

AIG Israel Insurance Company Ltd

Interim Financial Report

(Unaudited)

As of September 30, 2020

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Directors' report
AIG Israel Insurance Company Ltd ("the Company")
for the period ended September 30, 2020

The directors' report on the business of the Company as of September 30, 2020 ("**the directors' report**"), reviews the Company and developments in its business in the first three quarters of 2020 ("**the reported period**"). The information in this report are as of September 30, 2020 ("**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 in accordance with the provisions of the Reports to the Public chapter of the Regulation Codex published by the Commissioner of the Capital Markets, Insurance and Savings Authority in the Israel Ministry of Finance ("**the Commissioner of Insurance**" or "**the Commissioner**"). This directors' report was prepared assuming that the user is also holding the Company's 2019 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:

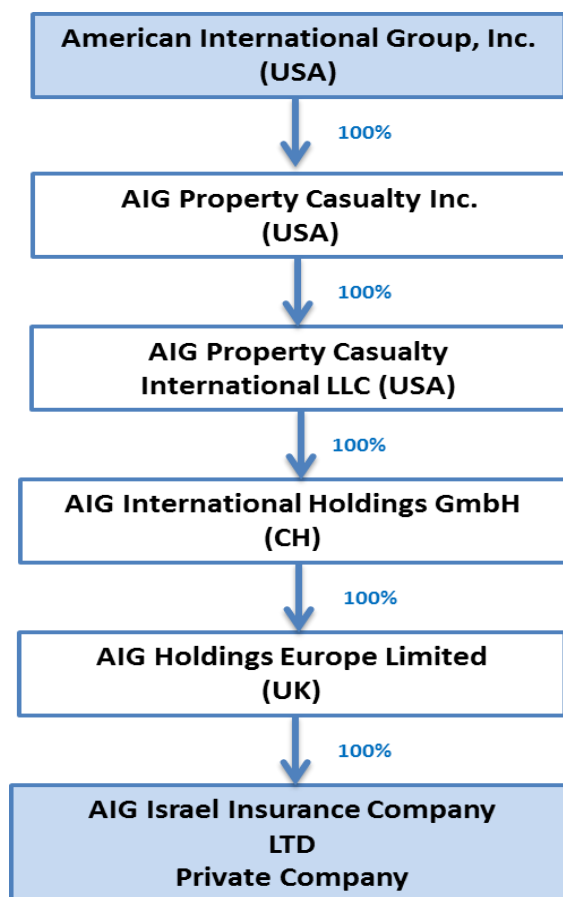
1.1 Organizational structure

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 Extraordinary events in the reporting period

Outbreak of the coronavirus

In the reporting period, a vast spreading of the coronavirus took place in Israel and worldwide (hereinafter: "the Coronavirus Event"), which had severe implications on the local and global economy. Consequently, the Company made preparations to ensure its continued orderly operation as regarding the meeting of obligations to its customers and the adjustment of all aspects of its operations. These preparations included, inter alia, the following steps:

- Activation of the executive Incident Management Team for ongoing management of the Coronavirus Event and constant examination of the impact of scenarios of the Coronavirus Event on the operating segments and the current operating results of the Company.
- Execution of the Company's program for full transition to remote work (managers and employees, including sales and service centers).
- Ongoing monitoring of developments and of the business and monetary implications on investments and on the various insurance sectors of the Company.
- Implementation of the directives issued by the Commissioner in relation to the Coronavirus Event.
- Holding of special meetings of the Board of Directors.

In the first quarter of 2020, the Coronavirus Event and the lockdowns that were imposed in March 2020 had adversely affected the premium turnover of the Company, most notably in the vehicle insurance sectors and in the overseas travel insurance sector, which was completely shut down from the outset of the Coronavirus Event. The principal effect of the Coronavirus Event on the business results of the Company in said quarter is the sharp drop of prices in the Israeli capital market and in the global financial markets. In the first quarter, the Company incurred losses of approximately NIS 123.8 million on capital market investments. The effect on the comprehensive income, after tax, and on the equity of the Company was approximately NIS 81 million.

In the second quarter of 2020, as businesses gradually resumed full operations under various restrictions, some recovery was recorded in the financial markets, and more notably in the Israeli bond market. In the third quarter of 2020, a second wave of the coronavirus broke out. During this quarter, the Israeli Government reinstated various restrictions on the public, even shutting down certain sectors, this in an attempt to reduce morbidity rates. However, following a steep rise in morbidity rates, another general lockdown was imposed in the second half of September. In the second half of October (after the Jewish holidays), the Israeli Government initiated the gradual lifting of the lockdown based on the Ministry of Health's exit plan. The adverse effect on the Company's premium turnover continued into the second and third quarters of 2020, primarily in the overseas travel insurance sector, which was completely shut down, as mentioned above.

To the date of publication of the periodic report as at September 30, 2020, the Company does not expect a material adverse effect on the underwriting results of the Company in 2020 as a result of the Coronavirus Event.

For additional information on the impact of the coronavirus, see section 2 below.

The assessments of the Company regarding the effects of the coronavirus on its business constitute forward-looking information, within its definition in the Securities Law, 1968. This information is based, inter alia, on assessments and estimates by management of the Company as at the publication date of this report, which rely on local and international publications on the topic and on the guidelines of the relevant authorities, the realization of which is uncertain and outside the control of the Company. As this is a global event of unusual proportions, which is outside the control of the Company, actual results may differ from the estimated results, including materially, as a result of various factors, including the continued spreading of the virus globally and, more particularly, in Israel, additional outbreaks of the virus and resolutions of the Government of Israel, including general lockdowns or the imposition of additional restrictions on the population of the State of Israel under emergency orders in the event of high morbidity rates or the overloading of hospitals in Israel.

2. Description of business environment:

General

In accordance with data published by the Capital Markets, Insurance and Savings Authority, there are more than 15 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, 2019, insurance fees from the general insurance business amounted to NIS 22,786 million; the share of the 5 largest insurance companies – Harel, Phoenix, Migdal, Menorah and Clal – was NIS 13,255 million, or 58% 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 2019 periodic report.

Developments in the company's macro-economic environment

Resolutions passed in Israel and worldwide to curb the spreading of the coronavirus and reduce morbidity rates significantly affect product and employment in Israel. Different sectors were affected to varying extents, and some sectors are experiencing a complete shutdown.

According to the most recent assessment published by the Bank of Israel,¹ Israeli product is expected to reduce by 6% in 2020 and grow by 7.5% in 2021. Negative inflation of -1.1% is anticipated for 2020, and in 2021 inflation is expected to reach 0.7%. The forecasted Bank of Israel interest rate for the second quarter of 2021 is 0%-0.1%.

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.

¹ A macroeconomic forecast of the Bank of Israel's Research Division from July 6, 2020.

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

	Jan- September 2020	Jan- September 2019	Jul- September 2020	Jul- September 2019	2019
Government bonds indexes					
General government bonds	0.7%	8.1%	(0.8%)	3.5%	9.1%
Linked government bonds	(0.5%)	9.3%	(1.4%)	3.5%	10.3%
NIS government bonds	1.5%	7.3%	(0.4%)	3.5%	8.3%
Corporate bonds indexes					
Tel Bond 60	(3.2%)	7.5%	2.5%	2.5%	7.4%
Tel Bond NIS	(2.1%)	7.2%	4.6%	2.1%	8.6%
Share indexes					
Tel-Aviv 125	(16.8%)	15.0%	1.5%	3.2%	21.3%
S&P 500	4.1%	18.7%	8.5%	1.2%	28.9%

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 2019 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:

Circulars

- In September 2020, an amendment to the consolidated circular concerning "Board of Directors of a Public Institution" was extended until the end of 2020. The amendment, which serves as an ad hoc provision on the backdrop of the Coronavirus Event, provides, inter alia, for the cancellation of the requirement of a physical convening of the board of directors at least once a quarter and the deferral of the dates for approval of minutes and determines that a public institution will submit to the Commissioner a summary of the resolutions of the board of directors or its committees that were passed at a meeting concerning the Coronavirus Event, this not later than 5 business days from the date of the meeting.
- In October 2020, the Commissioner published an amendment to the provisions of the consolidated circular concerning the Investment Asset Management Chapter. This amendment prescribes several standing modifications to the provisions of the Investment Asset Management Chapter as well as several ad-hoc provisions. Among others, the list of rating firms authorized to rate debt outside Israel has been updated and insurers have been authorized, until the end of March 2021, to grant loans, invest in non-marketable debt assets or lend securities, provided that the volume of the investments does not exceed five percent of the assets securing the insurer's liabilities (the calculation is to be performed for all types of liabilities collectively, rather than individually for each type).

Drafts

- In July 2020, the Commissioner published a draft amendment to the consolidated circular concerning "Management of Investment Assets (Internal Rating Model)". The draft amendment adds on to the existing terms in the Investment Asset Management Chapter as regarding the internal rating of credit extended by public institutions and determines that the internal rating model of a public institution that meets the terms that are specified therein shall be deemed as an internal rating model approved by the Commissioner. Additionally, it proposes to allow the board of directors to authorize any of its committees to perform the duties of the board of directors relating to the approval of an internal rating model and the supervision of its use.

