AIG Israel Insurance Company Ltd

Financial Report for Year Ended 2019

Contents

- **Chapter A:** Description of corporate business
- **Chapter B:** Directors' Report of Company's Business
  SOX Declarations
- **Chapter C:** Financial Statements
- **Chapter D:** Additional Information
- **Chapter E:** Actuaries' Declarations

Chapter A: Description of the Company's Business
For the year ended December 31, 2019

AIG Israel Insurance Company Ltd
Private Company No. 51-230488-2
("The Company)

March 24, 2020

Description of corporate business for the year ended December 31, 2019

This report constitutes a description of the Company's business as of December 31, 2019 and reviews the Company and the development of its business as occurred in 2019 ("**the reported period**"). The information in this report as updated as of December 31, 2019 ("**the report date**"), unless otherwise is explicitly indicated.

The Company is an insurer as this term is defined in the Supervision of Financial Services Law (Insurance), 1981 ("**the Supervision Law**"). Therefore, this report is prepared according to the guidance issued by the Commissioner of the Capital Market, Insurance and Savings Authority ("**the Commissioner**" and "**the Authority**", respectively).

Forward-looking information

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

The financial information included in this report is reported amounts. All information in this report are in thousands NIS unless otherwise is indicated.

The business of the Company is in fields that require considerable professional knowhow that involves many professional terms that are essential for understanding the business of the Company. To present a description of the corporation that is as clear as possible, those professional terms are used along with an explanation, to the extent possible. The description in this report on insurance products and coverage types is for the purpose of this report only and may not serve for the interpretation of the products and coverage, and the full and binding terms in the insurance programs.

Please read the all parts of this periodic report as one unit.

Table of Contents:

1. Part A: Company activity and development of its business
   1.1 Company activity and development of its business
   1.2 Operating segments
   1.3 Investment in Company equity and transaction in its own shares
   1.4 Dividend distribution

2. Part B – Description and information about the Company's operating segments
   2.1 Operating segment A – Vehicle property insurance
      2.1.1Products and services
      2.1.2 Competition
      2.1.3 Customers

   2.2 Operating Segment B – Compulsory vehicle insurance
      2.2.1Products and services
      2.2.2 Competition
      2.2.3 Customers

   2.3 Operating segment C - Home insurance
      2.3.1Products and services
      2.3.2 Competition
      2.3.3 Customers

   2.4 Operating segment D - Commercial insurance
      2.4.1Products and services
      2.4.2 Competition
      2.4.3 Customers

   2.5 Operating segment E – Health insurance
      2.5.1Products and services
      2.5.2 Competition
      2.5.3 Customers

2.6 Operating segment F – Life insurance
2.6.1Products and services
2.6.2 Competition
2.6.3 Customers

3. Part C – Additional Information about general sectors that are not included in the operating segments

4. Part D – Additional Cross-Company Information
4.1 Restriction and supervision applicable to the activity of the Company
4.2 entry and exit barriers
4.3 Key success criteria
4.4 Investments
4.5 Reinsurance
4.6 Human capital
4.7 Marketing and distribution
4.8 Suppliers and service providers
4.9 Fixed assets
4.10 Seasonal
4.11 Intangible asset
4.12 Risk factors
4.13 Material agreements and cooperation agreements
4.14 Other forecast and assessments on the business of the Company

5. Part E – Corporate governance information
5.1 Information about independent directors
5.2 Internal auditor
5.3 Independent auditors
5.4 Effectiveness of internal controls and the procedures over financial reporting and disclosure of the Company
5.5 Preparation to implement Solvency II

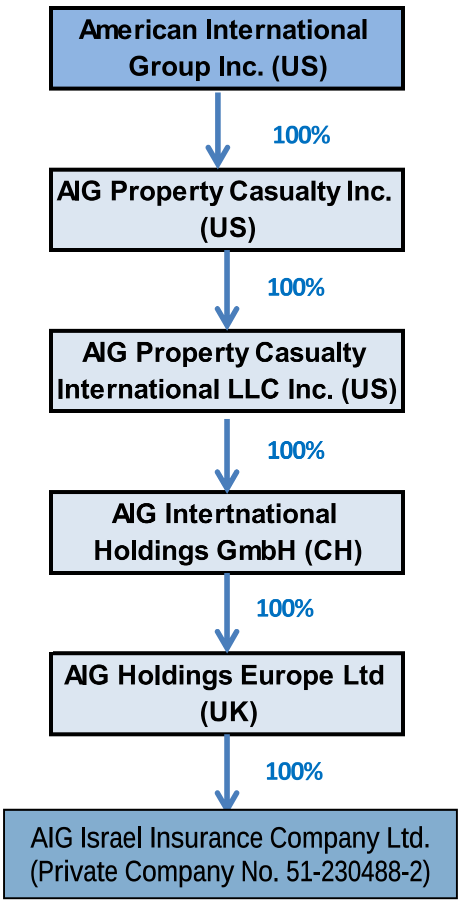
1. Part A: the activity of the Company and the development of its business

1.1 The activity of the Company and the development of its business

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

The ultimate parent of the Company is American International Group Inc. ("**the global AIG corporation**" or "**AIG**"). The global AIG corporation is a leading global insurance and finance services corporation, rated BBB+ as of report date by Standard & Poor's.

The sole shareholder of the Company is AIG Europe Holdings Limited ("**AEHL**"), which holds the entire issued and paid up share capital of the Company. AHEL is a company in the AIG Global Corporation.
The following 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, health insurance (personal injury, serious illness and overseas travel coverage), commercial insurance (property loss, business comprehensive insurance, engineering insurance, employers' liability insurance, third-party liability insurance and product liability insurance), cargo in transit insurance, other risk insurance (limited to crime and fraud damages), comprehensive life insurance, and foreign business insurance for different insurance types.

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

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

AIG

1.2 Areas of activity

Most activity of the Company is to retail customers. The main activities of the Company and their general characteristics are as follows:

1.2.1 General insurance - vehicle property

General

The Company began its activity in this segment in 1997. Vehicle property insurance is also known as comprehensive vehicle insurance or "third-party insurance" and is voluntary. Vehicle property insurance is included in the general insurance business and is focused on property damage to vehicles of the customer and those caused to a third-party property.

The format of a vehicle property insurance policy is subject to the standard policy terms in the Insurance Business Supervision Regulations (Terms of Private Vehicle Insurance Contract), 1986 ("**the standard policy**").

The standard policy include coverage against loss or damage caused to the insured vehicle as a result of the following risks: fire, thunderbolt, explosion, accidental collision, capsizing, accident of any type, theft and any damage caused by theft, while theft or attempted theft was occurring; flood; storm; snow; volcano eruption; deliberate damage; and liability coverage to third party due to property damages.

The language of the standard policy is mandatory, and it is only possible to extend its coverage in terms of scope, risks, and covered property and persons.

Vehicle property insurance is divided into two main categories:

a. Insurance to private vehicles of up to 3.5 ton – Vehicles in this category are insured under the standard policy.
b. Insurance to vehicles of more than 3.5 tons – the policy for vehicles in this category is not subject to the terms in the standard policy.

Differential rates

Insurance rates are actuarially calculated and differential (variable and risk-adjusted), subject to approval by the Commissioner. The rate is determined based on a number of factors, including: vehicle model, engine size, production year, number of drivers, age and gender, years of driving experience, claim history, etc.

Reserves

The computation of general insurance reserves is based on the Supervision of Financial Services Regulations (Insurance) (Computation of General Insurance Reserves), 2013 ("**the Computation of General Insurance Reserves Regulations**"), the provisions of which have been assimilated in the “Equity, Measurement and Management of Assets and Liabilities” chapter of the Regulation Codex. This chapter includes, among others, guidelines for measurement of liabilities in life, general and health insurance. It also includes, among others, provisions regarding insurance reserves, best practice for calculation of general insurance reserves for financial reporting purposes, aggregation of segments, determining the amounts of reserves in respect of policies sold close to balance sheet date and in respect of risks arising subsequent to balance sheet date.

1.2.2 **General insurance - compulsory vehicle sector**

General

The Company began its activity in this segment in 1997. Compulsory vehicle insurance, also known in Israel as compulsory insurance is mandatory. The Motor Vehicle Insurance Ordinance (New Version), 1970 ("**the Motor Vehicle Ordinance**") obligate a vehicle user or anyone who permits another person to use a vehicle to purchase compulsory insurance for bodily injuries only that may be inflicted to the driver and/or passengers and/or pedestrians hit by the insured vehicle. The Motor Vehicle Ordinance states, among other things, that no person can use, or cause or allow another person to use a motor vehicle unless an insurance policy in effect exists in the name of his name or the other person's name.

The format of a compulsory vehicle policy is subject to the terms of the standard policy that are present in the Financial Services Supervision Regulations (Insurance) (Terms of Motor Vehicle Compulsory Insurance Contract), 2010 ("**compulsory vehicle standard policy**").

The compulsory vehicle standard policy covers, under the Motor Vehicle Ordinance, the owner of the vehicle and driver for liabilities they may face under the Compensation to Victims of Road Accidents Law, 1975 (CVRAL). CVRAL states that the user/driver of a motor vehicle must compensate a victim for a bodily harm caused to him/her in an accident in which the vehicle is involved and also sets a liability that is absolute and complete, independent of guilt.

Differential rates – information and supervision

A database of compulsory vehicle insurance rates is maintained for information and is authorized by law to collect information about that segment. Under the Motor Vehicle Insurance Regulations (Creation and Management of Databases), 2004, insurance companies are legally obligated to transfer to the database information about drivers of insured vehicles, as defined by the Commissioner, as well as premium rates, payments and pending claims in scale and dates specified in those regulations.

The Commissioner gave a franchise to a service provider to manage that database, to issue reports that will be used, among other things, to assess the risks in the compulsory vehicle insurance sector and determine the cost of pure risk that underlies the rate. The reports of the franchise holder serve as basis for the rate that is then used by the Commissioner as reference to test compulsory insurance rates.

The Commissioner sets the principles for determining compulsory vehicle insurance rates and regulates them through circulars that he issues from time to time. Those circulars specify the factors that an insurance company can use for determining premiums, the procedures that insurers need to comply with to approve premiums, maximum rates per customer and the process for approval by the Commissioner.

The factors for differential rate determination include, among other things engine size; sex, age of the youngest driver expected to drive the vehicle; years of driving experience of the youngest driver who is expected to drive the vehicle; number of past bodily damage claims and/or number of license suspensions in the previous three years of all drivers who are expected to use the vehicle; airbags installed; and the according systems installed: ESP, ABS, FCW and LDW.

Insurance companies may determine the premium using the risk premium and risk classification criteria set by the information and regulation rate database to align premiums to the covered risk.

Residual insurance ("**the Pool**")

The Israeli Vehicle Insurance Pool is an entity that insures the risks of vehicles that are rejected by compulsory vehicle insurers (residual insurance). This arrangement is provided by Motor Vehicle Insurance Regulations (Residual Insurance Arrangements and Mechanism for Setting Rate), 2001 ("**the Pool Regulations**"). The Pool operates as an ordinary insurance company and its rates are competitive relative to other insurers in the market. All insurance companies active in compulsory vehicle insurance are partners in the Pool, and each bears losses and gains from its income proportionally to its share in the compulsory vehicle insurance market. The share of the Company in residual insurance was 3.1% in 2017; 2.3% in 2018; and 3.2% in 2019.

The Road Accident Victims Compensation Fund ("**Karnit**")

Karnit is a corporation created under the CVRAL and is tasked with compensating victims who are eligible to compensation under that law and may not claim compensation from an insurer due to the following cases: the hitting driver is unknown, the hitting driver has no valid and paid compulsory vehicle insurance certificate, or the insurance does not cover the liability, the insurer of the vehicle is in liquidation or the insurer was appointed a special manager. Under the provisions of Compensation of Road Accident Victims Order (Financing of the Fund) (Amendment), 2003, insurance companies are required to transfer to Karnit 1% of net compulsory vehicle insurance premiums from policies they underwrite since that date.

In addition, according to the Road Accident Victim Compensation Order (Funding the Cost of Rendering Services), 2009, an insurer needs to give Karnit 9.4% of premium for each of the policies issued against the transfer of liability to any medical expenses included in the government healthcare funding to health funds.

Arrangements for distributing the compensation burden among insurance companies

According to CVRAL, in a multiple-vehicle accident, each driver will be liable to bodily damages caused to passengers of the vehicle which was insured through that driver.

Arrangement for a victim outside a vehicle – in case of a victim is located outside a vehicle in a multiple-vehicle accident, the drivers are liable to that person together and separately and are required to divide that burden in equal parts among them.

