AIG Israel Insurance Company Ltd

Interim Financial Report

(Unaudited)

As of March 31, 2020

Contents

Directors' report on the State of Affairs of
AIG Israel Insurance Company Ltd. ("the Company")
for the period ended March 31, 2020

The directors' report on the state of the Company's affairs as of March 31, 2020 ("**the directors' report**"), reviews the Company and developments in its business in the first quarter of 2020 ("**the reported period**"). The information in this report are as at March 31, 2020 ("**the date of report**") unless explicitly stated otherwise.

The Company is an "insurer" as this term is defined in the Supervision of Financial Services Law (Insurance), 1981. Accordingly, this report was 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 ("**the Supervisor of Insurance**", "**the Supervisor**", "**the Commissioner**" and “**the Authority**”, respectively). 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 NIS thousands, unless stated otherwise.

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 directors' 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. Forward-looking information is uncertain information about the future, which is based on the information available to the Company on report date and that 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 differ from those presented in the forward-looking information included 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 as forward-looking information.

Table of contents

1. Summary 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 investees.

The ultimate controlling shareholder in the Company is American International Group Inc. ("**the global AIG corporation**", "**AIG**"). The global AIG Corporation is a leading global insurance and financial services corporation, rated BBB+ by Standard & Poor's (S&P) as at the report date.

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

Presented below is the 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 accidents insurance, serious illness insurance, and overseas 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 certain insurance types.

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

The Company markets and sells individual insurance policies directly to customers (without insurance agents) through call centers and online. Customers are being serviced mainly through a central service call center. Most business of the Company in commercial insurance, and some of the individual 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: vehicle property 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.
- Formulation of a plan for resuming operations at the offices of the Company, in conformity with the guidelines of the Ministry of Health.

To the date of publication of the report, the principal effect of the Coronavirus Event on the business results of the Company is the sharp drop of prices in the Israeli capital market and in the global financial markets. In the reporting period, 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 is approximately NIS 81 million. It should be noted that, in the period from the reporting date through to the date of publication of the financial statements, the financial markets in general, and the Israeli bonds market in particular, have recovered, reducing the losses incurred since the beginning of the year by approximately NIS 56 million (NIS 37 after tax).

Additionally, the Coronavirus Event and, to a greater extent, the lockdowns that were imposed in March 2020, had adversely affected the premium turnover of the Company, most notably in the overseas travel which has shut down as at present, and the vehicle insurance sectors.

To the date of publication of the periodic report as at March 31, 2020, the Company expects no 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, as defined 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 global spreading of the virus, additional outbreaks of the virus and resolutions of the Government of Israel, including the imposition of restrictions on the population of the State of Israel under emergency orders in the event of high rates of infection that overload hospitals in Israel.

2. **Description of the business environment:**

General

According to data published by the Israel Capital Markets, Insurance and Savings Authority, there are more than 15 Israeli insurance companies currently active in Israel, most of which are engaged in general insurance. According to said data, as at 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 maintain its position 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 the Company's Business) in the 2019 periodic report.

Developments in the Company's macro-economic environment

Measures taken in Israel and worldwide to counter the spreading of the coronavirus have significantly affected GDP and employment in Israel. Different sectors were affected to varying extents, and some sectors are experiencing a complete shutdown.

The most recent assessment issued by the Bank of Israel[1] anticipates a reduction of 5.3% in Israeli GDP in 2020, assuming that most of the restrictions that were imposed to prevent the spreading of the coronavirus will be gradually lifted by the end of June 2020, which would allow the economy to resume operations in the second half of the year, with no significant restrictions on mobility and employment, and pursue growth. In 2021, GDP is expected to grow by 8.7%.

Nevertheless, some of the effects on the economy will persist. Consequently, even after the restrictions are lifted, recovery, although rapid as compared to other crisis events, is expected to be gradual. Accordingly, unemployment is expected to reach close to 8% in the second half of the year (in the primary work age groups), and the pre-crisis employment level is expected to be approximated only towards the end of 2021. Curtailment of the duration of the economic crisis will require the implementation of a highly expansive fiscal policy in Israel and worldwide. The significant increase in Government expenditure is expected to be accompanied by a drop in income from taxes this year, as part of the effect of the automatic stabilizers. The combination of the

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

two is expected to result in an exceptional GDP deficit of 11% in 2020. Together with the 5.3% reduction in product mentioned above, the debt-to-GDP ratio is expected to rise to approximately 75% at year-end.

Negative inflation of -0.8% is anticipated for 2020, and in 2021 inflation is expected to reach 0.9%. The forecasted Bank of Israel interest rate is 0%-0.1% at the end of 2020 and 0%-0.25% at the end of 2021.

The Company invests a considerable part of its investment portfolio in the capital market; therefore, the yields arising from different channels of investment in the capital market have a material effect on the Company's profit.

Following are data on the changes in the indexes of marketable securities in the stock exchange:

	Jan-Mar 2020	Jan-Mar 2019	2019
Government-bond indexes			
General government bonds	(1.9%)	2.8%	9.1%
Linked government bonds	(3.0%)	3.5%	10.3%
NIS government bonds	(1.1%)	2.3%	8.3%
Corporate-bond indexes			
Tel Bond 60	(6.8%)	3.8%	7.4%
Tel Bond NIS	(8.1%)	3.7%	8.6%
Shares indexes			
Tel-Aviv 125	(21.0%)	6.4%	21.3%
S&P 500	(20.0%)	13.1%	28.9%

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

For information on general trends in the insurance sector and their effect on the Company's business, see Section 4.3 in Chapter A (Description of the Company's Business) in the 2019 periodic report.

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

Following is a summary of principal statutory changes and the key issues that are relevant to the activity of the Company, as prescribed by the Supervisor in circulars and drafts during the reported period until shortly before the date of issuing this report:

Circulars

- In March 2020, the Commissioner published a circular concerning “Measurement of Liabilities - Interest Rate Assumption”. This circular reinforces the current method that is used to estimate the risk-free interest rate curve, which bases the curve on the quotes of the company that has been awarded the Quotes Tender up to the 25th year, and provides clarifications on the method of estimate to be applied subsequent to the 25th year.
- In March 2020, the Commissioner published an amendment to the consolidated circular concerning “Measurement of Liabilities - Liability Adequacy Test”. The amendment updates the allocation of the various insurance products to the insurance portfolios for the purpose of the liability adequacy test (LAT).
- In April 2020, the Commissioner published an amendment to the consolidated circular concerning “Management of Investment Assets (ETFs and Debt Arrangement)”. The amendment provides tools to assist the insurers and their customers in handling the impact of the coronavirus crisis on investments and to allows insurers greater flexibility in investing on the capital market.

- In April 2020, the Commissioner published an amendment to the consolidated circular concerning "Management of Investment Assets (Exclusion from Investment Rules and Deviation from Investment Policy)". The amendment, which serves as an ad hoc provision on the backdrop of the Coronavirus Event, provides expedients to the requirements applicable to the reporting of exclusions (active and passive) from the investment rules and the deviations from investment policy.
- In April 2020, the Commissioner published an ad hoc provision on the backdrop of the Coronavirus Event, concerning investment in corporate bonds. The ad hoc provision determines that, notwithstanding the stated in Regulation 14 of the Supervision of Financial Services Regulations (Provident Funds) (Investment Rules Applicable to Public Institutions), 2012, an insurer may invest up to 49 percent of the total par value of marketable bonds (other than Israeli Government bonds) in the same series or of marketable commercial securities of an issuer in the same series, provided that the investment of the additional 24 percent will be made with its own resources. The ad hoc provision will be in effect until the earlier of September 30, 2020 or the date of expiration of the Emergency Regulations (Restriction on the Number of Workers at a Workplace to Curb the Spreading of the Novel Coronavirus), 2020 or any other superseding legislation.
- In April 2020, the Commissioner published an amendment to the consolidated circular concerning "Management of Investment Assets (Analysis and Conditions)". The amendment, which serves as an ad hoc provision on the backdrop of the Coronavirus Event, allows insurers greater flexibility in investing on the capital market, and more notably allows them flexibility with regard to the scope of analysis required prior to acquisition of bonds on the secondary market, alongside the extension of existing analyses. Additionally, the provisions of the amendment that apply to the acquisition of corporate bonds by insurers are somewhat more lenient than those prescribed as per the recommendation of the Hodek Committee, this in order to allow investment flexibility and optimal realization of opportunities on the secondary market, all for a set period of three months.
- In April 2020, the Commissioner published an amendment to the consolidated circular concerning "Service to Customers of Public Institutions". The amendment, which serves as an ad hoc provision on the backdrop of the Coronavirus Event, allows insurers to exceed the response times that are stipulated in said circular and to defer the effective date of the provisions of Section 7A and 7B of the circular, concerning notification of customers and the related channels of communication.
- In April 2020, the Commissioner published an amendment to the consolidated circular concerning "Renewal of Insurance Contracts". The amendment, which serves as an ad hoc provision on the backdrop of the Coronavirus Event, allows insurers to suspend insurance coverage. Additionally, insurance companies may extend the renewal period beyond the stated in the notification of termination of the insurance period (21 days), to the extent that it is unable to contact the policy holder.
- In April 2020, the Commissioner published an amendment to the consolidated circular concerning "Board of Directors of a Public Institution". The amendment, which serves as an ad hoc provision on the backdrop of the Coronavirus Event, cancels the requirement of a physical convening of the board of directors at least once a quarter, allowing boards to defer the dates of discussion of topics and reports that are prescribed in the Commissioner's directives, provided that the board of directors finds that such deferral does not expose the Company or its customers to a material risk, and that such discussion or report is not related to the Coronavirus Event. It further 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.

Drafts

- In February 2020, the Commissioner published a draft amendment to the circular concerning "Confirmation of Insurance Policy Holding", which proposes an additional confirmation of insurance - "Confirmation of Consent to Set Up an Insurance Policy", pending an engagement between the person applying for the confirmation and the insurance company, where the insurance company states its consent to engage in an insurance contract with the applicant.
- In February 2020, the Commissioner published draft Supervision of Insurance Businesses Regulations (Terms of Private Vehicle Insurance Contracts), 1986. The draft proposes, inter alia, the issue of provisions for notification by the policy holder of the idling of the vehicle, which would entitle the policy holder to reduced premiums against the reduction of the insurance coverage, the updating of the standard policy to reflect the cancellation of Regulation 172A of the Transport Regulations, 1961 (failure to renew an expired

license), and the updating of the provisions concerning the refund to which policy holders are entitled upon cancellation of the policy, as well as adjustment of the provisions of the insurance policy to include the accessories and mechanisms that are available in modern vehicles.

- In February 2020, the Commissioner published a second draft of the Supervision of Financial Services (Insurance) (Terms of Compulsory Motor Vehicle Insurance Contracts), 2010. The draft proposes, inter alia, to cancel the requirement of a single original insurance certificate and allow policy holders to produce a digital insurance certificate, including cancellation of the policy holder's obligation to return the original certificate to the insurer as a condition for the cancellation of the policy and the refund of the proportionate premiums, to update the standard policy to reflect the cancellation of Regulation 172A of the Transport Regulations, 1961 (failure to renew an expired license), and to issue provisions for notification by the policy holder of the idling of the vehicle for at least 30 consecutive days, which would entitle the policy holder to reduced premiums against the reduction of the insurance coverage.

- In February 2020, the Commissioner published a second draft amendment to the provisions of the consolidated circular concerning "Personal Accidents Insurance". The aforesaid draft aims to regulate the "personal accidents" sector, prescribing directives with regard to both the insurance coverage and new policyholders. On the same date, a draft amendment to the "Renewal of Insurance" circular was published, which brings into its scope personal accidents insurance policies (with the exception of death and disability as a result of an accident insurance, which is marketed as an expansion).

- 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 this context its should be noted that, about a week following the publication of said letter, the insurance companies received a written demand from the Authority to submit indicative results of the calculation of the economic solvency ratio as at December 31, 2019 in accordance with the provisions of the Solvency Circular, as well as an approximation of the current solvency ratio in accordance with the amendment to the Solvency Circular (below), this by May 31, 2020.

