

AIG Israel Insurance Company Ltd

Interim Financial Report

(Unaudited)

As of September 30, 2019

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Directors' report
AIG Israel Insurance Company Ltd ("the Company")
for the period ended September 30, 2019

The directors' report on the business of the Company as of September 30, 2019 ("**the directors' report**"), reviews the Company and developments in its business in the first three quarters of 2019 ("**the reported period**"). The information in this report are as of September 30, 2019 ("**the date of report**") unless otherwise is indicated explicitly.

The Company is an "insurer" as this term is defined in the Supervision of Financial Services Law (Insurance), 1981. Therefore, this report is prepared according to the guidance issued by the Commissioner of the Capital Markets, Insurance and Savings Authority in the Israel Ministry of Finance ("**the Commissioner of Insurance**" or "**the Commissioner**" and "**the Authority**"). This directors' report was prepared assuming that the user is also holding the Company's 2018 periodic report.

The financial information in this report is in reported amounts. All financial information is in thousand NIS unless otherwise is indicated.

The business of the Company is in fields that require considerable professional knowhow that involves many professional terms that are essential for understanding the business of the Company. To present a description of the corporation that is as clear as possible, those professional terms are used along with an explanation, to the extent possible.

This directors' report is an integral part of the interim financial statements, including all its parts and should be read as one unit.

Forward looking information

This chapter in the periodic report, describing the Company, the development of its business and its fields of operations may contain forward-looking information, as this term is defined in the Israel Securities Law, 1968 ("**the Securities Law**"). Forward looking information is uncertain information about the future, based on the information available to the Company on report date and includes the subjective assessment of management based on assumptions and estimates of the Company and/or its intentions as of the date of this report. Providing such information is not a commitment for accuracy or completeness, and actual activity and/or results of the Company may be different than those presented in the forward-looking information presented in this report. It is possible in certain cases to detect passages that contain forward looking information by the use of words such as: "the Company assesses", "the Company believes", "it is the intention of the Company", etc., but it is possible to see such information presented using other language or it may be specifically indicated that as a forward-looking information.



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1. Condensed description of the Company:

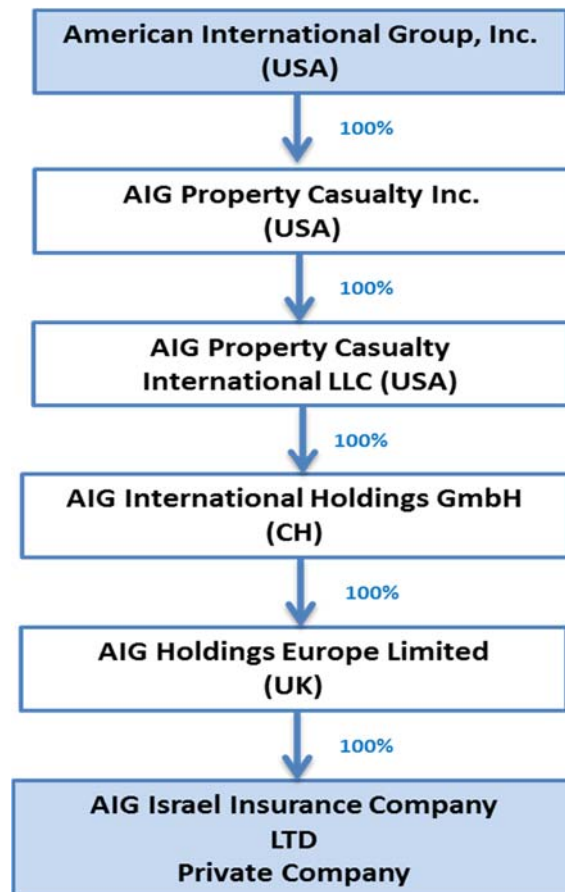
1.1 Organizational structure

AIG Israel Insurance Company Ltd ("**the Company**") was incorporated in Israel on March 27, 1996, as a private limited liability company. The Company began its insurance activity in May 1997. The company does not hold any subsidiaries or related companies. The Company has no activity outside of Israel through branches and associates.

The ultimate parent of the Company is American International Group Inc. (hereinafter: "**the global AIG corporation**", "**AIG**"). The global AIG Corporation is a leading global insurance and financial services corporation, rated BBB+ according to Standard & Poor's (S&P).

The sole shareholder of the Company is AIG Holdings Europe Limited ("**AHEL**"), which holds the entire issued share capital of the Company and which is a company in the global AIG corporation.

The following is the undated holding structure of the Company:





The Company was granted licenses by the Commissioner to practice as an insurer in general insurance and life insurance as follows: motor vehicle insurance, compulsory motor vehicle insurance, comprehensive home insurance, health insurance (personal injury, serious illness, and travel insurance), commercial insurance (property loss, business comprehensive insurance, engineering insurance, employers' liability insurance, third-party liability insurance and product liability insurance), cargo in transit insurance, other risk insurance (limited to crime and fraud damages), comprehensive life insurance, and foreign business insurance for different insurance types.

The Company is operating in three business divisions (vehicle and home insurance, life and health insurance and commercial insurance), headquarters, and private customers division.

The Company is marketing and selling retail insurance policies directly to customers (without insurance agents) through call centers and digitally. Customers are being serviced mainly through a central service call center. Most business of the Company in commercial insurance, and some of the retail insurance business, is done through mediation of insurance agents. As a result of the above marketing methods, the organizational structure of the Company is based on activity through a head office in Petach Tikva.

1.2 Areas of activity

The Company mostly provides coverage to individual customers. The main business areas of the Company are as follows:

- General insurance: property vehicle insurance
- General insurance: compulsory vehicle insurance
- General insurance: home insurance
- General insurance: commercial insurance
- Health insurance: health insurance
- Life insurance: Life insurance, risk only

1.3 Material events since the last financial statements

On August 27, 2019, the Board of Directors decided on the distribution of a dividend in the amount of NIS 100 million, representing NIS 17,452 per share. The dividend was paid on August 28, 2019.

On September 11, 2019, the Company announced the appointment of Ms. Yfat Reiter as CEO of the Company, in place of Mr. Shay Feldman, with effect from October 1, 2019.

2. Description of business environment:

General

In accordance with data published by the Authority, there are more than 20 Israeli insurance companies currently active in Israel; most of these companies are engaged in general insurance. In accordance with these data, as of December 31, 2018, insurance fees from the general insurance business amounted to NIS 23,252 million; the share of the 5 largest insurance companies – Harel, Phoenix, Menorah, Migdal and Clal – was NIS 13,182 million, or 57% of the total premiums in the Israeli general insurance sectors.

For further details regarding the competition in the different lines of business of the company and regarding the measures taken by the company to face competition in this competitive market, see Sections 2.1.2, 2.2.2, 2.3.2, 2.4.2, 2.5.2 and 2.6.2 in Chapter A (description of company's business) in the Company's 2018 periodic report.



Developments in the company's macro-economic environment

The company invests a considerable part of its investment portfolio in the capital market; therefore, the yields arising from different routes of investments in the capital market have a significant effect on company's profits.

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

	Jan- September 2019	Jan- September 2018	Jul- September 2019	Jul- September 2018	2018
Government bonds indexes					
General government bonds	8.1%	(0.4%)	3.5%	0.3%	(1.3%)
Linked government bonds	9.3%	0.3%	3.5%	0.4%	(1.4%)
NIS government bonds	7.3%	(0.8%)	3.5%	0.2%	(1.2%)
Corporate bonds indexes					
Tel Bond 60	7.5%	1.4%	2.5%	1.1%	(0.8%)
Tel Bond NIS	7.2%	(1.4%)	2.1%	0.9%	(4.3%)
Share indexes					
Tel-Aviv 125	15.0%	8.8%	3.2%	9.0%	(2.3%)
S&P 500	18.7%	9.0%	1.2%	7.2%	7.31%

For information regarding the composition of the Company's investments see financial investment asset list in note 6 to the condensed interim financial information.

For information on general trends in the insurance sector and their effect on company's business, see Section 4.3 in Chapter A (description of company's business) in the Company's 2018 periodic report.

The impact of new laws, regulations and directives on the business of the Company in the reported period and financial statements information

The following is a summary of major regulatory changes and the key issues that are relevant to the activity of the Company, as published by the Commissioner in circulars and drafts during the reported period until shortly before the date of issuing this report, which were not described in previous periodic reports of the Company:

Regulations

- For details regarding the Draft National Insurance Regulations (Transfer of an Annual Amount by an Insurer to the Institute for Road Accidents), 2019 and their effect on the Company, see the part pertaining to legal provisions in Section 2 (Description of Business Environment) of the report of the Company's Board of Directors' for the second quarter.

Circulars

- In September 2019, the Commissioner published a Commissioner's Position concerning the Authority's action plan for seniors. The purpose of this Position is the advancement of an action plan for the improvement of the services that are provided to seniors, initially in the insurance sector, later expanding the vision to encompass all areas of activity of the Authority.
- In November 2019, the Commissioner published a consultation paper concerning the implementation of transitional provisions under an economic solvency regime. In this consultation paper, the Authority requests the insurance companies to provide their input on the aforesaid transitional provisions with regard to certain issues, including the appropriate time frame for the deployment of capital, and the adjustment of the capital deployment time frame set out in the provisions of the Directive to insurance products in Israel.



Drafts

- In July 2019, the Commissioner published a draft amendment to the provisions of the consolidated circular concerning the updating of the collection of demographic assumptions in life insurance and the updating of the mortality improvement model for insurance companies and pension funds. The purpose of said draft is to update the provisions of Chapter 1 to Part 2 of Title 5 of the Consolidated Circular on Measurement, Capital and Management of Assets and Liabilities, and to provide updated baselines for the performance of such calculations by the insurance companies and management companies.
- In September 2019, the Commissioner published a draft amendment to the consolidated circular concerning the process of acceptance to an insurance plan. This draft aims to amend Insurance Circular No. 2016-1-7, "Acceptance to an Insurance Plan" (June 8, 2016) and determine that periodical requirements attaching to the renewal of home insurance will be imposed once every three years, this in order to simplify the renewal process and to periodically preclude insurance redundancy for the policy holder.
- In October 2019, the Commissioner published a Draft Commissioner's Position concerning the investment in "insurtech" companies. The draft restricts investments in insurtech corporations to such corporations the technological or digital operations of which directly confluence with the insurer's areas of activity and coincide with its strategy. The draft also determines that such investment will be made out of the insurer's nostro funds and that the overall amount invested by an insurer in insurtech corporations will not exceed a maximum of NIS 100 million or 1% of the total assets of the insurer, as the lower of the two.
- In November 2019, the Commissioner published a draft concerning a quantitative evaluation survey of adjustments in a Solvency-II-based economic solvency regime in insurance companies. The draft determines, inter alia, that an insurer is required to perform a quantitative evaluation survey, as set out in the provisions of the draft, with June 30, 2019 set as the calculation date.

Kaminitz Committee

- For details regarding the effect of the recommendations of the Kaminitz Committee on the results of the Company, see the part pertaining to legal provisions in Section 2 (Description of Business Environment) of the report of the Company's Board of Directors' for the second quarter and note 2(c) to the financial statements.



3. Financial information on the Company's lines of business

Following are principal balance sheet data (NIS thousands):

	September 30, 2019	September 30, 2018	December 31, 2018
Other assets	316,069	318,908	281,073
Deferred acquisition expenses	162,012	162,218	157,629
Financial investments and cash	2,017,937	1,903,197	1,973,436
Reinsurance assets	739,539	736,834	718,971
Total assets	3,235,557	3,121,157	3,131,109
Equity	872,821	800,427	825,207
Liabilities in respect of insurance contracts	1,955,460	1,951,945	1,885,307
Other liabilities	407,276	368,785	420,595
Total equity and liabilities	3,235,557	3,121,157	3,131,109

Following are principal comprehensive income data (NIS thousands)

	Jan- September 2019	Jan- September 2018	Jul- September 2019	Jul- September 2018	2018
Gross earned premiums	879,587	856,177	298,060	298,192	1,145,519
Premiums earned by reinsurers	(142,293)	(128,126)	(46,152)	(47,133)	(170,467)
Premiums earned in retention	737,294	728,051	251,908	251,059	975,052
Net investment gains and financing income	83,613	12,139	15,420	12,915	(18,568)
Income from commissions	39,162	32,903	13,341	11,469	44,842
Total revenue	860,069	773,093	280,669	275,443	1,001,326
Payments and change in liability for insurance contracts, in retention	(398,815)	(463,952)	(138,615)	(148,330)	(572,758)
Total other expenses	(236,279)	(230,979)	(78,497)	(77,919)	(313,747)
Income before tax	224,975	78,162	63,557	49,194	114,821
Taxes on income	(77,361)	(28,700)	(21,760)	(17,360)	(40,579)
Income for the period and total comprehensive income for the period	147,614	49,462	41,797	31,834	74,242

Capital and capital requirements

As at September 30, 2019, equity amounted to NIS 872.8 million, as compared to NIS 825.2 million as at December 31, 2018. The change in equity in the reported period is due to a comprehensive income of approximately NIS 147.6 million, excluding a dividend of NIS 100 million distributed on August 27, 2019.

For information on a dividend of NIS 100 million distributed on August 27, 2019, see note 5c to the financial statements.

For information on a dividend distribution of NIS 50 million after balance sheet date, see note 5c to the financial statements.



Solvency-II-based economic solvency regime in insurance companies

In June 2017, the Commissioner published Circular 2017-1-9, “Directives for the Implementation of a Solvency II-Based Economic Solvency Ratio Regime by Insurance Companies” (hereinafter: “the Solvency Circular”), which aims to institute a new solvency regime for insurance companies in Israel, which, inter alia requires insurance companies to calculate their economic solvency ratio, this with effect as from June 30, 2017.