Car-Motorcycle arrangement – In a road accident that involves one or more motorcycles and one or more non-motorcycle vehicles, the non-motorcycle insurers to the insurers of the motorcycle 75% of bodily injury compensation that the insurers of the motorcycle are liable to pay due to the accident, except for compensation to victims outside the vehicle. The insurers of the non-motorcycle vehicle are liable together and separately towards the insurer of the motorcycle and are required to divide the liability burden among them in equal parts.

Light-heavy vehicle arrangement – According to the Road Accident Victims Compensation Order (Arrangements for Dividing the Compensation Burden Among Insurers), 2001, in the event of a road accident involving one or more heavy trucks (over 4 tons) and one or light vehicles, the insurers of the heavy must pay the insurers of the light vehicle 50% of bodily injury compensation as those defined in the CVRAL, while the insurers of the light vehicle are required to pay their liability for the accident, except a payment under the car-motorcycle arrangement or compensation payment to victims outside a vehicle. The insurers of the heavy vehicle are liable together and separately towards the insurers of the light vehicle and among themselves and are required to bear this liability in equal parts.

Subrogation claims of the National Insurance Institute of Israel

Pursuant to the National Insurance Law [Consolidated Version], 1995 (hereinafter: "**the National Insurance Law**"), in the event that the National Insurance Institute has paid an annuity to an individual who is also entitled to compensation from a wrongdoer under the Torts Ordinance or under the Victims of Road Accidents Law, the National Insurance Institute may claim from the wrongdoer compensation for the annuity that it had paid or that is payable by it. Additionally, the provisions of the National Insurance Law requires an insurance company to report to the National Insurance Institute any claim in which it has deducted or was entitled to deduct National Insurance payments of any kind, whether under a compromise agreement or a ruling, that the National Insurance Institute is entitled to demand of it.

The State Budget for 2019 prescribes, inter alia, provisions for the modification of the accounting mechanism between the National Insurance Institute and the insurance companies, among others, for the purpose of increasing the efficiency of the existing accounting arrangements between the National Insurance Institute and the insurance companies in all matters relating to the payment of compensation under the Compensation Law, while reducing the legal litigation between the parties. As part of the aforesaid modification, it was decided to amend the arrangement set forth in Section 328 (a) of the National Insurance Law regarding the settling of accounts between the National Insurance Institute and the insurance companies in respect of payment of compensation for the benefit paid or to be paid by the National Insurance Institute for Victims of Road Accidents pursuant to the Compensation Law, Coverage of their liability.

In June 2019, the Draft National Insurance Regulations (Transfer of an Annual Amount by an Insurer to the Institute for Road Accidents), 2019 was published. The aforesaid draft aims, inter alia, to determine the overall amount that insurers are required to transfer to the National Insurance Institute annually in respect of its subrogation right under Section 328A of the National Insurance Law, including the mechanism for the updating of such amount and its allocation among the insurers, as well as provisions concerning the amounts that insurers are required to transfer to the National Insurance Institute in respect of road accidents that took place in the period from January 1, 2014 to December 31, 2018 (for which a claim or a demand for payment from the National Insurance have not yet been submitted), including the schedule of such payments and their allocation among the insurers.

The subrogation amounts specified in draft regulations are higher than those provided for by the Company based on its accumulated experience. Therefore, if the draft regulations are approved in their current format without modification to the subrogation amounts for road accidents that took place in the years 2014-2018, the Company will have to increase its liabilities. Nevertheless, it should be noted that this draft has not yet come into effect and is subject to procedural hearing before the companies concerning the amount and mechanism of the payments.

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, as well as reduction of the aforementioned subrogation amounts.

Discount interest rate applicable to annuities

In June 2019, the Kaminitz Committee (an inter-ministerial committee established for the purpose of reviewing the discount interest rate applicable to compensation for personal injury under damages) published its final report. Among others, the report reexamines the National Insurance Regulations (Discounting) (Amendment), 2016, which had reduced the discount interest rate to 2%. As part of the aforesaid final report, the Committee recommended, inter alia, the reinstatement of the discount interest rate to 3%.

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

Consequently, the Company estimated the effect of the aforesaid ruling and reduced the provisions in the compulsory vehicle insurance segment for the reported year by approximately NIS 34.7 million in retention before tax. As at December 31, 2019, the balance of the provision is approximately NIS 8.9 million in retention before tax, this in respect of subrogation claims by the National Insurance Institute against the Company.

1.2.3 General insurance – home insurance

General

The Company began its activity in this sector in 1997. Comprehensive home insurance, also known as home insurance, is a key insurance product of the individual insurance business and is part of the general insurance.

The language of the home insurance policy is subject to the standard policy in Insurance Business Supervision Regulations (Terms of Insurance Contract for Homes and Their Contents), 1986 ("**the home insurance regulations**" and "**the home insurance standard policy**", respectively). The home insurance standard policy includes coverage against loss or other damages that may result from factors such as fire, lightning, smoke, explosion, wind in excess of 30 knots, including rain, snow or hail that fell at that time; aircraft crash, object falling from an aircraft and supersonic boom from an aircraft, contact or crash of a vehicle into the apartment, certain malicious actions, theft, robbery and break-in or attempt to commit them, illegal gathering and rioting, earthquake and flooding from an external source.

The standard policy is a minimum policy. Its language is binding, and it is only possible to add more coverage in terms of coverage amount, risks and the assets and liabilities covered. Rates of the standard home insurance policy are regulated and approved by the Commissioner.

1.2.4 **General insurance – commercial insurance**

General

The Company commenced its operations in this sector in 2000. The commercial insurance segment of the Company includes the following segments: professional liability insurance, cyber insurance, property loss and comprehensive insurance for businesses, third-party liability insurance, product liability insurance, employers' liability insurance and engineering insurance.

The Company manages this insurance business in three main categories:

a) Professional liability insurance

Professional liability insurance policies are designed to provide coverage to businesses and various professionals for claims filed against them for damages caused to a third party as a result of professional error or negligence. The coverage of directors or officers is for their personal liability in respect of an act or omission that they committed during their term of office. Additionally, coverage is provided for employee embezzlement damages and cyber insurance that covers damages of cyber events as defined in the policy.

In professional liability insurance, for the most part, the insurance period is one year, but the duration of claims is longer on average than property insurance. The main reasons for this are: the complexity of the factual and legal clarification, the period between the date on which the liability and the damage was formed and the date of filing the claim, and longer periods of prescription compared to the property insurance. Therefore, professional liability insurance is regarded as long tail claims.

This has two main implications:

- The impact of investment profits in respect of reserve funds and outstanding claims.
- The impact of legal precedents and court rulings on the Company's exposure in every claim and claim.

In professional liability insurance and directors & officers' liability, coverage is based on the date of filing of the claim. In other words, the coverage is given to claims that were filed during the insurance period even if the cause originated prior to the beginning of the insurance period but after the retroactive period stipulated in the policy.

b) Liabilities insurance

Liabilities insurance covers the legal liability of the customer for damage that may be caused to any third party. The main liability types marketed by the Company are: third-party liability insurance, product liability insurance, and employers' insurance.

For the most part, the period of the insurance is one year, but the time for processing the claim is on average longer than property insurance. The main determining factors are: the complexity of factual and legal procedures, the timeframe for the liability and damage and filing the claim, longer statute of limitations relative to property insurance. Therefore, liability insurance is considered to have a longer claim trail.

This has two main consequences:

- The effect of investment profits in respect of reserve funds and outstanding claims.
- The impact of legal precedents and court rulings on the Company's exposure in every claim and claim.

In some liability insurance products, such as third-party and employers' liability, coverage is event-based. That is, coverage is given to events that occurred during the insurance period and the claim can be filed after the end of the insurance period, subject to the statute of limitations in the law.

According to the Insurance Contract Law, 1981 ("**the Insurance Contract Law**"), the statute of limitations on insurance compensation is three years after the occurrence of the insured event (except for a disability claim caused by the insured as a result of illness or accident, the insured has the right to claim insurance benefits according to the policy). However, in liability insurance, claiming for compensation is not subject to statute of limitations as long as a third-party claim against the insurer is not subject to statute of limitations.

c) Property loss and engineering insurance

Property loss insurance, commercial property insurance and loss of profits and engineering insurance is intended to provide customers coverage against physical damage to property. The main insurance products marketed by the Company are: property and loss of earnings insurance, contractors' insurance and mechanical failure insurance.

The main risks covered in those policies are fire, explosion, break-in, earthquake and other natural calamities. The policy covers damages directly caused to property as well as indirect damages (loss of income, etc.) For the most part, the term of those policies is one year, and claims are processed close to the time of the insurance event, and for that, such policies are considered to have a short claim tail.

For the purpose of increasing its share in the aforementioned commercial insurance sectors, the Company builds on the expertise and financial strength of the AIG corporation, which is a global leader in this field. The Company also constantly seeks to offer suitable coverage to its customer and to develop new customized products.

1.2.5 **Health insurance**

General

The Company began its activity in the healthcare segment in 1998. Healthcare insurance in the Company includes the following sub-segments: personal injury insurance, serious illness insurance and travel insurance.

Health insurance policies are subject, among other things, to the provisions of the Insurance Contract Law, the Supervision Law and the regulations thereunder, including the Supervision of Insurance Businesses Regulations (Terms in Insurance Contract) (Provisions About Preexisting Medical Conditions), 2004, and the Financial Services Supervision Regulations (Insurance) (Collective Health Insurance), 2009 (hereafter – " Collective Health Insurance Regulations"), as well as the directives and guidance issued by the Commissioner from time to time.

The Company manages segment in three main categories:

a) Personal injury insurance

Personal injury insurance policies provide a predetermined monetary compensation to the policyholder in case of accident events under predefined coverages, such as: hospitalization, disability and death resulting from an accident. Contrary to policies in disease and hospitalization policies, which provide coverage for illness, personal injury insurance covers only the results of an accident.

b) Severe illness insurance

A policy that covers the diagnosis of severe illness as defined by the policy. Insurance benefits are paid as a lump sum in case of diagnosing a severe illness or a medical event, without the customer having to prove any expense.

c) Overseas travel insurance

A product providing insurance coverage for various expenses to people traveling overseas, for a number of risk types, such as: hospitalization and non-hospitalization medical expenses, medical flights, luggage and third-party liability. The basic product may be supplemented by purchasing expansions, such as: cancellation or curtailment of a trip due to reasons listed in the policy, property loss and/or threat, extreme and winter sports, laptop coverage, etc. It is also possible to buy coverage for special situations such as: aggravation of preexisting medical condition and coverage for pregnant women. The policy is sold online and by sales reps.

Health insurance for covering medical expenses is managed by the Company under the life insurance segment, as explained below.

1.2.6 Life insurance – risk only

General

The Company began its activity in the life insurance segment in 1999. The Company provides policies to individual customers who are interested in life insurance, including to private customers who are interested in such product, including private lenders who take housing loans.

Life insurance

Life insurance policy promises a payment of a lump sum to beneficiaries in case of death of the customer. Usually in such policies, the policy expires when the customer dies or when he/she reach a certain age. Extensions offered to such policies are total permanent disability, accident disability, accident death and critical illness insurance.

Mortgage-related life insurance

A life insurance policy provides the mortgage bank a reimbursement of outstanding loan in the event of death of the customer (the mortgage customer). Those policies can be extended to include permanent total disability.

Health insurance for covering medical expenses

Health insurance policies that cover medical expenses such as "Complementary Additional Health Insurance" and "First Shekel". Policies like "Complementary Additional Health Insurance" complement or extend the coverage and services provided under complementary health coverage of health funds, to complete the coverage that is missing due to legislation, regulations, plan terms and health fund instructions. The policies include, among other things, insurance coverage for medical expenses that are caused to the customer as a result of requiring surgery, non-government sponsored medicine, transplants and ambulatory services.

"Full coverage" policies provide coverages and services for medical expenses that were caused to the insurance customer as a result of surgery, drug that are not covered by the government (the "basket"), organ transplants and ambulatory services, regardless of complementary health insurance provided by health funds.

1.3 Investments in capital and share transactions

In 2018 and 2019, no material investments in the Company's equity and material transactions in its shares took place.

1.4 Dividend distribution

In accordance with the Company's capital management policy, which also includes its dividend payout policy, the Company has to comply with a solvency ratio of 130% under a regimen based on Solvency II, and subject to certain conditions, the Company will pay dividend above that threshold.

For additional information on the Authority's directives regarding restrictions on dividend distributions and dividends distributed by the Company to its controlling shareholder in the years 2017-2019, see Note 12 to the financial statements.