  Pursuant to the Authority's intention to pursue the adjustment of the economic solvency regime in Israel to the provisions of the Directive, as above, in March and April 2020, the Commissioner published draft amendments to the provisions of the consolidated circular concerning "Implementation of a Solvency II-Based Economic Solvency Regime". The aforesaid drafts propose, inter alia, updating of the provisions concerning non-compliance with the solvency capital ratio, as stipulated in Section 138 of the Directive, such that the Commissioner may extend the period of the amendment for compliance with the solvency capital ratio by up to 7 years, under various circumstances, to the extent that these have a material adverse effect on the solvency ratio of several insurance companies that, in aggregate, hold a significant market share of a given insurance sector, including an unexpected and sharp drop in financial markets, a prolonged low-interest environment and a catastrophic event.

- In April 2020, the Insurance Contract Bill (Amendment - Prevention of Duplicate Payments), 2020 was presented to the Knesset. The aforesaid bill proposes that insurance companies be required to inform policy holders of duplicate insurance policies of which they become aware. If an insurance company fails to notify the policy holder as required by law, upon realization of the policy the insurer will bear the payment as if there was no other policy, and will not be able to offset amounts against the corresponding insurance company.

- In April 2020, the Insurance Contract Bill (Amendment - Extension of Period of Limitations), 2020 was presented to 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 seven 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 April 2020, the Insurance Contract Bill (Amendment - Considering the Reasonability of an Insurer's Actions, Transfer of Burden and Pecuniary Sanctions), 2020 was presented to the Knesset. The aforesaid bill proposes a provision whereby, in examining whether an insurance company has refrained from paying benefits in bad faith, the court consider this from the perspective of the "reasonable insurer". It further proposes a provision whereby, when a court is considering a claim of a policy holder against an insurer involving a dispute with regard to liability for benefits, the amount of benefits or the date on which they are due, pursuant to Section 27 of the Law, as above, the insurer will bear the burden of proof of its acting in good faith and in the manner of a reasonable insurer in such matter, and if the insurer was unable to prove so, the court will impose on the insurer special interest in accordance with Section 28A.

- In May 2020, the Insurance Contract Bill (Amendment - Manner of Payment of Insurance Benefits), 2020 was presented to the Knesset. The aforesaid bill proposes that the insurance companies pay the insurance benefits using the same means of payment used to pay the insurance premiums, in order to ensure that the benefits reach the policy holders. The bill further determines that, if the customer cannot be located with reasonable effort, the companies would be required to inform the Administrator General of the monies that they hold.
- In May 2020, the Supervision of Financial Services (Insurance) Bill (Amendment - Permit for the Marketing and Sale of Overseas Travel Insurance), 2020 was presented to the Knesset for a second time. The aforesaid bill proposes a provision whereby a travel agent that has been granted a permit to market and sell overseas travel insurance by the Israel Association of Travel Agencies and Consultants shall be permitted to sell insurance coverage to travelers headed overseas.
- In May 2020, the Execution Bill (Amendment - Exception of Foreclosure of Medical Insurance by a Third Party), 2020 was presented to the Knesset. The aforesaid bill proposes a provision to prohibit the foreclosure of medical insurance policies.

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

Following are principal balance-sheet data (NIS thousands):

	March 31, 2020	March 31, 2019	December 31, 2019
Other assets	349,273	332,327	289,433
Deferred acquisition expenses	165,061	167,178	157,386
Financial investments and cash	1,918,028	2,012,518	2,044,165
Reinsurance assets	729,299	731,176	701,185
Total assets	**3,161,199**	**3,243,199**	**3,192,169**
Equity	787,955	877,938	852,222
Liabilities in respect of insurance contracts	1,970,889	1,940,816	1,904,206
Other liabilities	402,817	424,445	435,741
Total equity and liabilities	**3,161,661**	**3,243,199**	**3,192,169**

Following is principal is comprehensive income data (NIS thousands):

	Jan-Mar 2020	Jan-Mar 2019	2019
Gross premiums earned	289,452	287,807	1,181,142
Premiums earned by reinsurers	(47,145)	(49,567)	(195,627)
Premiums earned in retention	**242,307**	**238,240**	**985,515**
Net investment gains (losses) and financing income	(123,801)	45,671	95,347
Income from commissions	12,918	12,730	52,375
Total revenue	**131,424**	**296,641**	**1,133,237**
Payments and change in liability for insurance contracts, in retention	(141,679)	(138,710)	(541,181)
Total other expenses	(85,380)	(77,249)	(323,636)
Income (loss) before income	**(95,635)**	**80,682**	**268,420**
Tax benefit (taxes on income)	31,368	(27,951)	(91,405)
Income (loss) for the period and total comprehensive income (loss) for the period	**(64,267)**	**52,731**	**177,015**

Equity and capital requirements

As at March 31, 2020, equity amounted to NIS 788.0 million, as compared to approximately NIS 852.2 million as at December 31, 2019. The change in equity in the reporting period is due to a comprehensive loss of approximately NIS 64.3 million.

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

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

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

Presented below are data concerning solvency ratio and MCR:

a. **Solvency ratio (NIS thousands):**

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

b. **MCR (NIS thousands):**

	December 31, 2019	December 31, 2018
MCR	180,321	182,728
Equity for MCR purposes	1,032,523	1,071,017

The auditors of the Company did not audit the calculation performed by the Company as at December 31, 2019. For additional information the solvency ratio, see also the Company's economic solvency ratio report as at December 31, 2019, which is available 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 331.9 million in the reporting period, as compared to approximately 334.2 million in the corresponding period in 2019. The decrease in gross premiums in the reporting period stems mainly from the property and liability sectors in commercial insurance and in the health insurance sectors (personal accidents and overseas travel).

The Company's total premiums in retention amounted to NIS 275.4 million in the reporting period, as compared to approximately 271.1 million in the corresponding period in 2019, an increase of 1.6%. The increase in premiums in retention in the reporting period stems mainly from the vehicle compulsory insurance, vehicle property insurance, home insurance and life insurance sectors.

Premiums by principal operating segments (NIS thousands):

Jan-Mar 2020	Life insurance	Health insurance	General insurance	Total
Gross	37,074	42,931	251,851	331,856
In retention	29,595	42,231	203,594	275,420
% of total gross	11.2	12.9	75.9	100.0
% of retention	10.7	15.3	74.0	100.0

Jan-Mar 2019	Life insurance	Health insurance	General insurance	Total
Gross	33,684	49,442	251,121	334,247
In retention	26,650	48,707	195,731	271,088
% of total gross	10.1	14.8	75.1	100.0
% of retention	9.8	18.0	72.2	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-Mar 2020	Jan-Mar 2019	Jan-Dec 2019
Income (loss) from compulsory vehicle insurance	(26,424)	11,484	29,410
Income (loss) from vehicle property insurance	(7,825)	19,207	74,875
Income (loss) from home insurance	(2,565)	6,565	13,956
Income (loss) from health insurance	(618)	9,930	54,023
Income from life insurance	10,003	4,074	33,202
Income (loss) from commercial insurance	(14,650)	11,728	26,895
Other - income (loss) not allocated to any segment	(53,556)	17,694	36,059
Income (loss) before taxes on income	**(95,635)**	**80,682**	**268,420**
Tax benefit (taxes on income)	31,368	(27,951)	(91,405)
Income (loss) for the period and total comprehensive income (loss) for the period	**(64,267)**	**52,731**	**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. Pre-tax loss in the reporting period amounted to approximately NIS 95.6 million, as compared to profit of approximately 80.7 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 35.7 million in the corresponding period to approximately NIS 27.9 million in the reporting period. This was mainly due to an increase in the expense ratio.

b. Net investment losses amounted to NIS 123.8 million in the reporting period, as compared to investment gains of approximately NIS 45.7 million in the corresponding period in 2019. The transition from gains on investments in the corresponding period in 2019 to losses in the reporting period was due to sharp price drops on the Israeli capital market and in global financial markets as a result of the Coronavirus Event, as compared to the increase in prices of corporate bonds and share indexes in the corresponding period in 2019 (see section 2 above).

c. The Company’s loss from compulsory vehicle insurance amounted to approximately NIS 26.4 million in the reporting period, as compared to profit of approximately 11.5 million in the corresponding period in 2019. The transition from profit in the corresponding period in 2019 to loss in the reporting period 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 Company’s underwriting profit from compulsory vehicle insurance amounted to approximately NIS 3.5 million in the reporting period, as compared to approximately 0.7 million in the corresponding period in 2019. The increase in the underwriting profit was due to the reduced claims’ ratio.

d. The loss of the Company from vehicle property insurance in the reporting period was NIS 7.8 million, as compared to profit of NIS 19.2 million in the corresponding period in 2019. The transition from profit in the corresponding period in 2019 to loss in the reporting period 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 of the Company from vehicle property insurance amounted to NIS 4.9 million in the reporting period, as compared to profit of NIS 13.8 million in the corresponding period in 2019. The decrease in underwriting profit in the reporting period stemmed from an increase in the claims’ ratio, mainly due to the extraordinary flooding damages in the reporting period as well as the higher expenses’ ratio.

e. The loss of the Company from home insurance in the reporting period was NIS 2.6 million, as compared to profit of NIS 6.6 million in the corresponding period in 2019. The transition from profit in the corresponding period in 2019 to loss in the reporting period 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 of the Company from home insurance amounted to NIS 2.9 million in the reporting period, as compared to profit of NIS 4.6 million in the corresponding period in 2019. The decrease in underwriting profit in the reporting period stemmed from an increase in the claims’ ratio, mainly due to the extraordinary flooding damages in the reporting period.

f. The loss of the Company from health insurance in the reporting period was NIS 0.6 million, as compared to profit of NIS 9.9 million in the corresponding period in 2019. The transition from profit in the corresponding period in 2019 to loss in the reporting period 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 of the Company from health insurance in the reporting period was NIS 4.8 million, as compared to profit of NIS 7.4 million in the corresponding period in 2019. The decrease in underwriting profit was due mainly to a loss recognized in the overseas travel sector in the reporting period. This loss was due to the higher rate of claims, which was partly due to claims relating to the Coronavirus Event (claims for trip cancellations).

g. The profit of the Company from life insurance was NIS 10.0 million in the reporting period, as compared to profit of NIS 4.1 million in the corresponding period in 2019. The increase in profit was due to the higher claims’ ratio and expenses’ ratio.

h. The loss of the Company from professional liability insurance in the reporting period was NIS 7.4 million, as compared to profit of NIS 6.6 million in the corresponding period in 2019. The transition from profit in the corresponding period in 2019 to loss in the reporting period 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 of the Company from professional liability insurance amounted to NIS 0.3 million in the reporting period, as compared to profit of NIS 3.4 million in the corresponding period in 2019. The reduction in the underwriting profit in the reporting period was due mainly to the increase in the claims' ratio as compared to the corresponding period in 2019.

i. The loss of the Company from other property insurance in the reporting period was NIS 1.3 million, as compared to profit of NIS 1.7 million in the corresponding period in 2019. The transition from profit in the corresponding period in 2019 to loss in the reporting period 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 loss of the Company from other property insurance amounted to approximately NIS 4 thousand in the reporting period, as compared to profit of NIS 1.1 million in the corresponding period in 2019. As a result of the flooding damages at the beginning of the reporting period, this sector recorded gross claims of approximately NIS 23 million. 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.

j. The loss of the Company from other liability insurance in the reporting period was NIS 5.9 million, as compared to profit of NIS 3.4 million in the corresponding period in 2019. The transition from profit in the corresponding period in 2019 to loss in the reporting period 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 of the Company from other liability insurance in the reporting period was NIS 1.2 million, as compared to profit of NIS 0.6 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):

	1-3.2020	1-3.2019	1-12.2019
Vehicle property	4,885	13,844	62,844
Home	2,853	4,577	9,023
Other property sectors	(4)	1,130	4,942

b. Principal data regarding the claims' ratio[2] (Loss Ratio "LR") and the claims' and expenses' ratio (Combined Ratio "CR"):

	1-3.2020		1-3.2019		1-12.2019	
	LR%	CR%	LR%	CR%	LR%	CR%
Vehicle property:						
Gross	69%	95%	66%	85%	62%	83%
In retention	69%	95%	66%	85%	62%	83%
Property[3]:						
Gross	94%	124%	49%	79%	53%	84%
In retention	56%	90%	44%	79%	54%	88%

* The above ratios are largely affected by the low retention after reinsurance held in these sectors.

[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.

5. Cash flows and liquidity

Net cash provided by operating activities in the reported period was NIS 27.5 million, as compared to NIS 2.9 million in the corresponding period in 2019.

