

INSURANCE BUSINESS CONTROL REGULATIONS (PARTICULARS OF REPORT) 5758-1998

By my authority under sections 46 and 112 of the Insurance Business Control Law 5741-1981 (hereafter: the Law), and with approval by the Knesset Finance Committee under section 48(a) of the Basic Law: The Knesset and section 2(b) of the Penal Law 5737-1977, I make these regulations:

CHAPTER ONE: INTERPRETATION

Definitions

1. In these regulations:

"Loss of working capacity" - loss of the ability to work in consequence of disease or accident;

"Option" - an undertaking that vests in its purchaser the right to buy or to sell the underlying asset at the realization price, or to receive the difference between the value of the underlying asset and the realization price, all at times and on conditions stated in the option;

"Liability insurance" - third party liability insurance, employers' liability insurance, product liability insurance and professional liability insurance;

"Third party liability insurance" and **"Product liability insurance"** - as defined in the Non life Insurance Reserve Calculation Regulations;

"Life insurance" - within its meaning in paragraphs (1) to (4) of the Branches of Insurance Notice, as well as long term care insurance and loss of working capacity insurance, even if they are not part of a life insurance policy;

"Profit sharing life insurance" - life insurance in which the beneficiary's and the insured person's rights depend on the yield of certain investments specifically made by the insurer for purposes of a program approved as such insurance by the Commissioner or on other profits linked to that program;

"Group life insurance" - as defined in Insurance Business Control Regulations (Group Life Insurance) 5753-1993;

"Non life insurance" - all branches of insurance within their meaning in the Branches of Insurance Notice, except for life insurance;

"Executive insurance" - life insurance in which the person whose life is insured is the employee, and for which the employee and the employer

allocate premiums for purposes of severance pay or benefits or pension, whether in whole or in part;

"Related party" - within its meaning in paragraph (1) of the definition of "related party" in a body corporate, in section 1 of the Securities Law 5728-1968 (hereafter: Securities Law);

"Insurance payment" - premium, registration fee, policy fee, collection fee and other receipts from insured person in addition to the premium, including aforesaid receipts received by a participating company from the managing company of joint insurance;

"Report" or "Financial report" - an annual financial report, drawn up for the period that ends on December 31 of that year, which includes reports as said in regulation 6;

"Branches of Insurance Notice" - the Insurance Business Control Notice (Branches of Insurance) 5745-1985;

"Allocations for future claims" - insurance reserves, pending claims and reserves for extraordinary risks, all in non life insurance;

"Company" - including a partnership or joint venture;

"Subsidiary" - company in which another company holds 50% or more of the nominal value of its issued share capital or of the voting rights in it, or in which it is entitled to appoint half or more of its directors or its general manager;

"Consolidated company" - a company, the reports of which are consolidated with the reports of an insurer, other than a proportionally consolidated company;

"Proportionally consolidated company" - a company, the reports of which are consolidated with the reports of an insurer by way of proportional consolidation;

"Included company" - a company, other than a consolidated company and a proportionally consolidated company, in which an investment by the insurer is included in the insurer's reports on the basis of balance sheet value;

"Held company" - a consolidated company, a proportionally consolidated company or an included company;

"Managing company" and "Participating company" - as defined in the Equity Regulations;

"Futures contract" - an undertaking to deliver or to receive in the future foreign exchange quotation differentials, index differentials, interest differentials, an asset or the price of an asset, all in quantities, at a time and on conditions stated in the undertaking;

"Underwriter" - a person authorized to handle insurance underwriting in the insurer's name, other than an employee of the insurer;

"Accounting rules" - accounting principles and financial reporting rules prescribed by the Institute of Certified Accountants in Israel or the Israel Accounting Standards Institute, as well as accounting principles and financial reporting rules, the adoption of which the Commissioner ordered;

"Index" - the Consumer Price Index or any other index published by the Central Bureau of Statistics or the Stock Exchange, or any other index prescribed in an insurance policy, all as the case may be;

"Consumer Price Index" - the Consumer Price Index or any other index that will take its place, published by the Central Bureau of Statistics;

"Consumer Price Index for a certain month" - the Consumer Price Index of that month, which is published in the following month;

"Consumer Price Index known in a certain month" - the Consumer Price Index known at the end of that month;

"Lloyd's Underwriter's agent" - the agent of a person who holds exemption under section 86(a) of the Law;

"Realization price" - the price at which the obligation in an option will be realized;

"Comparison number" - the corresponding amount for one or several earlier report periods;

"Securities" - as defined in the Securities Law, including securities issued by the Government or under a special Law, futures contracts or options;

"Negotiable security" - any security registered for trading on a securities exchange in Israel or on a securities exchange abroad;

"Underlying asset" - the asset that is the subject of the obligation in an option;

"Direct business" and **"Assumed business"** - as defined in Non life Insurance Reserve Calculation Regulations;

"Life insurance reserve" - an actuarial reserve, calculated according to rules on this subject that are accepted in Israel;

"Non life insurance reserves" - reserves calculated in accordance with the Non life Insurance Reserve Calculation Regulations;

"Accumulation" - the cumulative surplus of income over expenditures, as calculated under the Non life Insurance Reserve Calculation Regulations, less reserves for risks that have not yet lapsed;

"Associated parties" - each of the following:

- (1) parties, one of whom directly or indirectly holds 10% or more of the other party's issued share capital or of the voting rights in it or of the power to appoint its directors, or who is entitled to appoint its general manager or serves as director or as general manager;
- (2) any body corporate in which a party said in paragraph (1) holds 25% or more of the issued share capital or of the voting rights in it or of the power to appoint its directors;
- (3) spouses and children below age 18 of any of the parties said in paragraphs (1) and (2);

"Representative exchange rate" - the representative exchange rate of a foreign currency published by the Bank of Israel, correct as of a certain date; if no representative exchange rate was set for the said day, then the representative exchange rate last set as aforesaid before that day;

"Date of approval of financial report" - the date on which the Board of Directors of the insurer, or a committee of it that is authorized to do so, approved the financial report;

"Date of financial report" or **"Date of report"** - the last day of the period to which the financial report refers;

"Pending claims" - known pending claims, plus the larger of the following amounts:

- (1) claims that have not yet been reported, plus expected developments with claims, in respect of which partial reports have been received;
- (2) accumulation;

"Insurance broker" - a foreign resident who engages in the brokerage of insurance matters between an insurer or an insured person abroad and an insurer in Israel;

"Ways of Investment Regulations" - the Insurance Business (Control) Regulations (Ways of Investing an Insurer's Capital, Reserves and Obligations) 5747-1986;

"Equity Regulations" - Insurance Business Control Regulations (Minimum Equity Required of Insurer) 5758-1998;

"Separate Life Insurance Accounts Regulations" - Insurance Business Control Regulations (Ways of Separating Accounts and Assets of Life Insurance Insurer) 5744-1984;

"Non life Insurance Reserve Calculation Regulations" - Insurance Business (Control) Regulations (Methods of Calculating Allocations for Future Claims in Non life Insurance) 5745-1984.

CHAPTER TWO: PRINCIPLES OF FINANCIAL REPORT

Preparation of financial report

2. A financial report shall be drawn up fully adjusted to changes in the general purchasing power of Israel currency according to accounting rules and subject to these regulations (hereafter: adjusted report); a said report shall properly reflect the condition of the insurer's business on the report date, the results of his activity, the changes in equity and the cash flow during the period that ended on that date; accounting rules shall be decisive in his matter, as long as they do not contradict these regulations.

Additional information

3. In addition to the particulars required in these regulations, all the particulars, information and explanations, without which the financial report would not properly reflect what is required by regulation 2, shall be specified.

Signatures and dates of report

4. Next to the signatures of the report's signatories shall also be stated their names and positions in the insurer, and the report date's approval shall be stated.

Rules for adjustment of financial report

5. (a) Non-financial assets shall be adjusted at the rate of the index increase during the period from the transaction's performance - and in respect of an extraordinary transaction, from the actual date of payment - until the report date, subject to the provisions of regulation 28.
- (b) In the Notes to the financial report (hereafter: Notes) -
 - (1) shall be stated that the values in the adjusted report do not represent the non-financial assets' market value on the report date, but only their cost at the time of their acquisition, adjusted to the rate of the index increase from the acquisition date or the erection date or the revaluation, until the financial report date;
 - (2) if a revaluation of non-financial assets was made during the report year by a qualified assessor, as said in regulation 28, then it shall be stated that the value of those non-financial assets is shown according to the said revaluation.

Structure and scope of report

6. (a) A financial report shall be drawn up by an insurer and it shall include -
- (1) a balance sheet;
 - (2) a profit and loss account;
 - (3) a life insurance business account;
 - (4) a non life insurance business account;
 - (5) a report on changes in the equity;
 - (6) a report on the cash flow during the financial report period;
 - (7) particulars of assets and obligations, as specified in The First Addition.
- (b) A report from the Board of Directors on the condition of the insurer's business shall be attached to the financial report.
- (c) The sections of the reports shall be classified and presented in their order in these regulations, unless the insurer's business makes a different classification and presentation necessary, on condition that that is stated in the report.
- (d) An insurer's financial report shall include Notes on the following subjects:
- (1) the main elements of the accounting policy, including the manner of presenting the report; if in drawing up the report the insurer depended on an expert actuary or assessor, then that fact shall be stated as part of the Notes on accounting policy; for this purpose, "expert" - a person who holds a license from a competent authority in the required field or is a member of the professional association in that field in Israel;
 - (2) the basis for the valuation of assets and obligations;
 - (3) the basis for the preparation of insurance business reports;
 - (4) particulars required by the Equity Regulations and the Ways of Investment Regulations, including digressions from those regulations, if there were aforesaid digressions.
- (e) An Israel insurer shall include in the Notes, in addition to the provisions of subregulation (d), also the following information:
- (1) in nominal terms -
 - (a) condensed balance sheet;
 - (b) profit and loss report;
 - (c) insurance business reports;
 - (d) changes in capital and reserves, as required under Article One of Chapter Nine of the Companies Ordinance (New Version) 5743-1983;
 - (2) particulars, explanations and other matters required by the accounting rules, which are important for an explanation of particulars in the financial report;
- (f) The provisions of subregulation (e)(1) shall not apply to consolidated reports.
- (g) Any item that can be quantified in monetary terms, including by a reasonable estimate, shall include the appropriate amount.