A circular published in December 2017 (hereinafter: “the Disclosure Circular”) provides for the format of the economic solvency ratio report, the manner of its approval by the appropriate organs in the company and the principles for its audit by the company’s auditors as well as the related disclosure requirements. In June 2019, an update was published to the format of the disclosure pertaining to the economic solvency ratio report, for the purpose of adding a layer of qualitative disclosure to said report. In this context, it should be noted that a draft letter issued by the Commissioner to the insurance companies in August 2019 to assist in their preparation for reporting the results of the economic solvency ratio calculation as at June 30, 2019, determines, inter alia, that the economic solvency ratio report of insurance companies as at said date may be limited to the requisite SCR and MCR information.

On July 7, 2019, the Company received the Commissioner’s confirmation of the audit of the implementation of the Solvency regime in accordance with the Disclosure Circular, and is therefore no longer subject to the old Capital Regulations concerning the “minimum capital required” and now fully follows an economic solvency ratio regime.

Presented below are data concerning solvency ratio and MCR:

a. Solvency ratio (NIS thousands):

	December 31, 2018	December 31, 2017
Regardless of the provisions in the deployment period:		
Equity for purposes of solvency capital requirement (SCR)	1,071,017	1,063,774
Solvency capital requirement (SCR)	629,586	655,304
Surplus as at reporting date	441,431	408,471
Solvency ratio as at reporting date (%)	* 170%	162%
Board of Directors’ target for the period	130%	130%
Surplus of capital over target	* 252,555	211,879
Milestones achieved during the deployment period:		
Equity for purposes of solvency capital requirement in deployment period	1,071,017	1,063,774
Solvency capital requirement in deployment period	438,750	417,230
Surplus in the deployment period	632,267	646,544

* As stated above, on August 27, 2019, following the publication of the solvency ratio, the Company declared a dividend distribution of NIS 100 million, and on November 26, 2019, following the publication of the solvency ratio, the Company declared a dividend distribution of NIS 50 million. These distributions reduce the surplus presented above.

b. Minimum capital requirement (MCR) (in NIS thousands):

	December 31, 2018	December 31, 2017
Minimum capital requirement (MCR)	182,728	178,982
Equity for purposes of MCR	1,071,017	1,063,774

For additional information on the solvency ratio, see the Company’s economic solvency ratio report as at December 31, 2018, which is attached to this report and posted on the Company’s website:
<https://www.aig.co.il/about/repayment-ratio>.



The Company believes that in the coming year it would not be required to raise sources for compliance with the statutory solvency ratio and with the solvency ratio target set by the Board of Directors of the Company.

The information that is provided in this section above constitutes forward-looking information, which is based, inter alia, on the current state of the Company's operations. Actual results may differ from the estimated results, including materially, as a result of various factors, most prominently regulatory changes applicable to the Company.

4. Results of operations

In the reported period, the Company's gross premiums continued to rise, increasing by 2.0% as compared to gross premiums in the corresponding period last year. Total gross premiums in the reported period amounted to NIS 915.0 million, as compared to NIS 897.2 million in the corresponding period in 2018.

In the reported period, total premiums earned in retention amounted to NIS 763.8 million compared with NIS 764.2 million in the corresponding period in 2018.

Premiums by principal operating segments (NIS thousands):

Jan-September 2019	Life insurance	Health insurance	General insurance	Total
Gross	103,951	155,965	655,065	914,981
In retention	83,420	153,761	526,662	763,843
% of total gross	11.36	17.05	71.59	100.0
% of retention	10.92	20.13	68.95	100.0

Jan-September 2018	Life insurance	Health insurance	General insurance	Total
Gross	96,971	175,080	625,156	897,207
In retention	78,249	172,786	513,116	764,151
% of total gross	10.8	19.5	69.7	100.0
% of retention	10.2	22.6	67.2	100.0

Jan-December 2018	Life insurance	Health insurance	General insurance	Total
Gross	129,869	226,973	816,818	1,173,660
In retention	104,682	223,896	663,474	992,052
% of total gross	11.1	19.3	69.6	100.0
% of retention	10.6	22.6	66.8	100.0



Principal comprehensive income data by main operating segments (NIS thousands):

	Jan-September 2019	Jan-September 2018	Jul-September 2019	Jul-September 2018	Jan-Dec 2018
Income (loss) from compulsory vehicle insurance	48,228	(3,792)	10,417	1,966	(4,277)
Income from vehicle property insurance	51,347	36,278	16,616	18,442	61,172
Income from home insurance	17,225	5,605	7,213	3,995	1,612
Income from health insurance	36,108	21,630	12,537	11,665	45,535
Income from life insurance	22,221	17,498	7,989	6,566	27,583
Income (loss) from commercial insurance	21,557	(6,055)	6,704	1,758	(8,851)
Other - Income (loss) not allocated to any segment	28,289	6,998	2,081	4,802	(7,953)
Income before tax	224,975	78,162	63,557	49,194	114,821
Taxes on income	(77,361)	(28,700)	(21,760)	(17,360)	(40,579)
Income for the period and total comprehensive income for the period	147,614	49,462	41,797	31,834	74,242

For additional information on key segments – see note 4 to the condensed financial statements.

Following are the explanations of the Company's Board of Directors on developments in some of the data presented above:

- a. Pre-tax profit in the reported period amounted to approximately NIS 225.0 million, as compared to profit of approximately 78.2 million in the corresponding period in 2018. The increase in profit was due mainly to the material increase in gains on investments in the reported period, as compared to the corresponding period in 2018 (see subsection b. below), as well as to a material improvement in the claims' ratio that resulted, inter alia, from the reduction of insurance liabilities in the compulsory vehicle insurance segment following the Supreme Court's ruling on the discount rate applicable to annuities (see subsection c. below). The underwriting profit of the Company increased from NIS 63.0 million in the corresponding period to NIS 141.1 million in the reported period.

In the third quarter of 2019, pre-tax profit amounted to NIS 63.6 million, as compared to NIS 49.2 million in the corresponding quarter in 2018. The Company's underwriting profit amounted to approximately NIS 48.7 million in the third quarter of 2019, as compared to approximately NIS 36.0 million in the corresponding period in 2018. The increase in underwriting profit was due to the improvement in the claims' and expenses' ratios.

- b. Net investment gains amounted to NIS 83.6 million in the reported period, as compared to investment gains of NIS 12.1 million in the corresponding period in 2018. The increase was due to the increase in the prices of corporate bonds, government bonds and share indexes in the reported period (see section 2 above). In the third quarter, net investment gains amounted to approximately NIS 15.4 million, as compared to approximately NIS 12.9 million in the corresponding period in 2018.
- c. The profit of the Company from compulsory vehicle insurance amounted to NIS 48.3 million in the reported period, as compared to a loss of NIS 3.8 million in the corresponding period in 2018. The significant increase in profit was due to the reduction of NIS 34.7 million in insurance liabilities in the compulsory vehicle insurance segment (including the Company's share of pooling) following the Supreme Court's ruling on the discount rate applicable to annuities. For additional information on the aforesaid ruling of the Supreme Court, see note 2© to the financial statements and the "Kaminitz Committee" paragraph of the part pertaining to legal provisions in Section 2 (Description of Business Environment) of the report of the Company's Board of Directors' for the second quarter. Additionally, investment gains recorded a substantial increase of NIS 19.0 million. The Company's underwriting profit from compulsory vehicle insurance amounted to approximately NIS 26.6 million in the reported period, as compared to a loss of approximately NIS 6.5 million in the corresponding period in 2018. Pooling losses reduced profit in the reported period by NIS 13.2 million, as compared to a reduction of NIS 10.7 million in profit in the corresponding period in 2018.

In the third quarter of 2019, the profit of the Company from compulsory vehicle insurance amounted to approximately NIS 10.4 million, as compared to approximately NIS 2.0 million in the corresponding period



in 2018. The Company's underwriting profit from compulsory vehicle insurance in the third quarter amounted to approximately NIS 5.5 million, as compared to an underwriting loss of approximately NIS 1.1 million in the corresponding quarter in 2018. The increase in the underwriting profit was due mainly to the reduction in the claims' ratio in the reported period as compared to the corresponding period in 2018.

- d. The profit of the Company from vehicle property insurance in the reported period was NIS 51.3 million, as compared to profit of NIS 36.3 million in the corresponding period in 2018. The increased profit was due to higher gains on investments in the reported period as compared to the corresponding period in 2018. The underwriting profit of the Company from vehicle property insurance amounted to NIS 40.1 million in the reported period, as compared to profit of NIS 34.2 million in the corresponding period in 2018. The increase in profit was due mainly to the reduction in the claims' ratio and the expenses' ratio. The reduction in the claims' ratio is a continuation of the ongoing reduction in the frequency of accidents and theft since 2018.

In the third quarter of 2019, the profit of the Company from vehicle property insurance amounted to approximately NIS 16.6 million, as compared to approximately NIS 18.4 million in the corresponding period in 2018. The underwriting profit of the Company from vehicle property insurance amounted to approximately NIS 13.8 million in the third quarter, as compared to approximately NIS 16.5 million in the corresponding period in 2018. The lower profit resulted from the increase in the claims' ratio in relation to the corresponding quarter in 2018.

- e. The profit of the Company from home insurance in the reported period was approximately NIS 17.2 million, as compared to profit of approximately NIS 5.6 million in the corresponding period in 2018. The increased profit was due to higher gains on investments in the reported period as compared to the corresponding period in 2018 and to the improvement in the claims' ratio resulting from a reduction in claims in relation to the effect of weather damage and plumbing damage. The underwriting profit of the Company from home insurance amounted to approximately NIS 12.8 million in the reported period, as compared to profit of approximately NIS 4.6 million in the corresponding period in 2018.

In the third quarter of 2019, the profit of the Company from home insurance amounted to approximately NIS 7.2 million, as compared to approximately NIS 4.0 million in the corresponding period in 2018. The Company's underwriting profit from home insurance amounted to approximately NIS 6.0 million in the third quarter, as compared to approximately NIS 3.4 million in the corresponding period in 2018. The increase in profit was due mainly to the improvement in the expenses' ratio in relation to the corresponding quarter in 2018.

- f. The profit of the Company from health insurance in the reported period was approximately NIS 36.1 million, as compared to profit of approximately NIS 21.6 million in the corresponding period in 2018. The increased profit was due to the higher gains on investments and the reduced claims' ratio, particularly in relation to overseas travel, in the reported period as compared to the corresponding period in 2018. The Company's underwriting profit from health insurance amounted to approximately NIS 30.8 million in the reported period, as compared to profit of approximately NIS 20.8 million in the corresponding period in 2018.

In the third quarter of 2019, the profit of the Company from health insurance amounted to approximately NIS 12.5 million, as compared to approximately NIS 11.7 million in the corresponding period in 2018.

- g. The profit of the Company from life insurance in the reported period was approximately NIS 22.2 million, as compared to profit of approximately NIS 17.5 million in the corresponding period in 2018. The increase in profit was due mainly to the reduced claims' ratio.

In the third quarter of 2019, the profit of the Company from life insurance amounted to approximately NIS 8.0 million, as compared to approximately NIS 6.6 million in the corresponding period last year. The increase in profit was due mainly to the reduced claims' ratio.

- h. The profit of the Company from professional liability insurance in the reported period was approximately NIS 10.6 million, as compared to a loss of approximately NIS 7.2 million in the corresponding period in 2018. The transition from loss in the corresponding period to profit in the reported period resulted from higher gains on investments in the reported period as compared to the corresponding period in 2018 as well as to a reduction in the claims' ratio in the reported period.

In the third quarter of 2019, the Company's profit from professional liability insurance amounted to approximately NIS 3.3 million, as compared to a loss of approximately NIS 0.5 million in the corresponding period last year. The transition from loss in the corresponding quarter to profit in the reported quarter was due a reduction in the claims' ratio in the reported period.



- i. The profit of the Company from other property insurance in the reported period was approximately NIS 5.7 million, as compared to profit of approximately NIS 2.2 million in the corresponding period in 2018. The increased profit was due to the reduced claims' ratio and higher gains on investments in the reported period as compared to the corresponding period in 2018. In the third quarter, the Company's profit from other property insurance amounted to approximately NIS 1.7 million, as compared to approximately NIS 1.0 million in the corresponding period last year.
- j. The profit of the Company from other liability insurance amounted to approximately NIS 5.2 million in the reported period, as compared to a loss of approximately NIS 1.0 million in the corresponding period in 2018. The transition from loss in the corresponding period in 2018 to profit in the reported period was due mainly to the increase in gains on investments. In the third quarter of 2019, the Company's profit from other liability insurance amounted to approximately NIS 1.8 million, as compared to approximately NIS 1.3 million in the corresponding period last year.

Presented below is an analysis of operating results in property insurance sectors:

a. Underwriting profit (loss) (NIS thousands):

	Jan-Sept 2019	Jan-Sept 2018	July-Sept 2019	July-Sept 2018	Jan-Dec 2018
Vehicle property	40,077	34,199	13,828	16,508	61,827
Home	12,810	4,621	6,008	3,379	1,206
Property and others sectors	4,612	2,044	1,404	806	3,160

b. Principal data regarding the claims' ratio¹ (Loss Ratio "LR") and the claims' and expenses' ratio (Combined Ratio "CR"):

	Jan-Sept 2019		Jan-Sept 2018		Jan-Dec 2018	
	LR%	CR%	LR%	CR%	LR%	CR%
Vehicle property:						
Gross	65%	86%	66%	87%	62%	83%
In retention	65%	86%	66%	87%	62%	83%
Property²:						
Gross	58%	88%	51%	81%	49%	81%
In retention *	47%	80%	57%	91%	59%	96%

	July-Sept 2019		July-Sept 2018	
	LR%	CR%	LR%	CR%
Vehicle property:				
Gross	65%	85%	61%	82%
In retention	65%	85%	61%	82%
Property²:				
Gross	47%	74%	23%	54%
In retention *	48%	75%	48%	84%

¹ For the gross data, the claims' ratio and the expenses' ratio are calculated for gross earned premiums. For the data in retention, the claims' ratio and the expenses' ratio are calculated for premiums earned in retention.

