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Actuarial Valuation of Employee Rights

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**The Employee Benefits Experts
Benefit Ltd., Part of The Phoenix Group**

May 15th, 2019

Israel Discount Bank Ltd.

**Expert Opinion Regarding Actuarial Provisions for the Rights of Employees of
Israel Discount Bank Ltd.**

Purpose of the Opinion

I have been requested by Israel Discount Bank Ltd. (“**the Bank**”) to reexamine the need to assess its actuarial liabilities for employees' rights to: severance and retirement pay, early pension and Jubilee (long-service) awards with respect to employees, and various benefits with respect to pensioners, as of the date of their computation – March 31, 2019 (“**the Liabilities**”), in accordance with the Reporting to the Public Directives of the Supervisor of Banks and with generally accepted accounting principles in Israel.

Identity of the Actuary

I hereby declare that my work is performed independently and that I have no business relations with the Bank, I am not an interested party of the Bank and I am not an employee of the Bank. No stipulations have been made with regard to the fee I am paid for providing this opinion. I did not receive from the Bank any indemnification with regard to this opinion. The Bank appointed me to act as actuary on its behalf on December 31, 2009. I have also been appointed by Mercantile Discount Bank Ltd., with effect from June 30, 2011, to act as its actuary.

I hereby state that from September 30, 2014 through March 31, 2015 (for the Bank alone) and from September 30, 2016 through March 31, 2017 (for the Bank and Mercantile Discount) (hereinafter: “the Banks”) and from September 30, 2017 through January 31, 2018 (for the Bank alone) and from October 1, 2018 through January 31, 2019, business relations existed between Benefit and the Banks, the nature of which was assisting with the Banks' retirement program as well as consulting services for employees of banks who wish to obtain them.

I hereby declare that no dependence exists between me and the Bank and its subsidiaries, within the meaning of the term “dependence” in Legal Staff Position No. 105-30, “Manifestation on the existence of dependence between the value appraiser and the corporation and manifestation concerning the value appraiser whose appraisals are extremely essential to the corporation”, published by the Israel Securities Authority in July 2015.

I am aware, and consent thereto, that the Bank will make use of the actuarial opinion for the purpose of computing the required provisions and that said opinion will be presented in the financial statements and/or will be attached to the financial statements and/or will be made available to the public.



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Details of my education:

MA in Actuarial Science (2008), University of Haifa.

BA in Statistics (1993), University of Haifa.

Fellow of the Israel Association of Actuaries (F.I.L.A.A.).

Details of my experience:

Actuary of Benefit company since 1996.

Lecturer in actuarial studies at the University of Haifa since 1992.

Scope of the Actuarial Opinion

1. For the purpose of computing the Bank's Liabilities, I have relied on data furnished to me by the Bank. My requests for information and data were met satisfactorily for the purpose of assessing the Liabilities as required for the financial statements. I have examined the reasonableness and the adequacy of the data, including making a comparison of the assessment data to the sensitivity analyses that were included in my actuarial opinion, computed as of December 31, 2018.
2. Where necessary, I have also relied on data received from other reliable sources. I have examined the extent to which such data are appropriate and also their relevance.
3. The actuarial assumptions employed by me in my work, as well as the methods for assessing the Liabilities, were determined by me using my best professional judgment, and subject to the directives, instructions and principles set forth below.

Opinion

4. I have assessed the Liabilities in accordance with generally accepted actuarial principles, the Reporting to the Public Directives and generally accepted accounting principles.
5. After having examined the data mentioned in item 1 above, I have reached the conclusion that the data are reasonable and adequate and that they can be relied upon for the purposes of my opinion.
6. The assumptions and methods have been determined by me using my best professional judgment and in accordance with the guidelines and rules set forth below.
7. The Liabilities detailed in the actuarial report represent, to the best of my knowledge and belief, an appropriate liability for covering the Bank's liabilities for severance pay, Jubilee (long-service) awards and awards to pensioners.

Name

Signature



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General

1. The core assumptions on which the actuarial computation are based are unchanged from the actuarial assumptions detailed in the actuarial opinion as of December 31, 2018, with the exception of the discount rate, as described in item 2 below.
2. The calculations were made as of March 31, 2019, at the rate of interest applying to highly rated corporate bonds, determined according to CPI linked government bonds with the addition of a margin of 0.66%.