- (h) A foreign insurer shall draw up his financial report as said in this regulation in respect of his business in Israel, and in his Notes he shall include reports on assets and obligations and reports on insurance business in nominal terms, except for the provision of subregulation (b).

Consolidated report

- 7. (a) The financial report of an Israel insurer shall include - in addition to what is provided in regulation 6 - a consolidated report of the insurer, together with the companies that must be consolidated in accordance with the accounting rules, also when the insurer is wholly owned by another body corporate, unless he was given exemption under section 42(c) of the Law.
- (b) A consolidated report shall be drawn up according to these regulations, mutatis mutandis.

Comparative reports

- 8. (a) The comparison figure of the preceding report year shall be presented next to every amount on the balance sheet and on the detailed list of assets and obligations.
- (b) Comparison figures for each of the two preceding report years shall be presented next to every amount in the profit and loss account, in the life insurance business report, in the non life insurance business report, in the report on changes in equity and in the cash flow report.
- (c) Comparison figures as said in subregulations (a) and (b) shall also be presented in the Notes that relate to these reports, unless it is explicitly provided otherwise.
- (d) Each comparison figure shall be adjusted in accordance with the rate of index increase during the period from the date of report to which it relates until the financial report date.
- (e) If a change in accounting rules or in the manner of their application was made in one of the report years included in a financial report, as compared to a previous reporting year, other than an aforesaid change that must be reflected by a new manner of presentation, then the change shall be explained, the reasons for it shall be spelled out and its quantitative effect shall be stated on profit before the deduction of taxes on income, on net profit, on per share profit and on other items in the reports enumerated in regulation 6(a), on which the change exerts a substantive effect, for each of the tax years for which data are included in the financial report.
- (f) if a comparison figure in a financial report was changed by way of reclassification, then -
 - (1) the nature of the reclassification shall be explained, the reasons for it spelled out and its quantitative effect shall be stated on each of the reclassified items in the report, which are enumerated in regulation 6(a), on net profit and on per share profit in each of the preceding report years for which data are included in the report;

- (2) the balance of profit or the balance of loss at the beginning of the earliest report year for which data are included in the report shall be specified, as well as the total effect on profits and losses in the years before the earliest report year for which data are included in the report.
- (g) If an accounting estimate was changed during the report year and if the change has a substantive effect on the financial report in the report year or in future report years, then the nature of the change shall be explained, the reasons for it spelled out and its quantitative effect stated on balance sheet and profit and loss report items, including per share profit.
- (h) Every reclassified amount in the financial report shall be so marked.

Separate presentation of particulars

- 9. The particulars required in these regulations shall be presented separately in the financial report, unless under the circumstances they are not substantive; it is not obligatory to state that a certain item is missing, except where these regulations provide differently.

Presentation of assets and obligations

- 10. (a) Assets and obligations held against life insurance business with semi-annual linkage shall be presented according to the consumer price index known in the month in which the financial report date occurs.
- (b) The Notes shall show the index or representative currency exchange rate, according to which the assets and obligations were calculated, as well as the changes in them since the previous financial report.

Hidden reserves

- 11. No hidden reserves shall be created, also not by means of accelerated or one-time depreciation of fixed or other assets, unless the Commissioner so permitted and in accordance with his instructions; if aforesaid hidden reserves were created, then that shall be stated in the Notes and their effect on net profit shall be specified.

Rate of return on profit sharing life insurance

- 12. An insurer who engages in life insurance shall, in a Note on profit sharing life insurance, specify the rate of yield on the assets achieved during the report period, before and after the payment of management fees, in a manner to be prescribed by the Commissioner, as well as the comparison figure; he shall further specify the average yield during the last five years up to the date of report.

Income must not be set off against expenditure

- 13. (a) The full amount of income and expenditures that stem from life insurance shall be entered in the insurance business report, unless there is a different provision in these regulations.
- (b) The following must not be set off:

- (1) insurance payments against expenses, including expenses connected with the acquisition of business or the preparation of policies and running the business, and also under agreements with insurance agents that part of the said receipts be transferred to them directly or indirectly;
 - (2) commissions and management fees or other income from reinsurers against commissions and management fees to insurance agents or other expenses;
 - (3) insurance payments to reinsurers against commissions from them;
 - (4) interest on long term obligations against income from investments.
- (c) Notwithstanding the provisions of subregulation (b), income from insurance payments shall be entered after the deduction of insurance payment refunds, and claim settlement expenses shall be entered after the deduction of claim refunds (indemnification).

Joint insurance business

14. A managing company shall enter in the insurance business report only its part of the income and expenditure, without including in the expenses any commission paid to agents in the name or on account of a participating company; a participating company shall enter in the insurance business report its part of the income and expenditure, including commission paid to agents; a managing company and a participating company shall enter in the balance sheet in the item "premiums for collection and agents' balances" only its part of the amount of the premium to be collected and of agents' balances.

Division of income and expenses between reports of results

15. (a) An insurer shall set a method for the division of management expenses and overheads between reports of results, and he shall consistently act according to it; the method for the division of management expenses and overheads shall be explained in the Notes; if the said method for dividing expenses is changed, then the change shall be presented in comparison with the previous method.
- (b) Notwithstanding the provisions of subregulation (a), expenses that can be related to the appropriate report of results shall be entered in that report.
- (c) Income from investments shall be credited to reports on results in accordance with the investments held against the liabilities and against capital and reserves during the report period.

Management fee

16. Income from the management of insurance funds and insurance pools and income from brokerage on insurance matters shall be credited to the insurance business report, and income from the representation and management of a foreign insurance company shall be credited directly to the profit and loss account,

CHAPTER THREE: INTERIM PERIOD FINANCIAL REPORTS

Interim period financial reports

17. (a) In this regulation, "interim period financial reports" and "quarter" - within their meaning in section 42(a1) of the Law.
- (b) An insurer shall submit an interim period financial reports, drawn up according to the rules set for the financial report, and he shall include all the matters specified below, mutatis mutandis as the case may be:
 - (1) balance sheet;
 - (2) profit and loss account;
 - (3) life insurance business account;
 - (4) non life insurance business account;
 - (5) report on changes in the equity;
 - (6) report on cash flow;
 - (7) particulars of assets and obligations, as specified in The First Addition.
- (c) The profit and loss account, life insurance business account, non life insurance business account, report on changes in the equity and the report on cash flow shall be presented:
 - (1) in the financial report for the first quarter - for the first quarter;
 - (2) in the financial report for the second quarter - for the second quarter and for the six month period that ends on the report date for the second quarter;
 - (3) in the financial report for the third quarter - for the third quarter and for the nine month period that ends on the report date for the third quarter.
- (d) Reports from the Board of Directors on the state of insurer's business shall be attached to interim period financial reports.
- (e) Concise Notes on the manner of its preparation shall be attached to interim period financial reports.
- (f) Next to every amount on the balance sheet shall be presented the corresponding amount from the balance sheet of the corresponding quarter in the preceding report year and of all of the preceding report year; it is not obligatory to include comparison figures for the breakdown of assets and obligations said in subregulation (b)(7).
- (g) Next to every amount in the report items said in subregulation (c) shall be presented the corresponding amount for the corresponding periods of the preceding report year and for all of the preceding report year.
- (h) In the Notes disclosure shall be made of any transaction with an associated party during the period from the date of the preceding annual report until the date on which the interim period financial report was signed, exclusive of immaterial amounts of insurance payments, commissions, paid claims, pending claims balances and interest, which were paid to associated parties or were received from associated parties in the ordinary course of insurance business.

- (i) The Notes shall include explanations of -
 - (1) seasonal effects on the reported results;
 - (2) any change of accounting policy, which was applied in the interim period financial report, as compared with the last financial report, specifying the monetary effect of the change;
 - (3) every reclassification or new presentation in the interim period financial report, as compared with the classification or presentation used in the last financial report, specifying the monetary effect of the change; it is not obligatory to include in the interim period financial report any breakdown which under the circumstances of the case is immaterial.
- (j) The insurer shall submit to the Commissioner an interim period financial report, approved by the Board of Directors or by a committee thereof which was authorized for this purpose, within ten days after the said approval and not later than two months after the end of each quarter.

CHAPTER FOUR: PARTICULARS ABOUT INSURER'S ASSETS TO BE INCLUDED IN BALANCE SHEET

Classification of assets

18. (a) The balance sheet shall include information on the insurer's assets according to the following groups and sub-groups:
- (1) Investments -
 - (a) cash and cash equivalents;
 - (b) securities, other than securities issued by held companies;
 - (c) loans, other than loans to held companies;
 - (d) deposits in banks and financial institutions;
 - (e) investments in held companies;
 - (f) rights in rental real estate;
 - (2) fixed assets;
 - (3) receivables -
 - (a) insurance companies;
 - (b) premiums to be collected and agents' balances;
 - (c) debtors and debit balances;
 - (d) other assets;
 - (4) deferred acquisition expenses and other property -
 - (a) deferred acquisition expenses in non life insurance;
 - (b) deferred acquisition expenses in life insurance;
 - (c) other property, including intangible property.
- (b) For the purposes of paragraph (3) in subregulation (a), the debt of a held company and of a company that is an related party in the insurer shall be taken as likely to be realized within one year only if its operating capital position, as of the balance sheet date, makes realization of the debt possible.