- In August 2020, the Commissioner published a draft amendment to the provisions of the consolidated circular concerning the Investment Asset Management Chapter. The draft proposes that it be determined that a public institution may invest in a hybrid bond that is marketable and rated by a rating firm, provided that the issuer has undertaken to pay the holders of the bond, in the event of reduction of the issuer's or the bond's rating, interest at a rate higher than that originally agreed upon, this in order to ensure compensation for an increase in the investment risk. Additionally, in relation to provisions regarding debt management, the draft amendment proposes to cancel the exclusion of debts issued outside Israel, and include them, too, in the scope of the relevant provisions of the Investment Asset Management Chapter.
- In September 2020, the Commissioner published a draft concerning the approval of officers and the reporting of functionaries in public institutions. The draft proposes a new format for the announcement of the appointment of an existing director for another office, which is to be delivered to the Commissioner after every annual meeting in which a director is appointed as aforesaid. It also introduces additional questions to the announcement of the appointment of an officer in a public institution.
- In October 2020, the Commissioner published a draft amendment to the provisions of the consolidated circular concerning the "Internal Rating Model". The draft amendment determines that ratings based on an internal rating model are to be reported to the Commissioner of the Capital Markets, Insurance and Savings Authority at the individual asset level, this in order to allow proper supervision by the Authority over the implementation of internal rating models that have been approved by the Commissioner.
- In October 2020, the Commissioner published a draft update to the provisions of the consolidated circular concerning "Measurement - Professional Issues Concerning the Implementation of International Financial Reporting Standard (IFRS) No. 17 in Israel". The draft circular aims to set principles for the implementation of the Standard with regard to several principal professional issues, this in order to improve the comparability of the financial statements of insurance companies in Israel.
- In October 2020, the first reading of the Insurance Contract Bill (Amendment - Extension of Period of Limitations), 2020 was passed by the Knesset. The aforesaid bill proposes the extension of the period of limitations with regard to the claiming of insurance benefits from three years to five years from the date on which the policy holder becomes entitled to claim benefits. It is further proposed that insurance companies be required to notify, in advance, a policy holder that has informed the insurance company, or that has applied to it for benefits, or that is holding negotiations with it, of the termination of the limitations period - on all that this entails.
- In October 2020, the Commissioner published a draft paper concerning the Management of Cyber Risks in Insurance Operations. The draft proposes that insurance companies perform a cyber-risks survey of the insurance operation for the purpose of identifying, quantifying and assessing the company's exposure to such risks. The results of such survey, as presented to the board of directors of the company, including the related minutes and necessary quantitative data, are to be delivered to the Authority.

Subrogation Arrangement with the National Insurance Institute of Israel

The State Budget for 2019 included a proposed modification of the accounting mechanism between the National Insurance Institute (hereinafter: "NII") and the insurance companies. The proposal suggests, inter alia, amendment of the arrangement set forth in Section 328 (a) of the National Insurance Law regarding the settling of accounts between NII and the insurance companies in respect of payment of compensation for the benefit paid or to be paid by NII for Victims of Road Accidents pursuant to the Road Accident Victims Compensation Law, 1975 (hereinafter: "the Compensation Law") pursuant to which insurance companies would be required to transfer a fixed annual amount to cover their liability.

To the best of the Company's knowledge, as at the reporting date, the emerging arrangement with the Ministry of Finance provides for a specific settling of accounts between insurance companies and NII for the years 2014-2020, based on the understandings reached between the parties (or the absence of such understandings), this being conditional upon the insurance companies waiving statute of limitations claims with respect to the years 2014 and 2015.

It has also been agreed that the insurance companies will transfer an advance of NIS 1 billion on account of a past debt for underwriting years 2014-2018. The Company estimates that, as at the reporting date, its share of the aforesaid advance will amount to approximately NIS 31 million, subject to the specific settling of accounts for the aforementioned underwriting years. Additionally, within the framework of the emerging arrangement, starting in 2021 the insurance companies will make fixed annual payments to NII, at pre-agreed rates that will be set in the arrangement.

Discount interest rate applicable to annuities

In June 2019, the Kaminitz Committee (an inter-ministerial committee established for the purpose of reviewing the discount interest rate applicable to compensation for personal injury under damages) published its final report. Among others, the report reexamines the National Insurance Regulations (Discounting) (Amendment), 2016, which had reduced the discount interest rate to 2%. As part of the aforesaid final report, the Committee recommended, inter alia, the reinstatement of the discount interest rate to 3%. On August 8, 2019, the Supreme Court issued a ruling (Appeal 3751/17 The Israeli Vehicle Insurance Pool vs. Anonymous), which determines inter alia that, pending a legislation amendment, the updating mechanism provided for by the Kaminitz Committee should be adopted, and that the discount rate will remain at 3%.

On October 10, 2020, the court rejected a motion for an additional discussion (ACD 6370/19) of the ruling concerning the discount rate for compensation in respect of personal injury under damages applicable to the National Insurance Institute in subrogation claims, thereby preserving the existing discount rate of 3%. Consequently, the Company estimated the effect of the aforesaid ruling and reduced the provisions in the compulsory vehicle insurance segment by approximately NIS 5.7 million in retention before tax, this in respect of subrogation claims of the National Insurance Institute against the Company, and increased the pre-tax profit in the segment by the same amount. See 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, 2020	September 30, 2019	December 31, 2019
Other assets	307,696	316,069	289,433
Deferred acquisition expenses	163,163	162,012	157,386
Financial investments and cash	2,043,661	2,017,937	2,044,165
Reinsurance assets	754,201	739,539	701,785
Total assets	3,268,721	3,235,557	3,192,169
Equity	911,281	872,821	852,222
Liabilities in respect of insurance contracts	1,975,203	1,955,460	1,904,206
Other liabilities	382,237	407,276	435,741
Total equity and liabilities	3,268,721	3,235,557	3,192,169

Following are principal comprehensive income data (NIS thousands)

	Jan- September 2020	Jan- September 2019	Jul- September 2020	Jul- September 2019	2019
Gross earned premiums	857,872	879,587	282,839	298,060	1,181,142
Premiums earned by reinsurers	(134,381)	(142,293)	(38,735)	(46,152)	(195,627)
Premiums earned in retention	723,491	737,294	244,104	251,908	985,515
Gains (losses) on investments, net and financing income	(47,306)	83,613	36,577	15,420	95,347
Income from commissions	35,247	39,162	10,001	13,341	52,375
Total revenue	711,432	860,069	290,682	280,669	1,133,237
Payments and change in liability for insurance contracts, in retention	(383,126)	(398,815)	(123,125)	(138,615)	(541,181)
Total other expenses	(237,408)	(236,279)	(72,455)	(78,497)	(323,636)
Income before taxes on income	90,898	224,975	95,102	63,557	268,420
Taxes on income	(31,839)	(77,361)	(32,698)	(21,760)	(91,405)
Income for the period and total comprehensive income for the period	59,059	147,614	62,404	41,797	177,015

Capital and capital requirements

As at September 30, 2020, equity amounted to NIS 911.3 million, as compared to NIS 852.2 million as at December 31, 2019. The change in equity in the reporting period is due to a comprehensive income of NIS 59.1 million for the period.

To the best of the Company's knowledge, as at the reporting date no events have taken place that might indicate financial difficulties or a deficiency in the required minimum capital. In addition, the Company believes that in the coming year it will not be required to raise funds for the purpose of meeting the minimum capital requirement.

Solvency-II-based economic solvency regime in insurance companies

In July 2019, the Company made a full transition to an economic solvency ratio regime.

In March 2020, the Commissioner issued a letter to the insurance companies concerning the Authority's intention to adjust the economic solvency regime in Israel to the provisions of Directive 2009/138/EC (hereinafter: "the Directive") (i.e. the format adopted by the European Union). The letter prescribes, inter alia, the principal milestones for the performance of the necessary adjustments to the Directive, alongside provisions for the economic solvency regime reporting requirements in the near term. Within this framework, the date for the calculation of the economic solvency ratio as at December 31, 2019 was set for August 31, 2020.

In October 2020, the Commissioner published an amendment to the provisions of the consolidated circular concerning "Provisions for the Implementation of a Solvency-II-Based Economic Solvency Regime in Insurance Companies". The purpose of the amendment is incorporation of the provisions of the Solvency Circular (Circular 2017-1-9) into the consolidated circular. It also contains the updates to the deployment provisions with regard to the raising of the solvency capital ratio requirement and additional provisions concerning the calculation of insurance companies' economic solvency ratio. On the same, date, the Commissioner published an update to the provisions of the consolidated circular concerning "Reports to the Public", which proposes, inter alia, expansion of the economic solvency ratio disclosure to include the implementation of the transitional provisions prescribed for the deployment period with regard to the raising of the solvency capital ratio required of insurance companies. The aforesaid update also expands the disclosure in the economic solvency ratio report of aspects pertaining to movements in surplus capital, sensitivity analyses, capital management and restrictions on dividend distributions.

Presented below are data concerning solvency ratio and MCR:

a. Solvency ratio (NIS thousands):

	December 31, 2019	December 31, 2018
Regardless of the provisions in the deployment period:		
Equity for purposes of solvency capital requirement (SCR)	1,032,523	1,071,017
Solvency capital requirement (SCR)	701,972	629,586
Surplus as at reporting date	330,551	441,431
Solvency ratio as at reporting date (%)	147%	170%
Milestones achieved during the deployment period:		
Equity for purposes of solvency capital requirement in deployment period	1,032,523	1,071,017
Solvency capital requirement in deployment period	523,034	438,750
Surplus in the deployment period	509,489	632,267

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

	December 31, 2019	December 31, 2018
Minimum capital requirement (MCR)	180,321	182,728
Equity for purposes of MCR	1,032,523	1,071,017

The calculation performed by the Company as at December 31, 2019 was reviewed by the auditors of the Company, in accordance with ISAE 3400. For additional information on the solvency ratio, see the Company's economic solvency ratio report as at December 31, 2019, 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

The Company's total gross premiums amounted to NIS 875 million in the reporting period, as compared to 915 million in the corresponding period in 2019. The decrease in gross premiums in the reporting period stems mainly from the overseas travel, personal accidents and property insurance sectors and from liability sectors in commercial insurance.

The Company's total premiums in retention amounted to NIS 748 million in the reporting period, as compared to NIS 764 million in the corresponding period in 2019. The decrease in premiums in retention in the reporting period stems mainly from the overseas travel and personal accidents insurance sectors.