With respect to liabilities for severance pay and jubilee awards the calculations are based on the interest graph with the addition of a margin of 0.66%.

A. Provision for Jubilee (long service) awards

1.1 There has not been any change in the scope of the benefits to which the Bank's employees are entitled, nor any change in the actuarial assumptions, as included in the actuarial opinion as of December 31, 2017.

1.2 The provision for Jubilee (long-service) awards has been reassessed using the updated interest curve as of March 31, 2019.

The results of the calculation for September 30, 2018 – in NIS millions

Jubilee vacation	Jubilee award
34.4	205.4



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B. Provision for pensioners' expenses

1.1 There has not been any change in the scope of the benefits to which the Bank's pensioners are entitled, nor any material change in the population of entitled pensioners nor any change in the actuarial assumptions, as included in the actuarial opinion as of December 31, 2018.

1.2 The amount of the liability that the Bank will need to hold as of March 31, 2019 with respect to this liability has been reassessed using the updated discount rate as of December 31, 2019.

The discount rates used for reassessing the forecast are as follows: 2.18% – active employees, 0.6% – elderly pensioners, 1.01% – new pensioners, 1.593% – young pensioners, 1.717% – 2nd generation pensioners and 1.05% – DMB pensioners.

Computation results

	December 31, 2019 - Forecast	
	Actuarial cost excluding employer's taxes and excluding grossing up	Actuarial cost including grossing up and employer's taxes
	In NIS Millions	
Active employees (Status 1)	112.78	135.25
Elderly pensioners (Status 2)	69.81	80.11
New pensioners (Status 3)	51.58	59.18
Young pensioners (Status 4)	150.81	186.04
2 nd generation pensioners (Status 5)	0.15	0.18
DMB pensioners (Status 6)	2.82	3.48

C. Provision for early pension

1.1 There has not been any change in the scope of the benefits to which the retirees included in these plans are entitled, nor any change in the actuarial assumptions, as included in the actuarial opinion as of December 31, 2018.



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1.2 The amount of the liability that the Bank will need to hold with respect to the liability arising from the 2012, 2014, 2016 and 2018, retirees plan, as of March 31, 2019, has been reassessed using the updated discount rate as of March 31, 2019 and the latest population data as of March 31, 2019. In addition, the forecast for these liabilities as of December 31, 2019 has been updated in accordance with said updates. In relation to the liability with respect to annuity recipients, only the forecast as of December 31, 2019, has been updated as changes in the population are not relevant.

The discount rates used for reassessing the forecast are as follows: 0.22% – annuity recipients (average duration of 4.84), 0.84% – 2012 retirees (average duration of 9.01) and 2.18% – 2014, 2016 and 2018 (long term) retirees.

Actuarial cost – in NIS millions

	Annuity recipients	2012 retirees	2014 retirees ^{1,2,3}	2016 retirees ^{2,3}	2018 retirees
March 31, 2019	-	168.85	7.6	50.0	40.76
December 31, 2019 - Forecast	35	165.0	1.0	37.2	27.5

¹ Does not include liability for an additional employee in an amount of NIS 7,495 thousand (employee A).

² The forecast takes into account the movement due to reaching the age of 60.

³ Does not include blocked provident contributions in an amount of NIS 2.4 million for 2014 retirees, NIS 12.9 million for 2016 retirees and NIS 14.9 million for 2018 retirees.

D. Provision for severance pay

1.1 There has not been any change in the actuarial assumptions, as included in the actuarial opinion as of December 31, 2018.

1.2 Employee population data were reinput as of March 31, 2019.

1.3 Salary data were reinput as of March 31, 2019.

1.4 The amount of the liability that the Bank will need to hold as of March 31, 2019 with respect to this liability has been reassessed while using the interest curve according to CPI linked government bonds updated as of March 31, 2019, with the addition of a margin of 0.66%.



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1.5 Computation results – Provision for severance pay in NIS millions

March 31, 2019
1,695

Yours sincerely,
Eyal Buchbinder,
Actuary