Net cash used in investing activities in the reported period amounted to NIS 3.0 million, as compared to NIS 3.4 million in the corresponding period in 2019.

Net cash used in financing activities in the reported period amounted to NIS 1.3 million, as compared to NIS 1.3 million in the corresponding period in 2019.

As a result of the above, the balance of cash and cash equivalents in the reported period increased by NIS 23.1 million, amounting to NIS 81.1 million as at March 31, 2020.

6. Sources of funding

All of the Company's operations are funded with its own resources and equity. As at the date of approval of this report, the Company does not use any external funding sources.

7. Material subsequent events

For information on developments in 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 the 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 at 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 at 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 said provisions.

Internal controls over financial reporting

In the course of the quarter ending on March 31, 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 over financial reporting.

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

Management representations 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 dedication and contribution to its business achievements.

_________________	___________________
Ralph Mucerino	Yfat Reiter
Chairman of the Board of Directors	CEO

May 26, 2020

<u>AIG Israel Insurance Company Ltd</u>

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 March 31, 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 disclosure[1] 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.

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Yfat Reiter - CEO

May 26, 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 March 31, 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 disclosure[1] 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

May 26, 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 March 31, 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 March 31, 2020 the internal control of the Insurance Company over financial reporting is effective.

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Mr. Ralph Mucerino	Ms. Yfat Reiter	Mr. David Rothstein
Chairman of the Board	CEO	CFO

Date of approval of financial statements: May 26, 2020

AIG Israel Insurance Company Ltd.

Condensed Interim Financial Statements (Unaudited) As at March 31, 2020

Condensed Interim Financial Statements as at March 31, 2020 (Unaudited)

Contents

Somekh Chaikin
KPMG Millenium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv, 6100601
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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 at March 31, 2020 and the condensed statements of profit or loss and other comprehensive income, changes in equity and cash flows for the 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, and are also responsible for the preparation of the financial information for this interim period in accordance with the disclosure requirements of the Commissioner of Capital Markets, Insurance and Savings under the Control of Financial Services (Insurance) Law, 1981. Our responsibility is to express a conclusion with respect to the financial information for this interim period, based on our review.

Scope of review

Our review was conducted in accordance with the provisions of Review Standard No. 1 of the Institute of Certified Public Accountants in Israel, Review of Interim Financial Information by the Entity's Auditor. A review of interim financial information 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 to the stated in the preceding paragraph, 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 of the Commissioner of Capital Markets, Insurance and Savings under the Control of Financial Services (Insurance) Law, 1981.

Emphasis of a matter

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

Somekh Chaikin
Certified Public Accountants (Isr.)

May 26, 2020

Condensed Interim Statements of Financial Position as at

	March 31, 2020	March 31, 2019	December 31, 2019
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Assets			
Intangible assets	22,632	34,024	31,722
Deferred acquisition costs	165,061	167,178	157,386
Property and equipment	36,106	44,116	37,376
Reinsurance assets	729,299	731,176	701,185
Premiums collectible	199,576	208,600	178,905
Current tax assets	4,041	849	-
Deferred tax assets, net	40,932	851	-
Other receivables	46,013	43,887	41,430
	1,243,633	1,230,681	1,148,004
Financial investments:			
Marketable debt instruments	1,675,113	1,772,259	1,796,238
Non-marketable debt instruments	83,809	72,204	90,192
Other	78,045	82,402	99,737
Total financial investments	1,836,967	1,926,865	1,986,167
Cash and cash equivalents	81,061	85,653	57,998
Total assets	3,161,661	3,243,199	3,192,169

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 statements: May 26, 2020

Condensed Interim Statements of Financial Position as at

	March 31, 2020	March 31, 2019	December 31, 2019
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Equity and liabilities			
Equity:			
Share capital	**6**	6	6
Share premium	**250,601**	250,601	250,601
Other reserves	**15,708**	15,708	15,708
Retained earning	**521,640**	611,623	585,907
Total equity attributable to equity holders of the Company	**787,955**	877,938	852,222
Liabilities:			
Liabilities in respect of insurance contracts that are not yield dependent	**1,970,899**	1,940,816	1,904,206
Liabilities in respect of current taxes	**-**	-	18,300
Liabilities in respect of deferred taxes, net	**-**	-	5,317
Retirement benefit obligation, net	**5,279**	3,157	5,279
Liabilities to reinsurers	**280,339**	299,660	278,511
Other payables	**117,199**	121,628	128,334
Total liabilities	**2,373,706**	2,365,261	2,339,947
Total equity and liabilities	**3,161,661**	3,243,199	3,192,169

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

Condensed Interim Statements of Profit or Loss and Other Comprehensive Income

	Three months ended		Year ended
	March 31, 2020	March 31, 2019	December 31, 2019
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Gross earned premiums	**289,452**	287,807	1,181,142
Premiums earned by reinsurers	**(47,145)**	(49,567)	(195,627)
Premiums earned in retention	**242,307**	238,240	985,515
Gains (losses) on investments, net and financing income	**(123,801)**	45,671	95,347
Commission income	**12,918**	12,730	52,375
Total income	**131,424**	296,641	1,133,237
Payments and change in liabilities with respect to insurance contracts, gross	**(188,816)**	(165,111)	(622,067)
Share of reinsurers in increase of insurance liabilities and payments for insurance contracts	**47,137**	26,401	80,886
Payments and change in liabilities with respect to insurance contracts, retention	**(141,679)**	(138,710)	(541,181)
Commissions, marketing expenses and other acquisition costs	**(57,711)**	(57,595)	(243,787)
General and administrative expenses	**(28,307)**	(18,970)	(80,305)
Financing income (expenses), net	**638**	(684)	456
Total expenses	**(227,059)**	(215,959)	(864,817)
Income (loss) before taxes on income	**(95,635)**	80,682	268,420
Tax benefit (taxes on income)	**31,386**	(27,951)	(91,405)
Income (loss) for the period and total comprehensive income (loss) for the period	**(64,267)**	52,731	177,015
Basic earnings per share:			
Basic earnings (loss) per share	**(11.22)**	9.20	30.89
Number of shares used in calculating basic earnings per share	**5,730**	5,730	5,730

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

Condensed Interim Statements of Changes in Equity

	Share capital	Share premium	Other reserves	Retained earnings	Total
			NIS thousands		
Three-month period ended March 31, 2020					
Balance as at January 1, 2020 (audited)	6	250,601	15,708	585,907	852,222
Total comprehensive income (loss) for the period				(64,267)	(64,267)
Balance as at March 31, 2020 (unaudited)	6	250,601	15,708	521,640	787,955
Three-month period ended March 31, 2019					
Balance as at January 1, 2019 (audited)	6	250,601	15,708	558,892	825,207
Total comprehensive income for the period				52,731	52,731
Balance as at March 31, 2019 (unaudited)	6	250,601	15,708	611,623	877,938
Year ended December31, 2019					
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)	6	250,601	15,708	585,907	852,222

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

Condensed Interim Statements of Cash Flows

	Three months ended		Year ended
	March 31, 2020	March 31, 2019	December 31, 2019
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Cash flows from operating activities:			
Net cash provided by operating activities (Appendix A)	**44,691**	20,195	152,654
Interest paid	**(135)**		(607)
Interest received	**20,112**	22,377	59,133
Dividend received	**-**	-	1,421
Income taxes paid	**(46,039)**	(75,403)	(91,115)
Income taxes received	**8,844**	35,721	18,895
Net cash provided by operating activities	**27,473**	2,890	140,381
Cash flows from investing activities:			
Changes in assets covering equity and non-insurance liabilities:			
Investment in property and equipment	**(1,015)**	(815)	(2,355)
Investment in intangible assets	**(2,021)**	(2,599)	(11,960)
Net cash used in investing activities	**(3,036)**	(3,414)	(14,315)
Cash flows from financing activities:			
Dividend paid to the equity holders of the Company	**-**	-	(150,000)
Repayment of principal of lease liabilities	**(1,312)**	(1,286)	(5,183)
Net cash used in financing activities	**(1,312)**	(1,286)	(155,183)
Impact of exchange rate fluctuations on balances of cash and cash equivalents	**(62)**	157	(191)
Increase (decrease) in cash and cash equivalents	**23,063**	(1,653)	(29,308)
Cash and cash equivalents at beginning of period	**57,998**	87,306	87,306
Cash and cash equivalents at end of period	**81,061**	85,653	57,998

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

Condensed Interim Statements of Cash Flows

	Three months ended		Year ended
	March 31, 2020	March 31, 2019	December 31, 2019
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Appendix A - Cash flows from operating activities			
Income (loss) for the period	**(64,267)**	52,731	177,015
Adjustments for-			
Items not involving cash flows:			
Change in liabilities with respect to insurance contracts that are not yield dependent	**66,683**	55,509	18,899
Change in reinsurance assets	**(28,114)**	(12,205)	17,786
Change in deferred acquisition costs	**(7,675)**	(9,549)	243
Taxes on income	**(31,368)**	27,951	91,405
Change in retirement benefit obligation, net	**-**	100	2,222
Depreciation of property and equipment	**2,285**	2,455	9,305
Amortization of intangible assets	**11,111**	3,622	15,285
Losses (gains), net, on financial investments:			
Marketable debt instruments	**121,705**	(19,123)	(29,737)
Non-marketable debt instruments	**4,806**	4,352	(2,743)
Marketable exchange traded notes	**21,692**	(4,664)	(7,223)
Impact of fluctuation in exchange rate on cash and cash equivalents	**62**	(157)	191
	161,187	48,291	115,633
Changes in operating assets and liabilities:			
Liabilities to reinsurers	**1,828**	1,732	(19,417)
Investments in financial assets, net	**997**	(21,300)	(60,334)
Premiums collectible	**(20,671)**	(28,571)	1,124
Other receivables	**(4,579)**	(1,909)	544
Other payables	**(9,823)**	(13,615)	(1,579)
Current tax assets (liabilities), net	**(4)**	5,213	(385)
	(32,252)	(58,450)	(80,047)
Adjustments for interest and dividend:			
Interest paid	**135**	-	607
Interest received	**(20,112)**	(22,377)	(59,133)
Dividend received	**-**	-	(1,421)
	(19,977)	(22,377)	(59,947)
Net cash provided by operating activities	**44,691**	20,195	152,654

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 the condensed interim financial statements.

Note 1 - General

A. Reporting Entity

AIG Israel Insurance Company Ltd. ("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 controlling shareholder in the Company is American International Group Inc. ("AIG Global Corporation" or "AIG"), which is a leading international insurance and finance concern.

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

B. Definitions:

1) The Company – AIG Israel Insurance Company Ltd.

2) Commissioner - Commissioner of Capital Markets, Insurance and Savings at the Israel Ministry of Finance.

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 reinsurers' share in the insurance reserves and the outstanding claims.

6) Outstanding claims - Known outstanding claims, with the addition of the expected development in claims for which partial reporting was received (I.B.N.E.R.) plus claims not yet reported (I.B.N.R).

7) Capital Regulations - The Supervision of Insurance Business Regulations (Minimum Capital Required from an Insurer), 1998, and amendments thereto.

8) Insurance contract - A contract under which one party (the insurer) assumes a significant insurance risk of another party (policyholder), by agreement to indemnify the policyholder if a defined uncertain future event (the insurance event) adversely affects the policyholder.

9) Liability for insurance contracts - Insurance reserves and outstanding claims.

10) Premiums - Premiums including fees and receipts for related services.

11) Premiums earned - Premiums that relate to the reporting period.

Note 1 – General (cont'd)

A. Material 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.
- Formulation of a plan for resuming operations at the offices of the Company, in conformity with the guidelines of the Ministry of Health.

To the date of publication of the report, the principal effect of the Coronavirus Event on the business results of the Company is the sharp drop of prices in the Israeli capital market and in the global financial markets. In the reporting period, 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 is approximately NIS 81 million. It should be noted that, in the period from the reporting date through to the date of publication of the financial statements, the financial markets in general, and the Israeli bonds market in particular, have recovered, reducing the losses incurred since the beginning of the year by approximately NIS 56 million (NIS 37 after tax).

Additionally, the Coronavirus Event and, to a greater extent, the lockdowns that were imposed in March 2020, had adversely affected the premium turnover of the Company, most notably in the overseas travel which has shut down as at present, and the vehicle insurance sectors.

To the date of publication of the periodic report as at March 31, 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.

