

INSURANCE BUSINESS (CONTROL) REGULATIONS (WAYS OF INVESTING AN INSURER'S CAPITAL AND RESERVES AND MANAGEMENT OF HIS OBLIGATIONS) 5761-2001

By my authority under sections 36 and 112 of the Insurance Business (Control) Law 5741-1981 (hereafter: the Law), and for the purposes of sections 5, 8, 14 and 16 after consultation with the Governor of the Bank of Israel, and with approval by the Knesset Finance Committee under section 48(a) of the Basic Law: The Government and section 2(b) of the Penal Law 5737-1977 (hereafter: Penal Law) I make these regulations:

CHAPTER ONE: INTERPRETATION

Definitions

1. In these regulations:

"Option" - a buy or sell option, where a fair price is determined every day for its underlying asset, and it is possible to realize the buy option, the sell option or the underlying asset immediately;

"Sell option" - an undertaking that gives its purchaser the right to sell the underlying asset at the realization price, or to receive the differential between the price of the underlying asset and the realization price, all at times and on conditions stated in it;

"Buy option" - an undertaking that gives its purchaser the right to buy the underlying asset at the realization price, or to receive the differential between the price of the underlying asset and the realization price, all at times and on conditions stated in it;

"Debenture" - as defined in the Companies Law 5759-1999 (hereafter: Companies Law), including a bond issued by the State and a debenture issued by a cooperative society;

"Dedicated debenture" - each of the following:

- (1) a bond issued by the State of Israel under the Loans Law (Insurance Companies) Law 5723-1962 (hereafter: Insurance Companies Loan Law);
- (2) a debenture guaranteed by the State of Israel, issued within the framework of linked life insurance agreements;

"Israel Government bonds" - bonds issued by the Israel Government under the State Loan Law 5739-1979, or under the Development Loan Law 5720-1960, or under the Short Term Loan Law 5744-1984, or under the

State Property Law 5711-1951, which is traded on an Exchange, a foreign Exchange or on an organized market;

"Exchange" - a securities Exchange in Israel, which received a license under section 45 of the Securities Law 5728-1968 (hereafter: Securities Law);

"Foreign Exchange" - a securities Exchange in an approved foreign country;

"Credit insurance for housing, secured by mortgage" - as defined in the Insurance Business Control Notice (Branches of Insurance) 5745-1985;

"Life insurance", "Profit sharing life insurance", "Non life insurance", "Financial reports", "Insurance premiums", "Deferred acquisition costs", "Subsidiary" and "Held company", "Option certificate", "Index", "Consumer Price Index", "Financial assets", "Non-financial assets", "Related parties" - as defined in the Insurance Business Control Regulations (Particulars of Report) 5758-1998 (hereafter: Particulars of Report Regulations);

"Bank" - a body corporate that was given a license under section 4(a)(1)(a), or (b), or 4(a)(2) of the Banking (Licensing) Law 5741-1981, the Postal Bank under the Postal Bank Law 5711-1951, and also a bank abroad, resident in an approved foreign country and under governmental supervision of the state in which it is located;

"Interested party" in an insurer - within its meaning in paragraph (1) of the definition of "interested party" in a body corporate in the Companies Law;

"Holder of a portfolio manager's license" - within its meaning in the Regulation of Investment Counselling and Portfolio Management Law 5755-1995 (hereafter: Investment Counselling Law);

"Rating" - the rating of a debt in Israel or in an approved foreign country, determined by a rating company approved by the Commissioner;

"Outside director" - as defined in the Companies Law;

"Equity", "Ratio of loan to surety", "Asset", "Control" - as defined in the Insurance Business Control Regulations (Minimum Equity Required of Insurer) 5758-1998 (hereafter: Equity Regulations);

"Holding" - alone or together with others, directly or indirectly, through a trustee, trust company, registration company or in any other manner; for this purpose, holding by a body corporate - also by a held body corporate and holding by an individual, and also holding by an individual and his relative who lives with him and for whose support he is responsible, or

who are mutually responsible for their support, shall be deemed holding by a single person; for this purpose, "relative" - as defined in the Companies Law;

"Linked life insurance agreements" - agreements between the Israel Government and life insurance companies, by virtue of the Insurance Companies Loan Law, about investment in bonds;

"Repurchasing agreement" - an agreement between the parties for the acquisition and sale of State of Israel bonds for cash for a limited period known in advance, the present and future price being determined in advance;

"Real estate right" - an ownership or long term lease right to real estate, including a contractual right to obtain an aforesaid right;

"Liability" - an obligation derived from loans, as defined in regulation 8(e);

"Sister company" - a company, the shareholders of which are identical with the shareholders of the insurer;

"Parent company" - a company that holds 50% or more of the nominal value of the issued share capital of a body corporate, or of the voting power in it, or a company entitled to appoint one half or more of the directors of the said body corporate, or its general manager;

"Futures contract" - as defined in section 64(b) of the Joint Investment Trusts Law 5754-1994 (hereafter: Joint Investments Trusts Law);

"Investment account" - an account in which assets are kept to cover profit sharing life insurance obligations, in a composition determined in a program approved by the Commissioner;

"Exposure to the underlying asset" - all the following:

- (1) the underlying asset;
- (2) the underlying asset, derived from option holdings according to parameters published from time to time by the Exchange in the Trading By-Laws, or determined by the insurer and expressed in a note to the financial reports;
- (3) a futures contract for the underlying asset, its quantity being set in its conditions;

"Joint investment trust participation unit" - a participation unit in a joint investment trust fund, within the meaning of a unit in section 3(a) of the Joint Investments Trusts Law;