Premiums by principal operating segments (NIS thousands):

Jan-September 2020	Life insurance	Health insurance	General insurance	Total
Gross	112,345	115,261	647,852	875,458
In retention	97,470	113,170	537,299	747,939
% of total gross	12.8	13.2	74.0	100.0
% of retention	13.0	15.1	71.9	100.0

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	11.4	17.0	71.6	100.0
% of retention	10.9	20.1	69.0	100.0

Jan-December 2019	Life insurance	Health insurance	General insurance	Total
Gross	140,351	204,216	834,941	1,179,508
In retention	112,960	201,283	674,895	989,138
% of total gross	11.9	17.3	70.8	100.0
% of retention	11.4	20.3	68.3	100.0

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

	Jan- September 2020	Jan- September 2019	Jul- September 2020	Jul - September 2019	Jan-Dec 2019
Income (loss) from compulsory vehicle insurance	1,141	48,228	17,274	10,417	29,410
Income from vehicle property insurance	48,780	51,347	24,883	16,616	74,875
Income from home insurance	13,637	17,225	11,009	7,213	13,956
Income from health insurance	18,050	36,108	6,701	12,537	54,023
Income from life insurance	36,697	22,221	15,411	7,989	33,202
Income (loss) from commercial insurance	(2,393)	21,557	6,317	6,704	26,895
Other - Income (loss) not allocated to any segment	(25,284)	28,289	13,507	2,081	36,059
Income before taxes on income	90,898	224,975	95,102	63,557	268,420
Taxes on income	(31,839)	(77,361)	(32,698)	(21,760)	(91,405)
Income for the period and total comprehensive income for the period	59,059	147,614	62,404	41,797	177,015

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. Income for the period and total comprehensive income for the reporting period totalled NIS 59.1 million, as compared to profit of NIS 147.6 million in the corresponding period in 2019. The pre-tax profit of the Company in the reporting period was NIS 90.9 million, as compared to profit of NIS 225.0 million in the corresponding period in 2019. The decrease in profit was due mainly to material investment losses as a result of the Coronavirus Event (see section 1.3 above and section b. below). The underwriting profit of the Company decreased from NIS 141.1 million in the corresponding period to NIS 138.1 million in the reporting period. The decrease in the underwriting profit was also due to the reduction of NIS 34.7 million in insurance liabilities in the compulsory vehicle insurance segment in the corresponding period in 2019, following the Supreme Court's ruling on the discount rate applicable to annuities.

Income for the period and total comprehensive income in the third quarter of 2020 totalled NIS 62.4 million, as compared to profit of NIS 41.8 million in the corresponding quarter in 2019. Pre-tax profit in the third quarter of 2020 totalled NIS 95.1 million, as compared to NIS 63.6 million in the corresponding quarter in 2019. The increase in profit was due mainly to higher gains on investments. The underwriting profit of the Company in the third quarter of 2020 amounted to NIS 57.4 million, as compared to NIS 48.7 million in the corresponding quarter in 2019. The increase in the underwriting profit was due mainly to the reduced claims' ratio in the reporting period as compared to the corresponding period in 2019. The decrease in the underwriting profit was also due to the reduction in insurance liabilities following the Supreme Court's ruling on the discount rate applicable to annuities in claims filed by the National Insurance Institute of Israel. As a result of this ruling, the Company's insurance liabilities in the compulsory vehicle insurance segment decreased by NIS 5.7 million (see section 2 below).

- b. Net investment losses amounted to NIS 47.3 million in the reporting period, as compared to investment gains of NIS 83.6 million in the corresponding period in 2019. The losses on investments in the reporting period were due to sharp price drops on the Israeli capital market and in global financial markets as a result of the Coronavirus Event (see section 2 above).
- c. The profit from compulsory vehicle insurance amounted to NIS 1.1 million in the reporting period, as compared to 48.2 million in the corresponding period in 2019. The reduction in profit was due to investment losses in the reporting period stemming from sharp price drops on the capital market as a result of the Coronavirus Event. The underwriting profit from compulsory vehicle insurance amounted to NIS 11.0 million in the reporting period, as compared to profit of NIS 26.6 million in the corresponding period in 2019. The decrease in profit was due to the reduction of NIS 34.7 million in insurance liabilities in the compulsory vehicle insurance segment in the corresponding period in 2019, following the Supreme Court's ruling on the discount rate applicable to annuities.

In the third quarter of 2020, the profit from compulsory vehicle insurance amounted to NIS 17.3 million, as compared to NIS 10.4 million in the corresponding period in 2019. The underwriting profit from compulsory vehicle insurance in the third quarter of 2020 amounted to NIS 7.1 million, as compared to NIS 5.5 million in the corresponding quarter in 2019. The increase in the underwriting profit was due mainly to the reduced claims' ratio in the reporting period as compared to the corresponding period in 2019. The decrease in the underwriting profit was also due to the reduction in insurance liabilities following the Supreme Court's ruling on the discount rate applicable to annuities in claims filed by the National Insurance Institute of Israel. As a result of this ruling, the Company's insurance liabilities in the compulsory vehicle insurance segment decreased by NIS 5.7 million (see section 2 below).

- d. The profit of the Company from vehicle property insurance in the reporting period was NIS 48.8 million, as compared to profit of NIS 51.3 million in the corresponding period in 2019. The lower profit is due to losses on investments. The profit of the Company from vehicle property insurance in the reporting period was NIS 52.7 million, as compared to profit of NIS 40.1 million in the corresponding period in 2019. The increased profit was due to a significant improvement in the claims' ratio in the second and third quarters of 2020. A significant contributor to this reduction in the claims' ratio was the lower occurrence of road accidents as a result of the Coronavirus Event.

In the third quarter of 2020, the profit from vehicle property insurance amounted to NIS 24.9 million, as compared to NIS 16.6 million in the corresponding period in 2019. The underwriting profit from vehicle property insurance in the third quarter was NIS 20.3 million, as compared to NIS 13.8 million in the corresponding period in 2019. The higher profit was due mainly to the improved claims' ratio, as described above.

- e. The profit from home insurance in the reporting period was NIS 13.6 million, as compared to profit of NIS 17.2 million in the corresponding period in 2019. The lower profit is due to losses on investments in the reporting period. The underwriting profit from home insurance amounted to NIS 14.9 million in the reporting period, as compared to profit of NIS 12.8 million in the corresponding period in 2019. The higher profit was due mainly to the increase in premiums earned.

In the third quarter of 2020, the profit from home insurance amounted to NIS 11.0 million, as compared to NIS 7.2 million in the corresponding period in 2019. The underwriting profit of the Company from home insurance in the third quarter of 2020 was NIS 8.9 million, as compared to NIS 6.0 million in the corresponding period in 2019. The higher profit was due mainly to the improved claims' ratio as compared to the corresponding quarter in 2019.

- f. The profit from health insurance in the reporting period was NIS 18.1 million, as compared to profit of NIS 36.1 million in the corresponding period in 2019. The lower profit is due to losses on investments in the reporting period and to the underwriting loss in the overseas travel sector. The underwriting profit from health insurance in the reporting period was NIS 19.8 million, as compared to profit of NIS 30.8 million in the corresponding period in 2019. The reduction in the underwriting profit was due mainly to the loss in the overseas travel sector in the reporting period as compared to the profit in the corresponding period in 2019. The loss in the overseas travel sector in the reporting period was due to a significant reduction in premiums earned as a result of the coronavirus crisis.

The profit from health insurance in the third quarter of 2020 was NIS 6.7 million, as compared to profit of NIS 12.5 million in the corresponding period last year. The underwriting profit from health insurance in the third quarter of 2020 was NIS 4.9 million, as compared to a profit of NIS 11.2 million in the corresponding period in 2019. The decrease in underwriting profit was due mainly to the lower underwriting profit in the overseas travel sector, as mentioned above.

- g. The profit from life insurance was NIS 37.0 million in the reporting period, as compared to profit of NIS 22.2 million in the corresponding period in 2019. The increase in profit was due to the reduced claims' ratio and expenses' ratio.

The profit from life insurance in the third quarter of 2020 was NIS 15.4 million, as compared to profit of NIS 8.0 million in the corresponding period last year. The increase in profit was due mainly to the reduced claims' ratio and expenses' ratio.

- h. The profit of the Company from professional liability insurance in the reporting period was NIS 0.1 million, as compared to NIS 10.6 million in the corresponding period in 2019. The lower profit in the reporting period is due to losses on investments. The underwriting profit of the Company from professional liability insurance amounted to NIS 2.7 million in the reporting period, as compared to profit of NIS 4.5 million in the corresponding period in 2019.

The profit from professional liability insurance in the third quarter of 2020 was NIS 4.3 million, as compared to profit of NIS 3.3 million in the corresponding period last year. The underwriting profit of the Company from professional liability insurance in the third quarter of 2020 was NIS 1.7 million, as compared to NIS 2.2 million in the corresponding period in 2019.

- i. The loss from other property insurance in the reporting period was NIS 1.5 million, as compared to profit of NIS 5.7 million in the corresponding period in 2019. The loss in the reporting period was due to losses on investments and to lower income from reinsurance commissions as a result of the reduced output. The underwriting loss of the Company from other property insurance amounted to NIS 1.1 million in the reporting period, as compared to profit of NIS 4.6 million in the corresponding period in 2019. The transition from underwriting profit in the corresponding period to loss in the reporting period is due to the lower income from reinsurance commissions as a result of the reduced output. At the beginning of the reporting period, this sector recorded gross claims of approximately NIS 23 million as a result of storm damages. Since the Company maintains a very low retention in this sector after reinsurance, the aforesaid claims did not have a material effect on the results of the Company.

The loss of the Company from other property insurance in the third quarter of 2020 was NIS 33 million, as compared to profit of NIS 1.7 million in the corresponding period last year. The underwriting loss from other property insurance in the third quarter of 2020 was NIS 0.5 million, as compared to profit of NIS 1.4 million in the corresponding period in 2019. The transition from underwriting profit to loss is due to the lower income from reinsurance commissions as a result of the reduced output.

- j. The loss from other liability insurance in the reporting period was NIS 1.1 million, as compared to profit of NIS 5.2 million in the corresponding period in 2019. The loss in the reporting period is due to losses on investments. The underwriting profit from other liability insurance in the reporting period was NIS 1.2 million, as compared to a loss of NIS 0.5 million in the corresponding period in 2019. The profit in the reporting period was due to the improvement in the claims' ratio.

The loss from other liability insurance in the third quarter of 2020 was NIS 2.1 million, as compared to NIS 1.8 million in the corresponding period last year. The underwriting loss from other liability insurance in the third quarter of 2020 was NIS 0.3 million, as compared to profit of NIS 0.5 million in the corresponding period in 2019.