2. Part B – Description and information on operating segments of the Company

2.1 Operating segment A – Vehicle property insurance

2.1.1 Products and services

The Company sells a range of standard insurance products, including: comprehensive insurance (including against theft or accident), comprehensive insurance without theft coverage, comprehensive insurance without accident coverage and third-party insurance. On top of those standard policies, customers can buy more coverage and/or related services such as towing services, replacement car, window breakage, lights and mirrors, repair of bumpers and VIP services.

In 2019, the Company did not develop material new products and services in this segment.

For more information about the general characteristics of this segment, see 1.2.1 above.

2.1.2 **Competition**

According to the Authority's publications, 15 insurance companies are active in this segment, and the market is highly competitive. According to the financial statements for the first nine months of 2019, the main competition in this segment, by premium turnover are IDI Insurance Company Ltd ("**Direct Insurance**") (14.0%), the Phoenix Insurance Company Ltd ("**the Phoenix**") (12.0%), Menorah Insurance Company Ltd ("**Menorah**") (11.9%), Migdal Insurance Company Ltd. ("**Migdal**") (10.1%) and Harel Insurance Company Ltd. ("**Harel**") (10.1%). The market share of the Company in this segment in total premiums during that period is 4.2%.

The approach taken by the Company to address the fierce competition in this segment is using advanced pricing and actuary methods, marketing campaigns, operating excellence, service excellence, automation and digitization.

In this context, note that the insurance company service index for 2018 was published in June 2019 (hereinafter: "**the service index**"). The service index enables clients to compare between different insurance products and it is designed to increase the competition in the insurance market since it reflects the level of service provided by insurance companies by principal insurance products. For each insurance product a service index is calculated, which his based on five components: (1) payment of claims – the percentage of claims approved and paid and how quickly these claims were handled; (2) Handling clients' queries – clients' satisfaction of insurers' handling their queries; (3) Public complaints – weighting of complains which were lodged and assessed by the Capital Market Division; (4) Phone response time – ratio of calls that got responded within 3 minutes; (5) digital tools.

Data published show that the Company is ranked first in the handling of vehicle property insurance claims and third in the overall service index in the vehicle property insurance segment.

The Company believes that the continued publication of the service index will increase competition in the vehicle property sector; the Company estimates that the service index may help maintain the positioning of the Company as the lead player in this insurance sector.

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, as well as a reduction in the rating of the Company on the five components of the service index.

2.1.3 **Customers**

a. The Company sells the product mainly to individual private customers through direct marketing.

b. The following is the distribution of premiums in this segment (in thousands of NIS):

	2019	**2018**	**2017**
Direct marketing	308,523	314,025	286,218
Through insurance agents	59,960	59,562	66,271
Total	**368,483**	**373,587**	**352,489**

c. The Company is not dependent on any single customer.

d. No customer contributes 10% or more of total revenue of the Company

e. Renewals rate in 2019 in terms of premiums for policies that were in effect in the previous year is 71.4%.

f. The rate of customers who are also insured in compulsory vehicle insurance in 2019 is 91.5%.

g. The following information shows customers in vehicle property insurance in terms of premium in 2019 in percentage terms by years of first engagement:

First year of the first policy with the Company:	**%**
2019	33%
2018	21%
2017	14%
Until 2016	32%
Total	**100%**

2.2 Operating segment B – Vehicle compulsory insurance

2.2.1 Products and services

This segment has only one product – standard compulsory insurance policy. The insurance coverage under the policy includes any liability that might arise under CVRAL, other liability (non-CVRAL) that the customer may be liable for bodily damage to another person by or due to using the insured vehicle and bodily damage caused to the insured in a road accident.

As indicated above, under CVRAL, this is "total liability" coverage. Accordingly, road accident victims are entitled to compensation from the insurer of the vehicle, without a requirement to prove guilt of any of the persons involved. However, the CVRAL presents a number of limits and exceptions that revoke the right for compensation (e.g. a person who caused an accident intentionally), and limits the amounts of compensation, such that non-monetary damage compensation is limited to a fixed amount specified in CVRAL and compensation for lost income and disability income that are limited at three times the average salary in the Israeli economy.

Those claims are characterized by a long claims tail.

As indicated above, the vehicle compulsory insurance segment has only one product.
For more information about the general characteristics of this segment, see 1.2.2 above.

2.2.2 **Competition**

Most insurance companies in Israel are active in the compulsory vehicle insurance market, which results in fierce competition. More competition comes from Direct Insurance and the direct marketing arms of other insurance companies, and digital ventures. The competition is mainly reflected in lowering insurance rates to customers.

The main competitors in this sector on the basis of premiums are: Harel, S. Shlomo Insurance Company Ltd., Direct Insurance, Phoenix and Migdal. According to the data of the financial statements for the first nine months of 2019, the total share of these companies in the total gross premiums in the segment is 54.3% The share of the Company out of the total premiums in this sector was about 3.2%.

Since the insurance coverage offered by all insurance companies is identical, and since it is possible to compare the insurance rates charged by insurance companies on the website of the Commissioner, customers are very sensitive to change in insurance premiums. The approach taken by the Company to address this fierce competition in this segment is using advanced pricing and actuary methods, operating restructuring and ongoing improvement of customer service.

Data published by the Ministry of Finance show that the Company is ranked third in the overall service rating of insurance companies in the compulsory vehicle insurance segment, second in customer services and third in the handling of compulsory vehicle insurance claims.

The Company estimates that the continued annual publication of the service index will increase competition in the compulsory vehicle insurance sector and continue to maintain the positioning of the Company as a leader in the provision of insurance services to its customers in this segment.

2.2.3 **Customers**

a. The Company sells the product mainly to individual private customers through direct marketing.
b. The distribution of premium in this segment is as follows (in thousands of NIS):

	2019	2018	2017
Direct marketing	163,967	158,907	144,139
Through insurance agents	15,645	15,538	16,135
Total	**179,612**	**174,445**	**160,274**

c. The Company is not dependent on any single customer.
d. No single customer represents 10% or more from company revenue.
e. Renewals rate in 2019 in terms of premiums for policies that were in effect in the previous year is 77.7%.
f. The rate of customers who are also insured in vehicle property insurance in 2019 is 96.3%.

g. The following information shows customers in compulsory vehicle insurance in terms of premium in 2019 in percent by years of first engagement:

First year of the first policy with the Company:	%
2019	30%
2018	20%
2017	14%
Through 2016	36%
Total	**100%**

2.3 Operating segment C - Home insurance

2.3.1 Products and services

Home insurance is designed to give customers coverage for damage or loss caused to the home and/or its contents. This type of insurance includes extensions such as third-party liability and liability to home workers. As part of a home insurance it is possible to buy additional coverage and/or services such as piping and water damages, sealing and emergency services for water damage, coverage of all risks for valuables, etc.

Home insurance policies are sold to property owners who are interested to insure their home and/or contents. When the insurance is bought for mortgage purposes, the insurance covers the structure only or structure and contents, and the mortgage bank is registered as a nonrecourse beneficiary.

In 2019, the Company developed the Cyber Assist expansion to home insurance - this innovative product, which is the first and one of its kind in the Israeli insurance industry, addresses cyber risk of private customers - attacks on the home network and protection and coverage for the smart devices that are connected to it, in the event of a cyber attack. The expansion includes all devices that are connected to the home network, such as smartphones, computers, televisions, cameras and more. The product offers 3 levels of solutions for home networks and devices damaged by a cyber attack:

- "First aid" - a call center that provides support in the event of a cyber attack.
- "Cyber expert" - services rendered by cyber experts, by remote access, to reinstate the home network and mend damaged devices.
- Repair of financial compensation - for damages to the smart devices.

For more information on the general characteristics of this segment, see 1.2.3 above.

2.3.2 Competition

According to information released, 15 insurance companies are active in this segment, resulting in fierce competition. According to data in the financial statements for the first nine months of 2019, the main competitors in this segment, by premium turnover are the Phoenix (13.7%), Harel (12.8%), Clal (11.5%), Migdal (12.1%) and Menorah (10.2%). The share of the Company in the total premium turnover in the reported period is 6.3%.

Since the insurance coverage offered by all insurance companies is similar, and since the calculator on the Commissioner's website can be used to examine the insurance rates charged by insurance companies on the website of the Commissioner, customers are very sensitive to the issue of insurance premiums. The approach taken by the Company to address this competition in this segment is using advanced pricing and actuary methods, marketing campaigns, operating restructuring and ongoing improvement of customer service.

Service-Index data published by the Ministry of Finance show that the Company is ranked first in the payment of claims, second in the overall rating of home insurance services and third in customer services.

The Company believes that smart use by the insurance public population in the home insurance calculator and the continued publication of the service index annually will increase competition in the home insurance sector. The Company estimates that the service index positions the Company as a lead player in this insurance segment.

2.3.3 Customers

a. The Company sells its products in this segment mainly to private customers through direct marketing.
b. The Company is not dependent on any single customer.
c. Renewals rate in 2019 in terms of premiums for policies that were in effect in the previous year is 92.8%.
d. The following information shows customers in home insurance in terms of premium in 2019 in percent by years of first engagement:

First year of the first policy with the Company	%
2019	17%
2018	15%
2017	12%
Until 2016	56%
Total	**100%**

2.4 Operating segment D - Commercial insurance

2.4.1 Products and services

a. Professional Liability Insurance

Coverage for the liability of businesses and various professionals in respect of claims filed against them for damages caused to a third party as a result of professional error or negligence. This branch also includes directors & officers' insurance, which covers the liability of the officer under the Companies Law and other provisions of law (in Israel and abroad), as well as cyber insurance, which covers liability in respect of cyber events as defined in the policy.

b. Liability insurance

Those types of insurance contracts cover the liability of the insurance customer to damages caused to a third party. Those insurance contracts are divided into a number of segments, and the main ones are:

- Third-party liability insurance – Coverage against bodily injury or property damage caused to a third party, excluding vehicle coverage and employers' insurance. The liability covered by this insurance is for the most part pursuant to the Torts Ordinance [New Version], 1968 ("**the Torts Ordinance**").

- Defective products liability insurance – Insurance coverage against injury or damage resulting from a defect in a product that was manufactured, marketed, assembled or maintained by the customer. Such policy is pursuant to two main pieces of legislation: (1) Warranty for Defected Products Law, 1980 which imposes liability on the manufacturer (as defined by the law) and apples to bodily injury only; (2) the Torts Ordinance, which makes a manufacturer liable to bodily injuries and property damages.

- Employers' liability insurance – Covers employees from bodily injury claims (accident or illness) caused to an employee during work due to negligence of the employer. Usually, the policy covers the liability of the employer under the Torts Ordinance in any amount not covered by the Israel National Insurance Institute.

c. Property insurance, contractors, mechanical failure and electronic equipment

- Property insurance – coverage to customers in case of damage to property as a result of fire or lightning. Customers can buy additional coverage such as break-in, natural disasters, earthquake, explosion and insurance for loss income as a result of the insurance event.

- Contractors insurance – Coverage against unexpected damage to the insured assets during the construction of projects and buildings. The customer buys under the policy coverage for liability to third parties and employees as part of performing the construction works.

- Mechanical breakage – Coverage of damages caused by breakage in machines and other engineering equipment.

- Electronic equipment – Coverage against loss of or damage to electronic equipment, including external information storage equipment.

Those segments are reinsurance intensive, among other things, due to the monetary scale of outstanding claims in those segments.

In 2019, the Company did not develop new material products in this insurance segment.

For more information about the general characteristics of this segment, see 1.2.4 above.

2.4.2 **Competition**

This segment is characterized by fierce competition from leading companies in this market. According to information in the financial statements for the first nine months of 2019, the main competitors in this segment by premium turnover are Harel (22.2%), the Phoenix (13.0%), Migdal (11.2%), Clal (12.0%) and Ayalon (11.6%). The share of the company in the professional liability and other liability from total premium turnover in the reported period is 2.3%, and the share of the Company in the property and engineering insurance by premium turnover in that period is 1.9%.

The Company addresses this competition by utilizing the expertise and financial robustness of the global AIG corporation, which is a global leader in this segment. In addition, the Company is constantly aspiring to align coverage to customers' needs and develop customized new products.

2.4.3 **Customers**

The company is not dependent on any single customer.

2.5 Operating segment E – Health insurance

2.5.1 Products and services

Health insurance that exist in the Company are designed to compensate or indemnify customers for medical expenses in case of injury and/or medical conditions and to provide various healthcare services through contracted providers. Health insurance products include accident policies for individuals and families; severe illness insurance; and overseas travel insurance.