² Home and property and others sectors.



5. Cash flows and liquidity

Net cash provided by operating activities in the reported period was NIS 66.1 million, compared with NIS 67.6 million in the corresponding period in 2018.

Net cash used in investing activities in the reported period amounted to NIS 10.4 million, compared with NIS 12.4 million in the corresponding period in 2018.

Dividend paid amounted to NIS 100 million, compared with NIS 50 million in the corresponding period in 2018.

As a result of the above, the balance of cash and cash equivalents in the reported period decreased by NIS 48.8 million and amounted to NIS 38.5 million as of September 30, 2019.

6. Sources of funding

All of the Company's operations are funded using its own resources and capital. As of the date of approving this report, the Company does not use any external funding sources.

7. Material subsequent events

For information on the distribution of a dividend in the amount of NIS 50 million after balance sheet date, see note 5c to the financial statements.

8. CEO and CFO Disclosure regarding the effectiveness of controls and procedures applied to company's disclosures

Controls and procedures applied to disclosure

The Company's management, with the collaboration of the Company's CEO and CFO, assessed as of the end of the period covered by this report the effectiveness of the controls and procedures with respect to the Company's disclosure. Based on this assessment, the Company's CEO and CFO concluded that as of the end of this period the controls and procedures with respect to the Company's disclosure are effective in order to record, process, summarize and report the information that the Company is required to disclose in the quarterly report pursuant to the provisions of the law and the reporting provisions issued by the Commissioner of Capital Markets, Insurance and Savings, and on the date set in these provisions.

Internal controls over financial reporting

In the course of the quarter ending on September 30, 2019, no change has occurred in the internal control of the Company over financial reporting that materially affected or is reasonably expected to materially affect the Company's internal control on financial reporting.

For purposes of this paragraph, "the covered period" is the reported financial quarter.

Management's statements as to the adequacy of the financial data presented in the Company's financial statements and the existence and effectiveness of internal controls relating to the financial statements are attached hereunder.

The Board of Directors wishes to thank the Company's employees and management for their contribution to its business achievements.

Ralph Mucerino
Chairman of the Board of Directors

Yfat Reiter
CEO

November 26, 2019

AIG Israel Insurance Company Ltd

Declarations relating to the Financial Statements

Declaration

I, Yfat Reiter hereby declare that:

1. I reviewed the interim report of AIG Israel Insurance Company Ltd. (hereafter – "the insurance company") for the quarter ended September 30, 2018 (hereafter – "the report").
2. Based on my knowledge, the report does not include any misstatement of a material fact or omit to disclose a material fact the presentation of which in the report is necessary for the purpose of ensuring that under the circumstances in which those presentations are included, they will not be misleading regarding the period covered by the report.
3. Based on my knowledge, the quarterly financial statements and other financial information included in the report reflect fairly, in all material respects, the financial position, results of operations, changes in shareholders' equity and cash flows of the insurance company for the date and periods covered by the report.
4. The Company's other certifying officers and I are responsible for establishing and maintaining controls and procedures relating to disclosure¹ and internal controls over financial reporting of the insurance company; and -
 - (a) Accordingly, we have designed such disclosure controls and procedures, or have had such disclosure controls and procedures established under our charge, designed to ensure that material information relating to the insurance company is made known to us by others in the insurance company particularly during the period in which the reports were prepared;
 - (b) We designed internal controls over financial reporting, or supervised the design of such internal controls designed to provide a reasonable assurance regarding the reliability of the financial reporting and assurance to the effect that the financial statements are drawn up in accordance with International Financial Reporting Standards (IFRS) and in accordance with the directives of the Supervisor of Insurance.
 - (c) We assessed the effectiveness of controls and procedures regarding the disclosure of the insurance company and presented our conclusions regarding the effectiveness of disclosure controls and procedures as of the end of the period covered in the report, based on our estimate; and
 - (d) We disclosed in the report any change in the insurance company's internal controls over financial reporting which took place in this quarter and had a material effect or is expected to have a material effect on the insurance company's internal controls over financial reporting; and

¹ As defined in the provisions of the Institutional Bodies Circular regarding internal controls over financial reporting – declarations, reports and disclosures.

5. The insurance company's other certifying officers and I have disclosed to the insurance company's auditors, the insurance company's board of directors and its audit committee, based on our most recent evaluation of internal controls over financial reporting, the following:
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the insurance company's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether material or not, that involves management or other employees who have a significant role in the insurance company's internal controls over financial reporting.

There is nothing in the aforesaid to derogate from my responsibility or the responsibility of any other person, pursuant to any law.

Yfat Reiter - CEO

November 26, 2018

Declaration

I, David Rothstein hereby declare that:

1. I reviewed the interim report of AIG Israel Insurance Company Ltd. (hereafter – "the insurance company") for the quarter ended September 30, 2019 (hereafter – "the report").
2. Based on my knowledge, the report does not include any misstatement of a material fact or omit to disclose a material fact the presentation of which in the report is necessary for the purpose of ensuring that under the circumstances in which those presentations are included, they will not be misleading regarding the period covered by the report.
3. Based on my knowledge, the quarterly financial statements and other financial information included in the report reflect fairly, in all material respects, the financial position, results of operations, changes in shareholders' equity and cash flows of the insurance company for the date and periods covered by the report.
4. The Company's other certifying officers and I are responsible for establishing and maintaining controls and procedures relating to disclosure¹ and internal controls over financial reporting of the insurance company; and -
 - (a) Accordingly, we have designed such disclosure controls and procedures, or have had such disclosure controls and procedures established under our charge, designed to ensure that material information relating to the insurance company is made known to us by others in the insurance company particularly during the period in which the reports were prepared;
 - (b) We designed internal controls over financial reporting, or supervised the design of such internal controls designed to provide a reasonable assurance regarding the reliability of the financial reporting and assurance to the effect that the financial statements are drawn up in accordance with International Financial Reporting Standards (IFRS) and in accordance with the directives of the Supervisor of Insurance.
 - (c) We assessed the effectiveness of controls and procedures regarding the disclosure of the insurance company and presented our conclusions regarding the effectiveness of disclosure controls and procedures as of the end of the period covered in the report, based on our estimate; and
 - (d) We disclosed in the report any change in the insurance company's internal controls over financial reporting which took place in this quarter and had a material effect or is expected to have a material effect on the insurance company's internal controls over financial reporting; and

¹ As defined in the provisions of the Institutional Bodies Circular regarding internal controls over financial reporting – declarations, reports and disclosures.

5. The insurance company's other certifying officers and I have disclosed to the insurance company's auditors, the insurance company's board of directors and its audit committee, based on our most recent evaluation of internal controls over financial reporting, the following:
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the insurance company's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether material or not, that involves management or other employees who have a significant role in the insurance company's internal controls over financial reporting.

There is nothing in the aforesaid to derogate from my responsibility or the responsibility of any other person, pursuant to any law.

David Rothstein - CFO

November 26, 2019

Directors and Management's Report Regarding Internal Controls over Financial Reporting

Management, with the supervision of the Board of Directors of AIG Insurance Company Ltd. (hereafter the "the Insurance Company") are responsible for setting and maintaining effective internal control over financial reporting. The internal controls system of the insurance company was planned in order to provide reasonable assurance to management and Board of Directors to the effect that the financial statements are prepared and presented fairly in accordance with International Financial Reporting Standards and in accordance with the directives of the Supervisor of Insurance.

All internal controls have inherent limitations regardless of the quality of planning. Therefore, even if it is determined that these controls are effective they can only provide a reasonable measure of assurance regarding the preparation and presentation of financial statements.

Management, supervised by the Board of Directors, maintains a comprehensive control system designed to ensure that transactions are carried out in accordance with management's authorization, assets are protected, and accounting records are reliable. In addition, management with the Board of Directors' supervision takes measures in order to ensure that the information and communications channels are effective and monitor implementation, including implementation of the internal control procedures.

The Insurance Company's management with the supervision of its Board of Directors evaluates the effectiveness of the internal control of the Insurance Company over financial reporting as at September 30, 2019, based on criteria set in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation management believes that as at September 30, 2019 the internal control of the Insurance Company over financial reporting is effective.

Mr. Ralph Mucerino
Chairman of the Board

Mrs. Yfat Reiter
CEO

Mr. David Rothstein
CFO

Date of approval of financial statements: November 26, 2019

**AIG Israel Insurance
Company Ltd.**

**Financial Statements
As at September 30, 2019
(Unaudited)**

Financial Statements as at September 30, 2019 (Unaudited)

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Auditors' review report to shareholders of AIG Israel Insurance Company Ltd.

Introduction

We have reviewed the attached financial information of AIG Israel Insurance Company Ltd (“the Company”), which is comprised of the condensed statement of financial position as of September 30, 2019 and the condensed statements of profit or loss and other comprehensive income, changes in equity and cash flows for the nine- and three-month periods ended on that date. The Board of Directors and management are responsible for the preparation and presentation of the financial information for this interim period in accordance with the provisions of International Accounting Standard No. 34, ‘Interim Financial Reporting’ (hereafter “IAS 34”), and they are also responsible for the preparation of the financial information for this interim period in accordance with the disclosure requirements prescribed by the Commissioner of the Capital Market, Insurance and Savings Authority in accordance with the Supervision of Financial Services (Insurance) Law, 1981. Our responsibility is to express a conclusion with respect to the financial information for this interim period, based on our review.

Scope of review

Our review was conducted in accordance with the provisions of Review Standard No. 1 of the Institute of Certified Public Accountants in Israel, ‘Review of financial information for interim period undertaken by the entity's auditor.’ A review of financial information for an interim period consists of the making of enquiries, in particular, of those officials responsible for financial and accounting matters, and of the application of analytical and other review procedures. A review is substantially lesser in scope than an audit conducted in accordance with auditing standards generally accepted in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, no matter has come to our attention that causes us to believe that the above financial information is not prepared, in all material respects, in accordance with IAS 34.

In addition, based on our review, no matter has come to our attention that causes us to believe that the above financial information does not comply, in all material respects, with the disclosure provisions prescribed by the Commissioner of the Capital Market, Insurance and Savings Authority in accordance with the Supervision of Financial Services (Insurance) Law, 1981.

Emphasis of a matter

Without qualifying our conclusion, as above, we draw attention to the stated in Note 7 to the condensed interim financial statements concerning the exposure to contingent liabilities.

Somekh Chaikin
Certified Public Accountants (Isr.)

November 26, 2019

Condensed Interim Statements of Financial Position as at

	September 30, 2019	September 30, 2018*	December 31, 2018*
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Assets			
Intangible assets	32,513	34,874	35,047
Deferred acquisition costs	162,012	162,218	157,629
Property and equipment	41,051	11,988	11,617
Reinsurance assets	739,539	736,834	718,971
Premiums collectible	198,340	219,403	180,029
Current tax assets	-	1,849	-
Deferred tax assets, net	-	-	12,406
Other receivables	44,165	50,794	41,974
	<u>1,217,620</u>	<u>1,217,960</u>	<u>1,157,673</u>
Financial investments			
Marketable debt instruments	1,821,937	1,684,941	1,731,531
Non-marketable debt instruments	78,731	67,498	76,861
Other	78,756	87,398	77,738
Total financial investments	<u>1,979,424</u>	<u>1,839,837</u>	<u>1,886,130</u>
Cash and cash equivalents	<u>38,513</u>	<u>63,360</u>	<u>87,306</u>
Total assets	<u>3,235,557</u>	<u>3,121,157</u>	<u>3,131,109</u>

* See note 3b(2) as to the first-time implementation of IFRS 16, Leases. In accordance with the elected method of transition, comparative figures have not been restated.

Ralph Mucerino
Chairman of the Board
of Directors

Yfat Reiter
C.E.O

David Rothstein
C.F.O

Date of approval of the interim financial information by the Board of Directors of the Company:
November 26, 2019

Condensed Interim Statements of Financial Position as at

	September 30, 2019	September 30, 2018*	December 31, 2018*
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Equity and liabilities			
Equity			
Share capital	6	6	6
Share premium	250,601	250,601	250,601
Capital reserves	11,084	11,084	11,084
Retained earning	611,130	538,736	563,516
Total equity attributable to equity holders of the Company	872,821	800,427	825,207
Liabilities			
Liabilities in respect of insurance contracts and investment contracts that are not yield dependent	1,955,460	1,951,945	1,885,307
Liabilities in respect of deferred taxes, net	4,727	937	-
Retirement benefit obligation, net	3,157	3,293	3,057
Liabilities to reinsurers	271,357	279,447	297,928
Liabilities in respect of current taxes	14,719	-	17,223
Other payables	113,316	85,108	102,387
Total liabilities	2,362,736	2,320,730	2,305,902
Total equity and liabilities	3,235,557	3,121,157	3,131,109

* See note 3b(2) as to the first-time implementation of IFRS 16, Leases. In accordance with the elected method of transition, comparative figures have not been restated.

The accompanying notes are an integral part of these condensed interim financial statements.