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

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

	Jan-Sept 2020	Jan- Sept 2019	July-Sept 2020	July-Sept 2019	Jan-Dec 2019
Vehicle property	52,700	40,077	20,308	13,828	62,844
Home	14,909	12,810	8,880	6,008	9,023
Other property sectors	(1,090)	4,612	(499)	1,404	4,942

b. Principal data regarding the claims' ratio² (Loss Ratio "LR") and the claims' and expenses' ratio (Combined Ratio "CR"):

	Jan-Sept 2020		Jan- Sept 2019		Jan-Dec 2019	
	LR%	CR%	LR%	CR%	LR%	CR%
<u>Vehicle property:</u>						
Gross	59%	81%	65%	86%	62%	83%
In retention	59%	81%	65%	86%	62%	83%
<u>Property³:</u>						
Gross	62%	92%	58%	88%	53%	84%
In retention *	53%	87%	47%	80%	54%	88%

² 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.

³ Home and other property sectors.

	July-Sept 2020		July-Sept 2019	
	LR%	CR%	LR%	CR%
<u>Vehicle property:</u>				
Gross	57%	78%	65%	85%
In retention	57%	78%	65%	85%
<u>Property²:</u>				
Gross	36%	65%	47%	75%
In retention *	39%	72%	48%	75%

5. Cash flows and liquidity

Net cash provided by operating activities in the reporting period was NIS 18.4 million, compared with NIS 66.1 million in the corresponding period in 2019.

Net cash used in investing activities in the reporting period amounted to NIS 11.8 million, compared with NIS 10.6 million in the corresponding period in 2019.

No dividend was paid in the reporting period, as compared to a dividend in an amount of NIS 100 million paid in the corresponding period in 2019.

As a result of the above, the balance of cash and cash equivalents in the reporting period increased by NIS 2.8 million and amounted to NIS 60.8 million as at September 30, 2020.

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 progress of the Coronavirus Event and its impact on the business of the Company, see section 1.3 above.

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, 2020, 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 24, 2020

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, 2020 (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 24, 2020

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, 2020 (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 24, 2020

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, 2020, 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, 2020 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 24, 2020

**AIG Israel Insurance
Company Ltd.**

**Financial Statements
As at September 30, 2020
(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, 2020 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 (Israel) 2410 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 24, 2020

Condensed Interim Statements of Financial Position as at

	September 30, 2020 (Unaudited) NIS thousands	September 30, 2019 (Unaudited) NIS thousands	December 31, 2019 (Audited) NIS thousands
Assets			
Intangible assets	24,861	32,513	31,722
Deferred acquisition costs	163,163	162,012	157,386
Property and equipment	32,543	41,051	37,376
Reinsurance assets	754,201	739,539	701,185
Premiums collectible	185,256	198,340	178,905
Current tax assets	-	-	-
Deferred tax assets, net	18,193	-	-
Other receivables	46,843	44,165	41,430
	<u>1,225,060</u>	<u>1,217,620</u>	<u>1,148,004</u>
Financial investments			
Marketable debt instruments	1,822,083	1,821,937	1,796,238
Non-marketable debt instruments	74,513	78,731	90,192
Other	86,309	78,756	99,737
Total financial investments	<u>1,982,905</u>	<u>1,979,424</u>	<u>1,986,167</u>
Cash and cash equivalents	<u>60,756</u>	<u>38,513</u>	<u>57,998</u>
Total assets	<u>3,268,721</u>	<u>3,235,557</u>	<u>3,192,169</u>

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 24, 2020

Condensed Interim Statements of Financial Position as at

	September 30, 2020 (Unaudited) NIS thousands	September 30, 2019 (Unaudited) NIS thousands	December 31, 2019 (Audited) NIS thousands
Equity and liabilities			
Equity			
Share capital	6	6	6
Share premium	250,601	250,601	250,601
Capital reserves	15,708	15,708	15,708
Retained earning	644,966	606,506	585,907
Total equity attributable to equity holders of the Company	911,281	872,821	852,222
Liabilities			
Liabilities in respect of insurance contracts and investment contracts that are not yield dependent	1,975,203	1,955,460	1,904,206
Liabilities in respect of deferred taxes, net	-	4,727	5,317
Retirement benefit obligation, net	5,429	3,157	5,279
Liabilities to reinsurers	263,847	271,357	278,511
Liabilities in respect of current taxes	3,290	14,719	18,300
Other payables	109,671	113,316	128,334
Total liabilities	2,357,440	2,362,736	2,339,947
Total equity and liabilities	3,268,721	3,235,557	3,192,169

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
	2020	2019	2020	2019	2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Gross earned premiums	857,872	879,587	282,839	298,060	1,181,142
Premiums earned by reinsurers	(134,381)	(142,293)	(38,735)	(46,152)	(195,627)
Premiums earned in retention	723,491	737,294	244,104	251,908	985,515
Gains (losses) on investments, net and financing income	(47,306)	83,613	36,577	15,420	95,347
Commission income	35,247	39,162	10,001	13,341	52,375
Total income	711,432	860,069	290,682	280,669	1,133,237
Payments and change in liabilities with respect to insurance contracts, gross	(531,471)	(490,934)	(206,071)	(160,348)	(622,067)
Share of reinsurers in change of insurance liability and payments for insurance contracts	148,345	92,119	82,946	21,733	80,886
Payments and change in liabilities with respect to insurance contracts, in retention	(383,126)	(398,815)	(123,125)	(138,615)	(541,181)
Commissions, marketing expenses and other acquisition costs	(172,211)	(180,780)	(54,125)	(59,073)	(243,787)
General and administrative expenses	(65,270)	(55,730)	(19,454)	(18,892)	(80,305)
Financing income (expenses)	73	231	1,124	(532)	456
Total expenses	(620,534)	(635,094)	(195,580)	(217,112)	(864,817)
Income before taxes on income	90,898	224,975	95,102	63,557	268,420
Taxes on income	(31,839)	(77,361)	(32,698)	(21,760)	(91,405)
Income for the period and total comprehensive income for the period	59,059	147,614	62,404	41,797	177,015
Basic earnings per share:					
Basic earnings per share (NIS thousands)	10.31	25.76	10.89	7.29	30.89
Number of shares used in calculating basic earnings per share	5,730	5,730	5,730	5,730	5,730

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

Condensed Interim Statements of Changes in Equity

	Share capital	Share premium	Other reserves NIS thousands	Retained Earnings	Total
Balance as at January 1, 2020 (audited)	6	250,601	15,708	585,907	852,222
Total comprehensive income for the 9-month period ended September 30, 2020				59,059	59,059
Balance as at September 30, 2020 (unaudited)	<u>6</u>	<u>250,601</u>	<u>15,708</u>	<u>644,966</u>	<u>911,281</u>
Balance as at January 1, 2019 (audited)	6	250,601	15,708	558,892	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>15,708</u>	<u>606,506</u>	<u>872,821</u>
Balance as at July 1, 2020 (unaudited)	6	250,601	15,708	582,562	848,877
Total comprehensive income for the 3-month period ended September 30, 2020				62,404	62,404
Balance as at September 30, 2020 (unaudited)	<u>6</u>	<u>250,601</u>	<u>15,708</u>	<u>644,966</u>	<u>911,281</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>
			<u>NIS thousands</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>
Balance as at January 1, 2019 (audited)	6	250,601	15,708	558,892	825,207
Total comprehensive income for the year				177,015	177,015
Dividend				(150,000)	(150,000)
Balance as at December 31, 2019 (audited)	<u>6</u>	<u>250,601</u>	<u>15,708</u>	<u>585,907</u>	<u>852,222</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,
	2020	2019	2020	2019	2019
	(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)	44,530	82,729	(8,202)	79,328	152,654
Interest paid	(387)	(465)	(123)	(149)	(607)
Interest received	44,616	45,686	14,040	12,615	59,133
Dividend received	-	865	-	-	1,421
Income taxes paid	(79,201)	(81,627)	(16,500)	(14,005)	(91,115)
Income taxes received	8,844	18,895	-	-	18,895
Net cash provided by (used in) operating activities	18,402	66,083	(10,785)	77,789	140,381
Cash flows from investing activities:					
Investment in property and equipment	(2,011)	(1,965)	(371)	(625)	(2,355)
Investment in intangible assets	(9,786)	(8,682)	(4,363)	(3,073)	(11,960)
Net cash used in investing activities	(11,797)	(10,647)	(4,734)	(3,698)	(14,315)
Cash flows from financing activities -					
Dividend paid to equity holders of the Company	-	(100,000)	-	(100,000)	(150,000)
Repayment of principal of lease liabilities	(3,956)	(3,877)	(1,325)	(1,299)	(5,183)
Net cash used in financing activities	(3,956)	(103,877)	(1,325)	(101,299)	(155,183)
Impact of exchange rate fluctuations on cash and cash equivalent balances	109	(352)	(228)	16	(191)
Increase (decrease) in cash and cash equivalents	2,758	(48,793)	(17,072)	(27,192)	(29,308)
Cash and cash equivalents at beginning of period	57,998	87,306	77,828	65,705	87,306
Cash and cash equivalents at end of period	60,756	38,513	60,756	38,513	57,998