For more information about the general characteristics of this segment, see paragraph 1.2.5 above.

2.5.2 Competition

This segment is characterized by intense competition from the leading insurance companies in the segment. According to the financial statements for the first nine months of 2019, the leading insurers in this segment by premium turnover are Harel (36.9%), the Phoenix (24.9%) and Migdal (12.1%). The share of the Company of total segment premium turnover in the reported period is 1.6%.

The share of the Company in personal accident segment of the total premium turnover in the segment in the reported period is 7.6%.

The Company faces the competition in this segment by constantly considering developing new products, new and innovative tools and constantly improving customer service.

Data published by the Ministry of Finance rank the Company as follows: first in the payment of overseas travel insurance claims, first in the payment of personal accidents insurance claims, second in the overall service index for overseas travel and personal accidents insurance, first in customer satisfaction in overseas travel insurance, and second in customer satisfaction in personal accidents insurance.

The Company estimates that the continued annual publication of the service index will increase competition in the health insurance sector. The Company estimates that the service index may help the Company to become the lead player in this insurance sector.

In 2019, the Company launched an innovative program - AIG Safe Life, which allows the policyholder to cutback the annual cost of health insurance, life insurance and personal accidents insurance. This plan rewards a healthy lifestyle and aims to encourage policyholders to engage in physical activity of any kind. The Company's policyholders download an application that monitors the physical activity and translates it into points that equal discount on insurance premiums.

2.5.3 **Customers**

a. The following is the distribution of premiums by customer type in this segment (thousands of NIS):

	2019	2018	2018
Private customers – personal accidents insurance	139,514	159,730	168,235
Private customers – severe illness insurance	24,926	27,315	28,944
Overseas travel insurance	39,605	39,712	37,702
Collective policies	171	216	363
Total	**204,216**	**226,973**	**235,244**

b. The Company mainly sells its products to private customers through direct marketing.
c. In the overseas travel segment, there is dependency on agreements related to Max Finance, Isracard and Bank Leumi customers.
d. The sale of overseas travel insurance policies is carried out via the website and the sales center located at the Company's offices that serves, inter alia, the credit card holders of Leumi Card and Isracard, as part of the agreements, inter alia, that the Company will insure the customers in insurance coverage for travel insurance. Maintaining the current level of activity in this sector depends on the continued existence of these agreements.
e. The rate of cancelations in 2018 in health policies that were in effect during the year in terms of premium was 20.8% of gross premiums.

2.6 **Operating segment F – Life insurance**

2.6.1 **Products and services**

The Company sells risk only life insurance policies to private customers (including life insurance for mortgage purposes). The policies cover death and include extensions for permanent disability and total disability, accidental disability, accidental death, critical illnesses and health insurance providing coverage of medical expenses.

In risk policies, the beneficiaries are those designated by the insurance customer (if and to the extent that beneficiaries have been determined) In risk policies for mortgages and other loans, the lending bank is registered as a nonrecourse beneficiary up to the outstanding amount of the loan on the date of an insurance event plus inflation linkage and interest, early repayment fee and arrears interest for up to 12 months of repaying the loan.

As discussed above, health insurance for coverage of medical expenses is managed in the company within the life insurance segment.

In 2019, the Company launched an innovative program - AIG Safe Life, which allows the policyholder to cutback the annual cost of health insurance, life insurance and personal accidents insurance. This plan rewards a healthy lifestyle and aims to encourage policyholders to engage in physical activity of any kind. The Company's policyholders download an application that monitors the physical activity and translates it into points that equal discount on insurance premiums.

For more information about the general characteristics of this segment, see 1.2.6 above.

2.6.2 **Competition**

The life insurance segment is characterized by fierce competition. Most insurance companies are active in this insurance segment and 94.7% of the life insurance market is dominated by the five large insurance companies: Migdal, Clal, Harel, the Phoenix and Menorah. The share of the Company in the life insurance segment out of total premium turnover in the reported period is 0.4%.

Since it is possible to compare the life and health insurance fees collected by the various insurance companies through the life insurance rates calculator and the health insurance comparison calculator presented on the Commissioner's website, there is great sensitivity among the customers to the rate of insurance premiums. The Company's competition with the competition is in constant improvement in the provision of customer service, branding and differentiation of the Company's unique advantages and operational efficiency.

According to data published by the Ministry of Finance, in the service index, the Company is ranked second in customer satisfaction in life insurance risk services.

In the Company's estimation, intelligent use of such calculators that enable policyholders to make an efficient comparison between insurance companies' tariffs and the continued publication of the service index at an annual frequency will lead to increased competition in the life assurance and health insurance sectors and may affect the Company's market share in these sectors. The Company's assessment is forward-looking information based on the information it has at the time of publication of the report. The actual results may differ from the results estimated, inter alia, in view of the behavior of competitors and customers in these sectors.

2.6.3 **Customers**

The Company is not dependent on any single customer or a limited number of customers. The Company sells the product mainly to private customers through direct marketing. The Company does not have collective customers.

3. **Part C – Additional information about general insurance segments not included among activity segments.**

All insurance segments of the Company are included in Part B of this report.

4. **Part D – Additional enterprise-level information**

4.1 Restrictions and regulation applicable to the activity of the Company

The activity of the Company is subject to the provisions of different laws that are designed to ensure that insurance companies are run adequately. The following is a summary of main legal provisions:

Insurance Contract Law – This law governs mainly the relationship between parties to the insurance contract.

Supervision Law – The Supervision Law defines the duties of the Commissioner and prescribes its powers in relation to the supervision of insurance company.

a. **Regulations enacted under the Supervision Law – The following is a summary of key regulations enacted under the Supervision Law and which pertain to the Company's activity:**

- Supervision of Financial Services Regulations (Insurance) (Minimum Capital Required for Insurer Licensing), 2018 (hereinafter: "**the Minimum Capital Regulations**"). The Minimum Capital Regulations provide for the minimum capital required for obtaining an insurer license in Israel.

  In 2018, a circular was published - Directives regarding an Insurer's Solvency Capital Requirement (hereinafter: "**the equity circular**"). The equity circular replaces the Supervision of Insurance Business (Minimum Capital required of an Insurer), 1998, in relation to the solvency capital requirement applicable to insurers, alongside the Minimum Capital Requirement regulations.

  In this context it should be noted that, in June 2019, the Commissioner published an amendment to the provisions of the consolidated circular concerning the economic solvency ratio report. The aforesaid update proposes an update to the structure of the required disclosure in the economic solvency ratio report, for the purpose of adding a layer of qualitative disclosure to said report and expanding its existing quantitative disclosure.

  Additionally, In January 2020, the Commissioner published a circular concerning a quantitative evaluation survey of adjustments in a Solvency-II-based economic solvency regime in insurance companies. These adjustments that are stipulated in said circular provide exemptions in relation to the calculation of the capital requirements for market risk components and investments in insuretech.

  Furthermore, in November 2019, the Commissioner published a consultation paper concerning the implementation of transitional provisions under an economic solvency regime. In this consultation paper, the Authority requests the insurance companies to provide their input on the aforesaid transitional provisions with regard to certain issues, including the appropriate time frame for the deployment of capital, and the adjustment of the capital deployment time frame set out in the provisions of the Directive to insurance products in Israel.

- The Supervision of Financial Services (Provident Funds) (Investment Rules Applicable to Financial Institutions), 2012 and the Supervision of Insurance Business Regulations (Mode of Investment of the Capital and Reserves of an Insurer and the Management of its Obligations), 2001 ("**the investment regulations**"). The regulations set investment rules for institutional investors and corporate governance for investment activity, respectively. For more information on the investment segment of the Company see paragraph 4.4 of this report.

- Supervision of Financial Services Regulations (Insurance) (Qualifications of Appointed Actuary), 2019
  The regulations provide for the necessary qualifications of an appointed actuary.

  In this context it should be noted that, in February 2019, an amendment was published to the consolidated circular concerning actuarial valuation. The aforesaid amendment assimilates and introduces into the provisions of the consolidated circular a series of provisions concerning the actuarial report that the appointed actuary is required to prepare.

  Additionally, in July 2019, an amendment was published to the provisions of the consolidated circular concerning guidelines for the documentation requirements pertaining to models, assumptions and studies. The aforesaid amendment aims to define principles for documentation by the actuary of the actuarial models that he uses in his work and the work processes that he implements in determining the models' underlying assumptions and parameters.

For more information about corporate governance applicable to the Company, see Part E. of this report.

Regulatory codex

Reporting to the Commissioner Chapter

- In January 2020, the Commissioner published an amendment to the provisions of the consolidated circular concerning reports to the Commissioner - reinsurance. This amendment aims to update the presentation of the reported data and the provisions concerning the format of reports to the Commissioner.

Investment Asset Management Chapter

- In October 2019, the Commissioner published its position on the investment in "insurtech" companies. The position restricts investments in insurtech corporations to such corporations the technological or digital operations of which directly confluence with the insurer's areas of activity and coincide with its strategy. The position also determines that such investment will be made out of the insurer's nostro funds and that the overall amount invested by an insurer in insurtech corporations will not exceed a maximum of NIS 100 million or 1% of the total assets of the insurer, as the lower of the two.

b. **Circulars, clarifications, decisions and Commissioner positions:**

Circulars

The following is summary of the key matters concerning the activity of the Company that were addressed by the Commissioner in circulars, clarifications, decisions and opinions of the Commissioner in the reported period and until shortly before the date of issuing this report, and which were not included in the review of lines of business:

- In February 2019, the Commissioner published an amendment to Brokers and Consultants Circular 2019-10-1, Involvement of an Unlicensed Entity in the Marketing and Sales of an Insurance Product other than Collective Insurance. The aforesaid amendment determines, inter alia, that commencing on May 1, 2019, only license holders may engage in the brokering of overseas travel insurance, thereby prohibiting travel agents from selling such insurance policies to their customers.
- In May 2019, the Commissioner published a position concerning the findings of a cross-sector business continuity audit. In the aforesaid position, the Commissioner mentions judicious applications and absent applications in insurance companies, as suggested by an analysis of the drill briefings carried out.
- In July 2019, the Commissioner published an amendment to the provisions of the consolidated circular concerning compensation. The aforesaid amendment proposes to update and adjust the directives of the Commissioner concerning compensation and to integrate the provisions of Public Institutions Circular 2009-9-6, "Remuneration of Outside Directors in Public Institutions", into the consolidated circular.
- In July 2019, the Commissioner published Public Institutions Circular 2019-9-7 concerning services to customers that are public institutions. The aforesaid circular aims to ensure an adequate level of services to the customer and continuous improvement of the services.
- In November 2019, the Commissioner published an amendment to the provisions of the consolidated circular concerning the updating of the collection of demographic assumptions in life insurance and the updating of the mortality improvement model for insurance companies. The purpose of said amendment is to update the provisions of the chapter of the Consolidated Circular on Measurement, Capital and Management of Assets and Liabilities, and to provide updated baselines for the performance of such calculations by the insurance companies and management companies.
- In November 2019, the Commissioner published an amendment to the consolidated circular concerning the process of acceptance to an insurance plan. The amendment determines that periodical requirements attaching to the renewal of home insurance will be imposed once every three years, this in order to simplify the renewal process.

Drafts

Following is a summary review of drafts published by the Commissioner in the reporting period until shortly before the date of publication of the report, which may have a material effect on the Company:

- In January 2019, a draft amendment was published to the consolidated circular concerning the transfer of funds to reinsurers outside Israel. The draft reinstates the requirement of maintaining collaterals for reinsurance contracts in accordance with the principles that are set out in the Supervision of Financial Sercices (Insurance) (Mode of Investment of the Capital and Reserves of an Insurer and the Management of its Obligations), 2001 (hereinafter: “the Old Investment Regulations”), for the purpose of minimizing the exposure of the insurance companies to credit risks with reinsurers.
- In May 2019, the Commissioner published a second draft of the amendment to the provisions of the consolidated circular concerning vehicle property insurance directives. The aforesaid draft aims to regulate the dealings of the insurance company with appraisers and garages, to ensure that the insurance claim proceeding initiated by a policyholder is fair, effective, transparent and professional, all with an eye to the full realization of the policyholder’s rights.
- In July 2019, the Commissioner published a 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.

