respects, the Company's financial position, results of operations, changes in equity and cash flows as of the dates and with respect to the periods covered in the report.

4. I, and others in the Company who are making this certification, are responsible for the establishment and implementation of controls and policies with respect to the disclosure and control over financial reporting in the Company; And:

   A. We have established the aforementioned controls and policies, or have caused the establishment of the aforementioned controls and policies under our supervision, which are intended to ensure that material information pertaining to the Company, including its consolidated companies, is brought to our attention by others in the Company and in those companies, and particularly during the preparation period of the report;

   B. We have established internal control over financial reporting, or have overseen the establishment of internal control over financial reporting, which is intended to provide a reasonable measure of assurance regarding the reliability of the financial reporting, and that the financial statements have been prepared in accordance with IFRS and the directives of the Commissioner of Capital Markets;

   C. We have evaluated the effectiveness of controls and policies with respect to the Company's disclosure, and we have presented our conclusions regarding the effectiveness of the controls and policies with respect to the disclosure, as of the end of the period covered in the report, based on our evaluation; And:

   D. We have disclosed in the report any change in the Company's internal control over financial reporting which occurred during the fourth quarter, and materially influenced, or which could have been reasonably expected to materially influence, the Company's internal control over financial reporting; And:

5. I, and others in the Company who are making this certification, have disclosed to the auditor, to the Board of Directors and to the balance sheet committee of the Company's Board of Directors, based on our most current assessment regarding internal control over financial reporting:

   A. All material deficiencies and material weaknesses in the determination or implementation of internal control over financial reporting, which can reasonably be expected to harm the Company's ability to record, process, summarize and report financial information; And:

   B. Any fraud, whether material or immaterial, in which management is involved, or in which are involved employees who have significant positions in the Company's financial reporting control over financial reporting.

The foregoing does not derogate from my liability, or from the liability of any other person, in accordance with any applicable law.

March 26, 2020

Tal Cohen
Senior VP
Comptrollership Division Manager