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,
	2020	2019	2020	2019	2019
	(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	59,059	147,614	62,404	41,797	177,015
Adjustments for -					
Income and expenses not involving cash flows:					
Change in liabilities for insurance contracts that are not yield dependent	70,997	70,153	38,154	4,800	18,899
Change in reinsurance assets	(53,016)	(20,568)	(46,461)	10,954	17,786
Change in deferred acquisition costs	(5,777)	(4,383)	(2,533)	(576)	243
Taxes on income	31,839	77,361	32,698	21,760	91,405
Change in retirement benefit obligations, net	150	99	-	-	2,222
Depreciation of property and equipment	6,844	7,060	2,278	2,246	9,305
Amortization of intangible assets	16,647	11,216	2,899	3,853	15,285
Losses (gains), net, on financial investments:					
Marketable debt instruments	78,195	(37,539)	(20,783)	(6,054)	(29,737)
Non-marketable debt instruments	4,925	5,646	67	(305)	(2,743)
Marketable exchange traded notes	13,428	(1,018)	(1,590)	2,705	(7,223)
Impact of fluctuation in exchange rate on cash and cash equivalents	(109)	352	228	(16)	191
	<u>164,123</u>	<u>108,379</u>	<u>4,957</u>	<u>39,367</u>	<u>115,633</u>
Changes in assets and liabilities:					
Liabilities to reinsurers	(14,664)	(26,571)	(2,093)	(8,053)	(19,147)
Investments in financial assets, net	(93,286)	(60,383)	(65,007)	16,223	(60,334)
Premiums collectible	(6,351)	(18,311)	(99)	115	1,124
Other receivables	(5,413)	(2,187)	4,203	3,138	544
Other payables	(14,707)	(19,726)	1,350	(792)	(1,579)
Current tax liability	(2)	-	-	(1)	(385)
	<u>(134,423)</u>	<u>(127,178)</u>	<u>(61,646)</u>	<u>10,630</u>	<u>(80,047)</u>
Adjustments for interest and dividend:					
Interest paid	387	465	123	149	607
Interest received	(44,616)	(45,686)	(14,040)	(12,615)	(59,133)
Dividend received	-	(865)	-	-	(1,421)
	<u>(44,229)</u>	<u>(46,086)</u>	<u>(13,917)</u>	<u>(12,466)</u>	<u>(59,947)</u>
Net cash provided by (used in) operations	<u>44,530</u>	<u>82,729</u>	<u>(8,202)</u>	<u>79,328</u>	<u>152,654</u>

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

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

Notes to the Condensed Interim Financial Statements

Note 1 - General

A. Reporting Entity

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 Company has no foreign operations through branches or investee 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.

B. 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 Interim Financial Statements

Note 1 – General (cont'd):

C. Material Events in the Reporting Period - The Coronavirus Event

In the reporting period, a vast spreading of the coronavirus took place in Israel and worldwide (hereinafter: “the Coronavirus Event”), which had severe implications on the local and global economy. Consequently, the Company made preparations to ensure its continued orderly operation as regarding the meeting of obligations to its customers and the adjustment of all aspects of its operations. These preparations included, inter alia, the following steps:

- Activation of the executive Incident Management Team for ongoing management of the Coronavirus Event and constant examination of the impact of scenarios of the Coronavirus Event on the operating segments and the current operating results of the Company.
- Execution of the Company’s program for full transition to remote work (managers and employees, including sales and service centers).
- Ongoing monitoring of developments and of the business and monetary implications on investments and on the various insurance sectors of the Company.
- Implementation of the directives issued by the Commissioner in relation to the Coronavirus Event.
- Holding of special meetings of the Board of Directors.

In the first quarter of 2020, the Coronavirus Event and the lockdowns that were imposed in March 2020 had adversely affected the premium turnover of the Company, most notably in the vehicle insurance sectors and in the overseas travel insurance sector, which was completely shut down from the outset of the Coronavirus Event. The principal effect of the Coronavirus Event on the business results of the Company in said quarter is the sharp drop of prices in the Israeli capital market and in the global financial markets. In the first quarter, the Company incurred losses of approximately NIS 123.8 million on capital market investments. The effect on the comprehensive income, after tax, and on the equity of the Company was approximately NIS 81 million.

In the second quarter of 2020, as businesses gradually resumed full operations under various restrictions, some recovery was recorded in the financial markets, most notably in the Israeli bond market. In the third quarter of 2020, the State of Israel experienced a second wave of the pandemic. During this quarter, the Israeli Government reinstated various restrictions on the public, even shutting down certain sectors, this in an attempt to reduce morbidity rates. However, following a steep rise in morbidity rates, another general lockdown was imposed in the second half of September. In the second half of October (after the Jewish holidays), the Israeli Government initiated the gradual lifting of the lockdown based on the Ministry of Health’s exit plan. The adverse effect on the Company’s premium turnover continued into the second and third quarters of 2020, primarily in the overseas travel insurance sector, which was completely shut down, as mentioned above.

To the date of publication of the periodic report as at September 30, 2020, the Company does not expect a material adverse effect on the underwriting results of the Company in 2020 as a result of the Coronavirus Event.

Notes to the Condensed Interim 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, 2019 and for the year ended on that date (hereinafter – "the 2019 annual financial statements of the Company").

The condensed interim financial statements were approved for publication by the Board of Directors of the Company on November 24, 2020.

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.

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 applicable to annuities

Pursuant to the stated in Note 27e(3)(g) to the annual financial statements, concerning the appointment of an Interministerial Committee for examining the discount rate for compensation in respect of personal injury under damages, it should be noted that, in October 2020, the court rejected a motion for an additional discussion of the ruling concerning the discount rate for compensation in respect of personal injury under damages applicable to the National Insurance Institute in subrogation claims, thereby preserving the existing discount rate of 3%. Consequently, the Company estimated the effect of the aforesaid ruling and reduced the provisions in the compulsory vehicle insurance segment by approximately NIS 5.7 million in retention before tax, this in respect of subrogation claims of the National Insurance Institute against the Company, and increased the pre-tax profit in the segment by the same amount.

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.

Notes to the Condensed Interim Financial Statements

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.

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, other property 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.

- **Other property sectors**

Other property 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 Interim Financial Statements

Note 4 - Segment Information (cont'd)

	Nine-month period ended September 30, 2020 (unaudited)				
	Life insurance	Health Insurance *	General insurance	Not attributed to operating segments	Total
	NIS thousands				
Gross earned premiums	112,334	117,291	628,247		857,872
Premiums earned by reinsurers	(14,873)	(2,090)	(117,418)		(134,381)
Premiums earned in retention	97,461	115,201	510,829		723,491
Gains (losses) on investments, net	2	(1,737)	(21,414)	(24,157)	(47,306)
Commission income	5,434	211	29,602		35,247
Total income	102,897	113,675	519,017	(24,157)	711,432
Payments and change in liabilities with respect to insurance contracts (gross)	(33,028)	(50,400)	(448,043)		(531,471)
Share of reinsurers in change of insurance liabilities and payments with respect to insurance contracts	6,662	1,310	140,373		148,345
Payments and change in liabilities with respect to insurance contracts, in retention	(26,366)	(49,090)	(307,670)		(383,126)
Commissions and other acquisition costs	(27,647)	(29,837)	(114,727)		(172,211)
General and administrative expenses	(11,917)	(16,698)	(36,655)		(65,270)
Financing income (expenses), net	-	-	1,200	(1,127)	73
Total comprehensive income (loss) before taxes on income	36,967	18,050	61,165	(25,284)	90,898
Liabilities for insurance contracts, gross, as of September 30, 2020	55,673	86,474	1,833,056		1,975,203

Notes to the Condensed Interim Financial Statements

Note 4 - Segment Information (cont'd)

C. General insurance segment (cont'd)

	Nine-month period ended September 30, 2019 (unaudited)				
	Life insurance	Health Insurance *	General insurance	Not attributed to operating segments	Total
	NIS thousands				
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	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 increase 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 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), net	-	-	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 Interim Financial Statements

Note 4 - Segment Information (cont'd)

C. General insurance segment (cont'd)

	Three-month period ended September 30, 2020 (unaudited)				
	Life insurance	Health Insurance *	General insurance	Not attributed to operating segments	Total
	NIS thousands				
Gross earned premiums	37,817	35,323	209,699		282,839
Premiums earned by reinsurers	(282)	(691)	(37,762)		(38,735)
Premiums earned in retention	37,535	34,632	171,937		244,104
Gains on investments, net and financing income	-	1,835	21,922	12,820	36,577
Commission income	735	70	9,196		10,001
Total income	38,270	36,537	203,055	12,820	290,682
Payments and change in liabilities with respect to insurance contracts (gross)	(10,814)	(16,425)	(178,832)		(206,071)
Share of reinsurers in change in insurance liabilities and payments with respect to insurance contracts	745	256	81,945		82,946
Payments and change in liabilities with respect to insurance contracts, in retention	(10,069)	(16,169)	(96,887)		(123,125)
Commissions, marketing expenses and other acquisition costs	(8,873)	(8,275)	(36,977)		(54,125)
General and administrative expenses	(3,917)	(5,392)	(10,145)		(19,454)
Financing income	-	-	437	687	1,124
Total comprehensive income before taxes on income	15,411	6,701	59,483	13,507	95,102

Notes to the Condensed Interim 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	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 increase of 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 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), net	-	-	410	(942)	(532)
Total comprehensive income before taxes on income	7,989	12,537	40,950	2,081	63,557

Notes to the Condensed Interim Financial Statements

Note 4 - Segment Information (cont'd)

C. General insurance segment (cont'd)

	Year ended December 31, 2019 (audited)				
	Life Insurance	Health Insurance *	General insurance	Not attributed to operating segments	Total
	NIS thousands				
Gross earned premiums	137,810	204,157	839,175		1,181,142
Premiums earned by reinsurers	(27,393)	(2,933)	(165,301)		(195,627)
Premiums earned in retention	110,417	201,224	673,874		985,515
Gains on investments, net, and financing income	5	5,768	52,446	37,128	95,347
Commission income	9,162	279	42,934		52,375
Total income	119,584	207,271	769,254	37,128	1,133,237
Payments and change in liabilities with respect to insurance contracts (gross)	(46,903)	(82,101)	(493,063)		(622,067)
Share of reinsurers in increase of insurance liabilities and payments for insurance contracts	13,945	1,426	65,515		80,886
Payments and change in liabilities with respect to insurance contracts, in retention	(32,958)	(80,675)	(427,548)		(541,181)
Commissions and other acquisition costs	(40,379)	(47,003)	(156,405)		(243,787)
General and administrative expenses	(13,045)	(25,570)	(41,690)		(80,305)
Financing income (expenses), net	-	-	1,525	(1,069)	456
Total comprehensive income before taxes on income	33,202	54,023	145,136	36,059	268,420

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

Notes to the Condensed Interim Financial Statements

Note 4 - Segment Information (cont'd)

Additional information relating to general insurance segment:

	Nine-month period ended September 30, 2020 (unaudited)						
	Compulsory motor vehicle	Motor vehicle property	Home	Professional liability	Other property sectors*	Other liability sectors*	Total
	NIS thousands						
Gross premiums	147,615	290,123	102,853	64,284	20,136	22,841	647,852
Reinsurance premiums	(2,020)	-	(10,200)	(58,705)	(19,856)	(19,772)	(110,553)
Premiums in retention	145,595	290,123	92,653	5,579	280	3,069	537,299
Change in balance of unearned premiums, in retention	(9,927)	(12,217)	(4,469)	(219)	66	296	(26,470)
Premiums earned in retention	135,668	277,906	88,184	5,360	346	3,365	510,829
Losses on investments, net	(9,835)	(4,436)	(1,928)	(2,580)	(395)	(2,240)	(21,414)
Commission income	-	-	854	16,384	7,243	5,121	29,602
Total income	125,833	273,470	87,110	19,164	7,194	6,246	519,017
Payments and change in liabilities with respect to insurance contracts, gross	(108,693)	(162,784)	(44,320)	(87,007)	(35,761)	(9,478)	(448,043)
Share of reinsurers in increase of insurance liabilities and payments with respect to insurance contracts	13,260	-	1,063	83,211	34,789	8,050	140,373
Payments and change in liabilities with respect to insurance contracts, in retention	(95,433)	(162,784)	(43,257)	(3,796)	(972)	(1,428)	(307,670)
Commissions and other acquisition costs	(19,337)	(45,546)	(22,553)	(14,376)	(7,290)	(5,625)	(114,727)
General and administrative expenses	(9,922)	(16,876)	(8,319)	(863)	(417)	(258)	(36,655)
Financing income, net	-	516	656	15	-	13	1,200
Total expenses	(124,692)	(224,690)	(73,473)	(19,020)	(8,679)	(7,298)	(457,852)
Total comprehensive income (loss) before taxes on income	1,141	48,780	13,637	144	(1,485)	(1,052)	61,165
Liabilities with respect to insurance contracts, gross, as at September 30, 2020	766,591	273,653	131,473	331,359	90,022	239,958	1,833,056
Liabilities with respect to insurance contracts, in retention, as at September 30, 2020	613,101	273,663	124,876	40,150	1,685	39,698	1,093,163

* Other property sectors reflect mainly the results of the property insurance sector, which accounts for 100% 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 Interim Financial Statements

Note 4 - Segment Information (cont'd)

Additional information relating to general insurance segment (continued):

	Nine-month period ended September 30, 2019 (unaudited)						
	Compulsory motor vehicle	Motor vehicle property	Home	Professional liability	Other property sectors*	Other liability sectors*	Total
	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	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 change 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 increase 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
Net liabilities with respect to insurance contracts, 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 Interim Financial Statements

Note 4 - Segment Information (cont'd)

Additional information relating to general insurance segment (continued):

	Three-month period ended September 30, 2020 (unaudited)						
	Compulsory motor vehicle	Motor vehicle property	Home	Professional liability	Other property sectors*	Other liability sectors*	Total
	NIS thousands						
Gross premiums	49,367	94,262	35,406	22,596	4,260	5,356	211,247
Reinsurance premiums	(669)	-	(3,238)	(20,740)	(4,084)	(4,632)	(33,363)
Premiums in retention	48,698	94,262	32,168	1,856	176	724	177,884
Change in balance of unearned premiums, in retention	(2,747)	(1,055)	(2,552)	172	13	222	(5,947)
Premiums earned in retention	45,951	93,207	29,616	2,028	189	946	171,937
Gains on investments, net	10,195	4,375	1,898	2,618	466	2,370	21,922
Commission income	-	-	279	5,720	1,807	1,390	9,196
Total income	56,146	97,582	31,793	10,366	2,462	4,706	203,055
Payments and change in insurance liabilities with respect to insurance contracts, gross	(35,745)	(53,429)	(11,529)	(71,429)	(3,742)	(2,958)	(178,832)
Share of reinsurers in increase of insurance liabilities and payments with respect to insurance contracts	5,882	-	242	70,343	3,473	2,005	81,945
Payments and changes in liabilities with respect to insurance contracts, in retention	(29,863)	(53,429)	(11,287)	(1,086)	(269)	(953)	(96,887)
Commissions and other acquisition costs	(6,403)	(15,216)	(6,964)	(4,714)	(2,084)	(1,596)	(36,977)
General and administrative expenses	(2,606)	(4,254)	(2,764)	(290)	(142)	(89)	(10,145)
Financing income, net	-	200	231	4	-	2	437
Total expenses	(38,872)	(72,699)	(20,784)	(6,086)	(2,495)	(2,636)	(143,572)
Total comprehensive income (loss) before taxes on income	17,274	24,883	11,009	4,280	(33)	2,070	59,483

* Other property sectors reflect mainly the results of the property insurance sector, which accounts for 100% 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 47% of the total premiums attributable to these sectors.

Notes to the Condensed Interim Financial Statements

Note 4 - Segment Information (cont'd)

Additional information relating to general insurance segment (continued):

	Three-month period ended September 30, 2019 (unaudited)						
	Compulsory motor vehicle	Motor vehicle property	Home	Professional liability	Other property sectors*	Other liability sectors*	Total
	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	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 payments and change of insurance liabilities 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 Interim Financial Statements

Note 4 - Segment Information (cont'd)

Additional information relating to general insurance segment (continued):

	Year ended December 31, 2019 (audited)						
	Compulsory motor vehicle	Motor vehicle property	Home	Professional liability	Other property sectors*	Other liability sectors*	Total
	NIS thousands						
Gross premiums	179,612	368,483	128,123	74,648	48,243	35,832	834,941
Reinsurance premiums	(2,453)	-	(11,111)	(67,988)	(47,751)	(30,743)	(160,046)
Premiums in retention	177,159	368,483	117,012	6,660	492	5,089	674,895
Change in balance of unearned premiums, in retention	(1,113)	3,089	(3,655)	(251)	200	(11)	(1,021)
Premiums earned in retention	176,046	372,292	113,357	6,409	692	5,078	673,874
Gains on investments, net	23,277	11,336	4,135	6,549	1,160	5,989	52,446
Commission income	-	-	1,143	20,774	13,089	7,928	42,934
Total income	199,323	383,628	118,635	33,732	14,941	18,995	769,254
Payments and change in insurance liabilities with respect to insurance contracts, gross	(141,639)	(229,708)	(63,766)	(19,792)	(27,680)	(10,478)	(493,063)
Share of reinsurers in increase of insurance liabilities and payments with respect to insurance contracts	8,738	-	1,750	21,396	28,061	5,570	65,515
Payments and changes in liabilities with respect to insurance contracts, in retention	(132,901)	(229,708)	(62,016)	1,604	381	(4,908)	(427,548)
Commissions, marketing expenses and other acquisition costs	(26,745)	(63,984)	(29,663)	(19,467)	(8,722)	(7,824)	(156,405)
General and administrative expenses	(10,267)	(15,756)	(13,798)	(1,068)	(498)	(303)	(41,690)
Financing income	-	695	798	16	-	16	1,525
Total expenses	(169,913)	(308,753)	(104,679)	(18,915)	(8,839)	(13,019)	(624,118)
Total comprehensive income before taxes on income	29,410	74,875	13,956	14,817	6,102	5,976	145,136
Liabilities with respect to insurance contracts, gross, as at December 31, 2019	738,523	266,120	123,199	258,852	95,846	255,425	1,737,965
Liabilities with respect to insurance contracts, in retention, as at December 31, 2019	589,271	266,120	116,415	38,470	1,714	41,095	1,053,085

* Other property 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 46% of the total premiums attributable to these sectors.

Note 4 - Segment Information (cont'd)

4.1 Additional information relating to life insurance segment:

Nine-month period ended September 30, 2020 (unaudited):

	<div> Policies not containing savings element </div>	Total
	<div> Risk sold as single policy </div>	
	<div> Private </div>	
	NIS thousands	NIS thousands
Gross risk premiums	112,345	112,345
Payments and change in liabilities with respect to insurance contracts, gross	33,028	33,028

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

	<div> Policies not containing savings element </div>	Total
	<div> Risk sold as single policy </div>	
	<div> Private </div>	
	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

Three-month period ended September 30, 2020 (unaudited):

	<div> Policies not containing savings element </div>	Total
	<div> Risk sold as single policy </div>	
	<div> Private </div>	
	NIS thousands	NIS thousands
Gross risk premiums	37,618	37,618
Payments and change in liabilities with respect to insurance contracts, gross	10,814	10,814

Note 4 - Segment Information (cont'd)

4.1 Additional information relating to life insurance segment (cont'd):

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

Year ended December 31, 2019 (audited):

	Policies not containing savings element	Total
	Risk sold as single policy	
	Private	
	NIS thousands	NIS thousands
Gross risk premiums	140,351	140,351
Payments and change in liabilities with respect to insurance contracts, gross	46,903	46,903

4.2 Additional information relating to healthcare segment:

Nine-month period ended September 30, 2020 (unaudited):

	Long-term	Short-term	Total
	NIS thousands	NIS thousands	NIS thousands
Gross premiums	110,054	5,207	** 115,261
Payments and change in liabilities with respect to insurance contracts, gross	49,909	491	50,400

** Consists primarily of policies issued to individuals.

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.

Note 4 - Segment Information (cont'd)

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

Three-month period ended September 30, 2020 (unaudited):

	Long-term	Short-term	Total
	NIS thousands	NIS thousands	NIS thousands
Gross premiums	35,097	488	** 35,585
Payments and change in liabilities with respect to insurance contracts, gross	17,728	(1,303)	16,425

** Consists primarily of policies issued to individuals.

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

	Long-term	Short-term	Total
	NIS thousands	NIS thousands	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.

Year ended December 31, 2019 (audited):

	Long-term	Short-term	Total
	NIS thousands	NIS thousands	NIS thousands
Gross premiums	164,440	39,776	** 204,216
Payments and change in liabilities with respect to insurance contracts, gross	72,076	10,025	82,101

** 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

1. On June 1, 2017, the Commissioner issued a circular on the provisions for implementing a Solvency II-based regime. The provisions of the circular are mostly based on the quantitative tier of the related European directive, adjusted for the Israeli market.