Securities

19. (a) Securities shall be classified and specified in the Notes according to the following categories:
 - (1) investments in certificates of obligation that are not convertible into shares;
 - (2) investments in certificates of obligation that are convertible into shares;
 - (3) investments in shares;
 - (4) investments in investment trust fund units;
 - (5) investments in certificates that give the right to acquire shares (option certificates);
 - (6) investments in futures contracts;
 - (7) investments in options.
- (b) The information to be specified according to subregulation (a) shall also include payments for securities, in respect of which certificates have not yet been issued.
- (c) In respect of every category of investment in shares said in subregulation (a) there shall also be specified separately securities listed for trading on an Exchange in Israel and securities listed for trading on an Exchange or regulated securities market abroad, stating their market value; the said separation shall also be made for securities that are not listed for trading.
- (d) A separate breakdown shall be given in a Note on exposure to the underlying asset of securities investments said in paragraphs (6) and (7) of subregulation (a).
- (e) An investment in the shares of an insurer to an extent greater than 5% of its nominal capital value or of voting rights in it shall be stated separately.
- (f) Investments in certificates of obligation issued in Israel shall be specified by the following categories, and the linkage basis shall be stated for each:
 - (1) certificates of obligation of the Israel Government or with its guaranty;
 - (2) other certificates of obligation issued in Israel.
- (g) Amounts of investment in debentures issued abroad shall be specified, stating the basis of their linkage.
- (h) The amount of securities that are not transferrable shall be stated, and also the amount of securities deposited with the Bank of Israel in accordance with the Law.
- (i) Securities shall be valued as follows:
 - (1) negotiable debentures - at their market value on the financial report date;
 - (2) non-negotiable debentures - the amount of principal plus any premium that has not yet been amortized or less any discount that has not yet been amortized, plus interest accrued up to the financial report date, all at their adjusted values in accordance with the terms of issue;

- (3) other negotiable securities - at their market value on the financial report date;
- (4) non-negotiable securities - at cost, but if the insurer is of the opinion that the value dropped otherwise than temporarily, then they shall be valued at cost, less an allocation for the drop in value;
- (5) joint investment trust fund units - at their redemption price.

Loans and deposits

20. (a) Loans and deposits in banks or financial institutions made by the insurer shall be presented on the balance sheet according to the following provisions:
 - (1) Value linked loans or deposits shall be presented in an amount that includes linkage differentials or exchange rate differentials and interest, accrued until the report date;
 - (2) an balance of interest received in advance on a loan shall be subtracted from the balance of the loan;
 - (3) deposits the repayment of which - when they are made - was after more than three months, and also deposits earmarked for loans shall be presented in the item "deposits in banks and financial institutions"; deposits for shorter periods shall be presented in the item "cash and cash equivalents".
- (b) The following breakdown shall be given in the Notes:
 - (1) loans shall be presented according to the surety given for them, as specified below:
 - (a) loans against life insurance policies;
 - (b) loans secured by mortgages;
 - (c) loans secured by bank guaranties;
 - (d) loans secured by liens on vehicles;
 - (e) loans secured by other surety, including specification of the types of sureties;
 - (f) unsecured loans;
 - (2) loans and deposits by the linkage basis, average terms and average interest rates.
- (c) If the balance of loans to one factor adds up to more than 5% of all loans or more than NS 10 million, linked to the Consumer Price Index, whichever is less, then the particulars of the loan and its conditions shall be stated; for this purpose -
 - "base index" - the index on the day these regulations went into effect;
 - "determining index" - the index as of the financial report date.

Exchange of securities

21. If securities were acquired in exchange for other securities which the insurer held, then the particulars and circumstances of the transaction shall be presented and the accounting rules, according to which they were entered, shall be stated.

Presentation of held companies on balance sheet

22. Investments in held companies shall be presented on the balance sheet, separating insurance companies from other companies.

Investments in held companies

23. (a) Amounts of investments, loans and debit balances not included in the item "receivables", which relate to held companies, shall appear under the heading "Investments in Held Companies", and they shall be classified into separate categories of consolidated companies, proportionally consolidated companies and included companies; the aforesaid amounts shall be specified in Notes by their categories, differentiating between insurance companies and other companies:
- (1) shares;
 - (2) certificates that give the right to acquire shares (option certificates);
 - (3) certificates of obligation convertible into shares;
 - (4) certificates of obligation not convertible into shares;
 - (5) loans and debit balances not included in the item "receivables".
- (b) An investment in shares said in subregulation (a)(1) shall be specified, differentiating between the cost of the acquired shares and amounts of profit or loss accrued since the date of acquisition, in respect of investments made since January 1, 1992; in respect of investments made before the said date, only profits or losses accrued since that date shall be specified.
- (c) Investments in held companies shall be specified in Notes, according to the following provisions:
- (1) the amount of dividend received in the report year shall be stated, separately for consolidated companies, for proportionally consolidated companies and for included companies;
 - (2) the value of assets according to subregulation (a)(1) to (4), as of the financial report date, shall be specified separately for those listed for trading in Israel and for those listed on an Exchange or regulated securities market abroad;
 - (3) the proportion of the insurer's holding of the issued capital, voting rights and rights to profits in each of the held companies shall be stated;
 - (4) the original differential, which stems from the acquisition of investments shall be specified separately for consolidated companies, proportionally consolidated companies and included companies, stating the original amount, the rate at which it is amortized and the balance on the financial report date, on condition that the original differential has not yet been amortized in its entirety;
 - (5) certificates of obligation not convertible into shares and loans and debit balances not included in the item "receivables", as said in subregulation (a)(4) and (5), shall be specified in the following categories, stating the interest rate in 1% steps:

- (a) the Israel currency amounts that are not linked to an index;
- (b) the Israel currency amounts that are linked to an index, each type of index separately;
- (c) the amounts in foreign currency or linked to foreign currency - each currency separately.

Certificates of obligation and rights of held companies

24. If a held company allocated certificates that carry the right to acquire shares (option certificates), debentures convertible into shares or rights to acquire aforesaid option certificates or debentures, or if it received amounts on account of shares, aforesaid debentures or rights, or if it contracted in some other manner to issue shares, then particulars of the said rights shall be stated for each held company separately.

Fixed assets

25. (a) Fixed assets as said in item (2) of regulation 18(a) shall be presented on the balance sheet, separating office buildings from other fixed assets, and in the Notes they shall be broken down into the following categories:
- (1) office buildings;
 - (2) rental rights, installations and improvements in rented premises;
 - (3) vehicles;
 - (4) computers and software;
 - (5) office furniture and equipment;
 - (6) other fixed assets.
- (b) If the category "other fixed assets" said in subregulation (a)(6) included an asset, the value of which exceeds 5% of all the fixed assets, then the said asset shall be specified separately.
- (c) If an allocation for a drop in the value of the asset was made in any category of fixed assets, then the said allocation shall be stated, if it was made after January 1, 1992.

Depreciable fixed assets

26. (a) The following particulars shall be presented in Notes in respect of each of the categories said in regulation 25(a)(1) to (6):
- (1) the cost of the assets, as of the beginning of the report year, the cost of assets added during the report year, the cost of assets deducted during the report year, and the cost of the assets as of the financial report date;
 - (2) any addition due to revaluation at the beginning of the report year, the addition or deduction due to revaluation in the course of the report year, the depreciation allocation entered during the report year due to revaluation, the balance of revaluation as of the financial report date; in this paragraph, "revaluation" - within its meaning in regulation 28;

- (3) depreciation accrued to the beginning of the report year, the allocation for depreciation during the report year, the depreciation accrued in respect of assets deducted during the report year and accrued depreciation as of the financial report date;
- (4) the depreciated balance of each category.
- (b) It is not obligatory to present comparison figures for a preceding tax year in respect of the particulars said in subregulation (a)(1) to (3).
- (c) The method of depreciation and depreciation rates shall be stated; if the depreciation method is not the straight line method, then the length of the asset's economic life shall also be stated.

Real estate rights

27. If the items "investments" and "fixed assets" include real estate rights, then the following provisions shall apply:
- (1) these rights shall be specified, distinguishing ownership from lease rights;
 - (2) lease rights shall be specified, stating the length of the lease period, distinguishing capitalized leases from leases that were not capitalized;
 - (3) if real estate rights in Israel were not registered in the Land Registry in the name of the insurer or of its subsidiary, then the reason for the absence of registration shall be stated;
 - (4) if real estate rights abroad were not registered in the name of the insurer or of its subsidiary in the Registry kept under the laws of the foreign country, then the reason for the absence of registration shall be stated;
 - (5) real estate rights shall also include real estate rights held through a held company whose only business is the holding of those rights; if the insurer holds 50% or less of the voting rights in the said company, then the insurer's share of that company shall not be included in the item "real estate rights", unless the part of the real estate rights is at the insurer's disposal, as if he held it directly;
 - (6) if costs or expenses were charged to the value of the real estate, then the amounts of the costs or expenses shall be stated, if they were charged after January 1, 1992;
 - (7) if buildings are partly rented out and partly used for the company's offices, then they should be presented in the item "real estate rights" or in the item "fixed assets" according to the way they are used, while stating the matter in the Notes;
 - (8) contracts to erect buildings and to acquire real estate, including undertakings to make such investments, shall be specified in the appropriate Note, stating the amount of investment as of the financial report date and the amount required to complete the acquisition or investment;
 - (9) the provisions of regulation 26(a)(1) to (4) shall also apply to real estate rights, mutatis mutandis.