Condensed Interim Statements of Profit or Loss and Other Comprehensive Income

	Nine-month period ended September 30		Three-month period ended September 30		Year ended December 31
	2019	2018*	2019	2018*	2018*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Gross earned premiums	879,587	856,177	298,006	298,192	1,145,519
Premiums earned by reinsurers	(142,293)	(128,126)	(46,152)	(447,133)	(170,467)
Premiums earned in Retention	737,294	728,051	251,908	251,059	975,052
Gains (losses) on investments, net and financing income	83,613	12,139	15,420	12,915	(18,568)
Commission income	39,162	32,903	13,341	11,469	44,842
Total income	860,069	773,093	280,669	275,443	1,001,326
Payments and change in liabilities with respect to insurance contracts, gross	(490,934)	(577,970)	(160,348)	(165,357)	(680,353)
Share of reinsurers in change of insurance liability and payments for insurance contracts	92,119	114,018	21,733	17,027	107,595
Payments and change in liabilities with respect to insurance contracts, in retention	(398,815)	(463,952)	(138,615)	(148,330)	(572,758)
Commissions, marketing expenses and other acquisition costs	(180,780)	(177,396)	(59,073)	(59,759)	(243,934)
General and administrative expenses	(55,730)	(56,642)	(18,892)	(18,481)	(74,819)
Financing income (expenses)	231	3,059	(532)	321	5,006
Total expenses	(635,094)	(694,931)	(217,112)	(226,249)	(886,505)
Income before taxes on income	224,975	78,162	63,557	49,194	114,821
Taxes on income	(77,361)	(28,700)	(21,760)	(17,360)	(40,579)
Income for the period and total comprehensive income for the period	147,614	49,462	41,797	31,834	74,242
Basic earnings per share:					
Basic earnings per share (NIS thousands)	25.76	8.63	7.29	5.56	12.96
Number of shares used in calculating basic earnings per share	5,730	5,730	5,730	5,730	5,730

* See note 3b(2) as to the first-time implementation of IFRS 16, Leases. In accordance with the elected method of transition, comparative figures have not been restated.

The accompanying notes are an integral part of these condensed interim financial statements.

Condensed Interim Statements of Changes in Equity

	<u>Share capital</u>	<u>Share premium</u>	<u>Other reserves</u>	<u>Retained earnings</u>	<u>Total</u>
	NIS thousands				
Balance as at January 1, 2019 (audited)	6	250,601	11,084	563,516	825,207
Total comprehensive income for the 9-month period ended September 30, 2019				147,614	147,614
Dividend				(100,000)	(100,000)
Balance as at September 30, 2019 (unaudited)	<u>6</u>	<u>250,601</u>	<u>11,084</u>	<u>611,130</u>	<u>872,821</u>
Balance as at January 1, 2018 (audited)	6	250,601	11,084	539,274	800,965
Total comprehensive income for the 9-month period ended September 30, 2018				49,462	49,462
Dividend				(50,000)	(50,000)
Balance as at September 30, 2018 (unaudited)	<u>6</u>	<u>250,601</u>	<u>11,084</u>	<u>538,736</u>	<u>800,427</u>
Balance as at July 1, 2019 (unaudited)	6	250,601	11,084	669,333	931,024
Total comprehensive income for the 3-month period ended September 30, 2019				41,797	41,797
Dividend				(100,000)	(100,000)
Balance as at September 30, 2019 (unaudited)	<u>6</u>	<u>250,601</u>	<u>11,084</u>	<u>611,130</u>	<u>872,821</u>

The accompanying notes are an integral part of these condensed interim financial statements.

Condensed Interim Statements of Changes in Equity

	<u>Share capital</u>	<u>Share premium</u>	<u>Other reserves</u>	<u>Retained earnings</u>	<u>Total</u>
	NIS thousands				
Balance as at July 1, 2018 (unaudited)	6	250,601	11,084	556,902	818,593
Total comprehensive income for the 3-month period ended September 30, 2018				31,834	31,834
Dividend				(50,000)	(50,000)
Balance as at September 30, 2018 (unaudited)	<u>6</u>	<u>250,601</u>	<u>11,084</u>	<u>538,736</u>	<u>800,427</u>
Balance as at January 1, 2018 (audited)	6	250,601	11,084	539,274	800,965
Total comprehensive income for the year				74,242	74,242
Dividend				(50,000)	(50,000)
Balance as at December 31, 2018 (audited)	<u>6</u>	<u>250,601</u>	<u>11,084</u>	<u>563,516</u>	<u>825,207</u>

The accompanying notes are an integral part of these condensed interim financial statements.

Condensed Interim Statements of Cash Flows

	Nine-month period ended September 30		Three-month period ended September 30		Year ended December 31,
	2019	2018*	2019	2018*	2018*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Cash flows from operating activities:					
Net cash provided by (used in) operations (Appendix A)	82,729	55,031	79,328	(5,949)	76,844
Interest paid	(465)	-	(149)	-	-
Interest received	45,686	48,053	12,615	15,500	59,494
Dividend received	65	7	-	-	428
Income taxes paid	(81,627)	(72,846)	(14,005)	(7,642)	(75,394)
Income taxes received	18,895	37,379	-	-	35,701
Net cash provided by operating activities	66,083	67,624	77,789	1,909	97,073
Cash flows from investing activities:					
Investment in property and equipment	(1,965)	(4,542)	(625)	(1,228)	(5,900)
Investment in intangible assets	(8,682)	(7,905)	(3,073)	(2,781)	(11,656)
Net cash used in investing activities	(10,647)	(12,447)	(3,698)	(4,009)	(17,556)
Cash flows from financing activities -					
Dividend paid to equity holders of the Company	(100,000)	(50,000)	(100,000)	(50,000)	(50,000)
Repayment of principal of lease liabilities	(3,877)	-	(1,299)	-	-
Net cash used in financing activities	(103,877)	(50,000)	(101,299)	(50,000)	(50,000)
Impact of exchange rate fluctuations on cash and cash equivalent balances	(352)	263	16	498	(131)
Increase (decrease) in cash and cash equivalents	(48,793)	5,440	(27,192)	(51,602)	29,386
Cash and cash equivalents at beginning of period	87,306	57,920	65,705	114,962	57,920
Cash and cash equivalents at end of period	38,513	63,360	38,513	63,360	87,306

* See note 3b(2) as to the first-time implementation of IFRS 16, Leases. In accordance with the elected method of transition, comparative figures have not been restated.

The accompanying notes are an integral part of these condensed interim financial statements.

Condensed Interim Statements of Cash Flows

	Nine-month period ended September 30		Three-month period ended September 30		Year ended December 31,
	2019	2018*	2019	2018*	2018*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Appendix A - cash flows from operating activity:					
Income for the period	147,614	49,462	41,797	31,834	747,242
Adjustments for -					
Income and expenses not involving cash flows:					
Change in liabilities for insurance contracts that are not yield dependent	70,153	196,938	4,800	37,538	130,300
Change in reinsurance assets	(20,568)	(67,406)	10,954	3,496	(49,543)
Change in deferred acquisition costs	(4,383)	(12,861)	(576)	(2,302)	(8,272)
Taxes on income	77,361	28,700	21,760	17,360	40,579
Change in retirement benefit obligations, net	99	(196)	-	-	(432)
Depreciation of property and equipment	7,060	3,607	2,246	1,203	5,337
Amortization of intangible assets	11,216	11,479	3,853	3,773	15,057
Losses (gains), net, on financial investments:					
Marketable debt instruments	(37,539)	36,286	(6,054)	2,923	68,575
Non-marketable debt instruments	5,646	1,462	(305)	609	(7,927)
Marketable exchange traded notes	(1,018)	(1,608)	2,705	(901)	8,052
Impact of fluctuation in exchange rate on cash and cash equivalents	352	(263)	(16)	(498)	131
	<u>108,379</u>	<u>196,138</u>	<u>39,367</u>	<u>63,201</u>	<u>201,857</u>
Changes in assets and liabilities:					
Liabilities to reinsurers	(26,571)	32,160	(8,053)	14,672	50,641
Investments in financial assets, net	(60,383)	(16,184)	16,223	(68,041)	(195,027)
Premiums collectible	(18,311)	(45,575)	115	(23,161)	(6,201)
Other receivables	(2,187)	(2,240)	3,138	(6,722)	6,575
Other payables	(19,726)	(10,674)	(792)	(2,234)	6,611
Current tax liability	-	4	(1)	2	(1,932)
	<u>(127,178)</u>	<u>(142,509)</u>	<u>10,630</u>	<u>(85,484)</u>	<u>(139,333)</u>
Adjustments for interest and dividend:					
Interest paid	465	-	149	-	-
Interest received	(45,686)	(48,053)	(12,615)	(15,500)	(59,494)
Dividend received	(65)	(7)	-	-	(428)
	<u>(46,086)</u>	<u>(48,060)</u>	<u>(12,466)</u>	<u>(15,500)</u>	<u>(59,922)</u>
Net cash provided by (used in) operations	<u>82,729</u>	<u>55,031</u>	<u>79,328</u>	<u>(5,949)</u>	<u>76,844</u>

Cash flows from operating activities include those stemming from financial investment purchases and sales (net) that relate to operations involving insurance contracts.

* See note 3b(2) as to the first-time implementation of IFRS 16, Leases. In accordance with the elected method of transition, comparative figures have not been restated.

The accompanying notes are an integral part of these condensed interim financial statements.

Notes to the Condensed Financial Statements

Note 1 - General

AIG Israel Insurance Company Ltd. (hereinafter - "the Company") was incorporated in Israel on March 27, 1996 as a private company in which the shareholders have limited responsibility. The Company commenced its insurance operations in May 1997. The Company does not hold any subsidiaries or related companies.

The ultimate parent company is American International Group Inc. (hereinafter - "AIG Global Corporation" or "AIG"), which is a leading international insurance and financial concern.

The Company's sole shareholder is AIG Holdings Europe Limited (hereinafter - "AHEL"), which holds all the issued share capital of the Company. AHEL is a member of the AIG Global Corporation.

The registered office of the Company is at 25 HaSivim St. Petach Tikva, Israel.

Definitions:

1. The Company – AIG Israel Insurance Company Ltd.
2. Commissioner - Commissioner of Capital Market, Insurance and Savings Authority.
3. The Supervision Law – The Supervision of Financial Services (Insurance) Law, 1981.
4. Investment contracts – policies that do not constitute insurance contracts.
5. Reinsurance assets – the reinsurer's share in the reserves for insurance contracts and in the contingent claims.
6. Outstanding claims - Known outstanding claims, with the addition of the expected progression of claims that have been incurred but not enough reported (I.B.N.E.R.) plus claims that have been Incurred but not reported (I.B.N.R).
7. Shareholders' Equity Regulations - The Supervision of Insurance Business Regulations (minimum shareholders' equity required from an insurer), 1998 and amendments as amended.
8. Insurance contract - A contract under which one party (the insurer) takes a significant insurance risk from another party (policyholder), by agreement to indemnify the policyholder if an uncertain a defined future event (insurance event) negatively affects the policyholder.
9. Liability for insurance contracts - Insurance reserves and outstanding claims.
10. Premiums - Premiums including fees and proceeds for related services
11. Premiums earned - premiums that relate to the reporting period.

Notes to the Condensed Financial Statements

Note 2 - Basis of Preparation of Financial Statements**A. Statement of compliance**

The condensed interim financial statements (hereinafter - "the interim financial information") has been prepared in accordance with the provisions of International Accounting Standard No. 34 - "Interim Financial Reporting" (hereinafter - "IAS 34") and do not include all of the information required for full annual financial statements, and in accordance with the disclosure requirements of the Supervision Law and the regulations promulgated thereunder. The interim financial information should be read in conjunction with the annual financial statements as at December 31, 2018 and for the year ended on that date (hereinafter - "the 2018 annual financial statements of the Company").

B. Use of estimates and judgments

The preparation of condensed interim financial statements in conformity with IFRSs requires management of the Company to make judgments, estimates and assumptions that affect the application of policies and the amounts of assets, liabilities, income and expenses. It is hereby clarified that actual results may differ from these estimates.

Except as stated in note 3, the significant judgments made by management in applying the Group's accounting policies and the principal assumptions used in the estimation of uncertainty were the same as those applied in the preparation of the annual financial statements.

C. Discount interest rate for National Insurance annuities

Pursuant to the stated in note 27e(3) of the annual financial statements concerning an inter-ministerial committee for the review of the discount rate applicable to compensation for personal injury under damages (hereinafter: "the Committee"), it should be noted that, in June 2019, the Committee submitted its final recommendations in the matter to the Supreme Court. The recommendations prescribed a uniform discount interest rate of 3% and a mechanism for the future updating of the interest rate.

In August 2019, the Supreme Court issued a ruling in the matter, stipulating that the discount rate for compensation in respect of personal injury under damages will remain 3%, unless proof is provided for the necessity to modify it in accordance with the mechanism proposed by the Committee. In its ruling, the Supreme Court called for the amendment of the National Insurance Regulations to reflect the rate stipulated in the ruling and recommended in the Committee's report.

Consequently, in the second quarter of 2019, the Company estimated the effect of the aforesaid ruling and reduced the provisions in the compulsory vehicle insurance segment by approximately NIS 34.7 million in retention before tax. The balance of the provision is approximately NIS 9.2 million in retention before tax, this in respect of subrogation claims by the National Insurance Institute against the Company. To the extent that the Court's recommendation to set a 3% interest rate for National Insurance claims is accepted, additional amounts may be released.

Notes to the Condensed Financial Statements

Note 3 - Significant Accounting Policies

The significant accounting policies and the computational methods applied in the preparation of the interim financial information are consistent with the policies and methods applied in the preparation of the annual financial statements of the Company, except for the following matters:

A. Taxes on income for the interim period are recognized on the basis of management's best estimate of the average tax rate that will apply to total anticipated annual profits.

B. New accounting standards implemented for the first time in the reporting period:

1. The 2018 annual financial statements of the Company presented new IFRSs and amendments to existing standards that have not yet become effective and have not been early adopted by the Company.

According to the stated above, details for new accounting standards and interpretations not yet adopted, see Note 2, W in the December 31, 2018 financial statements.

Since the publication of the 2018 annual financial statements of the Company and except as stated below, no new IFRSs or amendments to existing standards have been published that could materially affect the financial statements of the Company.

2. IFRS 16 - Leases:

Commencing on January 1, 2019 (hereinafter: "date of first-time implementation"), the Company implements IFRS 16, Leases (in this section: "IFRS 16" or "the Standard"), which supersedes IAS 17, Leases (in this section: "IAS 17" or "the Previous Standard").