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

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

2. On July 7, 2019, the Company received the Commissioner's approval of the audit of the capital ratio report that it had submitted pursuant to the guidelines, 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.
3. The directives of the Commissioner prescribe, inter alia, transitional provisions that allow the gradual deployment of the capital requirements until December 31, 2024. Draft directives have been recently published concerning changes in the calculation of the capital ratio, including an alternative to the deployment of capital requirements method. As the Company has no capital surplus, any changes that may be approved are not expected to have a material effect on the Company.
4. According to the Commissioner's guidelines from October 1, 2017 concerning dividend distributions, an insurance company that distributes a dividend is required to deliver to the Commissioner, within 20 business days of the date of distribution, all of 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;
 - 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.
5. According to the solvency ratio report as at December 31, 2019, the Company has surplus capital independent of the transitional provisions. For additional information, see Section 3 of the Directors' Report (Solvency II-Based Economic Solvency Regime in Insurance Companies).

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, 2020, 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, 2020 (unaudited)		
	Measured at fair value through profit or loss	Loans and receivables	Total
	NIS thousands	NIS thousands	NIS thousands
Marketable debt instruments (1)	1,822,083	-	1,822,083
Non-marketable debt instruments (2)	-	74,513	74,513
Other (3)	86,309	-	86,309
Total	1,908,392	74,513	1,982,905

	September 30, 2019 (unaudited)		
	Measured at fair value through profit or loss	Loans and receivables	Total
	NIS thousands	NIS thousands	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	1,900,693	78,731	1,979,424

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

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

	December 31, 2019 (audited)		
	Measured at fair value through profit or loss NIS thousands	Loans and Receivables NIS thousands	Total NIS thousands
Marketable debt instruments (1)	1,796,238	-	1,796,238
Non-marketable debt instruments (2)	-	90,192	90,192
Other (3)	99,737	-	99,737
Total	1,895,975	90,192	1,986,167

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

	September 30, 2020 (Unaudited)	
	Carrying amount NIS thousands	Amortized Cost NIS thousands
Government bonds	721,029	708,696
<u>Other debt assets:</u>		
other non-convertible debt assets	1,101,054	1,096,509
Total marketable debt assets	1,822,083	1,805,205

	September 30, 2019 (Unaudited)	
	Carrying amount NIS thousands	Amortized Cost 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	1,821,937	1,769,001

	December 31, 2019 (Audited)	
	Carrying amount NIS thousands	Amortized cost NIS thousands
Government bonds	680,128	661,160
<u>Other debt assets:</u>		
other non-convertible debt assets	1,116,110	1,082,664
Total marketable debt assets	1,796,238	1,743,824

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, 2020	
	(Unaudited)	
	Carrying amount	Fair value
	NIS thousands	NIS thousands
Bank deposits	895	1,079
Other non-convertible debt assets	73,618	73,795
Total non-marketable debt assets	74,513	74,874
	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
	December 31, 2019	
	(Audited)	
	Carrying amount	Fair value
	NIS thousands	NIS thousands
Bank deposits	1,046	1,303
Other non-convertible debt assets	89,146	90,488
Total non-marketable debt assets	90,192	91,791

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, 2020	
	(Unaudited)	
	Carrying amount	Cost
	NIS thousands	NIS thousands
Marketable financial investments	86,309	97,746
	September 30, 2019	
	(Unaudited)	
	Carrying amount	Cost
	NIS thousands	NIS thousands
Marketable financial investments	78,756	83,648
	December 31, 2019	
	(Audited)	
	Carrying amount	Cost
	NIS thousands	NIS thousands
Marketable financial investments	99,737	97,746

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.

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

A. Motions to certify 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 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, which has yet to be issued.

In the opinion of management of the Company, which is based on the opinion of its legal counsel, at present, in view of the aforesaid ruling of the National Labor Court, the petition is more likely to be rejected than accepted.

2. On January 8, 2017, a petition to certify a class action was filed against the Company and another insurance company (hereinafter: "the respondents").

The petitioners 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. This legal proceeding commenced on June 18, 2017.

On July 10, 2019, the respondents submitted their response to the court's related inquiry. On July 18, 2019, the court accepted the parties' joint motion for a procedural arrangement. Evidentiary hearings were held in the period from December 2019 to March 2020. On March 12, 2020, seven additional evidentiary hearings in the case have been scheduled for the period from July 2020 to November 2020. Further hearings have not yet been scheduled.

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.

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

A. Motions to certify 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. A similar compromise with Shirbit was submitted to the court for approval.

The court has ordered the issue of notifications on the compromise agreements. Following the issue of the notifications, the members of the class in the claim against Shirbit filed an objection, including as regarding the compromise arrangement with the Company. The deadline for the submission of further objections has elapsed. The court has requested and received from the Company data as to the amount of benefit for each member of the class. The Company is awaiting a ruling on the motion to approve the compromise agreement.

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.

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

A. Motions to certify class actions

4. (cont'd)

This legal proceeding commenced on February 19, 2019. 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. Several mediation sessions have been held since June 26, 2019 and the mediation proceeding is still in progress.

On June 18, 2020, the parties submitted an update to the court, pursuant to which they are continuing their discussions in an attempt to reach conclusive understandings. The parties have also requested to submit an additional update to the court concerning the mediation proceeding by July 17, 2020. On the same day, the court approved the request and added that the parties are to pursue the conclusion of the mediation proceeding by July 17, 2020. On July 19, 2020, the parties submitted a further update, according to which they have made considerable progress in relation to the mediation proceeding, with only one point of contention remaining with respect to said arrangement. Accordingly, the parties have requested to submit an additional update to the court on the mediation proceeding by August 2, 2020. The court approved the request on the same day.

On August 4, 2020, the parties submitted an update, informing the court that they have reached understandings concerning the remaining point of contention with respect to the arrangement and requesting it to grant the parties a stay of 45 days to formulate and submit the arrangement. On the same day, the court ruled that the motion for approval is to be submitted by September 21, 2020 and that, to the extent required, an additional preliminary hearing will be held on October 15, 2020. The parties have requested and were granted several extensions for the formulation of the arrangement and its submission to the court. The court granted an extension until November 15, 2020.

On October 8, 2020, the court announced that, in view of the extension of the Sukkot recess and the notification of the Courts Administrator, the hearing scheduled for October 15, 2020 will be postponed to November 22, 2020.

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 petition to certify a class action was 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.

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

A. Motions to certify class actions

5. (cont'd)

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 pre-trial hearing was held in the case, in which the court suggested that the class be limited to policyholders only and the withdrawal of all arguments pertaining to third parties. The court also noted that the relevant period for policyholders is 3 years back from January 1, 2018 in view of the statute of limitations, and for third parties – 7 years. Several evidentiary hearing were held in the case in the period from November 2019 to June 2020. At the conclusion of the evidentiary hearings, summations have been scheduled. The petitioner submitted its summations, but as these exceeded the scope approved by the court, it has been ordered to submit amended summations.

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

- 6.** On June 17, 2019, a petition to certify a class action was filed against the Company. The petition alleges the unlawful charging of linkage differences from the policyholders by the respondent and the breach of its duties to policyholders under home insurance premium payments as regarding linkage differences. The total amount claimed for all class members in relation to the respondent is estimated at NIS 2,500 thousand. The Company was required to submit a response to the certification petition by November 17, 2019. The petitioner was 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.

In the period from November 2019 to February 2020, the parties have submitted several notifications to the court regarding their negotiation of a possible arrangement. On this basis, they requested that the court extend the date for the submission of a response to the certification petition and postpone the date of the hearing. The court accepted the motion.

The negotiations resulted in an agreed plan for withdrawal of the certification petition and postponement of the personal claim, this in accordance with the understandings reached. On March 29, 2020 a joint petition for withdrawal was filed. On the same date, the court ordered the respondent to furnish a document backed by an affidavit. On April 6, 2020, the respondent the aforementioned document. The pre-trial hearing scheduled for April 22, 2020 has been postponed due to the activation of the Courts and Execution Offices Regulations (Procedures in a Special Emergency Situation), 1991.

On May 14, 2020, the court ruled against the motion for withdrawal, this in view of a number of reservations, and determined that the matter will be discussed at the pre-trial hearing. The court also suggested that the parties should try and formulate a new agreement. A pre-trial hearing in the case scheduled for October 14, 2020 has been postponed by the court to March 3, 2021.

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

A. Motions to certify class actions

6. (cont'd)

Management of the Company and its legal counsel believe that amendments may be made to the withdrawal agreement and that, subject to the approval of the withdrawal plan, the risk ensuing from the case relates to the respondent's undertakings in the first withdrawal arrangement.

7. On December 31, 2019, a petition to certify a class action was filed against the Company and IMA. The holder of an overseas travel insurance policy alleges the breach of a duty of disclosure in an overseas travel insurance policy and negligence.

The plaintiff, who had purchased an AIG Travel insurance policy from the Company and was injured during a ski vacation in France, alleges that the Company is in breach of its duties to the customers, by failing to disclose that there is no coverage for follow-up treatment in Israel; he argues that this is not specified in the policy (as an exclusion) and was also not disclosed to him verbally in his conversations with the IMA emergency call center operating on behalf of the Company. It is also alleged that the Company does not deliver the complete terms of the insurance policy to its policyholders.

The plaintiff estimates his personal damage at NIS 35,000 and the damage for all class members (based on an estimated 20 cases per year, over seven years) at NIS 4,900,000 (alternatively, compensation of NIS 5 per day overseas for each of the policyholders – NIS 8,750,000). He further demands that the Company be required to provide proper disclosure regarding this coverage and to deliver the complete insurance policy to policyholders.

A pre-trial hearing was held on June 22, 2020. The court encouraged the plaintiff to withdraw the claim at this stage, without adjudication of costs. The plaintiff chose to continue the proceeding. In another pre-trial hearing held on October 19, 2020, despite the court's repeated recommendation, the plaintiff announced that it intends to pursue the proceeding. The parties have agreed to a procedural arrangement, pursuant to which the plaintiffs will attach additional documents to their claim (insurance policies and Commissioner Circulars) and the Company will be given an opportunity to respond to such documents as well as to arguments first raised in the response to the response to the certification petition. Additionally, only a brief interrogation of the declarants will be permitted, of up to one hour.