"Borrower" - a person with an obligation, including the spouse, and also a number of borrowers, the expected repayment of the obligation being

based mainly on the same source, none of them having a significant additional source for repayment of the obligation;

"Risk spread index" - the ratio between the sum of the weighted values of the assets held to cover any kind of obligation and the amount of that obligation;

"Approved foreign state" - a state rated A or higher;

"Realization price" - the price at which an option or a futures contract will be realized;

"AALS" (adjusted average maturity) - the period, in years, from the date of the financial report until maturity of the assets, according to the weighted average; the AALS shall be calculated in respect of the assets, using the formulas in Schedule One;

"Clearing house" - a body corporate, empowered by a supervisory authority in Israel or in an approved foreign state to clear securities;

"Productive real estate" - real estate rights that produce current income at least during the report period for the holder of rights in them;

"Officer" - as defined in the Companies Law;

"Securities" - as defined in the Securities Law, including non-negotiable debentures, certificates issued by the Government, options, futures, participation units in joint investment trust funds, partnership rights in registered and unregistered partnerships, commercial paper, all whether registered or to bearer;

"Foreign security" - a security that is not an Israeli security;

"Israeli security" - a security, the capital, interest or dividend of which is payable in new shekel terms or which can be required to be paid in new shekel terms, and also the security of a body corporate registered in a members' register in Israel or a Government of Israel bond;

"Governmental securities" - Israel Government bonds, including payments on account of aforesaid bonds, and deposits deposited with the Accountant General on terms approved by the Commissioner;

"Commercial paper" - debentures not linked to an index, issued by a body corporate for a period of not more than one year;

"Negotiable security" - a security listed for trading on an Exchange, on a foreign Exchange or on an organized market;

"Underlying asset" - the security that is the subject of the undertaking in an option or future;

"Assets abroad" - each of the following:

- (1) foreign currency, deposits denominated in foreign currency and rights to real estate abroad;
- (2) (a) a foreign security issued or traded in an approved foreign country;
(b) a debenture or bond issued by a body corporate or a state and traded outside that state, on condition that the state that issued the security or in which the issuing body corporate was incorporated was rated A or higher by a rating company;

"Liquid assets" - each of the following:

- (1) State of Israel bonds, except for securities deposited under Article Three in Chapter Three of the Law;
- (2) cash and short term deposits deposited in banks for a period of up to three months;

"Weighted value of assets" - the value of the asset, multiplied by the factor set for it in Schedule Two;

"Deposit" - an amount of money deposited with an insurer, reinsurer, Exchange member or bank;

"Borrowing group" - each of the following:

- (1) a person who borrows together with whoever controls him and all persons controlled by them;
- (2) borrowers for whom one of the following holds true:
 - (a) at least one of them guarantees a substantive part of the other borrower's obligation;
 - (b) at least one of them has given a guaranty unlimited in amount to secure another borrower's obligation;
 - (c) the obligation of each to the insurer exceeds 5% of his equity and there is real commercial interdependence between them that is not restricted to a short time, also by the promise of rights;
- (3) any person whom the Commissioner of Insurance designated to be part of a group, except for whoever the Commissioner removed from it for purposes of this regulation;

"Benefit fund" - as defined in section 47(a)(2) of the Income Tax Ordinance;

"Registering a mortgage" - including the entry of a caution notice about the registration of a mortgage, mortgaging a real estate right and giving an irrevocable power of attorney to an insurer, giving him the right to register the said mortgage or to mortgage as aforesaid;

"Fair value" - the amount against which an asset can be exchanged or by which an obligation can be settled in the ordinary course of business between a willing buyer and a willing seller who have the information needed in order to perform the transaction;

"Organized market" - a market for assets, which is under Governmental supervision;

"Promissory note" or **"Bill of exchange"** - within their meaning in the Bills of Exchange Ordinance.

CHAPTER TWO: CATEGORIES OF AN INSURER'S OBLIGATIONS

Categories of an insurer's obligations

2. These regulations shall apply to the categories of obligations and of an insurer's equity, as specified below:
 - (1) category 10 - obligations that stem from index linked or foreign currency denominated life insurance transactions in Israel;
 - (2) category 20 - obligations that stem from profit sharing life insurance transactions in Israel;
 - (3) category 30 - obligations that stem from unlinked or death risk only life insurance transactions in Israel;
 - (4) category 40 - obligations that stem from non life insurance transactions in Israel;
 - (5) category 50 - obligations that stem from life insurance transactions abroad;
 - (6) category 60 - obligations that stem from non life insurance transactions abroad;
 - (7) category 70 - the amount of equity, up to the minimum amount of equity required under the Equity Regulations;
 - (8) category 80 - the equity in excess of the minimum amount of equity required under the Equity Regulations;
 - (9) category 90 - other obligations that are not included in paragraphs (1) to (8).

CHAPTER THREE: RESTRICTIONS ON THE INSURER'S INVESTMENTS

Investment in an asset

3. The insurer may invest in any asset, subject to the restrictions and rules prescribed in these regulations.

Deferred acquisition expenses

4. An insurer shall hold deferred acquisition expenses as follows:
 - (1) in life insurance - only against obligations of categories 10, 20, 30, 50, 70, 80 or 90;
 - (2) in non life insurance - only against obligations of categories 40 or 60.

Investment in a single issuer

5. (a) An insurer may hold securities of a single issuer, or make deposits or grant loans to a single person on the following conditions:
 - (1) 5% of the amount of a each category of obligation separately;
 - (2) if the investment is rated at least BBB - up to 7.5% of the amount of each category of obligation separately;
 - (3) if the investment is rated at least AA - up to 10% of the amount of each category of obligation separately.
- (b) Subregulation (a) shall not apply to Governmental securities and dedicated debentures.
- (c) In these regulations, "loans" include guaranties, less amounts transferred to a reinsurer, multiplied by the rates specified in Schedule Three.