For all leases, the Company has opted to implement the transitional provisions. Accordingly, on the date of first-time implementation, the Company recognized a liability at the present value of the balance of the future lease fees, discounted at its incremental interest rate as at such date, calculated based on the average duration of the lease commencing on the date of first-time implementation, commensurate with the recognition of a lease right-of-use asset in the amount of the liability, adjusted for lease fees paid in advance or accrued that were recognized as an asset or a liability prior to the date of first-time implementation. Therefore, the implementation of the Standard did not affect the equity of the Company on the date of first-time implementation.

As a result of the implementation of IFRS 16, as at January 1, 2019, the Company recognized right-of-use assets and lease liabilities of NIS 34,139 thousand in respect of leases that were classified as operating leases under IAS 17. Right-of-use assets and lease liabilities are presented under property and equipment and under accounts payable, respectively, in the statement of financial position. Additionally, the classification of lease payments in the statement of cash flows was prospectively modified, such that the principal component is included in financing activities and the interest component is presented in accordance with the Company's policy concerning interest paid.

The Company has determined the nominal interest rate for discounting the lease contracts based on the financing risk of the Company and the average duration of the lease contracts. The weighted average incremental interest rate used in discounting the future lease payments for the calculation of the balance of lease liabilities on the date of first-time implementation of the Standard is approximately 2.0%.

Additionally, in lieu of the recognition of lease expenses in respect of said leases, the Company recognized depreciation and financing expenses. In the reporting period, the implementation of IFRS 16 in connection with leases classified as operating leases under IAS 17 did not have a material effect on the Company's profit or loss.

Notes to the Condensed Financial Statements

Note 3 - Significant Accounting Policies (cont'd)

B. New accounting standards implemented for the first time in the reporting period (cont'd):

2. IFRS 16 – Leases (cont'd)

Presented below are the principal changes in accounting policies following the implementation of the Standard commencing on January 1, 2019:

(1) Determining whether an arrangement contains a lease:

On the date of entering a lease, the Company determines whether the arrangement is a lease or contains a lease, and examines whether the arrangement confers a right to control the use of an identified asset over a specific period for consideration. In assessing whether an arrangement confers a right to control the use of an identified asset, the Company examines whether, over the lease period, it has the two following rights:

The right to obtain substantially all of the economic rewards from the use of the identified asset and the right to direct the use of the identified asset. For lease contracts that contain non-lease components, such as services or maintenance relating to a lease component, the Company has elected to account for the contract as a single lease component without separating the components.

(2) Leased assets and lease liabilities

Contracts that confer upon the Company control of the use of an asset under a lease over a period for consideration are accounted for as leases. Upon initial recognition, the Company recognizes a liability in the amount of the present value of the future lease payments (these payments do not include certain variable lease payments), commensurate with the recognition of a lease right-of-use asset in the amount of the liability, adjusted for lease fees paid in advance or accrued, plus direct costs incurred on the lease.

Since the interest rate that is implicit in the leases of the Company cannot be readily determined, the Company uses the lessor's incremental interest rate.

Subsequent to initial recognition, the right-of-use asset is accounted for based on the cost model and depreciated over the lease period or over the useful life of the asset, whichever is shorter.

The Company has opted for the adoption of the practical expedient pursuant to which, for short-term leases of up to one year or leases in which the base asset has a low value, the lease fees are carried to profit or loss by the straight-line method, over the lease period, and no asset and/or liability is recognized in the statement of financial position.

(3) Lease period:

The lease period is defined as the period in which the lease may not be cancelled, together with periods that are covered by an option to extend or to cancel the lease, if it is reasonably certain that the lessee will or will not exercise this option, respectively.

(4) Variable lease payments:

Variable lease payments that depend on an index or a rate are initially measured using the index or rate as at the lease commencement date and included in the initial measurement of the lease liability. In the event of a change in the cash flow of future lease fees as a result of a change in the index or the rate, the balance of the liability is updated against the right-of-use asset.

Other variable lease payments that are not included in the measurement of the liability are recognized in profit or loss on the date that the conditions for such payments are fulfilled.

Notes to the Condensed Financial Statements

Note 3 - Significant Accounting Policies (cont'd)**B. New accounting standards implemented for the first time in the reporting period (cont'd):****2. IFRS 16 – Leases (cont'd)****(5) Depreciation of a right-of-use asset:**

After the inception of a lease, the right-of-use asset is measured at cost, less accumulated depreciation and less accrued impairment losses, and is adjusted for remeasurements of the lease liability. The depreciation is performed on a straight-line basis over the useful life or the contractual period of the lease, whichever is shorter, as follows:

- Buildings: 6 years
- Vehicles: 3 years

(6) Reassessment of a lease liability:

Upon the occurrence of a significant event or a significant change in circumstances that are in the control of the Company and that affects the decision of whether it is probable that the Company will exercise an option not previously included in determining the lease period, or will not exercise an option previously included in determining the lease period, the Company remeasures the lease liability based on the updated lease payments using an updated discount interest rate. The change in the carrying amount of the liability is carried against the right-of-use asset, or recognized in profit or loss if the carrying amount of the right-of-use asset has been fully depreciated.

Note 4 - Segment Information

The operating segments were determined on the basis of the information examined by the chief operational decision-maker for the purposes of evaluating performance and deciding upon the allocation of resources.

The Company operates in the following operating segments: general insurance, health insurance and life insurance, as set out below. Activities that are not attributed to the segments includes the equity, the non-insurance liabilities and their covering assets.

A. Life insurance segment

The life insurance segment provides cover for life insurance risk only as well as coverage of other risks such as disability, occupational disability and other health related services

B. Health insurance segment

All the Company's health insurance operations are concentrated within this segment. The segment provides personal accident cover, severe illness cover and foreign travel cover.

Notes to the Condensed Financial Statements

Note 4 - Segment Information (cont'd)**C. General insurance segment**

The general insurance segment encompasses the property and liability sectors. In accordance with the directives of the Commissioner of Insurance, the segment is divided into the following sectors: the compulsory motor vehicle sector, the motor vehicle property sector, the home insurance sector, property and others sectors, other liability sectors, and the professional liability sector.

• Compulsory motor vehicle sector

The compulsory motor vehicle sector focuses on the provision of cover, the purchase of which, by the owner or driver of a vehicle, is compulsory by law. This insurance provides cover for bodily injury occasioned to the driver of the vehicle, any passengers therein or pedestrians as a result of the use of an engine vehicle.

• Motor vehicle property sector

The motor vehicle property sector focuses on the provision of cover for property damage occasioned to the motor vehicle of the insured and for property damage that the motor vehicle of the insured causes to a third party.

• Home insurance sector

The apartment's insurance sector focuses in providing coverage for damages caused to apartments and includes coverage in respect of damages caused by earthquake.

• Professional liability sector

The professional liability sector provides cover to practitioners of the various liberal professions for any claims that may be made against them in relation to injury occasioned to a third party as a result of a mistake or professional negligence. Insurance coverage to directors and office holders in respect of an unlawful act or oversight carried out by the directors and office holders in their professional capacity, for funds misappropriation damages and for cyber events.

• Property and others sectors

Property and others sectors provide cover with respect to those property lines which are not connected with the motor vehicle or liability sectors. Cover is principally provided with respect to property insurance, subcontractors and mechanical breakdown insurance.

• Other liability sectors

Other liability sectors provide cover for the liability of the insured with respect to damage that the insured causes to a third party. Amongst the liabilities covered by these sectors are third party liability, employer's liability and product liability.

Notes to the Condensed Financial Statements

Note 4 - Segment Information (cont'd)

	Nine-month period ended September 30, 2019 (unaudited)				Total
	Life insurance	Health Insurance *	General insurance NIS thousands	Not attributed to operating segments	
Gross earned premiums	101,284	154,573	623,730		879,587
Premiums earned by reinsurers	(20,531)	(2,204)	(119,558)		(142,293)
Premiums earned in retention	80,753	152,369	504,172		737,294
Gains on investments, net and financial income	3	5,284	49,087	29,239	83,613
Commission income	6,739	209	32,214		39,162
Total income	87,495	157,862	585,473	29,239	860,069
Payments and change in liabilities with respect to insurance contracts (gross)	(38,973)	(67,243)	(384,718)		(490,934)
Share of reinsurers in change of insurance liabilities and payments with respect to insurance contracts	12,158	1,346	78,615		92,119
Payments and change in liabilities with respect to insurance contracts, in retention	(26,815)	(65,897)	(306,103)		(398,815)
Commissions, marketing expenses and other acquisition costs	(29,837)	(36,487)	(114,456)		(180,780)
General and administrative expenses	(8,622)	(19,370)	(27,738)		(55,730)
Financing income (expenses)	-	-	1,181	(950)	231
Total comprehensive income before taxes on income	22,221	36,108	138,357	28,289	224,975
Liabilities for insurance contracts, gross, as of September 30, 2019	63,970	118,566	1,772,924		1,955,460

Notes to the Condensed Financial Statements

Note 4 - Segment Information (cont'd)

C. General insurance segment (cont'd)

	Nine-month period ended September 30, 2018 (unaudited)				Total
	Life insurance	Health Insurance *	General insurance	Not attributed to operating segments	
	NIS thousands				
Gross earned premiums	97,010	171,962	587,205		856,177
Premiums earned by reinsurers	(18,720)	(2,294)	(107,112)		(128,126)
Premiums earned in retention	78,290	169,668	480,093		728,051
Gains on investments, net and financial income	1	788	6,130	5,220	12,139
Commission income	4,146	215	28,542		32,903
Total income	82,437	170,671	514,765	5,220	773,093
Payments and change in liabilities with respect to insurance contracts (gross)	(36,645)	(91,886)	(449,439)		(577,970)
Share of reinsurers in change of insurance liabilities and payments with respect to insurance contracts	7,500	1,743	104,775		114,018
Payments and change in liabilities with respect to insurance contracts, in retention	(29,145)	(90,143)	(344,664)		(463,952)
Commissions, marketing expenses and other acquisition costs	(28,539)	(40,228)	(108,629)		(177,396)
General and administrative expenses	(7,255)	(18,670)	(30,717)		(56,642)
Financing income	-	-	1,281	1,778	3,059
Total comprehensive income before taxes on income	17,498	21,630	32,036	6,998	78,162
Liabilities for insurance contracts, gross, as of September 30, 2018	63,924	147,743	1,740,278		1,951,945

Notes to the Condensed Financial Statements

Note 4 - Segment Information (cont'd)

C. General insurance segment (cont'd)

	Three-month period ended September 30, 2019 (unaudited)				Total
	Life insurance	Health Insurance *	General insurance	Not attributed to operating segments	
	NIS thousands				
Gross earned premiums	34,956	55,085	208,019		298,060
Premiums earned by reinsurers	(6,746)	(732)	(38,674)		(46,152)
Premiums earned in retention	28,210	54,353	169,345		251,908
Gains on investments, net and financing income	1	1,299	11,097	3,023	15,420
Commission income	2,341	69	10,931		13,341
Total income	30,552	55,721	191,373	3,023	280,669
Payments and change in liabilities with respect to insurance contracts (gross)	(12,566)	(24,933)	(122,849)		(160,348)
Share of reinsurers in change in insurance liabilities and payments with respect to insurance contracts	3,118	423	18,192		21,733
Payments and change in liabilities with respect to insurance contracts, in retention	(9,448)	(24,510)	(104,657)		(138,615)
Commissions, marketing expenses and other acquisition costs	(10,192)	(11,874)	(37,007)		(59,073)
General and administrative expenses	(2,923)	(6,800)	(9,169)		(18,892)
Financing income (expenses)	-	-	410	(942)	(532)
Total comprehensive income before taxes on income	7,989	12,537	40,950	2,081	63,557

Notes to the Condensed Financial Statements

Note 4 - Segment Information (cont'd)

C. General insurance segment (cont'd)

	Three-month period ended September 30, 2018 (unaudited)				Total
	Life insurance	Health Insurance *	General insurance	Not attributed to operating segments	
	NIS thousands				
Gross earned premiums	33,003	63,013	202,176		298,192
Premiums earned by reinsurers	(6,619)	(784)	(39,730)		(47,133)
Premiums earned in retention	26,384	62,229	162,446		251,059
Gains on investments, net and financing income	-	900	7,045	4,970	12,915
Commission income	1,849	73	9,547		11,469
Total income	28,233	63,202	179,038	4,970	275,443
Payments and change in liabilities with respect to insurance contracts (gross)	(12,202)	(31,804)	(121,351)		(165,357)
Share of reinsurers in change in insurance liabilities and payments with respect to insurance contracts	2,104	198	14,725		17,027
Payments and change in liabilities with respect to insurance contracts, in retention	(10,098)	(31,606)	(106,626)		(148,330)
Commissions, marketing expenses and other acquisition costs	(9,630)	(14,010)	(36,119)		(59,759)
General and administrative expenses	(1,939)	(5,921)	(10,621)		(18,481)
Financing income (expenses)	-	-	489	(168)	321
Total comprehensive income before taxes on income	6,566	11,665	26,161	4,802	49,194

Notes to the Condensed Financial Statements

Note 4 - Segment Information (cont'd)

C. General insurance segment (cont'd)

	Year ended December 31, 2018 (audited)				Total
	Life Insurance	Health Insurance *	General insurance	Not attributed to operating segments	
	NIS thousands				
Gross earned premiums	129,951	226,983	788,585		1,145,519
Premiums earned by reinsurers	(25,188)	(3,077)	(142,202)		(170,467)
Premiums earned in retention	104,763	223,906	646,383		975,052
Gains (losses) on investments, net, and financing income	2	(827)	(6,463)	(11,280)	(18,568)
Commission income	6,159	289	38,394		44,842
Total income	110,924	223,368	678,314	(11,280)	1,001,326
Payments and change in liabilities with respect to insurance contracts (gross)	(41,280)	(98,611)	(540,462)		(680,353)
Share of reinsurers in increase of insurance liabilities and payments for insurance contracts	8,365	2,237	96,993		107,595
Payments and change in liabilities with respect to insurance contracts, in Retention	(32,915)	(96,374)	(443,469)		(572,758)
Commissions, marketing expenses and other acquisition costs	(38,784)	(55,331)	(149,839)		(243,934)
General and administrative expenses	(11,642)	(26,148)	(37,029)		(74,819)
Financing income	-	-	1,679	3,327	5,006
Total comprehensive income before taxes on income	27,583	45,353	49,656	(7,953)	114,821

* The health insurance segment primarily comprises the results of the personal accidents sector.