4.2 Entry and exit barriers

4.2.1 Key entry barriers

Key barriers on entering the different activity areas of the Company are as follows:

a. Licenses and permits: According to the Supervision Law, practicing in each insurance sector required obtaining an insurer license from the Commissioner. In addition, holding more than five percent of a specific type of controlling instrument in an insurance company is conditioned on obtaining a permit to hold controlling instruments from the Commissioner, and controlling an insurance company also requires a controlling permit from the Commissioner.

b. Capital: An insurer has to comply with solvency capital ratio requirements as prescribed by the Commissioner. For more information about regulatory capital requirements that apply to the Company and compliance of the Company, see Section 3 of the Directors' Report and Note 12 to the Financial Statements.

c. Infrastructure: Given the complexity of the insurance products and their daily management, an insurance company needs to create an organizational, IT and operating infrastructure and continuously maintain it.

d. Expertise, experience and reputation: Being an insurer requires a focused professional knowledge and understanding of different insurance aspects, mainly involving actuary, underwriting, investment, reinsurance, marketing and risk management. In addition, to set rates and underwriting terms for new policies, it is important to have experience and a broad actuarial database.

e. Minimum revenue: An insurance Company must generate minimum revenue to cover the high operating costs involved in investment in buying, maintaining and upgrading systems and infrastructure, including the need to comply with regulatory change that take place from time to time.

f. Reinsurance: the ability and knowhow to buy adequate protection from reinsurers and to engage in reinsurance contracts with them.

4.2.2 Key exit barriers

The key barriers on exiting the different activity areas of the Company are as follow:

a. Liquidation or dissolution of insurance business: A liquidation or dissolution of an insurer are subject to oversight by the Commissioner, who may order the insurer to act in a certain way upon dissolution of its business or to ask a court to order the dissolution to be controlled or overseen by the court.

b. Run-off: The around policies with long claims tail may continue for many years until all claims for policies sold prior to the termination of the activity are settled and until all rights of existing insurance customers are satisfied or until the sale of the insurance activity.

4.2.3 Limitations in control permit

The main limits in a permit to control a company are as follows:

a. Maintaining control over the Company: The control permit is granted to AIG based on the rate of its holdings, direct and indirect, in the means of control, as at the date effective date of the permit, subject to obtaining the Commissioner's approval, in writing and in advance, and under the terms set by the Commissioner.

b. Prohibition on transferring rights to controlling instruments to a third party: AIG committed to maintain all controlling instruments of the Company free and clear at all times, as set out in the control permit.

c. Capital replenishment: A company in the AIG control chain irrevocably committed to replenish the capital of the Company, if required, up to the amount required by the Minimum Capital Regulations, or by any other regulation or law that supersedes said Regulations, while AIG is controlling the company.

d. Interested party transactions: AIG, the entities it controls and companies in the control chain of the Company are entitled to management fee from the Company only under a written management agreement that is submitted to the Commissioner at least sixty days prior to its effective date, provided that the Commissioner has not opposed that agreement prior to its effective date. The above limitation does not apply to providing services in the ordinary course of business and at arm's length by such companies.

e. Change to articles of association: Any change in the articles of association of the Company that may impact the control over the Company or any term of the controlling permit is subject to an advance, written approval by the Commissioner.

4.3 **Key success criteria**

a. Changes in the macroeconomic situation in Israel and globally, including changes in the security situation, inflation, interest rates, unemployment, the average salary, etc., may have material impact on the Company's business results. Changes in the regulatory policy for capital markets and volatility in the capital markets, in general, and bond yields, in particular, may have material impact on the business results of the Company.

b. The political and security situation in Israel affects the fiscal and monetary situation of the Israeli economy and the position of the capital market. In addition, different security arrangement may have impact on the prevalence of car theft in Israel and thus, have material impact on the results in the vehicle property insurance business.

c. The Israeli insurance market is competitive, especially so in retail insurance, which is the main activity of the Company. Raising rates given the competition in this market may impact profitability of the Company. For more information about the competition in the Company's different areas of activity and measures that the Company is taking to deal with this competition, see paragraphs 2.1.2, 2.2.2, 2.3.2, 2.4.2, 2.5.2 and 2.6.2 in this report.

d. Frequent changes in regulatory requirements and case law may have material impact on the business results of the Company.

e. In addition, the Company believes that the key factors for success in its activity include: frequent revision of actuary assumptions that underlies rates; improvement of quality, professionalism and underwriting data reliability; the quality of reinsurance and stability of reinsurers; customer mix and loyalty; customer retention levels; cutting operating costs; marketing and distribution; owning IT and supporting systems; quality of investment portfolio management and investment income; streamlining claims management and settlement costs; achieving a high rate of subrogation; improving the quality of customer service to customers; low frequency of natural disasters; reducing the scale of insurance fraud; recruiting and retaining quality human capital; the Company's ability to improve agreements with suppliers, the quality of collection of the Company, the creation of new distribution channels and continuous improvement in the field of digitization and automation

Those success factors have not materially changed in 2019 except for the financial situation that changes frequently and impacts the Company in much the same way as it impacts the entire insurance market.

4.4 **Investments**

Investments of the Company are managed by the Company's external portfolio managers according to instructions by the Investments Committee, which was set up pursuant to the Supervision Law and investments regulations, and according to investment asset chapter in the regulation codex, as well as other provisions of the Commissioners concerning investments.

The investment policy of an insurer is determined by the Company's board based on recommendations of the investment committee according to the law. The Company mainly implements a prudent and conservative investment policy including:

- Investment in listed government bonds
- Investment in high-rated corporate bonds
- Investment in bonds with short to long average term to maturity and in accordance with the duration of the insurance liabilities
- Investment in shares through instruments that track leading share indices internationally

Credit risks involved with those investments are managed according to the law and the policy of the board through the investments committee and the distress debt center of the Company. The Company is not required to appoint a specialized credit committee. The risk management policy includes exposure limits, including, limits on exposure to one debtor, a group of creditors, linkage basis, industry, liquidity and credit rate.

For more information on the composition of Company investments, see notes 10 and 27 to the financial statements. For information about the contribution of investment components on the proprietary portfolio, go to: http://www.aig.co.il/אודות-aig/תיק-הנוסטרו

For more information about the composition of net investment income and net financing income, see note 21 to the financial statements.

4.5 **Reinsurance**

a. **General**

Reinsurance engagements of the Company are made on an annual basis according to the activity area. All engagement agreement with reinsurers are discussed annually by the board and reported annually to the Commissioner according to the Commissioner's guidance. In each insurance segment, the reinsurance coverage is adjusted to the nature of risk and its level. The types of coverage that the Company commonly uses:

- **Proportional reinsurance**: Those reinsurance arrangements include quota share and surplus insurance. In quota share insurance, the relative division between the reinsurer and the insurance company is identical for all policies in a given insurance area. That proportion is used for dividing both premiums and claims. In a surplus insurance, the insurance company predefines the risk level it assumes, and the remaining risk in each policy is transferred to the reinsurer, meaning that the share of the reinsurance in the risk can vary from one policy to the other.

- **Non-proportional reinsurance**: Excess of loss insurance ("**XOL**") – this type of reinsurance covers claims or events over a certain amount, i.e., the insurance cover exceptionally high multiple-risk individual claims. Any amount below the predetermined amount is covered by the insurance company only and not by the reinsurance.

- **Facultative reinsurance**: Those reinsurance arrangements cover special risks embedded in specific policies. For the most part, such business is reinsured in this way when the insurance amount exceeds the capacity of reinsurance contracts mentioned above.

The reinsurance exposure policy is established by the risk management and equity committee of the Company. This policy is based on internal actuarial assessments, various models and claim history. As part of this policy, the sectors in which it is more efficient to transfer the risk to reinsurers based on risk management factors and the size of capital held by the Company. According to the provisions of the Supervision Regulations, the board approves once annually the retention that the Company holds by activity segments and the exposures to reinsurers.

b. **American International Overseas Association companies:**

A major share of reinsurance is by the following three insurance companies (referred to together as: "**AIOA companies**"):

Company name	Participation (%)
New Hampshire Insurance Company	12%
National Union Fire Insurance Company of Pittsburgh, PA	78%
American Home Assurance Company	10%

Those three companies are members of the global AIG Corporation, and are related parties of the Company

As of the date of this report, those three reinsurers are rated A+ by S&P.

For more information about total premiums transferred in 2019 to reinsurers, see note 27f(5) to the financial statements. For more information about balances and transactions with interested and related parties, see note 28 to the financial statements.

c. **Compulsory vehicle insurance**

The Company engaged in the reported year in this insurance segment in an XOL reinsurance contract with AIOA. The premiums recorded in favor of that company in the reported year was NIS 2,453 thousand. No fees are paid under this contract. The Company activated the reinsurance contracts in 2019 and the coverage ceiling of the contract is in an unlimited amount.

d. **<u>Home insurance</u>**

The Company entered in the reported year into a surplus reinsurance contract with AIOA. The fee is 31%.

For catastrophe events (e.g. earthquakes and other natural disasters), the Company purchases in addition to a proportional reinsurance coverage also XOL reinsurance for home insurance. The assessment of the risk for a catastrophe event, and the expected damage was made by a professional team. According to updated calculation using special statistical models, the maximum probable loss (MPL) after self-retention is 0.63%. The Company protects itself against earthquake events, including one in 250-year magnitude events. The MPL for calculating catastrophe risks in general insurance in calculating minimum required capital is 1.75%.

As of December 31, 2019, the insurance amount covered by proportional reinsurance in relation to earthquakes is NIS 2,725 million, while amounts covered in non-proportional reinsurance amount to NIS 68,261 million.

As of the date of this report, the Company acquired reinsurance coverage of NIS 905 million over the Company's retention, which is NIS 30 million for catastrophe.

The following is a list of premiums in home reinsurance (in thousands of NIS):

Home reinsurance premium:	**2019**	**2018**	**2017**
Proportional	2,649	3,107	4,639
Proportional - earthquake	1,110	911	516
Non-proportional - earthquake	7,352	8,424	7,760
Total	**11,111**	**12,442**	**12,915**

Note that this table does not refer to underwriting years but to the general calendar results at the segment level as presented in note 4 to the financial statements and may not indicate the underwriting results of reinsurers by underwriting years.

The premium recorded in favor of the AIOA companies in the reported year is NIS 10,451 thousand, and fees amount to NIS 1,070 thousand.

e. **Health insurance**

The Company entered in the reported year into the following reinsurance contracts in this segment:

- A surplus reinsurance contract, with fee as a fixed percent of premium (35%). Reinsurers in this contract are AIOA.

- A Quota Share reinsurance contract in a certain critical illness sector. The reinsurer in this contract is Swiss Re, which is rated AA- by S&P.

In 2019, the Company entered into an insurance contract of the XOL type from the retention amount of the Company up to an amount of NIS 145 million with the AIOA companies, and the Company renewed the aforementioned engagement in respect of 2020 up to an amount of NIS 123 million. The Company did not reach the ceilings set out in the contract during the reporting period and has no outstanding claims in an amount approximating its ceilings.

The premiums recorded in favor of AIOA companies in the reported year are NIS 1,325 thousand. Commissions from reinsurance amounted to NIS 190 thousand.

f. **Commercial insurance**

The Company engaged in the reported year in quota share and surplus reinsurance contracts in liabilities, professional liability, property, contractors, mechanical breakage and electronic insurance contract with AIOA. The premiums recorded in the reported year to the related companies amounted to NIS 127,878 thousand. The Company received fees on those contracts at a fixed rate of 26% to 37% from the premium.

The Company does not purchase XOL catastrophe coverage in property insurance and commercial insurance due to the lower retentions to which the Company is exposed.

g. **Life insurance**

The Company engaged in surplus reinsurance contracts with Swiss Re, which is rated AA- by S&P. Previously, the Company also engaged with Partner Re, which is rated A+ by S&P and with Gen Re, which is rated AA+ by S&P.

Fees on those contracts are at a fixed rate of premium.

In 2019, the Company engaged in a XOL insurance contract to cover catastrophe events with AIG Reinsurance Company Ltd ("**AIRCO**"), which is a company in the AIG global corporation, a related party of the Company and rated A+ by S&P. The Company renewed the engagement for 2020. Company did not reach the ceilings set out in the contract during the reporting period and has no outstanding claims in an amount approximating its ceilings.