Revaluation of real estate

28. (a) An insurer may, at any time, reevaluate real estate held by him, whether directly or through his held company whose only business is the holding of those rights, only against liabilities of the categories specified in paragraphs (2a), (5) or (6) in regulation 4 of the Ways of Investment Regulations (hereafter: revaluation); revaluation shall be carried out in accordance with the following rules:
- (1) a said addition in respect of an asset held against a liability of the category specified in paragraph (5) or (6) of regulation 4 of the Ways of Investment Regulations shall be credited to a capital fund; deferred tax shall be calculated on the differential between the asset's new value and its depreciated cost;
 - (2) a said addition in respect of an asset that corresponds to liabilities of the category specified in paragraph (2a) of regulation 4 of the Ways of Investment Regulations shall be credited to the business report;
 - (3) in respect of real estate held against liabilities of the category specified in paragraph (2a) of regulation 4 of the Ways of Investment Regulations, the insurer shall carry out a revaluation under this regulation at least at the end of every report year.
- (b) In years in which no revaluation was carried out, the real estate shall be presented on the balance sheet at the last valuation made of it, adjusted to the index, with the addition of costs added in the report year, less the depreciation allocation for the report year.

Receivables

29. (a) In the item "insurance companies", as said in regulation 18(a)(3)(a), shall be presented on the balance sheet -
- (1) the part of reinsurers in insurance reserves, and separately the part of reinsurers in pending claims;
 - (2) deposits held by delivering companies, including insurance brokers, according to reinsurance contracts in respect of insurance reserves or pending claims;
 - (3) other accounts, including debit balances of Lloyd's Underwriters' agents and of general agents in Israel of foreign insurers, including debts of insurance companies for compensation claimed from them by the insurer in consequence of claims paid by him.
- (b) In Notes to the item "insurance companies" shall be specified separately the parts of reinsurers in life insurance and in non life insurance, and also stated shall be the debit balance of insurance companies or insurance brokers included in "other accounts", as said in subregulation (a)(3), for which 12 or more months have elapsed since the time for the payment of those debts.
- (c) In the item "premiums to be collected and agents' balances", which appears on the balance sheet as said in regulation 18(a)(3)(b) -

- (1) insurance payment balances to be collected from insured persons and insurance agents must be included;
 - (2) if, under the conditions of the policy, insurance payments to be collected and agents' balances include linkage and interest, then the balance of the debt must be entered with the addition of linkage and interest from the day on which the debt was created until the financial report date;
 - (3) the proportional part of insurance payments to be collected from business managed by an insurance pool shall be included in the balance sheet of each of the companies that participate in the pool;
 - (4) balances of insurance brokers from business abroad shall be included;
 - (5) the allocation for doubtful debts, which stem from insurance payments to be collected, shall be set off against the balance of the item "premiums for collection and agents' balances".
- (d) In the notes to the item "premiums for collection and agents' balances" -
- (1) the amount of notes receivable and of standing orders for collection shall be stated;
 - (2) the amount of allocation for doubtful debts shall be stated;
 - (3) if the item includes the balance of a single agent or insured person that exceeds 5%, then a said balance shall be specified separately;
 - (4) if the cumulative balances of a single factor in the items "loans", "premiums for collection and agents' balances" and "debtors and debit balances" exceed 5% of the balance of the item "premiums to be collected and agents' balances", then a said balance shall be specified separately; for this purpose, "loans" - loans not secured in accordance with the Ways of Investment Regulations.
- (e) The following categories shall be specified in the Notes to the item "debtors and debit balances", as said in regulation 18(a)(3)(c):
- (1) employees;
 - (2) institutions;
 - (3) held companies;
 - (4) interested parties;
 - (5) advance payments on commissions for agents;
 - (6) other debtors and debit balances; if the category "other debtors and debit balances" includes an asset that exceeds 5% of the balance of the item "debtors and debit balances", then the said asset shall be specified separately.

Deferred acquisition expenses and other property

30. (a) The following categories shall be presented on the balance sheet in the item "deferred acquisition expenses and other property", as said in regulation 18(a)(4):

- (1) deferred acquisition expenses of non life insurance - to be calculated according to the Non life Insurance Reserve Calculation Regulations;
 - (2) deferred acquisition expenses of life insurance;
 - (3) other property.
- (b) The category "other property" said in subregulation (a)(3) shall be presented in the Notes with the following breakdown:
- (1) expenses for the acquisition of an insurance portfolio;
 - (2) foundation expenses and expenses of share and option certificate issues, which were not written off against premiums on shares;
 - (3) issuing expenses and discounts on certificates of obligation;
 - (4) original differential from investments in consolidated companies and proportionally consolidated companies;
 - (5) receivable long term deferred taxes;
 - (6) others.
- (c) For purposes of subregulation (a)(2) and also for purposes of subregulation (b) the following shall also be specified in Notes: the balance at the beginning of the report year, the amounts added during the report year, the amounts written off during the report year and the rate of the write off.
- (d) In the category "deferred acquisition expenses of life insurance", as said in subregulation (a)(2), expenses incurred for policies issued since January 1, 1998, shall be deferred and written off over the term of the policy; for policies with a term of more than 15 years, acquisition expenses may be written off over a shorter period, but not less than 15 years; acquisition expenses shall be specified in Notes as follows:
- (1) the amount of Zillmer deduction in connection with the underwriting of life insurance policies issued up to December 31, 1997, calculated by the insurer's actuary;
 - (2) deferred acquisition expenses in connection with the underwriting of life insurance policies issued on or after January 1, 1998.
- (e) For purposes of paragraph (2) in subregulation (d), direct expenses on agents' commissions shall be included, including prizes and grants with the value added tax due on them, and also expenses that can be identified as belonging to the policy's execution, including expenses for medical examinations, expenses for acquisition supervisors, management expenses and overheads.

**CHAPTER FIVE: PARTICULARS ON THE INSURER'S EQUITY
TO BE INCLUDED IN THE BALANCE SHEET**

Option certificates

31. In this Chapter, "option certificate" - a security that gives its holder the right to acquire shares allocated by the insurer against a realization supplement, at a time and on conditions prescribed, and on condition that the consideration paid cannot be refunded to the purchaser.

Equity categories

32. (a) On the balance sheet the insurer's equity shall be presented on one line, and in respect of an Israel insurer in the Notes the equity shall be broken down by the following categories:
- (1) paid up share capital, including premiums on shares;
 - (2) receipts on account of shares;

- (3) perpetual obligations;
 - (4) capital funds, other than premiums on shares;
 - (5) surpluses;
 - (6) other capital items.
- (b) A foreign insurer shall present on his balance sheet the account of the head office abroad.

Share capital

33. (a) The nominal, registered, issued and paid up share capital shall be specified in the Notes with the number of shares, divided by types of shares, stating their nominal values and their main rights.
- (b) If shares carry rights linked to foreign currency or to some other linkage basis, then that shall be stated and the linkage basis shall be specified.
- (c) Redemption terms of redeemable shares shall be specified, including the persons entitled to demand redemption or to determine its date.
- (d) The amount of any accrued dividend in arrears shall be stated.

Receipts on account of shares

34. (a) Receipts on account of shares of different categories shall be specified separately.
- (b) If receipts said in subregulation (a) can be refunded, then those shall be presented in a separate item among the liabilities under regulation 39.

Perpetual obligations

35. The conditions shall be specified of liabilities, which are up for payment only when the insurer is being wound up and which are of lower rank than all other liabilities.

Capital funds and surpluses

36. (a) Capital funds and surpluses shall be specified by the following categories:
- (1) capital funds - every fund created after January 1, 1992, shall be specified separately;
 - (2) surpluses, including funds that are not capital funds; any fund earmarked for the redemption of shares shall be stated separately.
- (b) Notwithstanding the provisions of subregulation (a) and of regulation 32, capital funds created before March 31, 1986, may be included in one amount with the paid up share capital, on condition that that is stated.
- (c) Among capital funds shall be included, inter alia, premiums on shares, a sinking fund for the redemption of capital that was created in consequence of share redemptions, receipts for lapsed rights and for forfeited shares, other capital funds created according to the insurer's charter and by-laws out of surpluses or from some other source and which cannot be distributed in cash.

- (d) If the distribution of surpluses and of funds that can be distributed in cash has been restricted, then the restriction and its amount shall be stated.
- (e) In capital funds the amounts received on account of option certificates shall be stated, including option certificates that have not yet been allocated.
- (f) If the amounts of receipts said in subregulation (e) are refundable, then they shall be presented in a separate item among "long term obligations", as said in regulation 39.

Undertakings to allocate shares

- 37. (a) If option certificates were allocated, then the amounts received for them shall be stated, less issuing expenses related thereto.
- (b) The conditions under which the insurer can allocate shares according to option certificates or under some other undertaking shall be specified, whether or not any amount was received on account of the option certificates or other undertaking; those conditions shall be specified separately for each category of option certificates or other undertaking, and they shall refer, inter alia, to the category of shares, their number and the consideration for them, whether as consideration at the allocation of the option certificates or as additional consideration to be received at the time of the realization; the periods and dates for the realization of the option certificates or other undertaking shall also be stated.
- (c) If certificates of obligation convertible into shares or securities that give the right to acquire said certificates were allocated, then the conditions shall be specified in accordance with subregulation (b), mutatis mutandis.
- (d) The number and categories of shares allocated during the report year in consequence of the realization of rights said in subregulations (b) and (c) shall be stated, stating the consideration received at the time of realization, and particulars shall be presented on the lapse of aforesaid rights during the report year.