Notes to the Condensed Financial Statements

Note 4 - Segment Information (cont'd)

Additional information relating to general insurance segment:

	Nine-month period ended September 30, 2019 (unaudited)						Total
	Compulsory motor vehicle	Motor vehicle property	Home	Professional liability	Other property sectors*	Other liability sectors*	
	NIS thousands						
Gross premiums	139,632	288,267	99,287	58,194	40,462	29,223	655,065
Reinsurance premiums	(1,905)	-	(8,231)	(53,093)	(40,143)	(25,031)	(128,403)
Premiums in retention	137,727	288,267	91,056	5,101	319	4,192	526,662
Change in balance of unearned premiums, in retention	(6,069)	(9,411)	(6,487)	(273)	160	(410)	(22,490)
Premiums earned in retention	131,658	278,856	84,569	4,828	479	3,782	504,172
Gains on investments, net and financing income	21,678	10,727	3,799	6,132	1,101	5,650	49,087
Commission income	-	-	866	15,595	9,847	5,906	32,214
Total income	153,336	289,583	89,234	26,555	11,427	15,338	585,473
Payments and changes in liabilities with respect to insurance contracts, gross	(86,095)	(181,138)	(41,374)	(24,085)	(32,452)	(19,574)	(384,718)
Share of reinsurers in change of insurance liabilities and payments with respect to insurance contracts	6,366	-	423	23,006	33,131	15,689	78,615
Payments and change in liabilities with respect to insurance contracts, in retention	(79,729)	(181,138)	(40,951)	(1,079)	679	(3,885)	(306,103)
Commissions, marketing expenses and other acquisition costs	(18,955)	(47,315)	(22,062)	(14,211)	(5,978)	(5,935)	(114,456)
General and administrative expenses	(6,424)	(10,326)	(9,612)	(638)	(415)	(323)	(27,738)
Financing income, net	-	543	616	10	-	12	1,181
Total expenses	(105,108)	(238,236)	(72,009)	(15,918)	(5,714)	(10,131)	(447,116)
Total comprehensive income (loss) before taxes on income	48,228	51,347	17,225	10,637	5,713	5,207	138,357
Liabilities with respect to insurance contracts, gross, as at September 30, 2019	707,533	295,308	115,991	273,062	109,171	271,859	1,772,924
Liabilities with respect to insurance contracts, in retention, as at September 30, 2019	559,748	295,308	109,994	42,283	1,945	41,361	1,050,639

* Other property sectors reflect mainly the results of the property insurance sector, which accounts for 97% of the total premiums attributable to these sectors.
Other liability sectors reflect mainly the results of the third-party liability insurance sector, which accounts for 45% of the total premiums attributable to these sectors.

Notes to the Condensed Financial Statements

Note 4 - Segment Information (cont'd)

Additional information relating to general insurance segment (continued):

	Nine-month period ended September 30, 2018 (unaudited)						
	Compulsory motor vehicle	Motor vehicle property	Home	Professional liability	Other property sectors*	Other liability sectors*	Total
	NIS thousands						
Gross premiums	134,127	290,248	91,458	50,695	33,736	24,892	625,156
Reinsurance premiums	(1,845)	(17)	(9,775)	(46,166)	(32,916)	(21,321)	(112,040)
Premiums in retention	132,282	290,231	81,683	4,529	820	3,571	513,116
Change in balance of unearned premiums, in retention	(8,440)	(16,738)	(7,782)	(131)	372	(304)	(33,023)
Premiums earned in retention	123,842	273,493	73,901	4,398	1,192	3,267	480,093
Gains on investments, net and financing income	2,692	1,440	368	730	138	762	6,130
Commission income	-	-	1,186	13,786	7,956	5,614	28,542
Total income	126,534	274,933	75,455	18,914	9,286	9,643	514,765
Payments and changes in liabilities with respect to insurance contracts, gross	(119,621)	(180,373)	(44,664)	(64,505)	(13,297)	(26,979)	(449,439)
Share of reinsurers in change of insurance liabilities and payments with respect to insurance contracts	15,157	-	3,550	52,071	11,944	22,053	104,775
Payments and change in liabilities with respect to insurance contracts, in retention	(104,464)	(180,373)	(41,114)	(12,434)	(1,353)	(4,926)	(344,664)
Commissions, marketing expenses and other acquisition costs	(19,611)	(45,135)	(20,701)	(12,752)	(5,139)	(5,291)	(108,629)
General and administrative expenses	(6,251)	(13,786)	(8,651)	(959)	(612)	(458)	(30,717)
Financing income, net	-	639	616	20	-	6	1,281
Total expenses	(130,326)	(238,655)	(69,850)	(26,125)	(7,104)	(10,669)	(482,729)
Total comprehensive income (loss) before taxes on income	(3,792)	36,278	5,605	(7,211)	2,182	(1,026)	32,036
Liabilities with respect to insurance contracts, gross, as at September 30, 2018	638,087	298,338	94,811	272,672	98,099	293,271	1,740,278
Net liabilities with respect to insurance contracts, retention as at September 30, 2018	537,670	298,338	87,931	52,118	4,016	41,104	1,012,177

* Other property sectors reflect mainly the results of the property insurance sector, which accounts for 96% of the total premiums attributable to these sectors.
Other liability sectors reflect mainly the results of the third-party liability insurance sector, which accounts for 40% of the total premiums attributable to these sectors.

Notes to the Condensed Financial Statements

Note 4 - Segment Information (cont'd)

Additional information relating to general insurance segment (continued):

	Three-month period ended September 30, 2019 (unaudited)						Total
	Compulsory motor vehicle	Motor vehicle property	Home	Professional liability	Other property sectors*	Other liability sectors*	
	NIS thousands						
Gross premiums	45,762	93,849	35,370	17,929	12,830	6,077	211,817
Reinsurance premiums	(626)	-	(1,621)	(16,165)	(12,754)	(5,034)	(36,200)
Premiums in retention	45,136	93,849	33,749	1,764	76	1,043	175,617
Change in balance of unearned premiums, in retention	(1,296)	(1,163)	(3,889)	(104)	27	153	(6,272)
Premiums earned in retention	43,840	92,686	29,860	1,660	103	1,196	169,345
Gains on investments, net and financing income	4,910	2,596	994	1,065	256	1,276	11,097
Commission income	-	-	277	5,181	3,569	1,904	10,931
Total income	48,750	95,282	31,131	7,906	3,928	4,376	191,373
Payments and change in insurance liabilities with respect to insurance contracts, gross	(34,828)	(60,110)	(14,149)	(4,895)	(6,264)	(2,603)	(122,849)
Share of reinsurers in change of insurance liabilities and payments with respect to insurance contracts	4,753	-	(11)	5,404	6,038	2,008	18,192
Payments and changes in liabilities with respect to insurance contracts, in retention	(30,075)	(60,110)	(14,160)	509	(226)	(595)	(104,657)
Commissions, marketing expenses and other acquisition costs	(6,132)	15,155	(6,825)	(4,991)	(1,945)	(1,959)	(37,007)
General and administrative expenses	(2,126)	(3,593)	(3,144)	(136)	(97)	(73)	(9,169)
Financing income, net	-	192	211	4	-	3	410
Total expenses	(38,333)	(78,666)	(23,918)	(4,614)	(2,268)	(2,624)	(150,423)
Total comprehensive income before taxes on income	10,417	16,616	7,213	3,292	1,660	1,752	40,950

* Other property sectors reflect mainly the results of the property insurance sector, which accounts for 99% of the total premiums attributable to these sectors. Other liability sectors reflect mainly the results of the third-party liability insurance sector, which accounts for 44% of the total premiums attributable to these sectors.

Notes to the Condensed Financial Statements

Note 4 - Segment Information (cont'd)

Additional information relating to general insurance segment (continued):

	Three-month period ended September 30, 2018 (unaudited)						Total
	Compulsory motor vehicle	Motor vehicle property	Home	Professional liability NIS thousands	Other property sectors*	Other liability sectors*	
Gross premiums	44,774	94,609	32,526	17,434	9,072	6,136	204,551
Reinsurance premiums	(615)	-	(3,092)	(16,096)	(8,982)	(5,224)	(34,009)
Premiums in retention	44,159	94,609	29,434	1,338	90	912	170,542
Change in balance of unearned premiums, in retention	(2,261)	(2,190)	(4,299)	228	255	171	(8,096)
Premiums earned in retention	41,898	92,419	25,135	1,566	345	1,083	162,446
Gains on investments, net and financing income	3,097	1,670	400	841	159	878	7,045
Commission income	-	-	310	4,713	2,658	1,866	9,547
Total income	44,995	94,089	25,845	7,120	3,162	3,827	179,038
Payments and change in insurance liabilities with respect to insurance contracts, gross	(38,406)	(56,673)	(12,969)	(12,220)	3,716	(4,799)	(121,351)
Share of reinsurers in change of insurance liabilities and payments with respect to insurance contracts	3,602	-	556	9,787	(3,609)	4,389	14,725
Payments and changes in liabilities with respect to insurance contracts, in retention	(34,804)	(56,673)	(12,413)	(2,433)	107	(410)	(106,626)
Commissions, marketing expenses and other acquisition costs	(6,194)	(14,740)	(6,373)	(4,796)	(2,059)	(1,957)	(36,119)
General and administrative expenses	(2,031)	(4,498)	(3,280)	(384)	(245)	(183)	(10,621)
Financing income, net	-	264	216	7	-	2	489
Total expenses	(43,029)	(75,647)	(21,850)	(7,606)	(2,197)	(2,548)	(152,877)
Total comprehensive income (loss) before taxes on income	1,966	18,442	3,995	(486)	965	1,279	26,161

* Other property sectors reflect mainly the results of the property insurance sector, which accounts for 91% of the total premiums attributable to these sectors. Other liability sectors reflect mainly the results of the third-party liability insurance sector, which accounts for 39% of the total premiums attributable to these sectors.

Notes to the Condensed Financial Statements

Note 4 - Segment Information (cont'd)

Additional information relating to general insurance segment (continued):

	Year ended December 31, 2018 (audited)						
	Compulsory motor vehicle	Motor vehicle property	Home	Professional liability NIS thousands	Other property sectors*	Other liability sectors*	Total
Gross premiums	174,445	373,587	119,209	71,157	46,367	32,053	816,818
Reinsurance premiums	(2,403)	(17)	(12,442)	(65,370)	(45,445)	(27,667)	(153,344)
Premiums in retention	172,042	373,570	106,767	5,787	922	4,386	663,474
Change in balance of unearned premiums, in retention	(5,117)	(6,187)	(6,130)	(115)	543	(85)	(17,091)
Premiums earned in retention	166,925	367,383	100,637	5,672	1,465	4,301	646,383
Gains on investments, net and financing income	(2,819)	(1,501)	(395)	(812)	(141)	(795)	(6,463)
Commission income	-	-	1,536	18,562	10,759	7,537	38,394
Total income	164,106	365,882	101,778	23,422	12,083	11,043	678,314
Payments and change in insurance liabilities with respect to insurance contracts, gross	(152,650)	(229,213)	(63,216)	(74,476)	(12,352)	(8,555)	(540,462)
Share of reinsurers in increase of insurance liabilities and payments with respect to insurance contracts	19,197	-	5,161	58,658	10,554	3,423	96,993
Payments and changes in liabilities with respect to insurance contracts, in retention	(133,453)	(229,213)	(58,055)	(15,818)	(1,798)	(5,132)	(443,469)
Commissions, marketing expenses and other acquisition costs	(26,181)	(62,751)	(30,314)	(16,750)	(6,645)	(7,198)	(149,839)
General and administrative expenses	(8,749)	(13,592)	(12,598)	(980)	(621)	(489)	(37,029)
Financing income, net	-	846	801	23	-	9	1,679
Total expenses	(168,383)	(304,710)	(100,166)	(33,525)	(9,064)	(12,810)	(628,658)
Total comprehensive income (loss) before taxes on income	(4,277)	61,172	1,612	(10,103)	3,019	(1,767)	49,656
Liabilities with respect to insurance contracts, gross, as at December 31, 2018	689,536	270,203	101,903	277,189	93,349	269,872	1,702,052
Liabilities with respect to insurance contracts, in retention, as at December 31, 2018	524,437	270,203	95,110	47,635	3,638	40,287	999,310

* Property and others sectors reflect mainly the results of the property loss insurance sector, which accounts for 97% of the total premiums attributable to these sectors. Other liability sectors reflect mainly the results of the product liability insurance sector, which accounts for 42% of the total premiums attributable to these sectors.