Note 2 - Basis of Preparation of the Financial Statements

A. Statement of Compliance

The condensed interim financial statements ("the Interim Financial Information) has been prepared in accordance with the provisions of IAS 34, Interim Financial Reporting ("IAS 34") and do not include all of the information required for complete annual financial statements. They have also been prepared 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 Company's annual financial statements as at December 31, 2019 and for the year then ended ("the Company's 2019 Annual Financial Statements").

The condensed interim financial statements have been approved for publication by the Board of Directors of the Company on May 26, 2020.

B. Use of Estimates and Judgment

The preparation of the condensed interim financial statements in accordance with IFRS requires management of the Company to exercise its judgment in making assessments, estimates and assumptions that affect the implementation of the accounting policy and the amounts of assets and liabilities, revenues and expenses. It is hereby clarified that actual results could differ from such estimates.

The judgment exercised by management in implementing the accounting policy of the Company and the principal assumptions used in assessments involving uncertainty are consistent with those used in the preparation of the Annual Financial Statements.

Note 3 - Significant Accounting Policies

The significant accounting policies and the computational methods applied in the preparation of the Interim Financial Information are consistent with those applied in the preparation of the Company's Annual Financial Statements.

Note 4 - Segment Information

Operating segments are reported based on the information that is reviewed by the chief operating 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 described below. Operations that are not attributed to the segments include equity, liabilities outside the insurance business and the assets held against them.

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, 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 and the professional liability sector.

- <u>Compulsory motor vehicle sector</u>

  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 a motor vehicle.

- <u>Motor vehicle property sector</u>

  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.

- <u>Home insurance sector</u>

  The home insurance sector focuses on providing coverage for damages caused to homes and includes coverage in respect of damages caused by earthquake.

- <u>Professional liability sector</u>

  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, cover for funds misappropriation damages and cover for cyber events.

Note 4 - Segment Information (cont'd)

C. General insurance segment (cont'd)

- Other property sectors

  Include property sectors other than 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.

	3-month period ended March 31, 2020 (unaudited)				
	Life Insurance	Health Insurance*	General insurance	Not attributed to operating segments	Total
			NIS thousands		
Gross premiums earned	37,510	44,553	207,389		289,452
Premiums earned by reinsurers	(7,480)	(700)	(38,965)		(47,145)
Premiums earned in retention	30,030	43,853	168,424		242,307
Investment gains (losses), net	1	(5,377)	(64,636)	(53,789)	(123,801)
Commission income	2,415	71	10,432		12,918
Total income	32,446	38,547	114,220	(53,789)	131,424
Payments and change in liabilities with respect to insurance contracts (gross)	(11,809)	(22,150)	(154,857)		(188,816)
Share of reinsurers in increase of insurance liabilities and payments for insurance contracts	2,579	650	43,908		47,137
Payments and change in liabilities in respect of insurance contracts, in retention	(9,230)	(21,500)	(110,949)		(141,679)
Commissions and other acquisition costs	(9,059)	(11,719)	(36,933)		(57,711)
General and administrative expenses	(4,154)	(5,946)	(18,207)		(28,307)
Financing income, net	-	-	405	233	638
Total comprehensive income (loss) before taxes on income	10,003	(618)	(51,464)	(53,556)	(95,635)
Liabilities for insurance contracts, gross, as at March 31, 2020	59,292	101,692	1,809,905		1,970,889

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

Note 4 - Segment Information (cont'd)

	3-month period ended March 31, 2019 (unaudited)				
	Life insurance	**Health Insurance***	**General insurance**	**Not attributed to operating segments**	**Total**
			NIS thousands		
Gross premiums earned	31,768	49,598	206,441		287,807
Premiums earned by reinsurers	(7,035)	(735)	(41,797)		(49,567)
Premiums earned in Retention	24,733	48,863	164,644		238,240
Investment gains, net	1	2,522	24,352	18,796	45,671
Commission income	2,153	69	10,508		12,730
Total income	26,887	51,454	199,504	18,796	296,641
Payments and change in liabilities with respect to insurance contracts (gross)	(13,389)	(23,051)	(128,671)		(165,111)
Share of reinsurers in increase of insurance liabilities and payments for insurance contracts	3,070	567	22,764		26,401
Payments and change in liabilities in respect of Insurance contracts, in retention	(10,319)	(22,484)	(105,907)		(138,710)
Commissions and other acquisition costs	(9,616)	(12,443)	(35,536)		(57,595)
General and administrative expenses	(2,878)	(6,597)	(9,495)		(18,970)
Financing income (expenses), net	-	-	418	(1,102)	(684)
Total comprehensive income before taxes on income	4,074	9,930	48,984	17,694	80,682
Liabilities for insurance contracts, gross, as at March 31, 2019	60,689	123,403	1,756,724		1,940,816

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

Note 4 - Segment Information (cont'd)

	Year ended December 31, 2019 (audited)				
	Life insurance	Health Insurance *	General insurance	Not attributed to operating segments	Total
			NIS thousands		
Gross premiums earned	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
Investment gains, 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
Liabilities for insurance contracts, gross, as at December 31, 2019	59,135	107,106	1,737,965		1,904,206

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

Note 4 - Segment Information (cont'd)

Additional information relating to the general insurance segment:

	3-month period ended March 31, 2020 (unaudited)						
	Compulsory motor vehicle	Motor vehicle property	Home	Professional liability	Other property sectors*	Other liability sectors*	Total
				NIS thousands			
Gross premiums	54,236	112,722	36,371	25,725	11,355	11,442	251,851
Reinsurance premiums	(752)	-	(2,953)	(23,357)	(11,264)	(9,931)	(48,257)
Premiums in retention	53,484	112,722	33,418	2,368	91	1,511	203,594
Change in balance of unearned premiums, in retention	(9,316)	(20,541)	(4,326)	(738)	31	(280)	(35,170)
Premiums earned in retention	44,168	92,181	29,092	1,630	122	1,231	168,424
Investment losses, net	(29,954)	(12,874)	(5,643)	(7,746)	(1,310)	(7,109)	(64,636)
Commission income	-	-	286	5,286	2,885	1,975	10,432
Total income	14,214	79,307	23,735	(830)	1,697	(3,903)	114,220
Increase in insurance liabilities and payments for insurance contracts	(33,913)	(63,565)	(16,728)	(9,823)	(24,521)	(6,307)	(154,857)
Share of reinsurers in increase of insurance liabilities and payments for insurance contracts	4,441	-	605	8,185	24,275	6,402	43,908
Increase in liabilities and payments for insurance contracts in retention	(29,472)	(63,565)	(16,123)	(1,638)	(246)	95	(110,949)
Commissions, marketing expenses and other acquisition costs	(5,942)	(14,152)	(7,530)	(4,665)	(2,621)	(2,023)	(36,933)
General and administrative expenses	(5,224)	(9,579)	(2,872)	(299)	(144)	(89)	(18,207)
Financing income, net	-	164	225	9	-	7	405
Total expenses	(40,638)	(87,132)	(26,300)	(6,593)	(3,011)	(2,010)	(165,684)
Total comprehensive loss before taxes on income	(26,424)	(7,825)	(2,565)	(7,423)	(1,314)	(5,913)	(51,464)
Liabilities with respect to insurance contracts, gross, as at March 31, 2020	753,700	288,597	131,154	274,696	101,744	260,014	1,809,905
Liabilities with respect to insurance contracts in retention as at March 31, 2020	601,313	288,597	124,521	40,217	1,566	40,546	1,096,760

(*) Other property sectors consist primarily of the results of the property insurance sector, which accounts for 98% of total premiums in said sectors. Other liability sectors consist primarily of the results of the product liability insurance sector, which accounts for 47% of total premiums in said sectors.

Note 4 - Segment Information (cont'd)

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

	Compulsory motor vehicle	Motor vehicle property	Home	Professional liability	Other property sectors*	Other liability sectors*	Total
	3-month period ended March 31, 2019 (unaudited)						
	NIS thousands						
Gross premiums	51,464	109,963	33,795	25,695	17,218	12,986	251,121
Reinsurance premiums	(714)	-	(2,809)	(23,615)	(17,002)	(11,250)	(55,390)
Premiums in retention	50,750	109,963	30,986	2,080	216	1,736	195,731
Change in balance of unearned premiums, in retention	(8,069)	(18,098)	(4,212)	(389)	59	(378)	(31,087)
Premiums earned in retention	42,681	91,865	26,774	1,691	275	1,358	164,644
Investment gains, net	10,833	5,166	1,772	3,182	541	2,858	24,352
Commission income	-	-	303	5,156	3,102	1,947	10,508
Total income	53,514	97,031	28,849	10,029	3,918	6,163	199,504
Increase in insurance liabilities and payments for insurance contracts	(37,069)	(60,679)	(11,309)	(6,836)	(9,454)	(3,324)	(128,671)
Share of reinsurers in increase of insurance liabilities and payments for insurance contracts	3,150	-	(380)	8,039	9,183	2,772	22,764
Increase in liabilities and payments for insurance contracts in retention	(33,919)	(60,679)	(11,689)	1,203	(271)	(552)	(105,907)
Commissions, marketing expenses and other acquisition costs	(5,902)	(13,883)	(7,532)	(4,359)	(1,813)	(2,047)	(35,536)
General and administrative expenses	(2,209)	(3,459)	(3,279)	(257)	(163)	(128)	(9,495)
Financing income, net	-	197	216	1	-	4	418
Total expenses	(42,030)	(77,824)	(22,284)	(3,412)	(2,247)	(2,723)	(150,520)
Total comprehensive income before taxes on income	11,484	19,207	6,565	6,617	1,671	3,440	48,984
Liabilities with respect to insurance contracts, gross, as at March 31, 2019	706,329	293,114	105,978	281,053	100,253	269,997	1,756,724
Liabilities with respect to insurance contracts in retention as at March 31, 2019	559,696	293,114	100,647	45,107	3,577	40,217	1,042,358

(*) Other property sectors reflect mainly the results of property loss insurance, which accounts for 99% of total premiums in these sectors.
Other liability sectors reflect mainly the results of third-party liability insurance, which accounts for 41% of total premiums in these sectors.

Note 4 - Segment Information (cont'd)

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

	Compulsory motor vehicle	Motor vehicle property	Home	Professional liability	Other property sectors*	Other liability sectors*	Total
	Year ended December 31, 2019 (audited)						
	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)	3,809	(3,655)	(251)	200	(11)	(1,021)
Premiums earned in retention	176,046	372,292	113,357	6,409	692	5,078	673,874
Investment gains, net and financing income	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 for insurance contracts, gross	(141,638)	(229,708)	(63,766)	(19,792)	(27,680)	(10,478)	(493,063)
Share of reinsurers in increase of insurance liabilities and payments for insurance contracts	8,738	-	1,750	21,396	28,061	5,570	65,515
Payments and change in insurance liabilities for 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 Dec. 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 property insurance, which accounts for 97% of total premiums in these sectors.
Other liability sectors reflect mainly the results of third-party liability insurance, which accounts for 46% of total premiums in these sectors.

Note 4 - Segment Information (cont'd)

<u>Additional information relating to the life insurance segment</u>:

	3-month period ended March 31, 2020 (unaudited)	
	Policies not containing savings element	Total
	Risk sold as single policy	
	Private	
	NIS thousands	
Gross risk premiums	**37,074**	**37,074**
Payments and change in liabilities in respect of insurance contracts, gross	**11,809**	**11,809**

	3-month period ended March 31, 2019 (unaudited)	
	Policies not containing savings element	Total
	Risk sold as single policy	
	Private	
	NIS thousands	
Gross risk premiums	33,684	33,684
Payments and change in liabilities in respect of insurance contracts, gross	13,389	13,389

	Year ended December 31, 2019 (audited)	
	Policies not containing savings element	Total
	Risk sold as single policy	
	Private	
	NIS thousands	
Gross risk premiums	140,351	140,351
Payments and change in liabilities in respect of insurance contracts, gross	46,903	46,903

Note 4 - Segment Information (cont'd)

Additional information relating to the health insurance segment:

	3-month period ended March 31, 2020 (unaudited)		
	Long-term	Short-term	Total
		NIS thousands	
Gross premiums	**38,315**	**4,616**	*** 42,931**
Payments and change in liabilities in respect of insurance contracts, gross	**16,336**	**5,814**	**22,150**

* Consists primarily of policies issued to individuals.