Investment in a group of borrowers

- 5A. An insurer may hold securities of a group of borrowers, or make deposits in or grant loans to a group of borrowers on the following conditions:
 - (1) up to 8% of the amount of a each category of obligation separately;
 - (2) if the investment is rated at least BBB - up to 10% of the amount of each category of obligation separately;
 - (3) if the investment is rated at least AA - up to 15% of the amount of each category of obligation separately.

Investment abroad

6. An insurer may invest abroad only in assets from abroad.

Real estate rights

7. An insurer may invest in real estate rights, on condition that the amount of the investment in one asset not exceed 3% of the amount of each category of obligations separately, in respect of an obligation of category 90 - 10% of the obligation, and in respect of an obligation of category 70 - 15% of the obligation; the aforesaid restriction shall not apply to obligations of category 80.

Loans and non-negotiable debentures

8. (a) An insurer may extend loans and make investments only in the ordinary course of his business, on a regular commercial basis, and when one of the following holds true:
 - (1) the loan is not to a person who is an officer or an interested party in it, who directly or indirectly holds means of control in it, on condition that sufficient surety is provided for each loan; surety of the kind of guaranty shall be deemed sufficient if given by a bank, by an insurer or by a body corporate the debt

of which is at all times rated at least BBB; the Commissioner may determine that a received surety is insufficient and he may instruct the insurer to see to an additional surety to the Commissioner's satisfaction;

- (2) the loan is a charge on a life insurance policy and does not exceed 80% of the redemption value on the day the loan is made;
 - (3) a first mortgage on a real estate right is registered to the insurer's credit as surety for repayment of the loan, on condition that the total of all loans to a single borrower, for the repayment of which the mortgage was registered, does not exceed a 60% loan to surety ratio; an insurer may give a loan great that the 60% loan to surety ratio for the acquisition of a dwelling unit, on condition that the loan is secured by housing credit insurance secured by a mortgage, and the loan to surety ratio after provision of the said insurance cover does not exceed 55%.
- (b) Subject to the provisions of subregulation (a)(1), a loan to an insurance agent shall not exceed one million new shekel; this amount shall be linked to the consumer price index, beginning with the index published for May 2000.
 - (c) Notwithstanding the provisions of subregulation (a), an insurer may give a loan to his employee, on condition that the amount of all loans to that employee not exceed NS 100,000; this amount shall be linked to the consumer price index, beginning with the index published for May 2000.
 - (d) The amount of all loans to a single borrower shall not exceed 15% of the insurer's equity; the total of all loans to a group of borrowers shall not exceed 30% of the insurer's equity; the provisions of this subregulation shall not apply to obligations of category 20.
 - (e) In these regulation, "loan" - including non-negotiable debentures, commercial paper and guaranties, less amounts transferred to a reinsurer, multiplied by the rates specified in Schedule Three.

Investment in options

9. An insurer may buy or create options on the following conditions:
 - (1) the value of all the options shall not exceed 5% of the amount of the amount of each category of obligations separately;
 - (2) Exposure to the underlying asset shall not exceed the limitations applicable under these regulations.

Short sale

10. (a) An insurer may sell securities short, on condition that -
 - (1) their value at no time exceeds 3% of each category of obligations separately;
 - (2) that their proportion at no time exceed 0.5% of the nominal value of the said security.
- (b) In this section, "short sale" - the sale of securities that do not belong to the seller -

- (1) on an Exchange - according to the conditions prescribed in the Exchange by-laws;
- (2) on a foreign Exchange or organized market - according to the conditions required there.

Lending a security

11. (a) An insurer may lend a security - only if he receives a fee therefor - for a period set in advance, which shall not be longer than twelve months (hereafter: lending period), and in an amount, which at no time shall exceed 10% of the amount of each category of obligations separately.
- (b) A security shall be lent by means of a written loan agreement between the lender and the borrower.
- (c) A securities loan agreement shall include the borrower's undertakings, at least as specified below:
 - (1) to return the security to the insurer at the end of the lending period, in the quantity borrowed, plus rights or bonus shares issued during the lending period;
 - (2) to pay the lender the amount of any dividend or interest on the borrowed securities, on the dates on which aforesaid sums are paid to holders of the securities.
- (d) For the purposes of this regulation, lending securities to a person who is not an Exchange member is deemed a loan, and the provisions of regulations 5 and 8 shall apply to it, mutatis mutandis.

Amount of sureties

12. The value of sureties in respect of option, futures and short sale transactions shall not, at any time, exceed 10% of the amount of each category of obligations separately.

Reacquisition agreement

13. (a) An insurer may enter into a reacquisition contract only if the agreement includes at least the following:
 - (1) State of Israel bonds or cash transferred to the insurer by the other party to the agreement constitute surety; the value of the surety shall at all times be greater than the value of the cash or State of Israel bonds transferred by the insurer to the other party to the agreement, including the interest accrued on them;
 - (2) if the cash that stems from the agreement is not returned, then the insurer shall have the unconditional right to realize immediately the State of Israel bonds that he holds and that constitute surety for the loan.
- (b) In respect of a reacquisition agreement, the risk spread index shall be calculated in respect of the securities that are surety for the agreement.