Notes to the Condensed Financial Statements

Note 4 - Segment Information (cont'd)**4.1 Additional information relating to life insurance segment:****Nine-month period ended September 30, 2019 (unaudited):**

	Policies not containing savings element	Total
	Risk sold as single policy	
	Private	
	NIS thousands	NIS thousands
Gross risk premiums	103,951	103,951
Payments and change in liabilities with respect to insurance contracts, gross	38,973	38,973

Nine-month period ended September 30, 2018 (unaudited):

	Policies not containing savings element	Total
	Risk sold as single policy	
	Private	
	NIS thousands	NIS thousands
Gross risk premiums	96,971	96,971
Payments and change in liabilities with respect to insurance contracts, gross	36,645	36,645

Three-month period ended September 30, 2019 (unaudited):

	Policies not containing savings element	Total
	Risk sold as single policy	
	Private	
	NIS thousands	NIS thousands
Gross risk premiums	35,532	35,532
Payments and change in liabilities with respect to insurance contracts, gross	12,566	12,566

Notes to the Condensed Financial Statements

Note 4 - Segment Information (cont'd)**4.1 Additional information relating to life insurance segment (cont'd):****Three-month period ended September 30, 2018 (unaudited):**

	Policies not containing savings element	Total
	Risk sold as single policy	
	Private	
	NIS thousands	NIS thousands
Gross risk premiums	32,995	32,995
Payments and change in liabilities with respect to insurance contracts, gross	12,202	12,202

Year ended December 31, 2018 (audited):

	Policies not containing savings element	Total
	Risk sold as single policy	
	Private	
	NIS thousands	NIS thousands
Gross risk premiums	129,869	129,869
Payments and change in liabilities with respect to insurance contracts, gross	41,280	41,280

4.2 Additional information relating to healthcare segment:**Nine-month period ended September 30, 2019 (unaudited):**

	Long-term	Short-term	Total
	NIS thousands	NIS thousands	NIS thousands
Gross premiums	124,846	31,119	**155,965
Payments and change in liabilities with respect to insurance contracts, gross	55,461	11,782	67,243

** Consists primarily of policies issued to individuals.

Nine-month period ended September 30, 2018 (unaudited):

	Long-term	Short-term	Total
	NIS thousands	NIS thousands	NIS thousands
Gross premiums	141,981	33,099	** 175,080
Payments and change in liabilities with respect to insurance contracts, gross	66,631	25,255	91,886

** Consists primarily of policies issued to individuals.

Notes to the Condensed Financial Statements

Note 4 - Segment Information (cont'd)

4.2 Additional information relating to healthcare segment (cont'd):

Three-month period ended September 30, 2019 (unaudited):

	Long-term NIS thousands	Short-term NIS thousands	Total NIS thousands
Gross premiums	40,274	15,123	**55,397
Payments and change in liabilities with respect to insurance contracts, gross	19,496	5,437	24,933

** Consists primarily of policies issued to individuals.

Three-month period ended September 30, 2018 (unaudited):

	Long-term NIS thousands	Short-term NIS thousands	Total NIS thousands
Gross premiums	46,905	18,201	** 65,106
Payments and change in liabilities with respect to insurance contracts, gross	20,950	10,854	31,804

** Consists primarily of policies issued to individuals.

Year ended December 31, 2018 (audited):

	Long-term NIS thousands	Short-term NIS thousands	Total NIS thousands
Gross premiums	187,045	39,928	**226,973
Payments and change in liabilities with respect to insurance contracts, gross	75,956	22,655	98,611

** Consists primarily of policies issued to individuals.

Note 5 - Shareholders' Equity and Capital Requirements

A. Capital management and requirements

The policy of the Company is to maintain a strong capital base in order to ensure its solvency and its ability to meet its obligations to policyholders, to preserve the ability of the Company to continue its business activities and to generate yield to its shareholders. The Company is subject to the capital requirements stipulated by the Commissioner. The Board of Directors of the Company has set a target Solvency II-based solvency ratio.

B. Solvency II-based economic solvency regime

- On June 1, 2017, the Commissioner issued a circular on the provisions for implementing Solvency II-based regime. The directive includes a comprehensive examination of risks that insurance companies are exposed to and standards for management and measurement, and is based on three tiers: a quantitative tier, dealing with risk-based solvency; a qualitative tier, concerning internal control processes, risk management, corporate governance and Own Risk and Solvency Assessment (ORSA); and a third tier, concerning promotion of market discipline, disclosure and reporting.

Notes to the Condensed Financial Statements

Note 5 - Shareholders' Equity and Capital Requirements (Cont'd)

B. Solvency II-based economic solvency regime (Cont'd)

Except for a number of aspects that were adapted to the Israeli market, the provisions of the circular are based, as much as possible, on the quantitative tier of the directive and its accompanying provisions, and that in order to maintain uniformity and allow the Israeli supervisory regime to be recognized as compatible to that in Europe.

The provisions of the circular determine, among other things, that during the period from June 30, 2017 to December 31, 2024 (hereinafter: "the deployment period"), the provisions will apply in relation to solvency capital requirement (SCR) in the deployment period at gradual upward intervals of 5% a year, such that the solvency capital requirement in the deployment period as of June 30, 2017 may not be less than 60% of the solvency required capital as per the guidance in the appendix to the circular ("SCR") and the solvency capital requirement for an insurance company calculated on the basis of the data for December 31, 2024 and thereafter will not be less than the SCR.

2. On October 1, 2017, the Commissioner issued a letter to the managers of the insurance companies concerning the distribution of dividends by an insurance company (hereinafter: "the letter"). Pursuant to the letter:
 - a) Until the date of receipt of the Commissioner's approval regarding the audit by an Audit Firm for the implementation of the Solvency Circular, an insurance company may distribute dividends if the following conditions are met:
 - After the distribution, the Company has a ratio of recognized capital to required capital (hereinafter: "the Solvency Ratio") of at least 115% according to the existing Capital Regulations or directives that supersede them.
 - After the distribution, the Company has a solvency ratio of at least 100% according to the solvency circular, calculated without the provisions during the Deployment Period and without a period of adjustment of the share scenario and subject to the solvency ratio target determined by the Company's Board of Directors.
 - b) After the date of receipt of the Commissioner's approval regarding the audit by an Audit Firm on the implementation of the provisions of the Solvency Circular - an insurance company may distribute a dividend if it meets the conditions stated at the end of section (a) above.
 - c) An insurance company that distributed a dividend shall deliver to the Commissioner, within 20 business days from the date of distribution, the following:
 - An annual profit forecast for the two years following the dividend distribution date;
 - An updated debt service plan of the insurance company approved by the Company's Board of Directors, as well as an updated debt service plan of the holding company that holds the insurance company that was approved by the board of directors of the holding company;
 - An updated capital management plan approved by the Board of Directors of the insurance company, which also includes extensive reference to meeting the repayment ratio target set by the Board of Directors over time, without regard to the period of deployment and without the period of adjustment of the share scenario;
 - A copy of the minutes of the Board of Directors of the insurance company in which the distribution of the dividend was approved, together with the background material for the discussion.

Notes to the Condensed Financial Statements

Note 5 - Shareholders' Equity and Capital Requirements (Cont'd)**B. Solvency II-based economic solvency regime (Cont'd)**

3. On July 7, 2019, the Company received the Commissioner's confirmation of the audit of the implementation of the Solvency regime in accordance with the solvency circular, and is therefore no longer subject to the old Capital Regulations concerning the "minimum capital required" and now fully follows an economic solvency ratio regime.

According to the solvency ratio report as of December 31, 2018, the Company has surplus capital independent of the transitional provisions. For additional information, see Section 3 of the Directors' Report.

The calculation performed by the Company, as above, was reviewed by the auditors of the Company, in accordance with International Standard on Assurance Engagements (ISAE) 3400 - The Examination of Prospective Financial Information. This standard pertains to the audit of Solvency calculations and is not part of the audit standards that apply to financial statements. It should be stressed that the forecasts and assumptions that served as the basis for the preparation of the economic solvency ratio report are based, inter alia, on past experience, as reflected in actuarial studies that are performed from time to time. In view of the reforms in the capital, insurance and savings market and the changes in the economic environment, past data are not necessarily indicative of future results. The calculation may be based on assumptions concerning future events and management's actions may not necessarily be realized or may be realized differently from the assumptions that served as a basis for the calculation. Additionally, actual results could materially differ from the calculation, since the realization of the combined scenario of events may materially differ from the assumptions of the calculation. The special report of the auditors draws attention to the stated in the economic solvency ratio report concerning the uncertainty deriving from regulatory changes and exposure to contingencies, the effect of which on the economic solvency ratio cannot be estimated.

C. Dividend

On August 27, 2019, the distribution of a dividend in the amount of NIS 100 million, representing approximately NIS 17,452 per share, was approved. The dividend was paid on August 28, 2019.

On November 26, 2019, on the date of signing of the financial statements, the distribution of a dividend in the amount of NIS 50 million, representing approximately NIS 8,726 per share, was approved. The aforesaid dividend amount was included as a "subsequent event".

Notes to the Condensed Financial Statements

Note 6 - Financial Instruments and Financial Risks

A. Fair value hierarchy:

The various levels of fair value are determined as follows:

- Level 1 – fair value measured by use of quoted prices (unadjusted) on an active market for identical instruments.
- Level 2 – fair value measured by using observable inputs, direct and indirect, which are not included in Level 1 above.
- Level 3 – fair value measured by using inputs that are not based on observable market data.

Fair value measurements of all of the Company's marketable financial investments (excluding non-marketable debt instruments) that are measured at fair value through profit or loss constitute Level 1 assets. Fair value measurements of non-marketable debt assets of the Company that are measured at depreciated cost and the fair value of which is presented for disclosure purposes only (see d(2) above), constitute Level 2.

Pursuant to the aforesaid, during the 9 months ended September 30, 2018, no fair value amounts in respect of financial assets were transferred into or out of the various levels of the hierarchy.

B. The fair value of financial assets and financial liabilities

- 1) The carrying amounts of cash and cash equivalents, premiums collectible, accounts receivable, and accounts payable are identical or close to their fair values.
- 2) For details on the fair value of financial investments, see c. below.

C. Composition of financial investments:

	September 30, 2019 (unaudited)		
	Measured at fair value through profit or loss NIS thousands	Loans and receivables NIS thousands	Total NIS thousands
Marketable debt instruments (1)	1,821,937	-	1,821,937
Non-marketable debt instruments (2)	-	78,731	78,731
Other (3)	78,756	-	78,756
Total	<u>1,900,693</u>	<u>78,731</u>	<u>1,979,424</u>
	September 30, 2018 (unaudited)		
	Measured at fair value through profit or loss NIS thousands	Loans and receivables NIS thousands	Total NIS thousands
Marketable debt instruments (1)	1,684,941	-	1,684,941
Non-marketable debt instruments (2)	-	67,498	67,498
Other (3)	87,398	-	87,398
Total	<u>1,772,339</u>	<u>67,948</u>	<u>1,839,837</u>

Notes to the Condensed Financial Statements

Note 6 - Financial Instruments and Financial Risks (cont'd)

C. Composition of financial investments (cont'd):

	December 31, 2018 (audited)		
	Measured at fair value through profit or loss	Loans and Receivables	Total
	NIS thousands	NIS thousands	NIS thousands
Marketable debt instruments (1)	1,731,531	-	1,731,531
Non-marketable debt instruments (2)	-	76,861	76,861
Other (3)	77,738	-	77,738
Total	<u>1,809,269</u>	<u>76,861</u>	<u>1,886,130</u>

1. Composition of marketable debt instruments (designated upon initial recognition to the fair value through profit or loss category):

	September 30, 2019 (Unaudited)	
	Carrying amount	Amortized cost
	NIS thousands	NIS thousands
Government bonds	678,045	659,852
<u>Other debt assets:</u>		
other non-convertible debt assets	1,143,892	1,109,149
Total marketable debt assets	<u>1,821,937</u>	<u>1,769,001</u>

	September 30, 2018 (Unaudited)	
	Carrying amount	Amortized Cost
	NIS thousands	NIS thousands
Government bonds	612,382	610,686
<u>Other debt assets:</u>		
other non-convertible debt assets	1,072,559	1,052,364
Total marketable debt assets	<u>1,684,941</u>	<u>1,663,050</u>

	December 31, 2018 (Audited)	
	Carrying amount	Amortized cost
	NIS thousands	NIS thousands
Government bonds	619,981	621,558
<u>Other debt assets:</u>		
other non-convertible debt assets	1,111,550	1,115,799
Total marketable debt assets	<u>1,731,531</u>	<u>1,737,357</u>

Notes to the Condensed Financial Statements

Note 6 - Financial Instruments and Financial Risks (cont'd)**C. Composition of financial investments (cont'd):****2. Composition of non-marketable debt instruments:**

	September 30, 2019 (Unaudited)	
	Carrying amount	Fair value
	NIS thousands	NIS thousands
Bank deposits	1,031	1,303
Other non-convertible debt assets	77,700	79,086
Total non-marketable debt assets	78,731	80,389
	September 30, 2018 (Unaudited)	
	Carrying amount	Fair value
	NIS thousands	NIS thousands
Bank deposits	1,153	1,460
Other non-convertible debt assets	66,345	67,408
Total non-marketable debt assets	67,498	68,868
	December 31, 2018 (Audited)	
	Carrying amount	Fair value
	NIS thousands	NIS thousands
Bank deposits	1,173	1,440
Other non-convertible debt assets	75,688	76,352
Total non-marketable debt assets	76,861	77,792

Notes to the Condensed Financial Statements

Note 6 - Financial Instruments and Financial Risks (cont'd)

C. Composition of financial investments (cont'd):

3) Composition of other financial investments (designated upon initial recognition to the fair value through profit or loss category):

	September 30, 2019 (Unaudited)	
	Carrying amount	Cost
	NIS thousands	NIS thousands
Marketable financial investments	78,756	83,648
	September 30, 2018 (Unaudited)	
	Carrying amount	Cost
	NIS thousands	NIS thousands
Marketable financial investments	87,398	83,648
	December 31, 2018 (Audited)	
	Carrying amount	Cost
	NIS thousands	NIS thousands
Marketable financial investments	77,738	83,648

Note 7 - Contingent Liabilities

There is a general exposure which cannot be evaluated or quantified resulting, inter alia, from the complexity of the services provided by the Company to its policy holders and the frequent changes in regulation. The complexity of these arrangements embodies, inter alia, the potential for arguments pertaining to a long series of commercial and regulatory conditions. It is impossible to anticipate in advance the types of arguments that might be raised in this field, and the exposure resulting from these and other contentions.