The following is information about premiums transferred to those companies:

Reinsurer name	Total reinsurance premiums (NIS in thousands)	% of total reinsurance premiums
Swiss Re	21,143	77%
Partner Re	5,010	18%
Gen Re	739	3%
AIRCO	499	2%
Total	27,391	**100%**

h. <u>Summary of reinsurance results in general and health insurance (in thousands of NIS)</u>:

	Vehicle property			**Compulsory vehicle**			**Home insurance**		
	2019	**2018**	**2017**	**2019**	**2018**	**2017**	**2019**	**2018**	**2017**
Reinsurance premiums	-	17	108	2,453	2,403	2,214	11,111	12,442	12,915
Income / (loss)	-	17	108	(6,491)	(16,794)	(19,632)	8,143	6,769	9,406

	Health			**Commercial (*)**			**Total**		
	2019	**2018**	**2017**	**2019**	**2018**	**2017**	**2019**	**2018**	**2017**
Reinsurance premiums	2,933	3,077	3,277	146,482	138,482	129,137	162,979	156,421	147,651
Income / (loss)	1,228	552	(698)	54,995	16,823	188	57,875	7,367	(10,628)

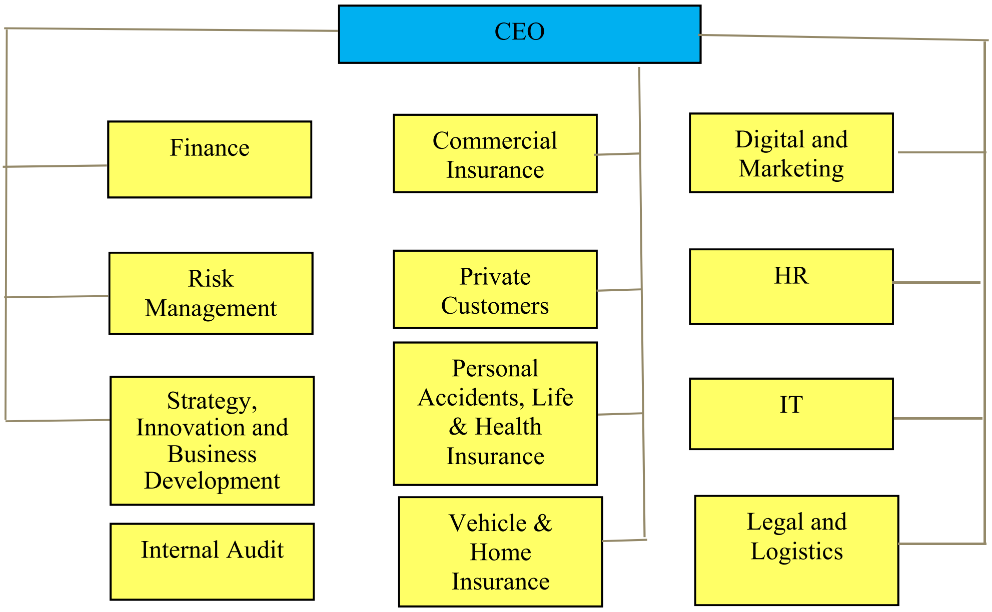
(*) Reinsurance premiums in commercial insurance are proportional contracts only and include earthquake premium of NIS 17,164 thousand in 2019 and NIS 19,955 thousand in 2018.

For more information on reinsurance results, see note 27.f.3.5 to the financial statements.

4.6 **<u>Human capital</u>**

a. <u>General</u>

The following is an organizational structure of the Company as of the date of this report:



The organizational structure of the Company is based on operations through a head office, located in Petach Tikva, Israel.

As of December 31, 2019, the Company had 741 employees, compared with 755 employees at the end of 2018. Some 71% of employees work in the Company's sales centers, compared with 70% in 2018.

The Company has no dependence on any single employee.

The Company believes in the importance of improving its human capital and is conducting from time to time professional seminars to managers and other employees about different areas of activity. The Company is investing special efforts to train new employees in sales and customer service centers. In addition, trainings are also provided by AIG outside of Israel on professional matters with the attendance of managers and other employees of the Company. The Company constantly reviews its workforce and options for improving the efficiency of its employees.

The weighted number of employees in the Company based on full-employment equivalent as of December 31, 2019 and 2018, based on the organizational structure if as follows:

Activity area:	2019	2018
Sales and services centres	484	464
Claims	69	75
Headquarters - business divisions	42	42
IT	45	50
Administrative and general	19	19
HR	13	19
Finance	20	20
Marketing and digital	13	11
Total	**705**	**700**

b. Executives:

- Senior management, including the CEO, comprised 13 executives on the date of issuing this report , unchanged the end of 2018.
- For more information about management – see Regulation 26A in Chapter D to the report "Additional Information on the Corporation".
- Since October 1, 2019, Ms. Yfat Reiter serves as CEO of the Company in place of Mr. Shay Feldman.
- As of December 31, 2019, the board of the Company includes 7 directors, of which 3 are external directors. For more information see Regulation 26 in Chapter D of the "Additional Information on the Corporation" chapter.

c. Compensation policy of the Company

Company employees, who are not executive, may be eligible to an annual bonus. The bonus will be paid based on the Company's financial position and its meeting of its business targets; payment of the bonus is subject to the approval of the Company's board of directors. The amount of the potential annual bonus is set based on the rank of employees as a range of several salaries. This range is based on the level of performance of the employees compared to other employees in the relevant department in the Company or in the Group.

Employees in sales and services - employees of the Company who are engaged in marketing and sales to customers, such as sales managers, portfolio managers, portfolio retention managers, and service and sales representatives may be eligible to monthly or quarterly bonuses on top of their basic salary; this bonus is based on the scope of activities they are in charge of. This type of bonus changes from time to time in accordance with the business targets of the Company. The targets such employees need to meet in order to become eligible to the bonus are determined in a manner that will not encourage employees to behave unfairly to clients in order to become eligible to the bonus.

Control and supervision employees – the eligibility of those employees to annual bonus is not determined in accordance with their meeting any performance targets relating to the activities they are in charge of.

Officers (who are not directors) – The Company compensation policy to offices are according to legal requirements, including the provision of the circular titled "Compensation Policy in Financial Institutions" and the amendments of that circular. In early, 2016, a new compensation plan was adopted for officers of the Company. The provisions of the plan state, among other things, that payment of compensation for each year of qualification is spread over four years, and that subject to meeting personal annual goals, officers are entitled to a bonus whose overall ceiling and its progressive payment are predetermined by the compensation committee and board of the Company. The amount of bonus to officers is determined according to the rate of meeting those goals, multiplied by the number of salaries as determined by the compensation committee and board of the Company. Actual payment of the annual bonus is spread in such way that only 50% of the bonus amount is paid in March of the year subsequent to the year of entitlement, and the remainder is spread using the straight-line method over the next three years, and that subject to meeting the predetermined profitability goals. The goals at the Company level include premium goals, profitability, service level and personal goals, which include personal and department goals, as well as goals related to risk management and compliance. The degree of meeting personal goals is determined by the direct superior of the officer.

According to this compensation plan, no bonus is paid to officers if the Company fails to meet the capital level as required by law.

Approval of the goals of each annual plan, review of actual results and approval of bonus payment are approved by the compensation committee and the board of the Company.

The Company's previous compensation plan, which included components of an annual bonus as well as a component of the long-term compensation plan, ended on December 31, 2017. The long-term compensation plan, as stated, included a three-year bonus for officers according to several criteria relating to the Company's performance. During each three-year bonus period, a number of separate annual targets were calculated for each of the three calendar years during the said bonus period. Each annual target for a calendar year is determined and approved by the Company's Board of Directors. At the end of each three-year bonus period, the overall rate of compliance with the objectives was calculated for the bonus period, i.e. for a period of three years.

The annual compensation for each bonus period is computed as the percentage of meeting the targets for the bonus period multiplied by the amount in the personal target for each officer, which is composed of his/her average salary during the bonus year, times the "salary component" that was set by the Board of Directors of the Company according to his/her role in the Company.

Directors – the salary of Company's independent directors is determined in accordance with the provisions of The Companies Regulations (Rules Regarding Compensation and Expenses to Independent Directors), 2000 ("the Compensation Regulations"). The salary of directors who are not independent directors does not exceed the amounts set in the Compensation Regulations.

For further details regarding the employment terms of senior office holders in the Company, see Regulation 21 in Part D of the annual report.

For more information about the compensation policy of the Company, go to:
https://www.aig.co.il/about_aig/מדיניות-התגמול/

4.7 **Marketing and distribution**

The Company sells coverage directly to customers without involvement of insurance agents. This methodology is characterized by a direct relationship between the Company and its existing and prospect customers. This relationship is maintained by the main centers of the Company (sales and service) through technology, including computer software that allow Company employees using computer system to access detailed information for making decisions on the activity areas.

The call center and website are major marketing and sales resources of the Company. A disruption of those communications resources over time may materially impact the activity of the Company. The Company also sells retail policies (vehicle, home insurance and personal injury) and commercial insurance through insurance agents. Agents receive commissions at a percentage of premiums according to the rate of collection of those premiums.

As part of promoting its marketing efforts, the Company uses, among other things, advanced methods for storing databases allowing automated connectivity as well as decision-supporting systems and auxiliary systems like: a telephone system, recording applications, email, telemarketing, document scanning, sending automated email and more. The Company has a computer system that monitors work flow.

The main marketing channels of the Company are as follows:

- Media advertising (TV, internet, and radio) – main channel;
- Advertising on billboards and print;
- Cooperation with companies;
- Use of databases of the company for cross-sales and up-sales; and
- Public relations.

a. Vehicle property insurance

Policies in this segment are marketed mainly through direct marketing. The average commission paid to agents (before VAT) is 11.6% of gross premium.

b. Compulsory vehicle insurance

Policies in this segment are marketed mainly through direct marketing. The average commission paid to agents (before VAT) is 3.3% of gross premium.

c. Home insurance

Policies in this segment are marketed mainly through direct marketing. Additionally, the Company sells policies in the segment through customers who are interested to buy life insurance for mortgage lending purposes and contacted the Company thanks to marketing efforts in life insurance.

d. Health insurance

Policies in this segment are marketed mainly through direct marketing. In addition, the Company sells its products in this segment through telemarketing (cross sale) and on the Company's website (overseas travel insurance only). With regard to dependence on a distribution channel in the sector of overseas travel insurance see section 2.5.3 above.

e. Commercial insurance

Policies in this segment are marketed exclusively through insurance agents. As of the date of this report, the average commission paid to agents (before VAT) in the liability business is 16.6% of gross premium, in professional liability 17.2% and in property and engineering 11.0%.

f. Life insurance

The Company sells individual insurance policies to customers directly without involvement of insurance agents.

In February 2019, notification was posted on the Authority’s website of an upcoming two-digit percentage reduction in the cost of mortgage insurance and life insurance policies (Risk Reform). Pursuant to said notification, in view of the reduction over recent years in mortality rates and the longer life expectancy, the Capital Market Authority has required the insurance companies to update the life insurance tariffs to reflect the current risks. Additionally, in the trail of said requirement, the Commissioner approved new life insurance tariffs that will reduce life insurance costs to policyholders by 30%. The initiated modification of tariffs by the Authority has no effect on the profit of the Company, this in view of the competitive tariffs of the Company shortly before and after the change.

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, and the behavior of competitors in this segment.

4.8 Suppliers and services providers

a. General

The Company buys products and services from numerous suppliers including advertising and marketing providers, equipment and maintenance providers, legal services providers, appraisers, investigators, healthcare institutions, software and hardware providers, auto repair and parts services, towing services, auto glass repair, damage repair, providers of water claim management, car leasing, etc. The cost of some of those purchases is recognized within cost of claims in the different insurance segments, and mainly in compulsory and property insurance.

The Company selects its suppliers according to cost, quality, quality, availability and expertise. Usually, engagement with providers is for a predefined period (automatic annual renewal) and do not involve exclusive arrangements.

b. Vehicle property insurance

The Company purchases products and services from different providers, including advertising and marketing providers; legal services providers; appraisers; investigators; vehicle repair and parts services; used car dealers for damaged or retrieved after theft; towing; auto glass repair, bumper repair etc. A significant part of the cost of those purchases is carried to the cost of claims. The Company is not materially dependent on any supplier or services providers.

c. Compulsory vehicle insurance

The Company purchases products and services in this segment from different providers, including: advertising and marketing providers legal services providers, hospitalization and other healthcare services, investigators etc. A significant part of the cost of those purchases is carried to the cost of claims. The Company is not materially dependent on any supplier or service providers.

d. Home insurance

In this segment, the Company purchases products and services from different providers, including: advertising and marketing providers, legal services providers, appraisers and investigators, as well as direct engagement with a management company for the settlement of water damage claims and with plumbers under arrangement. A significant part of the cost of those purchases is carried to the cost of claims. The Company is not materially dependent on any supplier or service providers.

e. Health insurance

The Company purchases in this segment products and services from various providers, including healthcare service providers, advertising and marketing services, legal services providers, investigators, overseas traveler assistance services, etc. A significant part of the cost of those purchases is carried to the cost of claims. The Company is not materially dependent on any supplier or services providers.

f. Commercial insurance

The Company purchases in this segment legal, survey, appraisal and investigation services. A significant part of the cost of the above services is carried to the cost of claims. The Company is not materially dependent on any supplier or services providers.

g. Life insurance

The Company purchases in this segment products and services from various providers, including healthcare and legal service providers, investigators, advertising and marketing providers, etc. The cost of those purchases is carried to the cost of claims. The Company is not materially dependent on any supplier or services providers.

h. Non-segment specific service providers

- **Computer and software suppliers** – The Company is engaged with a number of software and hardware providers for both purchasing new products and for regular maintenance of its systems. The two main suppliers for maintaining the insurance system are Comtech Ltd. and Dortel Software Systems Ltd.