Investment in related parties

14. (a) Subject to the provisions of these regulations, investment in related parties shall be on conditions and at the price that would have been paid under the same circumstances by a party that is not related; for

this purpose, "investment" - including acquisition of a security, giving a loan or creating a negative balance.

- (b) Notwithstanding the provisions of subregulation (a), an insurer may invest in the capital note of a subsidiary that is an insurer, or of a sister company; for this purpose, "capital note" - as defined in the Equity Regulations, mutatis mutandis.

Investment in a held company

- 15. (a) Only with advance approval by the Commissioner may an insurer initiate, establish, found, register, manage, acquire or otherwise invest in a manner that gives him control or management rights in a held company or in a company that after the investment becomes a held company; a said approval shall set the conditions of the investment and its maximum amount.
- (b) The Commissioner may determine by written notice to the insurer that - for the purposes of these regulations - some or all of the investments made by a subsidiary that is not an insurer will be treated as if they had been made by the insurer.

Investment in an insurer or in a body corporate that engages in insurance business brokerage

- 16. (a) A direct or indirect investment by an insurer - also through a subsidiary - in another insurer, in the parent company of another insurer or in any other body corporate that engages in brokering insurance matters requires advance approval by the Commissioner, who shall determine how the investment is to be made and its maximum amount; for this purpose, "investment" - the acquisition of securities, giving a loan or the creation of a debit balance otherwise than in the ordinary course of the insurance business.
- (b) Notwithstanding the provisions of subregulation (a), an insurer may invest in the negotiable securities of another insurer, of the parent company of another insurer or of any other body corporate that engages in brokering insurance, in an amount that does not exceed 5% of the nominal value of that security, on condition that the amount of the said investment not exceed 5% of the amount of any category of obligation, against which the insurer holds the said securities.

Investment in an interested party

- 17. (a) An insurer shall not invest in whoever directly or indirectly holds more than 20% of the means of control in it, and he shall not in any other manner create a debit balance with him otherwise than in the ordinary course of insurance business; however, the Commissioner may allow a certain insurer - for reasons that shall be recorded - to invest in an interested party on conditions and in amounts which he shall prescribe.
- (b) An insurer shall not invest in whoever directly or indirectly holds between 10 and 20% of the means of control in the insurer and shall in no manner create a debit balance with him otherwise than in the

ordinary course of insurance business, unless it be in one of the following ways:

- (1) acquisition of negotiable securities in an amount of not more than 5% of the total amount of the categories of obligations, against which the insurer holds the said securities;
- (2) acquisition of negotiable securities in an amount of no more than 5% of the means of control of the interested party.

Investments against obligations of categories 70 to 90

18. Investments of the categories specified below shall only be held against obligations of categories 70 to 90:
 - (1) non-monetary assets for which there is no specific provision in these regulations;
 - (2) deferred taxes;
 - (3) the cost of acquiring an insurance portfolio from another insurer.

CHAPTER FOUR: GENERAL PROVISIONS

Calculation of premiums, assets, capital and obligations

19. For purposes of these regulations, premiums, assets, capital and obligations shall be calculated according to the provisions of the Particulars of Report Regulations.

Linking investments

20. The linkage conditions of securities, deposits and loans shall accord with the linkage condition of the obligations, against which they are held; this provision shall not apply to obligations of categories 13, 20, 30, 44 and obligations of categories 70 to 90.

Compliance with the spread of risk index

21. The insurer shall at all times comply with the spread of risk index prescribed in these regulations for each category of obligations.

Compliance with amounts of investment in securities

22. The insurer shall at all times comply with the amounts of investment in a certain security, which these regulations permit him.

Insurer's assets

23. (a) An insurer shall hold an asset only if his right thereto is full and direct ownership - including a long term lease right - and it has full control thereof, and if it is not burdened by any charge or mortgage.
 - (b) Notwithstanding the provisions of subregulation (a), an insurer may invest in a jointly owned asset, if the following conditions are met:
 - (1) there is an agreement between the joint owners on the management of the asset;
 - (2) the insurer may realize his investment at any time;

- (3) the insurer obtained advance approval of that investment from the Commissioner and complied with the conditions of the approval.
- (c) Notwithstanding the provisions of subregulation (a) and subject to the provisions of regulation 15, an insurer may acquire and hold real estate rights, fixed assets and some other activity that does not deal with insurance matters through a wholly owned subsidiary, on condition that its main activity is holding assets and its assets are not burdened by any charge or mortgage.
- (d) Subject to the provisions of subregulation (c), an insurer shall hold any asset through a trustee or through a held company only with advance approval from the Commissioner.
- (e) An insurer may deposit money in a bank or hold securities for safekeeping in a bank, with an Exchange member or in a financial institution approved by the Commissioner, on condition that an absolute, irrevocable and unconditional obligation for the return of the deposit or of the securities was given.
- (f) Notwithstanding the provisions of subregulation (a) , an insurer may deposit surety with a Clearing House against an investment in options, futures and short sales in the least amount required, all as prescribed in the By-Laws of the Exchange, the foreign Exchange or the organized market as the case may be.
- (g) An insurer may deposit money and debentures for safekeeping with the Bank of Israel against letters of credit made necessary by reinsurance agreements abroad, in amounts that shall not exceed the insurance obligations in the said agreements.

Investment of a foreign insurer

- 24. (a) A foreign insurer shall invest in and hold assets in Israel in the amount of all his obligations in Israel, plus an amount of excess of assets over obligations, as prescribed in regulation 9 of the Equity Regulations.
- (b) A foreign insurer may transfer abroad the amount in excess of 110% of the amount of assets required under subregulation (a).