In addition, there is a general exposure due to complaints that are filed from time to time with various authorities, such as Supervision, concerning the rights of policy holders under insurance policies and/or the law. These complaints are handled on a current basis by those functions in the Company that oversee customer concerns. The rulings of the authorities on such complaints, to the extent that any ruling is made, are often given across the board. Additionally, in some cases the complaining parties even threaten to initiate legal proceedings in relation to their complaints, including in the form of a petition for certification a class action. At this preliminary stage, the development of such proceedings cannot be assessed and at any rate the potential exposure in their regard or the very initiation of such proceedings cannot be estimated. Accordingly, no provision was created for said exposure.

In the opinion of management of the Company, as to the chances of such proceedings, which is based on the opinion of its legal counsel, the provisions included in the financial statements, where necessary, are sufficient to cover damages from such claims. The provision included in the financial statements is in an immaterial amount.

Notes to the Condensed Financial Statements

Note 7 - Contingent Liabilities - Class Action (cont'd)**A. Contingent liabilities - petitions for certification of class actions**

1. On June 9, 2016, a motion for certification of a class action was filed against the Company. The plaintiff claims that the Company did not pay salary and statutory employee benefits as legally required. The class action seeks a total of NIS 9,769 thousand.

The response of the Company to the motion to certify the claim as class action was filed on January 1, 2017. The plaintiffs filed a response on their behalf to the Company response dated June 1, 2017. Concurrently, the plaintiffs filed a motion for discovery of documents. On October 1, 2017, the Company filed its response to the motion for discovery.

A first pretrial hearing on the case was held on February 12, 2018.

The plaintiffs have recently filed a motion, at the consent of the Company, to stay the proceedings pending a ruling in an appeal that had been submitted to the High Court of Justice in relation to the ruling of the National Court in another case concerning overtime. On July 15, 2018, the proceedings have been suspended pending the ruling of the High Court of Justice.

According to the assessment of the Company, at present, in view of the ruling of the High Court of Justice, as above, the chances of the petition being accepted are low.

2. On January 8, 2017, a petition to certify a class action was filed against the Company and another insurance company.

The plaintiffs allege the overcharging of policy holders and the breach of the enhanced duties of the insurance companies to their policy holders, as reflected in the ability to update age and/or years of driving experience when moving into another age and/or driving experience bracket, which entitle the policy holders to discounted insurance rates.

The claim amount for all class members is estimated at NIS 12,250 thousand. The amount of related to the Company is negligible.

On June 18, 2017, the Company submitted its response to the certification petition. On June 22, 2017, a pretrial hearing was held together with additional claims that were filed against other insurance companies and deal with similar issues. The Court ordered that at this stage of the proceedings, all age-related claims should be heard as a consolidated case. It was further determined that the parties thereto will be participate in the hearing scheduled for September 13, 2017, in which the continuation of the proceedings will be considered.

On September 7, 2017, the petitioners submitted their response to the respondent's response to the certification petition. On September 13, 2017, a pretrial hearing was held.

On December 26, 2017, the respondent submitted its response to the petitioner's response to the petition to certify the claim as a class action.

On January 16, 2018, the respondent submitted its response to the petitioner's demand to disclose documents, rejecting it on the grounds that the documents constitute a trade secret and are therefore confidential.

In a pretrial hearing held on February 22, 2018 it has been decided that cross-examinations will be conducted in the case.

Notes to the Condensed Financial Statements

Note 7 - Contingent Liabilities - Class Action (cont'd)**A. Contingent liabilities - petitions for certification of class actions****2. (cont'd)**

On May 21, 2018, the Court notified the parties of the substitution of the panel of judges in the case.

Having approved one extension, on November 26, 2018, the court approved a further extension, and, accordingly, the summations of the respondents were submitted on December 3, 2018.

On December 19, 2018 a hearing was held, in which three evidentiary hearings have been scheduled, for May 5, 2019, May 28, 2019 and June 2, 2019. The court also ordered the parties to submit their motion for a procedural arrangement by February 3, 2019.

Having presented their arguments in the matter, on February 27, 2019, a ruling was issued, requiring the petitioners to submit a notification as to which declarants on behalf of the respondents they wish to have testify again in additional cases, this by March 5, 2019. It was further determined that a pretrial hearing of the motion will be held on March 20, 2019.

On March 6, 2019, the petitioners submitted their notification. On March 13, 2019, the court accepted the respondents' motion to change the date of a hearing and to extend the date for the submission of the respondents' response and the petitioners' response to the notification from March 6, 2019 until April 7, 2019.

On April 17, 2019, a pretrial hearing was held. In the hearing, it has been determined that the hearing scheduled for May 28, 2019 will be a pretrial hearing rather than an evidentiary hearing. The evidentiary hearing scheduled for June 2, 2019 was cancelled. It has been clarified that the evidentiary hearing scheduled for September 19, 2019 will be held as planned.

On May 28, 2019, a pretrial hearing was held, in which the respondents were required to submit a written response to the question of the court and a motion for a procedural arrangement by June 27, 2019. On June 30, 2019, the court accepted the motion to extend the date for the submission of the motions.

On July 10, 2019, the respondents submitted their response to the court's question. On July 18, 2019, the court accepted the parties' joint motion for a procedural arrangement. Three evidentiary hearings in the case have been scheduled, for December 2019 and January 2020.

In the opinion of the Company's management, which is based on the opinion of its legal counsel, the petition to certify the claim as a class action is more likely to be rejected than accepted.

Notes to the Condensed Financial Statements

Note 7 - Contingent Liabilities - Class Action (cont'd)**A. Contingent liabilities - petitions for certification of class actions**

3. On April 27, 2017, a motion to certify a class action was filed against the Company and two other insurance companies. The plaintiffs argue that insurance companies charged customer who pay premiums in installments credit fees in excess of the rates permitted by law and/or the interest rates presented in policies. It was argued that the Company caused a damage of NIS 20,879 thousand over seven years.

The date for the submission of a response to the motion to certify was delayed, to explore an option of settling the case. As part of the understandings, an auditor was appointed on behalf of the plaintiffs, which has examined and confirmed the amounts of exposure that had been declared by the Company. The parties are currently negotiating a settlement on the basis of the declared amounts of exposure.

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

Since the compromise is based on compromises previously approved by the court in relation to similar motions against other insurance companies, management believes, based on the opinion of its legal counsel, that the compromise is more likely to be approved than rejected by the court.

In the opinion of management of the Company, which is based on the opinion of its legal counsel, this claim will not have a material effect on the Company's financial statements.

4. On September 14, 2017, a petition to certify a class action was filed against 13 insurance companies, including the Company (the "Respondents").

The petitioners allege that the Respondents refrain from adding linkage differentials and/or interest to amounts ruled by a judicial authority, thereby violating Section 5(b) of the Adjudication of Interest and Linkage Law, 5721-1961 (hereinafter: "the Law"). They argue that according to the Law, in cases where the debtor does not pay his debt on time, the linkage differentials, the ordinary interest rate and the interest on arrears should be added to this amount, starting from the date on which the debtor must pay the debt to the date of actual payment.

The personal damage of the plaintiff against the Company is negligible. The petitioners, in the absence of precise data regarding the total damage relating to the Company, estimate it at tens of millions of shekels.

Following the court's approval of two extension requests by the petitioners, on October 10, 2018, the petitioners submitted their response to the Respondents' response to the motion to certify the claim as a class action. On November 5, 2018, the court accepted the Respondents' motion to postpone the date of the hearing.

Notes to the Condensed Financial Statements

Note 7 - Contingent Liabilities - Class Action (cont'd)**A. Contingent liabilities - petitions for certification of class actions****4. (cont'd)**

On February 19, 2019, a pretrial hearing was held. The court raised various insights concerning the proceeding and suggested that the parties refer to a mediation proceeding. The parties were to inform the court by March 17, 2019 if they consent to mediation. No additional hearing has been scheduled. On March 13, 2019, some of the respondents submitted their response, expressing their consent to the court's suggestion to refer the case to mediation. A first mediation session was held on June 26, 2019. On July 2, 2019, the parties submitted a notification of the scheduling of another mediation session for September 18, 2019. On September 26, 2019, the parties issued a notification postponing the mediation session scheduled for September 18, 2019 at the request of the mediator. On October 2, 2019, the court accepted the request of the parties, allowing the submission of an additional update notification by December 1, 2019.

In the opinion of management of the Company, which is based on the opinion of its legal counsel, the petition to certify a class action is more likely to be rejected than accepted.

- 5.** On January 16, 2018, a claim and a petition to certify it as a class action were filed against the Company and 5 other insurance companies in the matter of refraining from paying the VAT component that applies to the cost of the damages in cases in which the alleged damages were not actually repaired to their policy holders and/or to third parties. The petitioner estimates the compensation due to members of the class for each year in respect of the Company in the amount of NIS 5,744 thousand.

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

The Company has submitted its response to the certification motion and the petitioner submitted its response to those of the respondents.

Shortly before the hearing, all respondents submitted a motion to strike the petitioner's response in the light of new arguments and new documents that were attached. The petitioner has recently submitted its response. Subsequently, a ruling was given, rejecting the striking of the petitioners' response, but permitting the respondents to respond jointly. A response has yet to be submitted.

On November 13, 2018, a pretrial hearing was held in the case, in which the court suggested that the class be limited to policy holders only and the withdrawal of all arguments pertaining to third parties. The court also noted that the relevant period for policy holders is 3 years back from January 1, 2018 in view of the statute of limitations, and for third parties – 7 years. Evidentiary hearings in the case have been scheduled for November and December 2019.

In the opinion of management of the Company, which is based on the opinion of its legal counsel, the petition is more likely to be rejected than accepted.

Notes to the Condensed Financial Statements

Note 7 - Contingent Liabilities - Class Action (cont'd)

A. Contingent liabilities - petitions for certification of class actions (cont'd)

6. On May 1, 2018, a claim and a petition to certify it as a class action were filed against the Company. These allege that the Company automatically renews home insurance policies under a mortgage, at higher insurance rates in the renewal period, without obtaining the policy holders' consent for the renewal and raising of the insurance fees and without informing them of the new price. The amount claimed for all the class members is NIS 2,500 thousand.

Following negotiations between the parties, a compromise agreement was reached and submitted to the court. A hearing of the compromise was held on October 29, 2019 and a ruling was issued in approval of the compromise agreement.

In the opinion of the Company's management, which is based on the opinion of its legal counsel, this claim is not expected to have a material effect on the financial statements.

7. On June 3, 2019, a claim and a petition to certify it as a class action were filed against the Company and one of its service providers. The petition alleges that the Company and its service provider do not provide road services to its customers in the areas of Judea and Samaria, this allegedly in discrimination of its customers and in breach of contract.

In the petition, the petitioner estimates the amount claimed for all class members at NIS 6,503 thousand.

On October 6, 2019, the respondents submitted a motion, at the consent of the petitioners, to extend the deadline for responses. On October 6, 2019, it was ruled that the respondents are to submit their response to the certification petition by December 1, 2019.

Management of the Company and its legal counsel are of the opinion that, due to the preliminary stage of the claim and as the merits of the petition have yet to be examined, the chances of the certification petition cannot be estimated at this early stage.

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

The Company is required to submit a response to the certification petition by November 17, 2019. The petitioner is required to submit its response to the response to the certification petition by December 17, 2019. A pretrial hearing was scheduled for January 1, 2020.

On November 7, 2019, a notice was submitted, informing of negotiations between the parties in an attempt to reach an arrangement. Accordingly, the court was requested to extend the date for submission of the response to the certification petition and the hearing date. On November 8, 2019, the court approved the notice, requiring the Respondent to submit its response to the certification petition by January 16, 2020. A pretrial hearing in the case was scheduled for April 22, 2020.

Notes to the Condensed Financial Statements

Note 7 - Contingent Liabilities - Class Action (cont'd)

A. Contingent liabilities – petitions for certification of class actions (cont'd)

8. (cont'd)

At this preliminary stage of the claim, management of the Company and its legal counsel are still studying the matter and are of the opinion that, due to the preliminary stage of the claim, the chances of the certification petition cannot be estimated.

	Number of claims	The amount claimed - NIS thousands
Pending petitions for certification of class actions:		
Amount of claim specified	7	60,146
Amount of claim not specified	1	-
Total	<u>8</u>	<u>60,146</u>

B. Contingent liabilities – claims resolved during the reported period:

On August 9, 2016, a petition for the certification of a class action was filed against a number of insurance companies, including the Company. The petition concerns the impact of customer age on the pricing of premiums in vehicle compulsory and comprehensive insurance. The overall amount of damages sought from all defendants is NIS 100,000 thousand. The amount of personal damages sought of the Company is negligible.

On December 8, 2016, a consent motion to amend the certification petition was filed, requesting the court to permit the petitioners to amend the certification petition. The requested amendment is by way of removal of the arguments concerning the respondents' compulsory insurance and pursuing solely the matters relating to comprehensive insurance. All this, in view of the ruling in the class action of Meyuhav et al. v. Menorah et. al (26351-09-13). On December 11, 2016, a ruling was handed down, which approved the motion to amend the certification petition.

Within the framework of the handling of the cases and following various interim proceedings, a pretrial hearing was held on September 13, 2017. The Court ruled that the certification petition does not contain the cause of practice.

Upon fulfillment of the conditions prescribed in this regard by the Court, on July 26, 2018, the Court approved the parties' proposed hearing arrangement.

On March 26, 2019, the petitioners submitted a notification, pursuant to which they will not continue to pursue a ruling on the motion. On April 3, 2019, the respondents submitted their position in relation to the petitioners' notification regarding the imposition of costs of action on the petitioners and on April 8, 2019 the petitioners submitted their response to the respondents' position.

On April 28, 2019, notification was given of the filing of a statement of withdrawal by the petitioners.

On April 30, 2019, a ruling was given, pursuant to which the court accepts the motion to withdraw, strikes the motion to certify and rejects the personal claims of the petitioners. It was further determined that the petitioners will pay the expenses of each of the respondents in the amount of NIS 10,000.

Notes to the Condensed Financial Statements

NOTE 8 – SUBSEQUENT EVENTS

As to the dividend distribution after balance-sheet date – see Note 5c above.