	3-month period ended March 31, 2019 (unaudited)		
	Long-term	Short-term	Total
		NIS thousands	
Gross premiums	43,182	6,260	49,442
Payments and change in liabilities in respect of insurance contracts, gross	18,099	4,952	23,051

* Consists primarily of policies issued to individuals.

	Year ended December 31, 2019 (audited)		
	Long-term	Short-term	Total
		NIS thousands	
Gross premiums	164,440	39,776	* 204,216
Payments and change in liabilities in respect of insurance contracts, gross	72,076	10,025	82,101

* Consists primarily of policies issued to individuals.

Note 5 - 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

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

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

   The provisions of the circular determine, among other things, that in the period from June 30, 2017 to December 31, 2024 ("the Deployment Period"), the provisions of the Solvency Capital Requirements ("SCR") will be implemented at a gradual increment of 5 points a year, such that the Deployment Period as at June 30, 2017 will not be less than 60% of the SCR set out in the appendix to the circular and the SCR for an insurance company, calculated on the basis of the data for December in relation to solvency capital requirement (SCR) in the 31, 2024 and thereafter will not be less than the SCR.

2. On October 1, 2017, the Commissioner issued a letter to managements of insurance companies concerning dividend distributions by insurance companies ("the Letter"). Pursuant to the Letter:

   a) Pending the receipt of the Commissioner's confirmation of the audit of the implementation of the solvency circular by an auditor, an insurance company may distribute a dividend subject to the fulfillment of the following conditions:
      - After the distribution, the Company has a ratio of recognized capital to required capital ("the Solvency Ratio") of at least 115% according to the existing Capital Regulations or directives that supersede them.
      - After the distribution, the Company has a solvency ratio of at least 100% according to the solvency circular, calculated without the provisions during the Deployment Period and without a period of adjustment of the share scenario and subject to the solvency ratio target determined by the Company's Board of Directors.

Note 5 - Equity and Capital Requirements (cont'd)

B. Solvency II (cont'd)

2. (cont'd)

b) After the date of receipt of the Commissioner's confirmation of the audit of the implementation of the solvency circular by an auditor, an insurance company may distribute a dividend if it meets the conditions stated at the end of section (a) above.

c) An insurance company that distributes a dividend as above shall 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, as 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 solvency ratio target set by the board of directors over time, without regard to the Deployment Period and the period of adjustment of the share scenario;
- A copy of the minutes of the discussion at the insurance company's board of directors in which the dividend distribution was approved, accompanied by the background material for the discussion.

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

According to the solvency ratio reports as at December 31, 2018 and June 30, 2019, the Company has surplus capital independent of the transitional provisions. For additional information, see section 3 (Solvency-II-based economic solvency regime in insurance companies) of the Directors' Report.

Note 6 - Financial Instruments and Financial Risks

A. Fair value hierarchy

The various levels of fair value are defined as follows:

- Level 1 – Fair value measured using quoted prices (unadjusted) in an active market for identical instruments.
- Level 2 – Fair value measured using direct or indirect observable inputs that are not included in Level above.
- Level 3 – Fair value measured using data that are not based on observable market inputs.

The fair value measurement of all marketable financial investments of the Company (excluding non-marketable debt assets) that are designated at fair value through profit or loss represent Level 1. The fair value measurement of non-marketable debt assets of the Company that are measured at amortized cost and for which fair value is presented for disclosure purposes only (see d(2) below) represent Level 2.

Pursuant to the stated above, during the 3-month period ended March 31, 2019, no transfers were made between the various levels of the fair value hierarchy.

B. The fair value of financial assets and financial liabilities:

- The carrying amount of cash and cash equivalents, premiums collectible, accounts receivable, and accounts payable are equal to or approximate their fair value.
- For details on the fair value of financial investments, see c. below.

C. Composition of financial investments:

	March 31, 2020 (unaudited)		
	Measured at fair value through profit or loss	Loans and receivables	Total
	NIS thousands		
Marketable debt instruments (1)	**1,675,113**	**-**	**1,675,113**
Non-marketable debt instruments (2)	**-**	**83,809**	**83,809**
Other (3)	**78,045**	**-**	**78,045**
Total	**1,753,158**	**83,809**	**1,836,967**

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

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

	March 31, 2019 (unaudited)		
	Measured at fair value through profit or loss	Loans and receivables	Total
		NIS thousands	
Marketable debt instruments (1)	1,772,259	-	1,772,259
Non-marketable debt instruments (2)	-	72,204	72,204
Other (3)	82,402	-	82,402
Total	1,854,661	72,204	1,926,865

	December 31, 2019 (audited)		
	Measured at fair value through profit or loss	Loans and receivables	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

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

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

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

	March 31, 2020 (unaudited)	
	Carrying amount	Amortized cost
	NIS thousands	
Government bonds	**645,406**	**639,012**
Other debt assets:		
Other non-convertible debt assets	**1,029,707**	**1,087,806**
Total marketable debt assets	**1,675,113**	**1,726,818**

	March 31, 2019 (unaudited)	
	Carrying amount	Amortized Cost
	NIS thousands	
Government bonds	627,962	619,695
Other debt assets:		
Other non-convertible debt assets	1,144,297	1,120,745
Total marketable debt assets	1,772,259	1,740,440

	December 31, 2019 (audited)	
	Carrying Amount	Amortized Cost
	NIS thousands	
Government bonds	680,128	661,160
Other debt assets:		
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

	March 31, 2020 (unaudited)	
	Carrying amount	Fair value
	NIS thousands	
Bank deposits	**868**	**1,051**
Presented at amortized cost, except bank deposits	**82,941**	**83,463**
Total non-marketable debt assets	**83,809**	**84,514**

	March 31, 2019 (unaudited)	
	Carrying amount	Fair value
	NIS thousands	
Bank deposits	991	1,272
Presented at amortized cost, except bank deposits	71,213	72,268
Total non-marketable debt assets	72,204	73,540

	December 31, 2019 (audited)	
	Carrying amount	Fair value
	NIS thousands	
Bank deposits	1,046	1,303
Presented at amortized cost, except bank deposits	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):

	March 31, 2020 (unaudited)	
	Carrying amount	Fair value
	NIS thousands	
Marketable financial investments	**78,045**	**97,746**

	March 31, 2019 (unaudited)	
	Carrying amount	Fair value
	NIS thousands	
Marketable financial investments	82,402	83,648

	December 31, 2019 (audited)	
	Carrying amount	Fair value
	NIS thousands	
Marketable financial investments	99,737	97,746

Note 7 - Contingent Liabilities:

There is general exposure, which cannot be estimated or quantified, stemming, inter alia, from the complexity of the services provided by the Company to its policyholders and the frequent regulatory changes. These arrangements are complex and include, among other things, the potential for claims relating to a long list of commercial and regulatory conditions. It is not possible to anticipate the types of claims and interpretations raised in this area and the exposure deriving from these and other claims. In addition, there is general exposure, arising from the fact that complaints are filed against the Company from time to time to various authorities, such as Supervision, regarding the rights of policyholders under insurance and/or the law. These complaints are handled regularly by those responsible for public inquiries at the Company. The decisions of the authorities in these complaints, if and when they are decided, are sometimes given as cross-sector decisions. Occasionally, the plaintiffs even threaten to take legal action with respect to their complaint, including in the framework of a petition to certify them as a class action. In these preliminary stages, it is not possible to assess how these procedures will develop and therefore it is not possible to assess the potential exposure to them or the very initiation of such proceedings. Therefore, no provision was included in respect of the aforesaid exposure.

Management believes, based on the opinion of its legal counsel as to the chances of such proceedings, that the financial statements include adequate provisions, where necessary, to cover damages from such claims. The total provision included in the financial statements is immaterial.

Note 7 - Contingent Liabilities (cont'd):

A. Motions to certify class actions:

1. On June 9, 2016, a petition for the certification of a class action was filed against the Company. The plaintiff alleges that the Company has not paid salary and social benefits as required by law. The total amount of the class action, as estimated in the petition, is NIS 9,769 thousand.

   The Company's response to the petition to certify the claim as a class action was filed on January 1, 2017. The petitioners filed a response to the Company's response on June 1, 2017, this alongside a request for discovery of documents. On October 1, 2017, the Company filed its response to the request for discovery of documents.

   On February 12, 2018, a pretrial hearing was held in the case.

   Recently, the petitioners filed a motion, with the consent of the Company, for the stay of proceedings pending a ruling on an appeal that was filed with the High Court of Justice regarding a ruling by the National Court in another case on the issue of overtime. On July 15, 2018, the court approved the stay of proceedings pending the ruling by the High Court of Justice. A ruling has not yet been issued.

   In the opinion of management of the Company, at present, in view of the aforementioned ruling by the National Court, the chances of the motion being certified are low.

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

   The plaintiffs allege overcharging of the policyholders and breach the enhanced obligations of the insurance companies towards their policyholders, 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 amount of the claim for all class members in relation to the respondent is estimated at NIS 12,250 thousand. The amount of personal damage claimed from 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 question in the matter. On July 18, 2019, the court accepted the parties’ joint motion for a procedural arrangement. Evidentiary hearings took place in the period from December 2019 to March 2020. On March 12, 2020, seven more evidentiary hearings in the case have been scheduled for the period from May 2020 to November 2020.

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

Note 7 - Contingent Liabilities (cont'd):

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

3. On April 27, 2017, a petition to certify a claim as a class action was filed against the Company and two additional insurance companies. The claimants claim that the insurance companies overcharged credit fees of policyholders who had paid the premium in installments, using interest rates that exceed the interest rates permitted by law and/or presented in the policies. Allegedly, the Company caused estimated damage in the amount of NIS 20,879 thousand over 7 years.

   The final date for the submission of the response to the certification petition was extended, to allow consideration of settlement in the case. As part of the understandings, an auditor was appointed on behalf of the plaintiffs, who has examined and confirmed the volumes of exposure declared by the Company. The parties are currently negotiating a settlement on the basis of the declared volumes of exposure.

   The parties reached a compromise that was submitted to the court for approval. According to the arrangement, 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 submitted a notice of their intention to file an objection and a request for instructions in relation to both compromise agreements. Additionally, the court is awaiting the issue of the Attorney General’s position.

   Since the compromise is based on compromises previously approved by the court in relation to similar motions against other insurance companies, management of the Company 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 the Company's management, which is based on the opinion of its legal counsel, this claim will not have a material effect on the financial statements.

4. On September 14, 2017, a petition to certify a claim as 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 determined by a judicial authority, thereby violating Section 5(b) of the Adjudication of Interest and Linkage Law, 1961 ("the Law"). To their position, the Law determines that, where a debtor is in arrears, the linkage differentials, the ordinary interest rate and the interest on arrears should be added to the amount of the debt, starting from the date on which the amount was payable by the debtor 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 (cont'd):

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

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. A first mediation session was held on June 26, 2019 and the mediation is still in progress. Recently, on March 15, 2020, the parties submitted a notification of the scheduling of another mediation session. The parties have also been required to submit an update concerning the mediation proceeding by May 17, 2020. On May 17, 2020, the parties submitted an additional update, pursuant to which a further mediation session has been scheduled with the mediator for June 3, 2020. Additionally, the parties requested the court to submit another update on the mediation proceeding by June 17, 2020. The court accepted the requested on the same day.

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

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

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

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

On November 13, 2018, a 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. Evidentiary hearings in the case have been scheduled for June 2020.

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 3, 2019, a claim and a petition to certify it as a class action were filed against the Company and one of its service providers. The petition alleges that the Company and its service provider do not provide road services to its customers in the areas of Judea and Samaria, this allegedly in discrimination of its customers and in breach of contract. In the petition, the petitioner estimates the amount claimed for all class members at NIS 6,503 thousand.

Note 7 - Contingent Liabilities (cont'd):

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

6. (cont’d)

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.

The pre-trial hearing has been scheduled for June 11, 2020.

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

7. On June 17, 2019, a claim and a petition to certify it as a class action were filed against the Company, alleging the unlawful charging of linkage differences from the policy holders by the respondent and the breach of its duties to policy holders under home insurance premium payments 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 is required to submit a response to the certification petition by November 17, 2019. The petitioner is required to submit its response to the response to the certification petition by December 17, 2019. A pretrial hearing was scheduled for January 1, 2020.

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, and 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 submitted a document backed by an affidavit. To the date of this report, a ruling has yet to be issued on the petition for withdrawal. The pre-trial hearing scheduled for April 22, 2020 has been postponed.

On May 14, 2020, the court ruled against the petition 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 has been scheduled for October 14, 2020.