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

8. On January 16, 2020, a petition to certify a class action was filed against the Company and 3 other companies (hereinafter: "the respondents"). The petition alleges that the Company does not provide original windowpanes with Israeli accreditation to policyholders as stipulated in the terms of service concerning windowpanes.

On March 23, 2020, the petitioners submitted a notification, presenting to the respondents the details of the requested amendment to the certification petition that has been furnished to the respondents. On the same day, the court permitted the amendment of the certification petition on the basis of the petitioners' notification.

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

A. Motions to certify class actions

8. (cont'd)

On July 29, 2020, the petitioners filed a motion for extension of the date of submission of a response to the certification petition and for postponement of the pre-trial hearing. On the same day, the court accepted the motion, requiring the respondents to submit a response to the certification petition by September 30, 2020, and postponed the pre-trial hearing. On September 29, 2020, the Company requested that the deadline for the submission of its response to the certification petition be extended until October 30, 2020. The court accepted the motion. On October 27, 2020, the Company submitted a statement of response to the certification petition. A pre-trial hearing has been scheduled for January 13, 2021.

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

9. On April 19, 2020, a petition to certify a class action was filed against the Company and 11 other companies. The petition alleges that the insurance companies continue to charge full payments and/or fail to refund monies to policy holders in vehicle insurance (compulsory, comprehensive and third party), while many vehicle owners are unable to use their vehicles as a result of the coronavirus crisis. The total amount claimed for all class members in relation to the Company is estimated at NIS 47,000 thousand.

On April 20, 2020, a ruling was given, pursuant to which perusal of the petition suggests that it does not address the personal insurance agreement between each of the class members and the respective insurance company, but rather relates to the general agreement between the entire Israeli population and all insurance companies. Accordingly, the court ordered the petitioners to clarify, by April 26, 2020, whether the petition relates to the personal insurance agreements between the class members and their respective insurance companies, or to an alleged general insurance agreement between all policy holders and all 12 insurance companies.

On April 26, 2020, the petitioners notified the court that they have become aware of the filing of two additional claims with two other courts, in connection with the same issues of fact and law. Accordingly, negotiations were held between the representatives of the parties in all three claims for the purpose of transferring the claims to a single court. Additionally, the court was requested to suspend its ruling from April 20, 2020 as above. On the same day, the Court rejected the motion to suspend its ruling. On April 27, 2020, the petitioners provided additional information, in conformity with the court's ruling from April 20, 2020. On April 30, 2020, the petitioners submitted a notification of the performance of presentation to the respondents.

On May 20, 2020, the petitioners filed a motion for a change of venue. On June 4, 2020, the court accepted the motion, transferring the case to the Tel Aviv Court. A hearing was scheduled for January 21, 2021.

On October 6, 2020, the respondents submitted a motion for clarifications on the topics that are to be discussed at the hearing scheduled for January 21, 2021. On October 12, 2020, the court responded that on the date of the scheduled hearing, the petition will be discussed in accordance with Section 7(B) of the Class Actions Law, 2006. The court also determined that a response to the certification petition is to be submitted by all the respondents within 90 days of a ruling on the petition in accordance with Section 7(B).

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

A. Motions to certify class actions

9. (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.

10. On April 19, 2020, a petition to certify a class action was filed against the Company and 12 other companies (hereinafter: “the respondents”). The petition alleges that the insurance companies continue to charge full payments and/or fail to refund monies to policy holders in vehicle insurance (compulsory, comprehensive and third party) and in home contents insurance, despite the reduced risk in each of said policies as a result of the global coronavirus crisis. The remedies requested are: requiring the respondents to refund the premiums that they had charged due to the reduction in risk; and ordering the respondents to provide to the petitioners all the data and information that they hold, for the purpose of calculating the exact damage and obtaining appropriate compensation accordingly. The total amount claimed for all class members in relation to the Company is estimated at NIS 35,194 thousand.

On April 26, 2020, it was ruled that, prima facie, there is no justification for the filing of a single action against all defendants, even where the cause of claim is identical and/or similar. Accordingly, the petitioners are required to explain, by May 11, 2020, their reasons for not filing separate claims against each of the defendants. On May 7, 2020, the petitioners submitted their response to the court’s question concerning the filing of separate certification petitions against each of the respondents. On May 12, 2020, the court ruled that the matter will be discussed at the pre-trial hearing.

On May 20, 2020, the petitioners in claim no. 9 above and in claim no. 11 below filed a motion for the change of venue in accordance with the provisions of Section 7(A) of the Class Actions Law, 2006.**Error! Reference source not found.** The court ruled on the same day, requiring the respondents to respond by June 3, 2020. On June 3, 2020, the respondents submitted their response to the motion. On June 4, 2020, the court accepted the motion, transferring the case to the Tel Aviv Court, where this petition is now deliberated.

On June 22, 2020, the petitioners in claim no. 9 above and in claim no. 11 below filed a motion to withdraw. On July 21, 2020, the petitioners submitted a notification of their consent to a mediation proceeding.

On July 26, 2020, the respondents submitted their response to the motions of the petitioners in claim no. 9 above and in claim no. 11 below. On July 21, 2020, the petitioners in claim no. 9 above and in claim no. 11 below filed a motion for the setting of a single date for the submission of a response to the responses to the motion, which will not be later than August 5, 2020. On the same day, the court ruled and made a note to this effect.

A hearing was scheduled for January 21, 2021. The parties were required to notify the court, by August 1, 2020, whether they consent to a mediation proceeding. On August 3, 2020, the respondents informed the court of their objection to the mediation proceeding.

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

A. Motions to certify class actions

10. (cont'd)

On August 12, 2020, the petitioners in claim no. 9 above and in claim no. 11 below submitted their response to the responses to the motion. On August 13, 2020, the petitioners requested permission to submit a summary response to the response of the petitioners in claim no. 9 above and in claim no. 11 below. On the same day, the petitioners in claim no. 9 above and in claim no. 11 below submitted their objection to the granting of a right of response to the response. On August 20, 2020, the court rejected the requested permission for an additional response and ruled that the motion will be discussed at the scheduled hearing.

On October 6, 2020, the respondents submitted a motion for clarifications on the topics that are to be discussed at the hearing scheduled for January 21, 2021. On October 12, 2020, the court responded that on the date of the scheduled hearing, the petition will be discussed in accordance with Section 7(B) of the Class Actions Law, 2006. The court also determined that a response to the certification petition is to be submitted by all the respondents within 90 days of a ruling on the petition in accordance with Section 7(B).

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.

- 11.** On April 20, 2020, a claim and a petition to certify it as a class action were filed against the Company and 7 other companies. These allege that the insurance companies continue to charge full payments and/or fail to refund monies to policy holders in vehicle insurance (compulsory, comprehensive and third party), while many vehicle owners are unable to use their vehicles as a result of the coronavirus crisis. The remedy requested is to order the respondents to refund to the class members the premiums overpaid by them to the respondents, and to order the respondents to refund to the class members the proportion of premiums that would be over paid by them in relation to the actual insurance risk that will apply after the filing of the petition through to the issue of a final ruling. The total amount claimed for all class members in relation to the Company is estimated at NIS 37,285 thousand.

On May 20, 2020, the petitioners filed a motion for the change of venue in accordance with the provisions of Section 7(A) of the Class Actions Law, 2006. The court ruled on the same day, requiring the respondents to respond by June 3, 2020. On June 3, 2020, the respondents submitted their response to the motion. On June 4, 2020, the court accepted the motion, transferring the case to the Tel Aviv Court.

A hearing was scheduled for January 21, 2021.

On October 6, 2020, the respondents submitted a motion for clarifications on the topics that are to be discussed at the hearing scheduled for January 21, 2021. On October 12, 2020, the court responded that on the date of the scheduled hearing, the petition will be discussed in accordance with Section 7(B) of the Class Actions Law, 2006. The court also determined that a response to the certification petition is to be submitted by all the respondents within 90 days of a ruling on the petition in accordance with Section 7(B).

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.

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

A. Motions to certify class actions (cont'd)

	Number of claims	The amount claimed - NIS thousands
Pending petitions for certification of class actions:		
Amount of claim specified	9	179,371
Amount of claim not specified	2	-
Total	11	179,371

B. Claims resolved during the reported period:

1. On May 1, 2018, a petition to certify a class action was filed against the Company. The petitioners allege that the Company automatically renews home insurance policies under mortgages, while raising the insurance premiums for the renewal period, without obtaining the consent of the policyholders to the renewal and the raising of the insurance premiums and without notifying them of the new price. The amount claimed for all class members is NIS 2,500 thousand.

Negotiations between the parties evolved into a compromise agreement, which was submitted to the court for approval. The compromise was presented to the court on October 29, 2019, which approved the compromise agreement.

2. On June 3, 2019, a petition to certify a class action was 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. On February 11, 2020, the respondents submitted their response to the certification petition.

A pre-trial hearing was held on June 16, 2020, at the conclusion of which the court required the parties to inform the court of their discussions.

On June 29, 2020, the parties notified the court that they are holding discussions in an attempt to reach an understanding and require an extension. Following negotiations between the parties, on July 23, 2020 the parties filed a consensual motion for withdrawal of the certification petition and rejection of the personal claim, the consent being conditional upon the respondent working to better clarify the procedures and guidelines to the service representatives. The parties further agreed that the respondents will pay compensation of NIS 10,000 to the petitioners and fees of NIS 8,000 plus VAT to the representatives of the petitioners. It has been agreed that one third of the amount of compensation and fees will be payable by the other respondent.

On July 23, 2020, the court approved the motion to withdraw and ruled in favor of the parties' recommended compensation to the petitioners and fees to their representatives.

On July 28, 2020, the petitioners filed a motion, requesting the court to order the reimbursement of the court fees and grant exemption from the balance, as set out in the withdrawal notification. On July 29, 2020, the court exempted the petitioners from the second installment of the court fees. As regarding the paid court fees, the court ruled that the law does not provide for reimbursement.