**CHAPTER SIX: PARTICULARS ON THE INSURER'S LIABILITIES
TO BE INCLUDED IN THE BALANCE SHEET**

Classification of liabilities

- 38. (a) The insurer's obligations shall be presented on the balance sheet in the following categories:
 - (1) long term obligations - certificates of obligation and other obligations;
 - (2) insurance reserves and pending claims -

- in life insurance - life insurance reserve, reserve for extraordinary risks and pending claims;
 - in non life insurance - reserve for risks that have not yet lapsed and pending claims;
 - (3) other obligations - obligations to insurance companies and insurance brokers, credit from banking corporations, dividends proposed for payment and other creditors and credit balances.
- (b) Subregulation (a) shall not apply to obligations for which it seems certain, on the date on which the financial report is approved, that they will not be paid but converted to equity, and also not to obligations due to be paid only when the body corporate is wound up, but which are not part of the categories of equity under regulation 32; these obligations shall be presented in a separate item after the item "equity".

Long term obligations

39. Long term obligations said in regulation 38(a)(1) shall be specified in the Notes according to these categories:
- (1) certificates of obligation that are convertible into shares;
 - (2) certificates of obligation that are not convertible into shares;
 - (3) obligations to banking corporations;
 - (4) obligations to interested parties;
 - (5) obligations to consolidated companies;
 - (6) obligations to proportionally consolidated companies;
 - (7) obligations to included companies;
 - (8) obligations that stem from financial leases;
 - (9) deferred income and as yet unrealized profits;
 - (10) obligations for deferred taxes;
 - (11) obligations for the termination of employer / employee relationships;
 - (12) other long term obligations; an obligation the amount of which exceeds 5% of all long term obligations shall be specified separately.

Particulars on long term obligations

40. (a) Long term obligations shall be specified in the Notes by type of currency and linkage basis:
- (1) unlinked obligations in Israel currency;
 - (2) obligations in Israel currency linked to the Consumer Price Index;
 - (3) obligations in foreign currency or linked to foreign currency, each currency category separately, each currency separately;
 - (4) obligations linked to some other basis.
- (b) If parts of an obligation are stated in different currencies or linked to different bases, then it shall be broken up and presented in the appropriate categories according to the classification in subregulation (a).
- (c) Long term obligations said in regulation 38(a)(1), other than obligations specified in paragraphs (9) to (11) of regulation 39, shall be classified as follows:

- (1) by the following due dates:
 - (a) in the first year;
 - (b) in the second year;
 - (c) in the third year;
 - (d) in the fourth year;
 - (e) in the fifth year;
 - (f) longer than five years;
 - (2) by interest rates.
- (d) The part of the amount of certificates of obligation held by consolidated and proportionally consolidate companies shall be stated, differentiating between certificates of obligation that are convertible into shares and certificates of obligation that are not convertible into shares.
 - (e) If there are circumstances that may accelerate the payment of an obligation, then those circumstances shall be specified and the amount of the obligation shall be stated.
 - (f) If an obligation is tied to a condition that restricts the insurer in the use of his assets, in obtaining credit or in other activities, then the condition shall be specified.
 - (g) It is not obligatory to specify comparison figures for a preceding tax year in respect of the data specified in this regulation.

Deferred taxes

41. (a) If differentials led to the creation of deferred taxes, then the substantive categories of those differentials shall be stated and for each substantive category the following particulars shall be stated, differentiating between deferred taxes in current obligations or current assets, and other deferred taxes:
 - (1) the balance of deferred taxes at the beginning of the report year;
 - (2) adjustment of that balance in consequence of changes in tax laws, if any;
 - (3) other changes in the balance during the report year, showing separately changes that are not included in the profit and loss account;
 - (4) the balance of deferred taxes at the end of the report year.
- (b) It shall be stated that the deferred taxes are calculated according to tax rates that are expected to be in effect when they are paid or realized, according to the Law as it stands, and those tax rates, as well as the amounts of tax in consideration of each balance sheet category shall be specified.
- (c) If assets were entered in the books because of deferred taxes, then the reason therefor shall be specified.
- (d) Amounts of deferred tax for which no assets were entered shall be stated.
- (e) The balance of losses for tax purposes shall be stated.
- (f) The reduced cost of depreciable fixed assets, which will not be recognized for tax purposes as depreciation or as cost when the assets are realized, and which is deemed a permanent differential for which

no obligation for deferred taxes is to be created, shall be stated, differentiating between the following:

- (1) the non-deductible amount at the beginning of the report year;
 - (2) the non-deductible amount during the report year;
 - (3) the balance on the financial report date.
- (f) The policy on taxes liable to apply in the event of the realization of investments in held companies shall be specified.

Insurance reserves

- 42 (a) Insurance reserves said in regulation 38(a)(2) shall be presented on the balance sheet before the deduction of reinsurance.
- (b) In the Notes shall be stated that reserves for non life insurance and pending claims in non life insurance were calculated in accordance with the Non life Insurance Reserve Calculation Regulations; any digression from the said regulations or any change from the method of calculation in the preceding year shall be stated and the amount of the digression, the reasons for it or the change and its effect on net profit shall be recorded.

Obligations upon termination of employer / employee relations

43. (a) The obligations in respect of the termination of employer / employee relations said in regulation 39(11) shall include obligations under Law, contract, custom, and according to the expectations of management.
- (b) The categories of obligations shall be specified, including pension, severance pay, retirement compensation, retirement grants, adjustment grants and compensation for unused sick leave, together with the amount included in the balance sheet for each category of obligation..
- (c) If the obligation is an obligation to pay severance pay, in respect of which payment to a benefit fund or other fund constitutes satisfaction of the obligation under the Severance Pay Law 5723-1963, then that shall be stated; it is not obligatory to specify the amount of the obligation.
- (d) The manner in which amounts stated under subregulation (b) were calculated, and the assumptions on which their calculation was based shall be specified.
- (e) The amount of reserve, which stems from the insurer's deposits in funds, benefit funds, insurance companies and saving schemes - and the category in which it is included - shall be specified in respect of each category of obligation for which an amount was stated under subregulation (b).

Other obligations

44. (a) In the balance sheet item "insurance companies and insurance brokers" said in regulation 38(a)(3), the following shall be presented separately:
- (1) deposits held by an insurer under a reinsurance contract;
 - (2) other accounts.

- (b) Other creditors and credit balances said in regulation 38(a)(3), shall be specified in the Notes in the following categories:
 - (1) obligations to insurance agents;
 - (2) obligations to insured persons;
 - (3) obligations to suppliers and service providers;
 - (4) obligations to employees and other obligations for wages and salaries;
 - (5) obligations to interested parties;
 - (6) obligations to held companies;
 - (7) other obligations.
- (c) If the category "other obligations" in subregulation (b), paragraph (7), includes an obligation, the amount of which exceeds 5% of the total of all creditors and credit balances, then the said obligation shall be presented separately.
- (d) The amount of any dividend declared or proposed until the date on which the financial report was approved shall be stated on the balance sheet; a dividend intended to be distributed out of profits of the period after the financial report date shall not be included among other obligations.

Contingencies

- 45. (a) In this section, "contingencies" - contingent obligations and contingent losses that do not stem from insurance business and are not included in the item "insurance reserves and pending claims".
- (b) Allocations for contingencies shall be classified on the balance sheet and in the profit and loss account by their nature, and they shall be deemed absolute obligations or losses;
- (c) Contingencies shall be specified in the Notes according to these provisions:
 - (1) particulars shall be presented on suits brought against the insurer and for which full allocation was not made, and the amounts of those claims;
 - (2) if an allocation was made for a contingency and if there is additional exposure in connection with the same contingency, the realization of which is more than faintly possible, or if no allocation was made for contingencies the realization of which is more than faintly possible, then particulars on the said contingencies shall be specified and the amount of exposure to additional payment shall be stated;
 - (3) if an allocation for a contingency was made and there is additional exposure in connection with the same contingency, the realization of which is only faintly possible, or if no allocation was made for a contingency the realization of which is only faintly possible, but the maximum possible obligation or loss are liable to raise doubts on the insurer's ability to continue to operate as he now does - then particulars on the contingencies or on exposure to additional payment shall be specified, according to the circumstances of the case;

- (4) particulars shall be presented separately in respect of contingencies, for which no reasonable estimate of exposure or of exposure to additional payment is possible, quoting the professional opinion - if any - according to which the aforesaid was determined.

Special contracts

49. Particulars shall be presented in the Notes on special contracts, as follows:
 - (1) the nature of the contract;
 - (2) the scope of the contract;
 - (3) the period during which the contract is in existence;
 - (4) the importance of the contract;
 - (5) the fact that the contract goes beyond what is customary with the insurer in the ordinary course of his business.

Charges

47. The amount of the insurer's obligations, as well as the amount of obligations of others secured by charges on any of the insurer's assets shall be stated, describing the charged asset and stating the nature of the charge.