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

Note 7 - Contingent Liabilities (cont'd):

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

8. On December 31, 2019, a claim and a petition to certify it as a class action were 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.

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

9. On January 22, 2020, a claim and a petition to certify it as a class action were filed against the Company and 3 other companies. The claim alleges that the Company does not provide original window-panes with Israeli accreditation to policyholders as stipulated in the terms of service concerning window-panes.

   On March 23, 2020, the petitioners submitted a notification, specifying the details of the amendment request 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.

   On April 30, 2020, the petitioners submitted an amended certification petition. The respondent is required to submit a response to the certification petition by September 24, 2020. The petitioners are required to submit a response by November 2, 2020.

   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 claim and a petition to certify it as a class action were filed against the Company and 11 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 total amount claimed for all class members in relation to the Company is estimated at NIS 47 million.

    The respondents are required to submit a response to the certification petition by September 24, 2020. The petitioners are required to submit a response to the response to the petition by November 2, 2020.

Note 7 - Contingent Liabilities (cont'd):

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

10. (cont’d)

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 are in progress 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.

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.

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 19, 2020, a claim and a petition to certify it as a class action were filed against the Company and 12 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) 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 million.

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.

Note 7 - Contingent Liabilities (cont'd):

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

11. (cont'd)

The respondents are required to submit a response to the petition by November 1, 2020. The petitioners are required to submit a response to the response to the petition by December 1, 2020. A pre-trial hearing has been scheduled for December 23, 2020.

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.

12. 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 million.

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.

Pending petitions to certify claims as class actions:	**Number of claims**	**Amount claimed (NIS thousands)**
Amount of claim specified	10	182,025
Amount of claim not specified	2	-
Total	12	182,025

B. Claims resolved during the reported period:

1. On May 1, 2018, a claim and a petition to certify it as a class action were filed against the Company. These allege that the Company automatically renews home insurance policies under 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 the class members is NIS 2,500 thousand.

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

Note 8 - Material Events After the Date of the Financial Statements

For information on the progress of the Coronavirus Event and its impact on the business of the Company, see Note 1c above.

Report on the Economic Solvency Ratio of

AIG Israel Insurance Company Ltd

As at 31.12.2019

Table of Contents

Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 61006, Israel
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May 2020

For the attention of:
The Board of Directors of
AIG Israel Insurance Company Ltd

Re: Examination of the implementation of certain directives of the Commissioner of the Capital, Insurance and Savings Market regarding the Economic Solvency (based on Solvency II) of AIG Israel Insurance Company as at 31st December 2018

We have examined the Solvency Capital Requirement ("SCR") and the Economic Capital of AIG Israel Insurance Company Ltd as at 31st December 2019 ("the information"), which is attached hereto and marked with our office's stamp for identification. The Board of Directors and Management are responsible for the preparation and presentation of the information, prepared in accordance with the directives of the Commissioner of the Capital, Insurance and Savings Market (hereinafter - "the Commissioner") regarding the economic solvency of an insurance company, based on Solvency II (hereinafter – "the Directives"), as included in Commissioner's Circular 2017-1-9 of 1st July 2017. The calculations, forecasts and assumptions that served as the basis for preparing the information are the responsibility of the Board of Directors and Management.

Our examination was carried out in accordance with International Standard for Assurance Engagements ISAE 3400 - The Examination of Prospective Financial Information.

Based on an examination of the evidence supporting the calculations, forecasts and assumptions, as mentioned below, which were used by the company's Board of Directors and Management in preparing the information, nothing has come to our attention that causes us to believe that the forecasts and assumptions as a whole are not a reasonable basis for the information, in accordance with the Directives. In addition, in our opinion, the information, including the method of determining the assumptions and the forecasts, were prepared, in all material respects, in accordance with the Directives, and presented, in all material respects, in accordance with the Directives.

It should be emphasized that the forecasts and assumptions are based mainly on past experience as can be derived from actuarial studies which are conducted from time to time. In view of the reforms in the capital, insurance and savings market and changes in the economic environment, past data do not necessarily reflect the future results. The information is sometimes based on assumptions regarding future events and management actions that will not necessarily materialize or will materialize differently than the assumptions that served as the basis for the information. In addition, the actual results may differ materially from the information, since the conjunction of scenarios may materialize in a manner materially different from the assumptions in the information.

Without qualifying our opinion, we draw attention to note 31 of the company's Financial Statements regarding exposure to contingent liabilities and uncertainty as a result of regulatory changes, whose effect on the solvency ratio cannot be assessed.

Sincerely,

KPMG Somekh Chaikin

A. BACKGROUND AND SCOPE OF DISCLOSURE

On 3rd December 2017, the Commissioner of the Capital Market, Insurance and Savings ("the Commissioner") published Insurance Circular 2017-1-20 regarding the structure of the required disclosure in the periodic reports and on the websites of insurance companies on the subject of an economic solvency regime, based on Solvency II. On 26th June 2019, the Commissioner published an update to the provisions of this circular (Insurance Circular 2019-1-8). The updated circular added qualitative disclosures to the Report on the Economic Solvency Ratio. The circular with its updates shall be referred to hereinafter as the "Disclosure circular".

The company hereby publishes its Report on the Economic Solvency Ratio as at 31st December 2018. This report was prepared in accordance with the rules and principles prescribed by the Commissioner in a circular dated 1st June 2017 (Insurance Circular 2017-1-9) ("the Solvency Circular" or the "Directive") which deals with instructions for implementing the economic solvency regime at an insurance company, based on the European Solvency II Directive.

Under the framework of the circular, there is a requirement to hold own funds that can be used to absorb losses arising from the materialization of unexpected risks to which the company is exposed. The solvency regime, which examines the risks and standards for managing and measuring them, is based on three pillars: a quantitative first pillar, which deals with a risk-based solvency ratio; a qualitative second pillar relating to internal control processes, risk management, corporate governance and the Own Risk and Solvency Assessment process (ORSA); and a third pillar relating to the promotion of market discipline, disclosure and reporting.

It should be noted that in accordance with the provisions of the Solvency Circular, the Economic Balance Sheet (EBS) is to be calculated by assessing the value of the assets and liabilities of the insurance company, subject to the provisions of Part A of the appendix to the Solvency Circular. The calculation of the Solvency Capital Requirement (SCR) is to be based on the EBS items calculated as above, under scenarios with a probability of 1 in 200 years, taking into account the levels of correlation between the various risk factors, subject to the provisions of Part C of the appendix to the Solvency Circular. The calculation of the Eligible Own Funds is to be carried out subject to the provisions of Part B of the appendix to the Solvency Circular.

The provisions of the circular stipulate, inter alia, that during the period commencing on 30th June 2017 and ending on 31st December 2024 (the "Transition Period"), the directives regarding the Solvency Capital Requirement during the Transition Period will apply with a gradual increase of 5% per year, such that the SCR during the Transition Period as at 30th June 2017, shall be no less than 60% of the SCR according to the appendix to the circular, and the SCR of an insurance company calculated on 31st December 2024 and thereafter, shall be no less than the full SCR.

On 7th August 2018, directives were published regarding the required timing for reporting and publication of the results of the Economic Solvency Ratio, as published in the Disclosure Circular. The Circular also includes instructions on the structure of the Economic Solvency Ratio report, its approval by the appropriate parties within the company, its audit by the company's auditor, and the disclosure requirements regarding it.

The company's auditor carried out the first audit in 2019 in accordance with the ISAE 3400 standard, and in July 2019 the company received the Commissioner's confirmation that an audit had been carried out over the implementation of Solvency Regulations in accordance with the Solvency Disclosure Circular and, as a result, the old capital regulations regarding "Minimum Required Own Funds" do not apply to the company, and it has fully transitioned to the Solvency II regime.

In March 2020, a letter was sent by the Commissioner to the insurance companies regarding the authority's intention to act to adapt the Israeli economic solvency regime to the provisions of Directive EC/2009/138 ("the Directive"), i.e. according to the standard adopted by the EU. The letter stated, inter alia, the main milestones for making the necessary adjustments to the directive and instructions regarding reporting requirements in the near future regarding the economic solvency regime, including that the insurance companies are exempt from calculating, publishing and reporting the Economic Solvency Ratio as of 30th June 2019 and may postpone the publication and reporting of the results of the Economic Solvency Ratio as of 31st December 2019, until 31st August 2020. In this context, it should be noted that the Company chose to publish and report its Economic Solvency Ratio report as of 31st December 2019 on the original date and not utilize the aforementioned postponement to 31st August 2020.

Few days after the said letter was issued, a written request was sent to the insurance companies by the authority regarding the submission of indicative economic solvency ratio calculations as of 31st December 2019, in accordance with the instructions of the Solvency Circular, as well as an estimation of the current solvency ratio, in accordance with the draft changes in the Solvency Circular (see below), both by 31st May 2020.

In March and April 2020, the Commissioner published draft updates to the Consolidated Circular on the implementation of an economic solvency regime, based on Solvency II. These drafts include recommendations regarding, inter alia, transitional measures for the gradual increase of liabilities (with the approval of the regulator and in accordance with its conditions); recognition of deferred tax assets in the scenario (with the approval of the regulator and in accordance with its conditions); and an update of the provisions regarding non-compliance with the required solvency ratio in various circumstances, inasmuch as they materially adversely affect the solvency ratio of a number of insurance companies that cumulatively hold significant market share in a particular insurance line, including an unexpected and sharp fall in financial markets, a continuing low interest rate environment or a catastrophic event.

Clarification regarding forward-looking information in this report

The data included in this Economic Solvency Ratio report, including the Eligible Own Funds and the Solvency Capital Requirement, are based, inter alia, on forecasts, assessments and estimates of future events whose materialization is uncertain and is not under the Company's control, and should be considered "forward-looking information" as defined in Section 32A of the Securities Law, 1968. Actual results may differ from those expressed in this Economic Solvency Ratio report, as a result of these forecasts, assessments and estimates (wholly or partially) not materializing or materializing differently than anticipated. This relates to, inter alia, actuarial assumptions (including mortality, morbidity, recovery, lapse, expense and underwriting profit rates), risk-free interest rates, capital market returns, future revenues, and losses arising from catastrophic scenarios.

The Best Estimate has been calculated in accordance with the methodology, rules and principles established in the Solvency Circular. The assumptions in the model are based on "Best Estimate Assumptions", i.e. assumptions that are the result of projecting the existing experience forwards, within the environment in which the insurance companies operate, and without using prudent factors.

Naturally, as stated above, since these are long-term future estimates, the actual results are expected to differ from those estimated when calculating the Best Estimate liability.

Deviations in the following parameters can have a material effect on the outcome:

1. Economic factors (e.g. discounting interest rate, yields).
2. Demographic factors (e.g. changes in mortality and morbidity).
3. Legislation and legislative arrangements on relevant subjects.
4. Contingent liabilities.
5. Taxation.
6. Changes in the business environment.

Future results, which deviate from the estimates made on the basis of "Best Estimate Assumptions" are natural and are expected to occur, even if there is no change in the parameters mentioned above. Therefore, it is expected that the actual results each year will differ from those predicted by the Best Estimate model, if only due to ordinary random fluctuations.

In recent years, many reforms have taken place in the insurance and health fields that have influenced and are influencing the assessment and calculation of the Best Estimate. There is uncertainty as to the expected effect of the legislative reforms, taking into account, inter alia, the fact that some of the reforms have not yet been completed or have not been implemented, and that the implementation of some of the reforms in practice may be different from the manner foreseen, and depends on various uncertain parameters, including the competitive environment, preferences of policyholders and members and the behavior of competitors and distributors. Therefore, the calculation of the Best Estimate liability does not take into account the possible future implications of these reforms.

B. DEFINITIONS

Best Estimate (BE): The probability-weighted average (Expected Value) of the cash flows that are required to repay the insurance liabilities during the entire period of their existence, discounted at the adjusted risk-free interest rate, taking into account all positive and negative cash flows.

Health Insurance Similar to Life Techniques (Health-SLT): Health insurance that is managed in a manner similar to life insurance, which includes the covers specified in Table 3 in Section 6 of Part A of the Solvency Circular Appendix regarding health insurance.

Health Insurance Not Similar to Life Techniques (Health NSLT): Health insurance that is managed in a manner similar to general insurance, which includes the covers listed in categories 1 and 2 in Section 6 of Part A of the Solvency Circular appendix.