  The total payment (including VAT) to those suppliers in NIS millions are as follows:

Provider	**2019**	**2018**
Comtech Ltd.	2.2	2.2
Dortal Software Systems Ltd.	1.4	1.5

In 2016-2018, the Company made a significant investment in a new CRM system. The Company is dependent on those suppliers to a certain degree.

- **Marketing and advertising service providers** – The Company sells most of its products through direct marketing to customers and therefore its marketing and advertising purchases are materially relative to other insurance companies. The primary advertising service provider of the Company in this area in 2019 was the advertising agencies Reuveni Pridan Ltd. For more information about the scope of expenses in this area, see note 24 to the financial statements.

4.9 Property, plant and equipment

a. Property, plant and equipment (PPE) of the Company is located at the Company's headquarters at 25 Hasivim St., Petach Tikva, and in the emergency sites of the Company in the Haifa and Ashdod areas. For more information, see notes 5 and 7 to the financial statements.

b. Computer systems – The Company has an internal information technology (IT) unit, providing automation services to Company units, and is uses the services of suppliers and software companies, as necessary, for ensuring the required computing services. The main development and production site is located at Company headquarters in Petach Tikva, and there is also a backup site for emergencies in the Haifa area.

The main core systems of the Company include the insurance systems and financial systems that are installed on an IBM AS-400 computer.

In 2019 and 2018, the Company invested NIS 29.5 million in hardware and software, the majority of said amount relating to digitization (mainly of the Company’s website) and automation. The depreciated cost balance of computer systems (including computer software) in the Company as of December 31, 2019 was NIS 35.6 million.

4.10 Seasonality

a. The following table presents gross premiums (general insurance and life insurance) by quarters:

2019 Quarter	1	2	3	4	Total
Vehicle property insurance	109,963	84,455	93,849	80,216	368,483
Compulsory vehicle insurance	51,464	42,406	45,762	39,980	179,612
Home insurance	33,795	30,122	35,370	28,836	128,123
Commercial insurance	55,899	35,144	36,836	30,844	158,723
Health insurance	49,442	51,126	55,397	48,251	204,216
Life insurance	33,684	34,736	35,531	36,400	140,351
Total	**334,247**	**277,989**	**302,745**	**264,527**	**1,179,508**

2018 Quarter	1	2	3	4	Total
Vehicle property insurance	108,542	87,097	94,609	83,339	373,587
Compulsory vehicle insurance	48,558	40,795	44,774	40,318	174,445
Home insurance	31,044	27,888	32,526	27,751	119,209
Commercial insurance	40,255	36,426	32,642	40,254	149,577
Health insurance	54,450	55,524	65,106	51,893	226,973
Life insurance	31,643	32,333	32,995	32,898	129,869
Total	**314,492**	**280,063**	**302,652**	**276,453**	**1,173,660**

b. The mechanism for computing reserves for unexpired risk in general insurance is mitigating the impact of seasonality on income turnover.

4.11 Intangible assets

a. AIG is the registered trademark of the global AIG corporation.

b. The Company has permission to use the eleven registered trademarks of the AIG – trademarks number 143541, 143544, 148118, 148119, 151905, 184361, 249429, 249430, 254592, 223666, 223667.

c. The trademark AIG ISRAEL 1-800-400-400 for communication with the sales centre of the Company is a major brand of the Company and an intangible asset. This telephone number is protected, among other things, through trademark no. 184361.

d. Trademark 301897, "Safe Life", is a registered trademark of the Company.

e. To the date of the report, AIG is in the process of registering additional trademarks.

f. As of December 31, 2019, the Company owns eight databases – claims information, suppliers and agents, employees, job candidates, employee cards, cameras, customers and prospect customers. Those databases store, among other things, information given by customers when buying policies and more information provided in relation to services it provides (such as processing claims). The databases use the Company in the ongoing operation of its business and for marketing insurance policies.

g. For more information on intangible assets - see note 5 to the financial statements.

4.12 **Risk factors**

There are a number of risk factors affecting the profitability and stability of the Company. The following table presents risk factors and their impact on the Company:

		The degree of influence of the risk factor on the Company		
Risk type	**Risk factors**	**Significant impact**	**Moderate impact**	**Small impact**
Macro risks	Economic slowdown in Israel		√	
	Interest	√		
	Inflation		√	
	Share and bond prices	√		
	Credit spreads		√	
	Exchange rates			√
	International market risks			√
	Credit risk		√	
	Asset/liability alignment risk			√
Industry risks	Portfolio retention		√	
	Competition	√		
	Earthquake	√		
	Terrorism			√
	Epidemic		√	
	Regulation and compliance	√		
	Theft, accidents and fire		√	
	Reinsurance stability		√	
Company-specific risks	Legal risks		√	
	Model, parameters, underwriting risks		√	
	Operating risks		√	
	IT risk	√		
	Liquidity risk			√
	Reputation risk	√		
	Work relations			√

The impact of the above risk factors is based on the discretion of management based on the judgment of management based on the existing assessment as of the date of this report. This assessment is general and it is possible that different factors may have indirect impact if occurring concurrently.

For more information on the overall risk exposure of the Company – see note 27 to the financial statements.

4.13 **Material agreements and cooperation agreement**

During the reporting year, no material agreements were signed, other than in the ordinary course of business.

4.14 **Other forecasts and assessments on the business of the Company**

This section, by nature, includes forward-looking information, as defined by the Israel Securities Law, which is uncertain and based on assessments and intentions of the Company as of the date of the report. Company assessments may not materialize or partially materialize or in a different way than assessed by the Company.

The business strategy of the Company and its main targets for each line of business are as follows:

- Increasing sales in each insurance line of business
- Maximizing profit from all sources of income of the Company, while focusing on maximizing underwriting profit in each line of business separately.
- Providing high-quality customer service
- Exercising business discipline in underwriting and investment operation
- Maintaining the strength of Company brand
- Focusing on customer retention
- Strict adherence to the values of the Company: people, focus on the customer, excellence, integrity and initiatives
- Balancing between the insurance lines of business without relying on any given line of business.
- Priority for investment in digital and automation.
- Constantly expanding the variety of digital personal services that is available to customers of the Company.
- Constantly exploring new means of distribution and new collaborations.
- Constant awareness to customer needs, and accordingly, developing new stand-alone and bundled products
- Control over the extent of Company expenses
- Improving operating efficiency of anything related to decision-support systems
- Nurturing excellence in all Company units
- Careful compliance with regulation.

5. Part E – Corporate governance information

5.1 Information about independent directors

As of the date of the report, the Company's Board of Directors has 7 directors, of which 3 are independent directors. In the reported period, the Board held 9 board meetings.

For information on the independent directors of the Company, see Regulation 26 of the Additional Information Report of the corporation.

5.2 Internal auditor

a. **Information about the internal auditor and beginning of service**:

The internal auditor of the Company is Mr. Thomas Lowe. Mr. Lowe is an accountant (holds a South African license) and has thirteen-year experience in the AIG corporation, including ten years of different rolls in the internal audit system of AIG and three years in financial positions in Europe. He began his services in this roll on September 1, 2013.

b. **Securities holding and conflict of interest**:

The internal auditor has no business relations with the Company or a related entity. The internal auditor holds two ordinary shares in a related AIG company. This shareholding may not affect his work in any way.

c. **Work relations and additional roles:**

The internal auditor is a Company employee who has no other rolls outside the global AIG concern. The internal auditor is assisted by two internal audit employees of the Company, and when necessary, uses external service providers and the internal audit resources of AIG.

d. **Scope of employment**:

The internal auditor' scope of employment is derived from the work plan approved by the Audit Committee and is subject to changes as a result of the business activity. In 2019, the internal auditor invested 3,050 hours in his work. In 2020, the scope of employment was set at 3,000 hours.

In addition to the internal audit performed by the internal auditor, periodic audits are performed by the Internal Audit Unit of AIG. Those audits mainly focus on the financial, risk management and IT aspects.

e. **Compensation**:

The internal auditor is compensated by a monthly salary under a personal work contract, at amounts that reflect his position and responsibility. In 2019, the compensation of the internal auditor and his team was NIS 1.1 million. Total compensation to the internal auditor in 2018 was NIS 1.1 million. The board believes that the compensation of the internal auditor may not affect his professional judgment.

5.3Independent auditors

The independent auditors of the Company are KPMG Somekh Chaikin Certified Public Accountant. The partner responsible for the internal audit services is Avraham Fruchtman CPA.

The date of the commencement of service as the Company's auditors is December 2017 and they replaced Kesselman & Kesselman (PwC), whose term as the Company's auditors ended near the end of 2017.

The following is the independent auditors' fee in NIS (excluding VAT) for services provided in 2019 and 2018 and the number of hours invested:

2019	**Fee for audit and tax services**	**Special tax services**	**Other services**[1]	**Total**
NIS thousand	1,215	29	7	1,251
Hours	4,736	126	36	4,898

2018	**Fee for audit and tax services**	**Special tax services**	**Other services**	**Total**
NIS thousand	888	29	9	926
Hours	3,903	77	76	4,056

1 Other services include translation and consulting services.

5.4 <u>Effectiveness of internal controls and the procedures over financial reporting and disclosure of the Company</u>

Controls and procedures related to disclosure:

A financial institution management, in cooperation with CEO and CFO of that financial institution assessed as of the end of the reported period the effectiveness of the controls and procedures in relation to the disclosure of the financial institution. Based on this assessment, CEO and CFO of the financial institution concluded that as of the end of that period, the controls and procedures related to disclosure of the financial institution are effective in order to record, process, summarize and report the information that the financial institution is require to disclose in the annual financial statements according to the provisions of the law and the reporting requirements set by the Commissioner of Capital Markets, Insurance and Savings and on the times indicated in such regulations.

Internal control over financial reporting:

During the covered period ended December 31, 2019, no change has occurred in the internal control of the financial institutions over financial reporting that has had a material impact or is likely to have a material impact on the internal control of the financial institutions over financial reporting.

5.5 The solvency regime <u>based on Solvency II</u>

For details of the regulatory capital requirements applicable to the Company and the manner in which the Company complies with them, see Section 3 of the Directors' Report and Note 12 to the Financial Statements. For further details regarding the Commissioner's additional instructions in connection with the provisions of the Solvency Circular published during the reporting period, see section 4.1 above

AIG Israel Insurance Company Ltd

Ralph Mucerino Chairman of the Board	Yfat Reiter CEO

March 24, 2020

Chapter B: Directors Report of Company's Business
for the Year Ended December 31, 2019

AIG Israel Insurance Company Ltd.
("the Company")

Table of Contents

Chapter 1	General	p. 2
Chapter 2	Description of business environment	p. 3
Chapter 3	Financial information on operating segments of the Company	p. 4-5
Chapter 4	Results of operations	p. 6-10
Chapter 5	Cash flow and liquidity	p. 10
Chapter 6	Sources of funding	p. 10
Chapter 7	Business strategy	p. 11
Chapter 8	Material subsequent events	p. 11

Chapter B: Directors' Report

1. General

Operating segments of the Company

The Company is an Israeli insurance company that operates in the following areas: compulsory vehicle insurance, property vehicle insurance, home insurance, commercial insurance, health insurance and life insurance (risk only). The primary activity of the Company is individual insurance, where it markets and sells policies directly to policyholders

Event or matter outside the ordinary course of Company's business

During the reported period, there were no events outside of the ordinary course of business of the Company.

2. Description of the business environment

Trends and developments in the operating segments and their impact on the Company's business and on the financial statements

General

In accordance with data published by the Capital Market, Insurance and Savings Authority, more than 15 insurance companies operate in Israel; most of these companies are engaged in general insurance. In accordance with this data, as at December 31, 2019, insurance premiums arising from the general insurance business amounted to NIS 18,465 million; the share of the 5 largest insurance companies – Harel, Phoenix, Migdal, Menorah and Clal – amounted to NIS 10,401 million, which constituted 56% of the total premiums in the Israeli general insurance sectors.