CHAPTER SEVEN: PARTICULARS TO BE INCLUDED IN THE INSURER'S PROFIT AND LOSS ACCOUNT AND INSURANCE BUSINESS ACCOUNTS

Adjustment of insurance business and profit and loss account

48. (a) In the non life insurance business account, in the life insurance business account and in the profit and loss account said in regulation 6(a), the acts entered in Israel currency shall be adjusted from the Consumer Price Index known at the end of each of the months of the year to the Consumer Price Index known as of the report date, as follows:
 - (1) in non life insurance - the inclusive premium, including for reinsurance purposes, shall be adjusted according to the month in which the insurance began;
 - (2) in life insurance - the inclusive premium, including for reinsurance purposes, shall be adjusted according to the month in which it came into being;
 - (3) claims shall be adjusted according to the month of actual payment.
- (b) Registration fees, policy fees and other payments collected from insured persons, as well as commissions for insurance agents and commissions for reinsurers shall be adjusted as said in subregulation (a), as the case may be.
- (c) Acts recorded in the course of the year in foreign currency shall be translated according to the representative exchange rate on the last

day of the month in which the transaction was carried out, and they shall be adjusted as said in subregulation (a).

- (d) If part of an act was recorded in Israel currency and part in foreign currency, then each part shall be adjusted as said in subregulations (a) or (c), as the case may be.
- (e) Management expenses and overheads incurred in the course of the year shall be adjusted according to the month of the actual expenditure.
- (f) Any act recorded at its value on the financial report date shall not be adjusted.
- (g) The amounts of adjustments said in subregulations (a) to (e) shall be deducted from the item "income from investments" on the life insurance business report, the non life insurance business report and the profit and loss report, as the case may be.
- (h) Any inflationary surplus in respect of non-financial assets held against insurance reserves and pending claims shall be included in the item "income from investments" in the life insurance business report and on the non life insurance business report, as the case may be.
- (i) Inflationary adjustments of tax payments, including tax deductions at the source from income on investments in life insurance business during the report year, and of taxes deferred to the beginning of the year, shall be credited to the item "allocation for income and profits tax".

Categories of the profit and loss account

49. (a) The profit and loss account said in regulation 6(a)(2) shall be presented by the following categories:
- (1) profit or loss before deduction of taxes on income and taxes on profit, as said in regulation 50;
 - (2) allocations for taxes on income and profit;
 - (3) profit after deduction of taxes on income;
 - (4) the insurer's part of profits or losses of included companies; if included companies had profits or losses of the categories specified in paragraphs (6) to (8), then the insurer's part of those profits or losses shall be shown under the said paragraphs;
 - (5) the part of the minority in the profits or losses of consolidated companies; if the minority had profits or losses of the categories specified in paragraphs (6) to (8), then the minority's part shall be subtracted from the profits or losses shown under those paragraphs;
 - (6) profits or losses from activities that were discontinued, after deduction of taxes on income from those activities, stating the amount of tax deducted;
 - (7) profits or losses that constitute special items, after the deduction of taxes on income from those items, stating the amount of tax deducted;

- (8) the cumulative effect of any change in accounting rules or in the way in which they are applied, as of the beginning of the period in which that change was made, after deduction of taxes on the income due to those changes, stating the amount of tax deducted; if the change in accounting rules or in the way in which they are applied is of a nature that makes the restatement of comparison figures from previous periods necessary, then the particulars shall be shown according to the provisions of regulation 8(e).
- (b) Per share profit or loss shall be stated.

Profit or loss before taxes on income

50. (a) Profit or loss before deduction of taxes on income and profit shall be presented by the following categories:
 - (1) profit from life insurance business;
 - (2) profit from non life insurance business;
 - (3) income not included in the insurance business reports; the said income shall include income from investments, profit or loss on non-financial assets derived from investments that correspond to the equity, income from the management and representation of insurance companies and other income;
 - (4) interest paid on long term loans;
 - (5) management expenses and overhead not included in the insurance business reports.

Taxes on income

51. (a) Allocations for tax on income and profit shall be specified in the Notes in the following categories:
 - (1) current taxes on income, that is subject to tax in the report year;
 - (2) taxes deferred to the report year, other than amounts under paragraph (3);
 - (3) differentials from the adjustment of balances of deferred tax, in consequence of changes in tax laws, if any;
 - (4) taxes for preceding report years.
- (b) The tax rates, according to which the allocation for current tax on liable income in the report year was calculated, shall be stated.
- (c) An adjustment shall be presented between tax expenditure presented in the profit and loss account and the profit or loss before the deduction of tax multiplied by the main tax rate applicable to the insurer's income; this adjustment shall specify the main components of the difference between the said tax expenditure and the product of the said multiplication, including deferred taxes for which no asset was entered in the balance sheet in previous years and which were realized in the report year.
- (d) If the insurer objected to an assessment, then the difference under objection - together with linkage differentials, interest and fines, as the case may be - shall constitute a conditional obligation, and the provisions of regulation 45 shall apply to it, mutatis mutandis.

- (e) The last tax year, for which the insurer and its consolidated companies received final tax assessments, shall be stated.

Categories of the life insurance business report

- 52. The life insurance business report said in regulation 6(a)(3) shall be presented by the following categories:
 - (1) income specified as follows:
 - (a) income from premiums before reinsurance and premiums on the retention;
 - (b) income from investments;
 - (2) paid claims and pending claims, specified as follows:
 - (a) claims in consequence of death or invalidity before reinsurance and claims left in the retention;
 - (b) claims in consequence of redeemed policies before reinsurance and claims left in the retention;
 - (c) claims in consequence of policies the term of which has ended, before reinsurance and claims left in the retention;
 - (d) benefits before reinsurance and benefits left in the retention;
 - (3) change in the insurance reserve, less reinsurance;
 - (4) change in the reserve for extraordinary risks;
 - (5) participation in the profits of group life insurance;
 - (6) commissions paid, less the amount of increase in deferred acquisition expenses, which shall be deducted separately;
 - (7) management expenses and overhead, less commissions from reinsurance, which will be deducted separately;
 - (8) amortization of the acquisition expenses of insurance portfolios;
 - (9) results of reinsurance of the "MODIFIED-RE" category.

Life insurance business report

- 53. (a) In the life insurance business report said in regulation 6(a)(3) -
 - (1) in the item "premiums", the premiums shall be presented after the deduction of discounts to insured persons;
 - (2) results of reinsurance of the "MODIFIED-RE" category shall be presented in a separate item;
 - (3) in the item "income from investments" shall be included income from investments that correspond to insurance and other obligations in life insurance;
 - (4) in the item "paid claims and pending claims" shall be presented claims that were paid and the change in reserves for pending claims during the report period, including claims that were paid to insured persons from allocations to the reserve for extraordinary risks;
 - (5) in the item "change in the reserve for extraordinary risks", the payment of claims from this reserve shall be entered as a deduction from the reserve;
 - (6) in the item "participation in the profits of group life insurance" shall be presented payments which have actually been refunded to insured persons;

- (7) in the item "commission from reinsurance" shall be included commission on profits;
 - (8) in the item "management expenses and overhead" shall be presented the expenses calculated as said in regulation 15, together with expenses for medical examinations and also expenses for acquisition supervisors.
- (b) In the notes to the life insurance business report -
- (1) the composition of premiums shall be presented by categories of business, as follows:
individual, executive insurance in the two sale categories conventional and preferred, as well as group life insurance and loss of working capacity; if a premium included some other category of business, the amount of which exceeds 5% of the total insurance payment for life insurance, then that other category shall be specified separately;
 - (2) in reinsurance of the "MODIFIED-RE" category the results of the last underwriting year shall be presented separately and the results of previous underwriting years separately;
 - (3) the amount of deduction deducted from the item "change in the reserve for extraordinary risks" shall be stated.

Categories of the non life insurance business report

54. The non life insurance business report said in regulation 6(a)(4) shall be presented by the following categories:
- (1) income specified as follows:
 - (a) income from premiums;
 - (b) income from fees;
 - (c) income from premiums and fees left in the retention;
 - (d) portfolio premium;
 - (e) change in the reserve for risks that have not yet lapsed, less reinsurance;
 - (f) income from investments.
 - (2) paid claims and pending claims as specified below:
 - (a) paid claims and pending claims before reinsurance;
 - (b) paid claims and pending claims left in the retention;
 - (c) change in the reserve for extraordinary risks;
 - (3) commissions paid, and separately commissions received from reinsurers;
 - (4) management expenses and overhead;
 - (5) change in deferred acquisition expenses.

Non life insurance business report

55. (a) In the non life insurance business report said in regulation 6(a)(4) -
- (1) insurance payments in an overall amount before reinsurance shall be presented after the deduction of discounts to insured persons, participation in profits paid to insured persons and the allocation for participation in profits for insured persons;
 - (2) the item "income from investments" shall include income from investments that correspond to insurance and other obligations

- in non life insurance, as well as credit and debit interest on the balance of the liaison account with the life insurance system, as prescribed by the Separate Life Insurance Accounts Regulations, less the part of reinsurers;
- (3) the item "claims" shall include paid claims and the expenses for their settlement, less compensation and the change in the reserve for pending claims;
 - (4) the item "commissions paid" shall include the amounts paid to insurance agents, including the part of registration fees and policy fees paid to underwriters;
 - (5) management fees from joint insurance shall be included -
 - (a) in the managing company - in the item "income from fees";
 - (b) in a participating company - as a reduction of "income from fees".
- (b) In the Notes to the non life insurance report -
- (1) branches of insurance according to the requirements of the Motor Vehicle Insurance Ordinance, motor vehicle (property), loss of property, liability insurance and others, shall include specifications that shall include at least the following data:
 - (a) income from premiums, including fees, registration fees and other payments before reinsurance;
 - (b) insurance payments left in the retention;
 - (c) changes in the reserve for risks that have not yet lapsed;
 - (d) paid claims and pending claims before reinsurance;
 - (e) paid claims and pending claims in the retention;
 - (f) profit of the branch;if there is a branch for which total insurance payments exceed 10% of all insurance payments in non life insurance, then that branch also shall be specified.
 - (2) If insurance payments were received from any other factor, including an agent, in an amount that exceeds 5% of all insurance payments, then the number of factors and the insurance payments from each of them shall be stated;
 - (3) The amount of insurance payments transferred as joint insurance to Avner Ltd. shall be stated.