Basic Solvency Capital Requirements (BSCR): The capital an insurance company is required to hold in order to maintain solvency, calculated according to the directives of the economic solvency regime, without taking into account the capital requirement for operational risk, adjustments for the loss-absorbing capacity of deferred taxes and the capital requirement for management companies.

Solvency Capital Requirement (SCR): The capital an insurance company is required to hold in order to maintain solvency, calculated according to the provisions contained in Chapter 2 Part C of the Circular appendix.

Own funds: The total of Tier I and Tier II capital of an insurance company, in accordance with Part B of the Circular appendix.

Basic Tier I capital: The total of all items listed in paragraph 1) below, less the items listed in paragraph 2) below:

1) Surplus of assets over liabilities, valued according to the provisions in Part A of the appendix, which includes the following components:
   a) Ordinary issued and paid-up share capital
   b) Share premium
   c) Retained earnings
   d) The change in the surplus of assets over liabilities arising from differences between the valuation method of assets and liabilities according to the provisions of Part A and the valuation method under Chapter 1 of Part 2 of Section 5 of the Consolidated Circular (Reconciliation Reserve).

2) Amounts deducted from basic Tier I capital:
   a) Unrecognized assets
   b) Self-investment in ordinary shares
   c) Dividends declared after the date of the report

Diversification effect between risk components: The correlation between the various risks in the model; the greater the diversification between the operating segments in the portfolio and the greater the diversification between risks, the greater the diversification effect which reduces the overall risk.

Equity Risk Scenario Adjustment: A reduced capital requirement for certain types of investments that will gradually increase until 2023, when the capital requirement for these investments reaches its full value.

Solvency Ratio: The ratio between the Own Funds of an insurance company and the Solvency Capital Requirement.

Economic Balance Sheet (EBS): An insurance company's balance sheet, in accordance with the provisions of the Circular's Part A.

Risk Margin: An amount added to the Best Estimate that reflects the total cost of capital that is expected to be required by another insurance company or reinsurer, in order to accept the insurance liabilities of an insurance company, calculated in accordance with the provisions of Part A of the Circular appendix.

Minimum Capital Requirement (MCR): The minimum capital required of an insurance company, calculated according to the provisions of Chapter 4 of Part C of the Circular appendix.

Transition Period: Under the framework of the Transition guidelines for the implementation of an economic solvency regime, between 2016 and 2024 the insurance company's required capital will gradually increase from 60% in 2016 to full compliance with the SCR (100%) in 2024.

Ultimate Forward Rate (UFR): The last forward interest rate derived from the expected long-term real interest rate and the long-term inflation expectations to which the adjusted interest rate curve converges, in accordance with the directives of the economic solvency regime.

C. CALCULATION METHODOLOGY

The directives of the economic solvency regime prescribe guidelines for calculating the Own Funds and the SCR on an economic basis. In general, in accordance with the directives of the economic solvency regime, the EBS items are calculated according to economic value, and in particular the insurance liabilities are calculated on the basis of BE of all expected future cash flows from existing businesses, without prudent margins, plus a risk margin, which reflects the total cost of capital that is expected to be required by another insurance company or reinsurer in order to accept the insurance liabilities of an insurance company, calculated on a BE basis, as defined in the directives of the economic solvency regime.

In the EBS, as a rule, intangible assets are not recognized. It is prepared on the basis of the company's financial statements. Calculation of the SCR is based on an assessment of the exposure of the economic own funds to risk components, which are prescribed in the directives of the economic solvency regime. They are: life insurance risks, health insurance risks, general insurance risks, market risks and counterparty default risks. These risk components include sub-risk components with respect to specific risks to which the insurance company is exposed. The exposure assessment of the economic own funds to each sub-risk component is carried out on the basis of a defined scenario prescribed in the guidelines.

The determination of the SCR is based on a sum of the capital requirements in respect of the risk components and the sub-risk components, as noted, taking into consideration the correlations assigned to them, less an adjustment for the loss-absorbing capacity of deferred taxes, as detailed in the directives. In addition, the calculation of the SCR includes components for the capital requirement in respect of operational risk.

It should be emphasized that the results of the models used in calculating the Eligible Own Funds and the SCR are highly sensitive to the forecasts and assumptions included therein, as well as to the manner in which the directives have been implemented. The solvency ratio is highly sensitive to market variables and other variables, and is accordingly likely to be volatile.

1. Solvency Ratio and Minimum Capital Requirement

The data have been audited in accordance with ISAE3400 – The Examination of Prospective Financial Information

A. Solvency Ratio

	As at 31st December 2019	As at 31st December 2018
	ILS, thousands	ILS, thousands
Without taking into consideration the directives for the Transition Period and the Equity Risk Scenario Adjustment:		
Own funds for the purposes of SCR – see Section 3	1,032,523	1,071,017
Solvency Capital Requirement (SCR) – see Section 4	701,972	629,586
Surplus	330,551	441,431
Solvency Ratio (%)	147%	170%
Board target for the period (%)	130%	130%
Surplus over target	119,959	252,555
Meeting milestones: taking into consideration the directives for the Transition Period and the Equity Risk Scenario Adjustment:		
Own funds for the purposes of the SCR – see Section 3	1,032,523	1,071,017
Solvency Capital Requirement (SCR) – see Section 4	523,034	438,750
Surplus	509,489	632,267

In July 2019 the company received the approval of the Commissioner of the Capital Markets Authority regarding the first audit, and is therefore no longer required to comply with the old capital requirements regime.

B. Minimum Capital Requirement (MCR)

	As at 31st December 2019	As at 31st December 2018
	ILS, Thousands	
Minimum Capital Requirement (MCR) – See Section 5.A	180,321	182,728
Own funds for the purposes of the MCR – See Section 5.B	1,032,523	1,071,017

2. Economic Balance Sheet

The measurement basis for the EBS is fair value, subject to the provisions of Part A of the appendix to the Solvency Circular.

	As at 31 December 2019		As at 31 December 2018	
	Balance Sheet according to accounting standards	**Economic Balance Sheet**	**Balance Sheet according to accounting standards**	**Economic Balance Sheet**
	ILS, thousands			
Assets:				
Intangible assets	31,722	-	35,047	-
Deferred acquisition costs	157,386	-	157,629	-
Fixed assets	37,376	10,118	11,617	11,617
Reinsurance recoverables	701,185	612,716	718,971	591,023
Accounts receivable and debit balances	220,335	203,423	234,409	204,970
Other financial investments:				
Marketable debt securities	1,796,238	1,796,238	1,731,531	1,731,531
Non-marketable debt securities	90,192	91,782	76,861	77,792
Others	99,737	99,737	77,738	77,738
Total other financial investments	**1,986,167**	**1,987,758**	**1,886,130**	**1,887,061**
Cash and other cash equivalents	57,998	57,998	87,306	87,306
Total Assets	**3,192,169**	**2,872,013**	**3,131,109**	**2,781,976**
Capital				
Basic Tier I capital	852,222	1,032,523	825,207	1,071,017
Total Capital	**852,222**	**1,032,523**	**825,207**	**1,071,017**
Liabilities:				
Liabilities for non-yield dependent insurance and investment contracts – see Section 2B	1,904,206	1,160,770	1,885,307	1,005,140
Risk margin	-	195,278	-	188,999
Net liability for deferred taxes	5,317	98,979	-	115,287
Accounts payable and credit balances	430,424	384,463	420,595	401,533
Total Liabilities	**2,339,947**	**1,839,490**	**2,305,902**	**1,710,959**
Total Capital and Liabilities	**3,192,169**	**2,872,013**	**3,131,109**	**2,781,976**

2A. INFORMATION REGARDING THE ECONOMIC BALANCE SHEET

The fair value of the assets and liabilities in the EBS was calculated in accordance with the requirements contained in the chapter on evaluation of assets and liabilities for the purposes of the financial statements, in the Consolidated Circular (the Regulatory Codex), except for items prescribed otherwise in the Solvency Circular, as follows:

Insurance Liabilities

The calculation of the insurance liabilities is based on a best estimate, based on assumptions that are mainly the result of the projection into the future of existing experience relating to past events, within the environment in which the company operates, and without using prudent factors. Calculation of the insurance liabilities was carried out in accordance with the directives of the economic solvency regime, which in general with respect to Life and Health-SLT insurance liabilities is carried out in accordance with the EV calculation methodology in Israel, and with respect to General Insurance and Health-NSLT is performed on the basis of the "best practice" methodology.

The model does not include the value of future sales, but does include an assumption regarding continued receipt of premiums in respect of existing businesses. In addition, the calculation assumes continued business activity or "going concern", for example regarding operating assumptions.

Future results that deviate from the estimates made on the basis of "BE assumptions" are natural and are likely to occur even if there is no change in the parameters underlying the calculation. In recent years, there have been many reforms that have influenced and are influencing the calculation of the BE. There is uncertainty as to the expected effect of the legislative reforms due to, inter alia, the fact that some of the reforms have recently been implemented and their effect has not yet been sufficiently clarified, some of them have not yet been completed or have not yet been implemented, and some are in various stages of preparation (including publication of drafts) but their full and precise nature is not yet clear. The actual implementation of some of the reforms may differ from the manner predicted, and depends on various uncertainties, including the competitive environment, the preferences and behavior of the policyholders, the behavior of various factors in the market (including competitors, distributors and employers) and the interactive effect of the various reforms on each other. Therefore, the BE, and accordingly the calculation of the scenarios derived from it, do not take into account the full potential implications of these reforms, rather they take them into account partially or in a manner which may not be complete and exhaustive.

Limitations and reservations in the calculation of the Best Estimate

- In general, the assumptions underlying the models were formulated mainly on the basis of studies and analyses based on the Company's experience over the past few years, which did not include extreme events. Therefore, there is a possibility of extreme scenarios, the probability of occurrence of which is very low but which the company is unable to assess, as well as the extent of the impact of these events. Such events were not taken into account in determining the assumptions underlying the models.
- Due to the lack of adequate data, the BE calculation made no assumptions regarding, and neither did the Company examine, the level of correlation between demographic and operational assumptions and assumptions relating to market conditions (e.g. the interest rate), which may materially affect the BE.
- The BE should be based on distribution assessment of the possible results. In the absence of significant statistical data to evaluate the distribution of BE for all demographic and operational factors in Life and Health-SLT insurance, the Company used realistic assumptions for each parameter in and of itself, according to the expected value of each relevant factor.

Demographic and operational assumptions

All the assumptions that have a material effect on the calculation were determined according to the Company's best measures for each demographic and operating factor, and reflect the Company's future expectations for these factors. The demographic assumptions included in the calculation were taken from internal studies conducted by the Company, if any, and conclusions drawn from professional judgment based on relevant experience and on the integration of information from external sources, such as information received from reinsurers and mortality and morbidity tables published by the authorities.

The operating assumptions (administrative and general expenses) were calculated in accordance with the results of the Company's internal pricing model used for expenses related to the relevant insurance liabilities, including: allocation of expenses to the various segments and to the various activities (production, ongoing management, investments, etc.) and assumptions regarding their future development (CPI, premiums volume, assets size, etc.).

As a rule, the assumptions for the BE are identical to the assumptions used to calculate insurance liabilities in the Company's Statutory Balance Sheet. However, the actuarial methods used to produce the BE may differ from those used for calculating Statutory Balance Sheet liabilities.

General insurance claim costs

The cost of claims in the various lines of insurance in respect of earned policies is based on the provisions in the Statutory Balance Sheet of December 2019. The estimate includes Unallocated Loss Adjustment Expenses (ULAE) and does not include a Risk Margin (RM) and other non-explicit margins which were taken into account in order to test reserve adequacy for the above-mentioned balance sheet.

In respect of the unearned portion, the cost is based on the Statutory Balance Sheet calculations, taking the unearned part of the outstanding claims (also deducted from risk margins and other non-explicit margins).

Yield and discount rate

In calculating the insurance liabilities, the future yield and the discount rate were determined according to the adjusted risk-free interest rate for Solvency II purposes calculated by the Capital Markets Authority in accordance with the directives of the economic solvency regime. This curve is based on the adjusted risk-free interest curve including a UFR assumption of 2.6%.

Risk Margin

In addition to the insurance liabilities based on the BE, a risk margin component is calculated in order to reflect the total cost of capital that is expected to be required by another insurance company or reinsurer in order to accept the insurance liabilities of the insurance company, based on the BE as defined in the directives of the economic solvency regime. The Risk Margin is based on a cost of capital of 6% and is discounted at the adjusted risk-free interest rate.