Transferring money to reinsurers abroad

- 25. An Israel insurer may transfer to reinsurers abroad money from business that originates in Israel only for the following purposes:
 - (1) to pay premiums for reinsurance cover according to a non-proportional method, in amounts and at times prescribed in the reinsurance agreements;
 - (2) to pay premiums less commission, or claims in connection with facultative insurance, in amounts and at times agreed with the reinsurers;
 - (3) to pay premiums less commission, paid claims and deposits against reserves for risks that have not yet lapsed and pending claims, at the times set in the agreement with the reinsurers, in respect of categories of reinsurance not specified in paragraphs (1) and (2), on condition that the said deposit not be -

- (a) in the marine insurance branch - less than 30% of the premiums entered to his credit in the last four quarters;
 - (b) in the housing credit secured by mortgages insurance branch - less than his share in the reserve for risks that have not yet lapsed and pending claims entered to his credit;
 - (c) in insurance branches not designated in this regulation - less than 40% of the premiums entered to his credit in the last four quarters;
 - (d) in the liability insurance and mandatory vehicle insurance branches - less than 70% of his share in the reserve for risks that have not yet lapsed and pending claims entered to his credit; however, less than 50% in respect of a reinsurer rated A or higher on his ability to pay claims, and less than 40% in respect of a reinsurer rated AA or higher on his ability to pay claims;
 - (e) Notwithstanding the provisions of subparagraph (d), in the liability insurance and mandatory vehicle insurance branches a reinsurer may replace the deposit required under that subparagraph with a bank letter of credit at the rate of 100% of his share in the reserve for risks that have not yet lapsed and pending claims, on conditions that the bank is at all times rated at least AA;
- (4) to pay interest on deposits held in Israel;
 - (5) for other payments or at rates different from those stated in this regulation, with advance approval from the Commissioner.

Policies that reached the end of the insurance period

26. The money from life insurance policies that have reached the end of the insurance period shall be invested only in liquid assets and in a special bank account; the adjusted average maturity of those securities shall not exceed one year.

Procedures for the approval of investments

27. (a) An insurer's Board of Directors shall prescribe internal procedures for investments and the follow-up and supervision of them.
- (b) If the Commissioner ordered a certain insurer to change the internal procedures, then the Board of Directors shall amend the procedures said in subregulation (a).

**CHAPTER FIVE: THE INSURER'S BOARD OF DIRECTORS
AND INVESTMENT COMMITTEES**

Investment committees

28. An insurer may manage his investments in accordance with the provisions of these regulations, on condition that the insurer's Board of Directors appointed two investment committees as specified below, their

responsibilities, composition and manner of operation being in accord with the provisions of this Chapter:

- (1) a committee for the management of investments that stem from obligations of category 20 (hereafter: shared investments committee);
- (2) a committee for the management of investments that stem from the categories of obligations enumerated in regulation 2, other than category 20 (hereafter: nostro investments committee).

Responsibilities of investment committees

29. The responsibilities of the investment committees shall be, inter alia, as follows:
- (1) determining the insurer's investment policy as part of the insurer's overall business policy;
 - (2) approval of certain transactions and of the size of holdings of various categories of securities, before they are implemented;
 - (3) providing guidance for the officers who deal with the insurer's investments and implement the investment policy determined in their decisions;
 - (4) determining criteria for evaluating the implementation of the adopted investment policy;
 - (5) checking on the implementation of the adopted investment policy.

Composition of investment committees

30. (a) Each of the investment committees shall have at least three and not more than seven members.
- (b) Most members of the shared investments committee, including its chairman and his deputy, shall be outside representatives; for this purpose, "outside representative" - persons who have all the qualifications to be appointed outside directors, as prescribed in section 240 of the Companies Law.
- (c) The chairman of the shared investments committee and his deputy shall be outside representatives;
- (d) A member of the shared investments committee shall not be a member of the same insurer's nostro investments committee.
- (e) A member of the shared investments committee shall not be a member of an investment committee of another insurer or of a benefit fund or of a company that manages a benefit fund, unless they are held by the same controlling member.
- (f) An employee of an insurer, who is engaged in the management of investments, and an investor's outside consultant, who is engaged in the management of investments, shall not be a member of the shared investments committee,

Qualifications of investment committee members

31. (a) The Board of Directors of an insurer shall make rules to assure that investment committee members have an appropriate level of know how and experience.

- (b) No person shall serve as an investment committee member, unless he meets at least the following conditions:
 - (1) he is an individual;
 - (2) he holds an academic degree from an institution of higher education in Israel or from an institution of higher education abroad that is recognized by an institution of higher education in Israel, in the fields of economics, accountancy, business administration or any corresponding field, or he holds a auditor's license in Israel;
 - (3) he has at least two years' knowledge or experience in the capital market field;
 - (4) he was not convicted by a final judgment of any of the offenses specified below, unless five years have passed since the judgment that condemned him was handed down, unless the Court determined that, taking the conviction's nature, severity and circumstances into consideration, it does not prevent a said appointment:
 - (a) offenses under sections 290 to 297, 392, 415, 418 to 420 and 422 to 428 of the Penal Law and under sections 52C, 52D, 53(a) and 54 of the Securities Law;
 - (b) in a Court abroad - offenses of bribery, deceit, offenses of Directors in an body corporate or offenses of the use of inside information;
 - (c) some other offense, of which the Commissioner decided in consultation with the Attorney General that - because of its nature, severity and circumstances - it makes him unfit to serve as member of an investment committee.