CHAPTER EIGHT: PARTICULARS TO BE INCLUDED IN REPORT ON CHANGES IN THE INSURER'S EQUITY

Report on changes in equity

56. In the report on changes in equity said in regulation 6(a)(5) movements in the equity categories said in regulation 32 shall be presented, each category separately.

Dividend

57. (a) A dividend declared and a dividend proposed until the date of the report's approval shall be presented separately, in its adjusted amount and in its nominal amount, whether or not it has been paid.
- (b) The dividend for each share category shall be stated.

Bonus shares

58. If bonus shares were distributed or if a said distribution was proposed up to the date of the report's approval, then the following particulars shall be stated:
- (1) the number of shares distributed or proposed for distribution, their category and nominal value, stating the number of shares distributed or to be distributed for every 100 shares; it is not obligatory to specify a distribution included in the period before the report year and an intended distribution out of profits from the period after the balance sheet date;
- (2) the source of the distribution on the adjusted report and in the nominal data.

CHAPTER NINE: CASH FLOW REPORT**Cash flow report**

59. (a) The cash flow report shall reflect the cash receipts and payments during the report period.
- (b) The cash flow report said in regulation 6(a)(6) shall be presented in the following categories:
- (1) cash flow from current activity in accordance with regulation 60;
- (2) cash flow from investment activity in accordance with regulation 61;
- (3) cash flow from financial activity in accordance with regulation 62.

Cash flow from current activity

60. (a) Cash flow from current activity in life insurance and in non life insurance shall be presented separately.
- (b) Profit or loss according to the insurance business report shall be presented adjusted as specified below (in this Chapter - adjustment):
- (1) balance sheet items included in the insurance business report, but involving no cash flow, shall be subtracted or added, as the case may be;
- (2) balance sheet items that involved cash flow, but were not included in an insurance business report, shall be subtracted or added, as the case may be.

- (c) Cash flow from other current activity shall reflect the profit and loss that did not appear on the life insurance business report or on the non life insurance business report after adjustment.

Cash flow from investment activity

- 61. (a) Cash flow from activity with securities, loans and bank deposits shall be presented setting off receipts against payments and it shall include the rise of value of the investments.
- (b) Cash flow from investment activity shall be presented without setting off receipts against payments, except for the provisions of subregulation (a).

Cash flow from financial activity

- 62. Cash flow from financial activity shall be presented without setting off receipts against payments.

**CHAPTER TEN: TRANSACTIONS BETWEEN INSURER
AND INTERESTED PARTIES**

Transactions with associated parties

- 63. The insurer shall report in the Notes to the financial report - in accordance with accounting rules - on transactions carried out with associated parties, other than reports on immaterial amounts of insurance payments, commission, claims paid, balances of pending claims and interest, paid to the associated parties or received from associated parties in the ordinary course of insurance business.

Obligations of insurer to related party

- 64. The Notes to the financial report shall specify information on the amounts of the insurer's obligations and his consolidated companies' obligations to a party interested in the insurer, which do not stem from the ordinary course of the insurer's business, specifying interest rates, linkage bases, payment dates and other important conditions, by the following categories:
 - (1) long term obligations;
 - (2) other obligations.

Investments by insurer in related party

- 65. In a Note the insurer shall specify information on his investments or on the investments of his consolidated companies in an related party or in a party who had an interest when the investment was made, stating the largest balance during the report period, as follows:
 - (1) investments in shares, in certificates that give the right to acquire shares, in debentures convertible into shares and in other investments, in respect of -
 - (a) held companies, each company being presented separately;
 - (b) other companies;
 - (2) the insurer's investment in non-convertible debentures;

- (3) loans and debts of the related party as of the financial report date, interest rates, linkage bases, payment dates and other main conditions.

Benefits for related party and transactions with him

66. (a) In this regulation -
"benefits" - pay and salary, director's remuneration, management fees, commissions and other perquisites given, paid or entered as a credit balance or allocation, all whether directly or indirectly, but exclusive of dividends, interest and other amounts said in subregulation (g);
"perquisite" - a right to receive money or the equivalent of money, including any discount, whether or not it can be realized immediately;
"pay and salary" - including fringe benefits of pay and salary, as well as amounts said in regulation 43.
- (b) The Notes shall present information on benefits given by the insurer or by his consolidated company during the report year, differentiating between interested parties employed by or on behalf of the insurer, directors who are not employed as aforesaid, and interested parties who are not employed, and the number of persons in each of the three aforesaid categories shall be stated; if a benefit was given to which a monetary value cannot be assigned, then the benefit and its conditions shall be described.
- (c) If there is a conditional obligation of the insurer or of his consolidated company to give benefits to parties with an interest in the insurer and if no allocation was made therefor, or if there is a contract according to which benefits may be given, then the obligation or contract and their conditions shall be described in the Notes.
- (d) Particulars shall be presented of financial income from an related party in respect of debts, other than debts that stem from transactions described in the financial report according to subregulation (g).
- (e) Particulars shall be presented of financial expenses to an related party in respect of debts owed to him, other than debts that stem from transactions described in the financial report according to subregulation (g).
- (f) The provisions of subregulations (d) and (e) shall not apply to financial income from an related party who is a banking corporation or to financial expenses to an aforesaid party, in respect of financing provided in the ordinary course of business.
- (g) The Notes shall describe transactions or contracts for the performance of transactions between the insurer and his subsidiaries and an related party, other than transactions performed in the ordinary course of the insurer's business, on condition that those transactions comply with the requirements of the Ways of Investment Regulations, whether performed directly or indirectly, stating the

amounts of the transactions, how the prices were determined, the credit terms and other conditions according to the circumstances.

- (h) The total amounts of the insurer's profits or losses in consequence of transactions or contracts for the performance of transactions with fixed assets, as said in subregulation (g), shall be specified.

Presentation of activity between insurer and a party interested in him

- 67. The Securities Regulations (Presentation in Financial Reports of Acts Between Body Corporate and Its Controlling Member) 5756-1996 shall apply to an insurer, mutatis mutandis.

CHAPTER ELEVEN: BOARD OF DIRECTORS' REPORT

Board of Directors' Report on state of insurer's affairs

- 68. (a) The Board of Directors' Report on the state of the insurer's affairs (in this Chapter: Directors' Report) said in regulation 6(b) shall include the Board of Directors' description and explanations of the state of the insurer's business, including substantive changes that occurred in the sphere of his activity, the results of his activity, equity and cash flow in comparison with the previous report period, all as said in regulation 69.
- (b) The Directors' Report shall deal with the major data in the financial report and it shall include additional information which the insurer has in respect of the report period, if the Board of Directors believes that that is important for an understanding of the state of the insurer's affairs.
- (c) A Directors' Report attached to a financial report for an interim period, as said in regulation 17(b), shall include substantive particulars on each of the subjects enumerated in regulation 69, with reference to data accumulated since the date of the last financial report; the author of the report may refer readers to the last financial report.
- (d) A Directors' Report shall be approved - by the insurer's Board of Directors or by a committee thereof that was authorized to do so - near the time when the financial report is approved, and it shall be signed by two persons: by the chairman of the Board of Directors or by another director whom the Board of Directors authorized to do so, and by the non life manager or the person who holds that position in the insurer, even if he bears a different title.

Structure and particulars of report

- 69. (a) The Directors' Report shall be formulated in a clear and easily understood fashion, and it shall be divided into chapters on the following subjects:

- (1) a concise description of the insurer, its business environment and the spheres of its activity;
 - (2) the insurer's financial condition;
 - (3) the results of its activity;
 - (4) cash flow and liquidity;
 - (5) sources of financing;
 - (6) the influence of external factors.
- (b) Within the subjects said in subregulation (a) the Board of Directors shall deal with the matters specified in Schedule Two, as far as they concern the insurer, and with additional matters, if the Board of Directors believes that they are important for an understanding of the state of the insurer's affairs; under each of the subjects the report shall - in addition to the general aspect - deal separately with the aspects of life insurance and of non life insurance.
- (c) The Directors' Report shall, inter alia, reflect the following:
- (1) events and trends in the insurer's activity and business environment during the report period, including events the effect of which has not yet made itself felt in the financial report;
 - (2) extraordinary or one-time events and their effect on the insurer's business and on the financial report data;
 - (3) changes that occurred in the insurer's financial situation and the reasons for them, as well as events liable to be indicative of financial difficulties;
 - (4) effects on the insurer's business and on the financial report data in reference to a transaction between the insurer and some other person, in reference to an investment in the company or in another body corporate, or in reference to the increase or decrease in the rate of participation in a said transaction or investment, when that effect is substantive;
 - (5) explanations on the subjects to which the insurer's auditor referred in his opinion;
 - (6) substantive events that occurred after the financial report date;
 - (7) particulars on the pay, severance pay, benefits, pension, advanced education funds and other benefits, the increase of reserves for fringe benefits in consequence of salary changes in the report year and the total of salaries and fringe benefits of the five highest paid officers of the insurer; furthermore, particulars are to be given on employment contracts, which give benefits to the said five officers, if any.
- (d) If the insurer made a consolidated report, then the Directors' Report shall also deal with that report.

CHAPTER TWELVE: ADDITIONAL REPORTS

Periodic report

70. The insurer shall submit to the Commissioner a periodic report in the format prescribed in Chapter Two of Securities Regulations (Periodic and Immediate Reports) 5730-1970, except for regulation 10 of the said regulations, all mutatis mutandis as the case may be.