Other assets and liabilities

- Deferred acquisition costs are valued at zero.
- Other intangible assets are valued at zero, unless the company estimates that they can be sold separately, at quoted market prices in an active market.
- The fair value of marketable debt securities that are not at fair value in the financial statements is calculated on the basis of up-to-date information that exists in the financial markets. The fair value of non-marketable debt securities is calculated according to a model based on discounted cash flows, with discounting interest rates determined by a company that quotes prices and provides interest rates to institutional entities.
- Net liabilities in respect of deferred taxes are evaluated in accordance with the principles set forth in the Solvency Circular - the calculation is based on the difference between the value attributed to the assets and liabilities in the EBS and the value attributed to them for tax purposes in accordance with the directives regarding recognition, measurement and presentation of accounting standard IAS 12.
- Accounts payable and credit balances are evaluated in accordance with the principles set forth in the Solvency Circular - the balances in this item were computed in accordance with the general principles regarding the EBS, including acquisition costs of reinsurers and the Company's liabilities for employee benefits.

Solvency Capital Requirement

The SCR calculation is based on these principles:

- The company is a going concern;
- It relates to risks arising from existing businesses and from General Insurance and Health-NSLT insurance business that is expected to be signed within 12 months after the date of the report;
- With respect to existing business, it will cover only unexpected losses;
- It reflects the volume of own funds that will enable an insurance company to absorb unexpected losses and meet its liabilities to policyholders and beneficiaries on time, and constitutes a Value at Risk (VaR) of basic Tier I Capital of the Company at a 99.5% confidence level over a period of 12 months;
- Covers the following risk components: Life Insurance, Health Insurance, General Insurance, Market, Counterparty Default;
- Takes into account means and methods for mitigating risks.

The scenarios calculation is based on an assessment of the deviation from the valuation of the asset and / or liability in the EBS as the scenario materializes. In particular, for Life and Health-SLT components the scenario assessments are based on the results of BE models and accordingly are subject to the limitations and reservations described above.

Composition of eligible capital

The directives of the economic solvency regime prescribe provisions regarding the composition of the eligible capital on an economic basis, according to which the own funds will be Tier I and Tier II capital, as defined in the directives:

- Tier I capital: Basic Tier I capital – surplus of assets over liabilities, estimated according to the directives regarding the EBS that include the following components: ordinary issued and paid-up share capital, share premium, retained earnings, capital funds less capital reserves in debit, and the change in assets over liabilities deriving from differences in the manner of valuation of the assets and liabilities according to the directives (reconciliation reserve), less: unrecognized assets, self-investment in ordinary shares and dividend announced after the date of the report. Additional tier I capital (up to 20%) components are: perpetual capital notes, non-accumulative preferred shares, additional Tier I capital instruments, and complex primary capital instruments.
- Tier II capital: Tier I capital instruments not included in Tier I, Tier II capital instruments, complex secondary capital instruments, complex tertiary capital instruments, and subordinate secondary capital instruments.

The proportion of components included in Tier I capital, after amortization, shall not be less than 60% of the SCR and 80% of the MCR, at any time. The percentage of components included in Tier II capital, after amortization, shall not exceed 40% of the SCR and 20% of the MCR, at any time.

Directives during the Transition Period

The directives of the economic solvency regime prescribe a transition period in which the following guidelines are to be implemented:

- The capital requirement in respect of the equity risk sub-component, as defined in the directives, will gradually increase over a period of seven years starting from the effective date, from 22% to 30%, 39% and 49% for investment in infrastructure equity, Type 1 equity and Type 2 equity, respectively. The gradual increase will also apply to the anti-cyclical adjustment, as defined in the provisions.
- The SCR, calculated according to the transitional measure regarding the equity risk sub-component, as detailed above, will gradually increase from 60% of the SCR as per the directives, at a rate of 5% per year, up until full compliance with the SCR requirements for the calculation based on data as at 31st December 2024.
- Regarding the capital composition, it was determined that the maximum amount of Tier II capital during the Transition Period will be 50% of the SCR.

2B. COMPOSITION OF LIABILTIES FOR INSURANCE AND INVESTMENT CONTRACTS

	As at 31st December 2019		
	Best Estimate Liabilities		
	Gross	**Reinsurance recoverables**	**Net**
	ILS Thousands		
Liabilities for non-yield dependent insurance and investment contracts:			
Life and long-term health insurance (SLT) contracts	(397,785)	(11,280)	(386,505)
General and short-term heath (NSTL) insurance contracts	1,558,555	623,996	934,559
Total liabilities for non-yield dependent insurance and investment contracts	**1,160,770**	**612,716**	**548,054**
Total liabilities for insurance and investment contracts	**1,160,770**	**612,716**	**548,054**

	As at 31st December 2018		
	Best Estimate Liabilities		
	Gross	**Reinsurance recoverables**	**Net**
	ILS Thousands		
Liabilities for non-yield dependent insurance and investment contracts:			
Life and long-term health insurance (SLT) contracts	(445,899)	(8,457)	(437,442)
General and short-term heath (NSTL) insurance contracts	1,451,040	599,480	851,560
Total liabilities for non-yield dependent insurance and investment contracts	**1,005,141**	**591,023**	**414,118**
Total liabilities for insurance and investment contracts	**1,005,141**	**591,023**	**414,118**

2C. REPORT ON THE MOVEMENT IN NET BEST ESTIMATE LIABILITIES FOR LIFE AND LONG-TERM HEALTH (SLT) INSURANCE CONTRACTS

		2019	2018
		Net of reinsurance	
		ILS thousands	
Best estimate liabilities for life and long-term health (SLT) insurance contracts as at 1st January		(437,442)	(676,052)
Impact of changes to operating and demographic assumptions	(a)	50,488	187,835
Real cash flow expected to be released	(b)	98,734	108,348
Impact of deviations from operating and demographic assumptions	(c)	(1,962)	16,945
New Business	(d)	(65,298)	(79,642)
Impact of inflation	(e)	(1,328)	(5,711)
Impact of changes to economic assumptions, and deviations from economic assumptions	(f)	(29,690)	10,765
Impact of other changes	(g)	(7)	69
Best estimate liabilities for life and long-term health (SLT) insurance contracts as at 31st December		**(386,505)**	**(437,442)**

(a) Effect of changes to operating and demographic assumptions - this item includes the change in liabilities deriving from changes in the basis of the assumptions used at the end of the previous year versus the assumptions used at the end of the reporting year.

(b) Real cash flows expected to be released - this item includes the forecasted cash flow that was included in the opening balance and was expected to be released in the reported year.

(c) Effect of deviations from operating and demographic assumptions - this item includes the difference between the calculation of the best estimate of liabilities based on the updated assumptions and the actual experience during the reporting year.

(d) New business - this item includes the effect on the best estimate of liabilities as a result of the sale of new insurance contracts.

(e) Effect of inflation - this item includes the effect of inflation in the reporting year on the opening balance. This effect is mainly due to the terms of the contracts that include linkage to the CPI.

(f) Effect of changes to economic assumptions and deviations from the economic assumptions - this item includes the change in the best estimate of liabilities deriving from a change in the basis of the assumptions used at the end of the previous year versus the assumptions used at the end of the reporting year, and the difference between the calculation of the best estimate of liabilities based on the updated assumptions and the actual experience during the reporting year.

(g) Effect of other changes - this item includes other changes, including: updates to the model and the database, regulatory updates, etc.

3. Own Funds for the purposes of the SCR

As of 31st December 2019

	Tier I Capital				
	Basic Tier I Capital	Additional Tier I Capital	Tier II Capital	Total	Taking into Consideration the Directives for the Transition Period and the Equity Risk Scenario Adjustment
	ILS, thousands				
Own funds	1,032,523	-	-	1,032,523	1,032,523
Deductions from Tier I capital (a)	-			-	-
Reductions (b)		-	-	-	-
Exceedance of quantitative limits (c)		-	-	-	-
Own funds for the purposes of the SCR (d)	1,032,523	-	-	1,032,523	1,032,523
Of this - Expected Profit In Future Premiums (EPIFP) after tax	331,906			331,906	

As of 31st December 2018

	Tier I Capital				
	Basic Tier I Capital	Additional Tier I Capital	Tier II Capital	Total	Taking into Consideration the Directives for the Transition Period and the Equity Risk Scenario Adjustment
	ILS, thousands				
Own funds	1,071,017	-	-	1,071,017	1,071,017
Deductions from Tier I capital (a)	-			-	-
Reductions (b)		-	-	-	-
Exceedance of quantitative limits (c)		-	-	-	-
Own funds for the purposes of the SCR (d)	1,071,017	-	-	1,071,017	1,071,017
Of this - Expected Profit In Future Premiums (EPIFP) after tax	370,319			370,319	

(a) Deductions from tier I capital - according to the definition of "Basic Tier 1 capital" in the appendix to the Solvency Circular, these deductions include the amount of assets held against liabilities in respect of non-yield dependent insurance contracts and investment contracts contrary to the regulations regarding investment rules; the amount of self-investment in ordinary shares; and the amount of dividends announced subsequent to the date of the report and before the date of first publication of the report.

(b) Reductions – in accordance with Chapter 6 of Part B "Directives regarding the own funds of an insurance company" of the Solvency Circular.

(c) Exceedance of quantitative limits - in accordance with the directives of Chapter 2 of Part B, "Directives regarding the own funds of an insurance company" of the Solvency Circular.

(d) Composition of own funds for the purposes of the SCR:

	As at 31st December 2019	As at 31st December 2018
	ILS thousands	
Tier I Capital:		
Basic Tier I Capital	1,032,523	1,071,017
Total own funds for the purposes of the SCR	1,032,523	1,071,017

4. Solvency Capital Requirement (SCR)

	As at 31st December 2019	As at 31st December 2018
	ILS, thousands	
Basic Solvency Capital Requirement (BSCR):		
Market risk capital requirement	123,300	103,842
Counterparty default risk capital requirement	84,875	83,046
Life insurance underwriting risk capital requirement	168,380	149,702
Health insurance (NSLT+SLT) underwriting risk capital requirement	196,529	229,522
General insurance underwriting risk capital requirement	578,684	521,360
Total	**1,151,767**	**1,087,472**
Diversification impact between risk components	(397,573)	(386,129)
Total Basic Solvency Capital Requirement (BSCR)	**754,194**	**701,343**
Operational risk capital requirement	46,757	45,530
Adjustment for loss-absorbing capacity of deferred taxes	(98,979)	(115,287)
Total Solvency Capital Requirement (SCR)	**701,972**	**629,586**
Total Solvency Capital Requirement (SCR) taking into consideration the Equity Risk Scenario Adjustment	**697,379**	**626,786**
Total Solvency Capital Requirement (SCR) taking into consideration directives for the Transition Period (75% and 70% of the full SCR, respectively) and the Equity Risk Scenario Adjustment	**523,034**	**438,750**

5. Minimum Capital Requirement (MCR)

A. Minimum Capital Requirement (MCR)

	As at 31st December 2019	As at 31st December 2018
	ILS, thousands	
MCR in accordance with the formula	180,321	182,728
Lower bound (25% of the Transition Period SCR)	130,759	109,688
Upper bound (45% of the Transition Period SCR)	235,365	197,438
MCR	180,321	182,728

B. Own funds for the purposes of the MCR

	As at 31st December 2019		
	Tier I Capital	Tier II Capital	Total
		ILS thousands	
Own funds for the purposes of the SCR in accordance with Section 3	1,032,523	-	1,032,523
Exceedance of quantitative limits for the MCR (*)		-	-
Own funds for the purposes of the MCR	1,032,523	-	1,032,523

	As at 31st December 2018		
	Tier I Capital	Tier II Capital	Total
		ILS thousands	
Own funds for the purposes of the SCR in accordance with Section 4	1,071,017	-	1,071,017
Exceedance of quantitative limits for the MCR (*)		-	-
Own funds for the purposes of the MCR	1,071,017	-	1,071,017

(*) In accordance with the directives of Chapter 3 of Part B "Directives regarding the own funds of an insurance company" in the Solvency Circular, Tier II capital may not exceed 20% of the MCR.

Dated: 26th May 2020

Ralph Mucerino	Yfat Reiter	David Rothstein	Olivia Zohar
Chairman of the Board	**CEO**	**CFO**	**VP Risk Management**