Investment committee sessions

- 32. (a) Shared investments committee meetings shall be held at least once every two weeks, and nostro investments committee meetings at least once a month; a majority of permanent members constitutes a quorum at the said meetings.
- (b) A protocol shall be kept at investment committee meetings and the names of those present and the main points of the discussion shall be entered in it, and all the working papers presented for the adoption of decisions shall be attached to it; the protocol and its attachments shall be open for inspection by every Director and the General Manager of the insurer.
- (c) Investment committee decisions shall be adopted by a majority of the members present.
- (d) Investment committees may decide in advance that on certain subjects sessions may be held by means of communications that make simultaneous contact between committee members possible; the provisions of subregulation (b) shall apply to said sessions, mutatis mutandis.

Employee of insurer engaged in the management of investment

33. (a) An insurer's employee shall engage in the management of securities investments only if he has the training of a portfolio manager and if he is eligible for a portfolio manager's license; for the purpose of employing such an employee, the insurer shall be treated like a company that holds a portfolio management license; in this regulation, "portfolio manager" and "investment portfolio manager" - as defined in the Investment Counselling Law.
- (b) The provisions of the following shall apply to employees of an insurer, who engage in the management of investments:
- (1) section 4 of the Investment Counselling Law, mutatis mutandis;
 - (2) regulation 31(b)(4), mutatis mutandis.

CHAPTER SIX: INVESTMENTS AGAINST OBLIGATIONS

Article One: Category 10 - Investments Against Obligations in Israel That Stem from Value Linked or Foreign Currency Denominated Life Insurance

Subcategories of obligations

34. Category 10 obligations shall be divided into the following subcategories:
- (1) Category 11 - obligations linked to the Consumer Price Index, in respect of which the insurer is entitled to acquire dedicated bonds;
 - (2) Category 12 - obligations linked to the Consumer Price Index, in respect of which the insurer is not entitled to acquire dedicated bonds;
 - (3) Category 13 - obligations for special risks;
 - (4) Category 14 - obligations linked to the U.S. dollar exchange rate or denominated in U.S. dollars;
 - (5) Category 15 - obligations linked to the Euro exchange rate or denominated in Euros;
 - (6) Category 16 - Obligations linked to or denominated in a currency not included in the obligations of categories 14 or 15.

Linkage of investment

35. Notwithstanding the provisions of regulation 20, an insurer may hold assets with linkage conditions different from the linkage conditions of the categories of obligations, against which they are held, in the following proportions:
- (1) in respect of obligations of category 11 - up to 10% of the amount of all the obligations;
 - (2) in respect of obligations of category 12 - up to 25% of the amount of all the obligations;
 - (3) in respect of obligations of categories 14 to 16 - up to 15% of the amount of each category of obligations separately.

Spread of risk index

36. The spread of risk index shall at all times not be lower than -
- (1) in respect of obligations of category 11 - 50%; dedicated bonds and the amount of obligations that corresponds to them shall not be included in calculating the spread of risk index;
 - (2) in respect of obligations of categories 12 to 16 - 70%.

Prohibition of investments

37. Against obligations of categories 12 and 14 to 16, an insurer shall not invest in real estate rights, shares or options and futures.

Article Two: Category 20 - Investments Against Obligations in Israel That Stem from Profit Sharing Life Insurance**Investment in real estate rights**

38. An insurer may invest in real estate rights only if at least 75% of the amount of all the real estate rights are productive real estate.

Investment in trust funds

39. An insurer may invest in trust fund participation units at the rate of up to 5% of the amount of category 20 obligations.

Deferred acquisition expenses

40. An insurer may hold the balance of deferred acquisition expenses against obligations of category 20, up to the balance of deferred acquisition expenses for income tax purposes.

Investment in a single body corporate

41. (a) Against obligations of category 20 an insurer may invest in and hold shares of a certain body corporate in an amount that does not exceed 20% of the shares of the body corporate, subject to the following conditions:
- (1) its holdings in the body corporate is not the largest of the share holders' holdings;
 - (2) the insurer does not control the body corporate through voting agreements or by holding securities, either directly or indirectly.
- (b) The provisions of this regulation shall not derogate from the provisions of regulations 15 and 23.

Off Exchange transactions

42. (a) An insurer may buy and sell negotiable securities in transactions off an Exchange, off a foreign Exchange or off an organized market, when the following conditions are met:
- (1) the transaction was approved by a special committee, which the investment committee appointed for this matter;

- (2) if the transaction is with an interested party or against category 20 obligations - advance approval thereof was obtained from all investment committee members who are outside representatives.
- (b) The insurer shall keep full and separate documentation of the transactions enumerated in subregulation (a) and he shall submit a report to the Commissioner at his demand.
- (c) In this regulation, "transaction" includes its price.

Investment in negotiable debentures

43. (a) An insurer may hold negotiable debentures of an issuer against category 20 obligations, in an amount that does not exceed 5% of the total nominal value of the debentures; however -
- (1) if the investment is rated at least BBB - up to 7.5% of the total nominal value of the debentures;
 - (2) if the investment is rated at least A - up to 10% of the total nominal value of the debentures;
 - (3) if the investment is rated at least AA - up to 15% of the total nominal value of the debentures.
- (b) The provisions of subregulation (a) shall not apply to governmental securities and dedicated bonds.

Investment in a body corporate with categories of shares

44. An insurer may invest in and hold shares of a body corporate, the capital of which includes several categories of shares, only if the said investment or holding is in shares that carry the best voting rights, or in shares traded on an Exchange.