CHAPTER THIRTEEN: MISCELLANEOUS PROVISIONS

Additional particulars

71. When the annual financial report and the interim period financial reports are submitted, the insurer shall submit to the Commissioner additional reports, as the Commissioner shall order from time to time.

Exemption from stating particulars in a report

72. On application by an insurer, the Commissioner may exempt the insurer from describing certain particulars in the financial report and in interim period financial reports, if he concludes that describing the said particulars involves special difficulties; the Commissioner may make the exemption conditional on inclusion of a statement that the exemption was granted and the reasons therefor.

Repeal

73. Insurance Business (Control) Regulations (Particulars of Report) 5746-1986 are repealed.

Applicability and Effect

74. (a) These regulations - other than regulations 20(b)(2), 48(c) and 55(b) - shall apply to financial reports dated December 31, 1997, and thereafter.
- (b) Regulations 20(b)(2), 48(c) and 55(b) shall apply to financial reports dated March 31, 1998, and thereafter.
- (c) In the financial report for 1997 the comparison figures said in regulation 8(b) shall only be presented for 1996.
- (d) long term care insurance and loss of working capacity insurance, which are not part of a life insurance policy, shall be classified as life insurance, as defined in regulation 1, only from December 31, 1998.
- (e) For purposes of regulation 12, the average yield during the last five years up to the report date shall be specified in reports dated December 31, 1998, and thereafter.
- (f) The Commissioner may stay the application of section 30(d) until January 1, 1999, if he is satisfied that it is not possible to apply the said section on the day on which the regulations go into effect.

THE FIRST ADDITION
(Regulations 6 and 17 - Breakdown of Assets and Obligations)

Part One: Breakdown of Assets that Correspond to Obligations

\Obligations	Total	<u>L i f e I n s u r a n c e</u>			Gen'l	Capital	Other
\	assets	C.o.L.	Unlinked	profit	insur.		obliga-
\	& debit	index	or foreign	sharing			tions
Assets \	balances	linked	currency	policies			

1. Investments

- A. Cash and cash equivalents
- B. Securities (other than in held companies):
 - (1) Governmental certificates of obligation:
 - (a) negotiable
 - (b) not negotiable
 - (c) earmarked bonds - "Hetz" agreements
 - (2) Other certificates of obligation:
 - (a) negotiable
 - (b) not negotiable
 - (3) Shares
 - (4) Joint investment trust fund participation certificates
 - (5) Option certificates
 - (6) Futures contracts
 - (7) Options
- C. Loans (other than in held companies):
 - (1) Against life insurance policies
 - (2) Secured by mortgage
 - (3) Secured by bank guaranty
 - (4) Secured by lien on vehicle
 - (5) Secured by other surety
 - (6) Unsecured
- D. Deposits in banks and financial institutions
- E. Investments in held companies
 - (1) Insurance companies
 - (2) Other companies
- F. Rights in rental real estate

2. Fixed assets

- A. Real estate
- B. Other fixed assets

Part One (continued)

\Obligations	Total	Life Insurance			non life	Capital	Other
		C.o.L.	Unlinked	profit			
\	assets	index	or foreign	sharing	insur.		obliga-
\	& debit	linked	currency	policies			tions
Assets \	balances						

3. Receivables
 - A. Insurance companies
 - (1) Reinsurers' part of insurance reserves
 - (2) Reinsurers' part of pending claims
 - (3) Deposits held by ceding companies
 - (4) Other accounts
 - B. Premiums for collection and agents' balances
 - C. Debtors and debit balances
 - D. Other assets
4. Deferred acquisition expenses and other property
 - A. in non life insurance
 - B. In life insurance
 - C. Other property

Total assets and debit balances
 Total obligations (from Part Two)
 Surplus / Deficit

Part Two: Breakdown of Capital and Obligations

1. Capital, reserves and surpluses
2. Capital and other obligations
 - A. Credit from banking corporations
 - B. Deferred taxes
 - C. Others
3. Reserves
 - A. Insurance reserves
 - B. Reserve for extraordinary risks
 - C. Other reserves
4. Pending claims
5. Insurance companies and brokers
 - A. Deposits
 - B. Other accounts
6. Other creditors and credit balances
7. Proposed dividend for distribution

Total obligations

SCHEDULE TWO
(Regulation 69(b))

- 1. A concise description of the insurer -**
 - (a) the insurer's organizational structure, including major particulars about held companies and percentages held;
 - (b) activity abroad through branches and held companies;
 - (c) main spheres of activity and changes that occurred in them during the period of the financial report, with reference to branches of insurance in which the company specializes;
 - (d) life insurance and non life insurance payments as a proportion of all insurance payments during the period of the financial report;
 - (e) composition of income in the report period, broken down as follows:
 - (1) in life insurance: composition of insurance payments in the report period, differentiating between current and one-time insurance payments;
 - (2) in non life insurance: insurance payments as a proportion of the total non life insurance turnover, differentiating between vehicle insurance according to mandatory vehicle insurance, motor vehicles (property), other property insurance branches, liability insurance branches, and other branches; if there is one branch with insurance payments in excess of 15% of all non life insurance payments, then the proportion of that branch shall also be stated separately;
 - (f) dependence on customers or marketing factors; in this context mention must be made of sources of business or marketing factors whose share of life insurance or non life insurance sales, as the case may be, exceeds 10%;
 - (g) developments or substantive changes in reinsurance agreements in comparison with previous years, and a significant volume of reinsurance agreements with a single reinsurer;
 - (h) extraordinary events since the last financial report, including a reorganization of the insurer, steps taken to enhance efficiency, labor conflicts, substantive changes in ownership or management, acquisition of insurance companies or portfolios.

- 2. Description of the business environment -**
 - (a) trends in the insurance industry, their effect on the insurer's business in the report period and on his financial report data;
 - (b) characteristics and developments in the main insurance branches in which the insurer is active, including marketing methods, reinsurance, taxation, Governmental supervision, and the degree of competition in them;
 - (c) the effect of laws, regulations and new instructions on the insurer's business during the report period and on financial report data;
 - (d) entry into and marketing of new spheres of activity in respect of insurance programs and of services, whether or not linked to insurance.

3. Financial situation

Developments in balance sheet items during the report period shall be explained, and especially the following:

- (a) explanations of changes in equity, if any, with emphasis on changes that did not come from profit or loss during the report period;
- (b) shortfalls, if any, in the minimal required equity or in the minimal primary capital required under the Equity Regulations, the circumstances under which this arose and the plans of the Board of Directors for its replenishment;
- (c) the effect of a change during the report period in the method of calculating insurance reserves, compared with the preceding period;
- (d) any substantive change in allocations to reserves and pending claims (before reinsurance and retention), compared with the preceding period, the reasons for the change and its effect;
- (e) extraordinary developments in other obligations, the reasons therefor and their effect;
- (f) the development during the last three years of the balance sheet total, or reserves, of equity and of net profit balances;
- (g) the development during the last three years of insurance payments, of changes in insurance reserves and of profit, differentiating between life insurance and non life insurance.

4. Business results

Analyses and explanations of the components of the life insurance and non life insurance business reports shall be presented, as well as comments on the business results that found their expression in the profit and loss account, especially on the following matters:

- (a) analyses and explanations of the insurance business results, their comparison to corresponding periods in the past; comments on the main components of the insurance business report, including income from insurance payments, income from investments, expenses on claims, acquisition expenses and profit;

- (b) the effect of special phenomena or events (such as natural disasters) on underwriting results;
- (c) substantive changes in investment profits during the report period, as compared to the preceding period;
- (d) the effect of changes in instructions by the Commissioner of Insurance on business results;
- (e) the effect of changes in tax provisions - also in consequence of agreements with the Income Tax Commission - on business results;
- (f) seasonal effects on the insurer's business results, if they are significant;
- (g) changes in the volume of insurance payments for life insurance, with reference to current and one-time insurance payments;
- (h) substantive changes in the method of calculating deferred acquisition expenses, as compared to the preceding period;
- (i) particulars on the amount of investment profits credited to persons insured in profit sharing life insurance during the accounting period, as reported in the insurance business report;
- (j) particulars on the amount of management fees collected from persons insured in profit sharing life insurance.

5. Cash flow and liquidity

The insurer's cash flow from insurance activity, investment and financial activity and other current activity shall be explained, especially commenting on extraordinary payments or receipts from non-current activities, such as:

- (a) acquisition or sale of a subsidiary, of fixed assets or of an insurance portfolio, differentiating between insurance activities and others;
- (b) debts of insured persons, of reinsurers, insurance payments receivable, balances of agents and of other business debtors, a delay in their collection being liable to affect the insurer's cash flow.

6. Sources of finance

Explanation shall be given on the insurer's capital sources, their cost and changes that occurred in them, and especially on these matters:

- (a) raising capital, referring to the dates on which convertible securities are to be converted and paid for, and to the realization dates of options;
- (b) realization of convertible securities during the report period, stating the capital added and the outstanding balance;
- (c) the issue of capital notes by share holders, their conditions and the reasons for issuing them;
- (d) long term and short term loans from outside factors and their utilization, including comments on the total volume of loans;
- (e) particulars on the dates on which cash dividends will be paid, including such after the financial report date.

7. Effect of external factors

The effects of events and developments outside the insurance industry shall be explained, which occurred and of which the insurer knows, and which affected or are likely to have a substantive effect on the state of the insurer's affairs, including the effects of Government policy, legislative changes, technological changes and developments in the world economy. In instances in which the

effect of the said development on the state of the insurer's affairs cannot be quantified, the report shall include a description of the relevant facts.

January 24, 1998

Yaacov Neeman
Minister of Finance