Investment account

45. (a) An insurer may invest in several investment accounts, on condition that the following conditions are complied with:
- (1) the investments in each investment account shall be on conditions that assure equal rights to all insured persons of beneficiaries under the policies that participate in that account;
 - (2) assets shall be transferred between the different investment accounts according to one of the following:
 - (a) cash transfers;
 - (b) transfers of negotiable securities in the course of a transaction on an Exchange, foreign Exchange or organized market;
 - (c) transfers of assets not included in paragraphs (a) and (b) at a fair price;
 - (3) the insurer shall keep account books, a bank account and a securities account for each investment account separately.
- (b) The Commissioner may order the insurer to publish particulars about the investment account, also prescribing the method of publication.

Insurer's participation in General Meetings

46. (a) If an insurer holds securities of a body corporate in the investment portfolio he holds against obligations of category 20, then he shall

participate and vote at the General Meeting of the body corporate, if the draft resolution up for the General Meeting's approval is liable to have an adverse effect on his insured persons or on the advancement of their interests, or if the matter is one of approving a transaction with an interested party.

- (b) The Commissioner may demand a report from the insurer on how he voted at the General Meeting; a said report shall be submitted to the Commissioner within seven days of the demand.
- (c) The provisions of this regulation shall not apply to foreign securities, if the General Meeting is held abroad.

Fiduciary duty

- 47. (a) In the performance of their tasks in the management of assets held against obligations of category 20, the insurer and his employees who engage in the management of investments that stem from the said obligation shall act in good faith and diligently only for the benefit of the insured persons, and they shall not prefer any matter or consideration to that, and they shall act as a reasonable trustee would act under the same circumstances.
- (b) The insurer shall act cautiously and expertly, as a reasonable insurer would act under similar circumstances, and he shall take reasonable steps to conserve the assets and the rights that stem from those assets.

Article Three: Category 30 - Investments Against Obligations In Israel That Stem from Unlinked or Risk Only Life Insurance

Spread of risk index

- 48. The spread of risk index shall at no time drop below 75%.

Adjusted average maturity of assets

- 49. The adjusted average maturity of assets held against obligations of category 30 shall not exceed two years.

Article Four: Category 40 - Investments Against Obligations in Israel That Stem from Non life Insurance in Israel Currency and in Foreign Currency

Subcategories of obligations

- 50. Obligations of category 40 shall be divided into these subcategories:
 - (1) category 41 - obligations for liability insurance, as defined in the Particulars of Report Regulations, or in mandatory vehicle insurance;
 - (2) category 42 - obligations of an insurer who engages only in the branch of insurance against natural disasters in agriculture;
 - (3) category 43 - obligations of an insurer who engages in the insurance of housing credit secured by mortgages, or in the insurance of the

investment of dwelling purchasers under the Sale (Apartments) (Assurance of Investments of Persons Acquiring Apartments) Law 5735-1974;

- (4) category 44 - obligations to cover special risks;
- (5) category 45 - obligations of category 40, for which no separate definition was made.

Linking investments

51. Notwithstanding the provisions of regulation 20, an insurer may hold assets with linkage conditions that differ from the linkage conditions of the category of obligations against which they are held, in the following proportions -

- (1) in respect of obligations of categories 42, 43 or 45 - in a proportion no greater than 30%;
- (2) in respect of obligations of category 41 - in a proportion no greater than 20%.

Spread of risk index

52. At no time shall the spread of risk index be lower than said below:

- (1) in respect of obligations of categories 42 or 45 - 65%;
- (2) in respect of obligations of categories 41 or 43 - 60%;
- (3) in respect of obligations of category 44 - 75%;

Adjusted average maturity of assets

53. The adjusted average maturity of assets held against every category of obligations of category 40 shall not exceed the following periods:

- (1) in respect of obligations of categories 42 or 45 - two years;
- (2) in respect of obligations of categories 41 or 43 - five years;
- (3) in respect of obligations of category 44 - ten years.

Housing credit secured by mortgage

54. An insurer shall not hold a real estate right or a debenture backed by a real estate right against obligations of category 43, unless he was required to acquire those assets in the ordinary course of his business, on conditions approved by the Commissioner.

Special risks

55. An insurer shall only hold assets abroad to cover his obligations of category 44.

Article Five: Category 70 - Investments Against Equity Risks up to the Minimum Amount of Equity Required under the Equity Regulations

Insurer's investments

56. An insurer may invest in investments under regulation 18 against obligations of category 70, on condition that the total value of these investments not exceed 30% of the said obligations.

Liquid assets

57. An insurer shall keep an amount of liquid assets that shall not be less than 15% of his Category 70 obligations, less the total amount of all the required liquid assets of an insurer that is his subsidiary, multiplied by the percentage of his holding in the said company.

Deferred acquisition costs of life insurance

58. An insurer shall not hold the balance of deferred acquisition costs of life insurance against category 70 obligations in an amount that exceeds 55% of the difference between the deferred acquisition costs of life insurance, as they appear on the insurer's books, and the balance of deferred acquisition costs for income tax purposes.

Control of a bank or of another insurer

59. An insurer shall not invest - directly or indirectly, and also not through its subsidiary - in a bank or in another insurer controlled by him against an obligation of category 70 any amount that exceeds the additional equity required under regulation 9 of the Equity Regulations.

Held companies that are not banks or insurers

60. An insurer may hold means of control in held companies that are not banks or insurers at a rate that shall not exceed 40% of the category 70 obligations, on conditions that holdings in one company not exceed 10% of the said obligation.

Deposit

61. An insurer's deposit under Article Three in Chapter Three shall be held only against an obligation of category 70.

CHAPTER SEVEN: MISCELLANEOUS PROVISIONS

Applicability

62. These regulations shall apply to Israel insurers in respect of their business in Israel and abroad, and to foreign insurers only in respect of their business in Israel.

Investments which are in violation of the regulations

63. If an insurer has investments in violation of these regulations, then the amounts and categories of these investments shall be stated in the notes to the financial reports.

Submission of report on investments

64. An insurer shall report his obligations and investments and the date of the financial report to the Commissioner, in the format and by means the Commissioner shall prescribe; the report shall be certified by an auditor.

Powers of the Commissioner

65. The Commissioner may approve for a certain insurer proportions of investment and spread of risk indexes that differ from what is prescribed in these regulations, for a period of up to five years beginning at one of the following times:
- (1) when the insurer's license was received;
 - (2) when the insurer's license was expanded;
 - (3) when the insurer's activity in Israel ceased.

Repeal

66. The Insurance Business (Control) Regulations (Ways of Investing an Insurer's Capital And Reserves) 5747-1986 are repealed, except for regulation 12, which shall remain in effect until December 31, 2001.

Effect

67. These regulations, except for regulations 25, 38 and 42, shall go into effect thirty days after their publication (Date of publication: March 19, 2001 - Tr.); regulation 38 shall go into effect two years after publication of the regulations, and regulations 25 and 42 on January 1, 2002.

Applicability

68. These regulations shall apply to loans and deposits made by an insurer after March 31, 2000.

Restriction on applicability

69. Regulations 31(b)(4) and 33(b) shall not apply to convictions, of which a person was convicted before these regulations went into effect.

First Addition
 (Definition of "AALS" in regulation 1)
**Calculation of Average Maturity, Adjusted Average Maturity
 and Average Interest)**

Definitions:

- B = balance sheet balance of the loan
- C_t = flow of income from the loan portfolio in period t
- N = number of periods in which flow of income is expected from the loans
- R = average monthly interest rate on the loan portfolio
- t = number of months until the income is received
- R_i = interest rate for the loan period i
- D = average maturity (ALS)
- MD = Adjusted average maturity (AALS)
- PMT = fixed periodic payment on a loan repaid by equal periodic installments of capital and interest

Formulas:

- (1) calculation of the average monthly interest rate of the loan portfolio:

$$B = Z \sum_{t=1}^N \frac{C_t}{(1 + R)^t}$$

- (2) calculation of average maturity:

$$D = \frac{Z \sum_{t=1}^N \frac{C_t * t}{(1 + R)^t}}{B}$$

- (3) Calculation of the adjusted average maturity:

$$MD = \frac{D}{1 + R}$$

Assets included in the calculations:

- (1) debentures, other than dedicated debentures
- (2) loans
- (3) deposits

Second Addition

(Definition of "weighted value of assets" in regulation 1)

Rates for Calculation of Spread of Risk Index by Categories of Assets

% of asset value for calculation of spread of risk index	Type of asset
	Negotiable assets
	1. Debentures
95%	(a) Makam
90%	(b) Government of Israel bonds, other than Makam
85%	(c) corporate debentures rated AA and up or commercial paper rated A1
80%	(d) corporate debentures rated BBB to AA, not inclusive, or commercial paper rated A2 to A1
50%	(e) corporate debentures rated below BBB or unrated, or commercial paper rated below A2
90%	(f) bonds of approved foreign governments not rated lower than the State of Israel
85%	(g) corporate debentures traded abroad rated A and up, or commercial paper rated A1 and up
80%	(h) corporate debentures traded abroad rated BBB to A, or commercial paper rated A2 to A1 and up
50%	(i) corporate debentures traded abroad rated below BBB or unrated, or commercial paper rated below A2
	2. Shares
75%	(a) Tel Aviv 25 shares
65%	(b) Tel Aviv 100 shares that are not Tel Aviv 25 shares
50%	(c) shares traded in Israel and not included in subsections (a) and (b)
65%	(d) shares traded abroad
	Non-negotiable assets
	3. Debentures, loans and deposits
100%	(a) dedicated bonds
85% of the rate said in section 1	(b) debentures, loans, deposits and debit balances of reinsurers, as specified in section 1 for debentures
100%	(c) loans against life insurance policies
	4. Participation units in investment trust funds
85%	(a) participation units in investment trust funds that invest more than 80% in debentures rated at least BBB, and do not invest in derivatives

65%	(b) participation units in other investment trust funds
100%	5. Cash and short term bank deposits for a period of less than three months
30%	6. Shares or partnership rights
40%	7. Real estate rights
25%	8. Other assets and other non-negotiable assets
100%	9. Deferred acquisition costs of non life insurance

Remarks:

- (1) Convertible debentures with a share price ratio of 1 or less shall be treated like debentures.
- (2) Convertible debentures with a share price ratio greater than 1 shall be treated like shares. For this purpose, "share price ratio", "share price" and "conversion price" - as defined in Opinion 53 of the Chamber of Auditors or in another opinion of in another accounting standard that replaces it or supplements it.
- (3) In this Schedule -
"Tel Aviv 25 shares" - shares included in the Exchange's T-A 25 list, or in any other list that replaces it under a decision of the Exchange;
"Tel Aviv 100 shares" - shares included in the Exchange's T-A 100 list, or in any other list that replaces it under a decision of the Exchange.

Third Addition
(Regulations 5(c) and 8(e))

Percentage	Category
20%	Quality guaranties
20%	Tender guaranties
20%	Sale guaranties after the purchaser took possession of the dwelling
50%	Performance guaranties
50%	Formal guaranties
50%	Guaranties for securities orders
60%	Sale guaranties before the purchaser took possession of the dwelling
100%	Guaranties to secure credit
100%	Other guaranties

February 25, 2001

Avraham (Beiga) Shohat
Minister of Finance