For further details regarding the competition in the different operating segments of the Company and regarding the measures taken by the Company to compete 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) of the periodic report.

Developments in the Company's macro-economic environment

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

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

	2019	2018	2017
Government-bond indexes:			
General government bonds	**9.1%**	(1.3%)	3.6%
Linked government bonds	**10.3%**	(1.4%)	3.4%
NIS government bonds	**8.3%**	(1.2%)	3.7%
Corporate-bond indexes:			
Tel Bond 60	**7.4%**	(0.8%)	5.8%
Tel Bond NIS	**8.6%**	(4.3%)	7.5%
Share indexes -			
Tel-Aviv 125	**21.3%**	(2.3%)	6.4%
S&P 500	**28.9%**	(6.2%)	19.4%

For details regarding the composition of the Company's investments, see Notes 10 and 27 to the financial statements.

For details regarding 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 B) of the periodic report.

3. Financial information regarding the Company's operating segments

The following are principal data on comprehensive income (in thousands of NIS):

	2019	2018	2017
Gross premiums earned	**1,181,142**	1,145,519	1,092,070
Premiums earned by reinsurers	**(195,627)**	(170,467)	(170,454)
Premiums earned – retained amount	**985,515**	975,052	921,616
Gains on investments, net, and financing income	**95,347**	(18,568)	65,483
Income from commissions	**52,375**	44,842	41,736
Total income	**1,133,237**	1,001,326	1,028,835
Payments and changes in liabilities in respect of insurance contracts – gross	**(622,067)**	(680,353)	(693,418)
Share of reinsurers in increase in insurance liabilities and payments with respect to insurance contracts	**80,886**	107,595	129,879
Payments and changes in liabilities in respect of insurance contracts – retained amount	**(541,181)**	(572,758)	(563,539)
Total other expenses	**(323,636)**	(313,747)	(312,308)
Income before taxes on income	**268,420**	114,821	152,988
Taxes on income	**(91,405)**	(40,579)	(55,883)
Income for the year and total comprehensive income for the year	**177,015**	74,242	97,105

The following are principal balance-sheet data (in thousands of NIS):

	December 31	
	2019	**2018**
Other assets	**289,433**	281,073
Deferred acquisition costs	**157,386**	157,629
Financial investments and cash	**2,044,165**	1,973,436
Reinsurance assets	**701,185**	718,971
Total assets	**3,192,169**	3,131,109
Equity	**852,222**	825,207
Liabilities in respect of insurance contracts	**1,904,206**	1,885,307
Other liabilities	**435,741**	420,595
Total equity and liabilities	**3,192,169**	3,131,109

Equity and capital requirements

As at December 31, 2019, equity amounted to NIS 852.2 million, as compared to NIS 825.2 million as at December 31, 2018. The change in equity in the reporting period is due to a comprehensive income of approximately NIS 177.0 million, excluding a dividend of NIS 150 million distributed in August and November 2019.

For information on a dividend of NIS 100 million distributed on August 27, 2019, and a dividend of NIS 50 million distributed on November 26, 2019, see Note 12 to the financial statements.

Solvency-II-based economic solvency regime of an insurance company

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 (in thousands of NIS)

	June 30, 2019	December 31, 2018
Regardless of the provisions in deployment period:		
Equity for the purpose of solvency capital requirement (SCR)	1,010,066	1,071,017
Solvency capital requirement	642,624	629,586
Surplus as at the reporting date	**367,442**	**441,431**
Solvency ratio as at reporting date (percentage)	157%	170%
Meeting milestones during the deployment period:		
Equity for the purpose of SCR during the period of deployment	1,010,066	1,071,017
Solvency capital requirement during the deployment period	447,453	438,750
Surplus during the period of deployment	562,613	**632,267**

B. Minimum capital requirement (MCR) (in thousands of NIS):

	June 30, 2019	December 31, 2018
MCR	192,880	182,728
Equity for the purpose of MCR	1,010,066	1,071,017

The auditors of the Company did not audit and review the calculation performed by the Company as at June 30, 2019. For additional information the solvency ratio, see the Company's economic solvency ratio report as at June 30, 2019, which is attached to this report and is also 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 presented in this section above constitutes forward-looking information that is based, inter alia, on the current state of the Company's operations. Actual results could differ from the above estimates, including materially, as a result of various factors, the principal of which are regulatory changes applicable to the Company.

4. Results of operations

In 2019, the Company's volume of gross premiums continued to grow (rising by 0.5% as compared to 2018). The total gross premiums in the reported period amounted to NIS 1,180 million, compared with NIS 1,174 million in 2018.

Total premiums in retention in the reported period amounted to NIS 989 million, as compared to NIS 992 million in the corresponding period in 2018, a decrease of 0.3%.

The following are principal data regarding premiums by principal operating segments (in thousands of NIS):

	Vehicle property insurance	Compulsory vehicle insurance	Home insurance	Health insurance	Commercial insurance	Life insurance	Total
2019							
Gross premiums	**368,483**	**179,612**	**128,123**	**204,216**	**158,723**	**140,351**	**1,179,508**
Premiums – retained amount	**368,483**	**177,159**	**117,012**	**201,283**	**12,241**	**112,960**	**989,138**
Total gross as % of total	**31.2**	**15.2**	**10.9**	**17.3**	**13.5**	**11.9**	**100.0**
Total retained as % of total	**37.4**	**17.9**	**11.8**	**20.3**	**1.2**	**11.4**	**100.0**
2018							
Gross premiums	373,587	174,445	119,209	226,973	149,577	129,869	1,173,660
Premiums – retained amount	373,570	172,042	106,767	223,896	11,095	104,682	992,052
Total gross as % of total	31.8	14.9	10.2	19.3	12.7	11.1	100.0
Total retained as % of total	37.7	17.3	10.8	22.6	1.1	10.6	100.0
2017							
Gross premiums	352,489	160,274	108,187	235,244	140,954	127,053	1,124,201
Premiums – retained amount	352,381	158,060	95,272	231,967	11,817	104,261	953,758
Total gross as % of total	31.4	14.3	9.6	20.9	12.5	11.3	100.0
Total retained as % of total	36.9	16.6	10.0	24.3	1.2	10.9	100.0

The following are principal comprehensive income data by principal operating segments (in thousands of NIS):

	2019	2018	2017
Profit from vehicle property insurance	**74,875**	61,172	35,451
Profit (loss) from compulsory vehicle insurance	**29,410**	(4,277)	6,810
Profit from home insurance	**13,956**	1,612	22,562
Profit (loss) from commercial insurance	**26,895**	(8,851)	4,380
Profit from health insurance	**54,023**	45,535	44,295
Profit from life insurance	**33,202**	27,583	15,375
Other – income not allocated to insurance segments	**36,059**	(7,953)	24,115
Profit before tax	**268,420**	114,821	152,988
Taxes on income	**(91,405)**	(40,579)	(55,883)
Profit for the year and total comprehensive income for the year	**177,015**	74,242	97,105

For additional data by main sectors, see Note 4 to the financial statements.

The following are the explanations of the Company's Board of Directors regarding the development of some of the data presented above:

a. Pre-tax profit in the reporting period amounted to approximately NIS 268.4 million, as compared to profit of approximately NIS 114.8 million in 2018. The increase in profit was due to the material increase in gains on investments as compared to 2018 (see subsection b. below), as well as to a material improvement in the claims' ratio that resulted, inter alia, from the reduction of insurance liabilities in the compulsory vehicle insurance segment following the Supreme Court's ruling on the discount rate applicable to annuities (see Note 27e(3)(g) to the financial statements). The underwriting profit of the Company increased significantly, from NIS 128.4 million in 2018 to NIS 172.6 million in 2019.

b. Net investment gains amounted to NIS 95.3 million in the reported period, as compared to investment losses of NIS 18.6 million in 2018. The increase was due to the increase in the prices of corporate bonds, government bonds and share indexes in the reported period. For data regarding changes in security indexes, see Chapter 2 below.

c. The profit of the Company from compulsory vehicle insurance amounted to NIS 74.9 million in the reported period, as compared to a profit of NIS 61.2 million in 2018. The increased profit was due to higher gains on investments in the reported period as compared to 2018. The underwriting profit of the Company from vehicle property insurance amounted to NIS 62.8 million in the reported period, as compared to NIS 61.8 million in 2018. The claims' ratio of the Company in 2018 and 2019 is approximately 62%. This low ratio reflects the ongoing reduction in the frequency of accidents and theft.

d. The Company’s profit from compulsory vehicle insurance amounted to NIS 29.4 million in 2019, as compared to a loss of approximately 4.3 million in 2018. The significant increase in profit was due to the reduction of NIS 34.7 million in insurance liabilities in the compulsory vehicle insurance segment (including the Company’s share of pooling) following the Supreme Court’s ruling on the discount rate applicable to annuities. For additional information on the ruling of the Supreme Court, see Note 27e(3)(g) to the financial statements and the “Discount Rate Applicable to Annuities” paragraph in section 1.2.2 of Chapter A (Description of the Company’s Business). Additionally, investment gains recorded a substantial increase of NIS 26.1 million. The Company’s underwriting profit from compulsory vehicle insurance amounted to approximately NIS 6.1 million in the reported period, as compared to a loss of approximately NIS 1.5 million in 2018. Pooling losses reduced profit in the reported period by NIS 17.3 million, as compared to a reduction of NIS 12.4 million in profit in 2018.

e. The profit of the Company from home insurance in the reported period was approximately NIS 14.0 million, as compared to profit of approximately NIS 1.6 million in 2018. The increased profit was due to higher gains on investments in the reported period as compared to 2018 and to the improvement in the claims’ ratio resulting from a reduction in claims in relation to the effect of weather damage and plumbing damage, as well as a lower expenses’ ratio. The underwriting profit of the Company from home insurance amounted to approximately NIS 9.0 million in the reported period, as compared to approximately NIS 1.2 million in 2018.

f. The profit of the Company from health insurance in the reported period was approximately NIS 54.0 million, as compared to profit of approximately NIS 45.5 million in 2018. The underwriting profit amounted to NIS 48.3 million in the reported period, as compared to NIS 46.4 million in 2018. The higher profit was due mainly to a material improvement in the overseas travel sector.

g. The profit of the Company from life insurance in the reported period was approximately NIS 33.2 million, as compared to profit of approximately NIS 27.6 million in 2018. The increase in profit was due to the reduced claims’ ratio and expenses’ ratio.

h. The profit of the Company from professional liability insurance in the reported period was approximately NIS 14.8 million, as compared to a loss of approximately NIS 10.1 million in 2018. The transition from loss in 2018 to profit in the reported period resulted from higher gains on investments in 2019 as compared to 2018 as well as to a reduction in the claims’ ratio in the reported period.

i. The profit of the Company from other property insurance in the reported period was approximately NIS 6.1 million, as compared to profit of approximately NIS 3.0 million in 2018. The increased profit was due to the reduced claims’ ratio and higher gains on investments as compared to 2018.

j. The profit of the Company from other liability insurance amounted to approximately NIS 6.0 million in the reported period, as compared to a loss of approximately NIS 1.8 million in 2018. The transition from loss in 2018 to profit in 2019 was due mainly to the increase in gains on investments.

The following are the results of operations in the property insurance sectors:

a. **Underwriting profit (in thousands of NIS):**

	2019	2018	2017
Vehicle property	**62,844**	61,827	28,016
Home insurance	**9,023**	1,206	19,687
Property and others sectors	**4,942**	3,160	2,098

b. **Principal data regarding the claims' ratio[1] (Loss Ratio "LR")[1] and the claims' and expenses' ratio (Combined Ratio "CR"):**

	2019		2018		2017	
	LR%	CR%	LR%	CR%	LR%	CR%
Property vehicle insurance:						
Gross	**62%**	**83%**	62%	83%	69%	91%
In retention	**62%**	**83%**	62%	83%	69%	91%
Property[2]:						
Gross	**53%**	**84%**	49%	81%	41%	73%
In retention	**54%**	**88%**	59%	96%	40%	77%

5. Cash flow and liquidity

Net cash provided by operating activities in 2019 amounted to NIS 140,381 thousand, as compared to NIS 7,073 thousand provided by operating activities in 2018.

Net cash used in investing activities in 2019 amounted to NIS 14,315 thousand, as compared to NIS 17,556 thousand in 2018.

Net cash used in financing activities in the Company in 2019 amounted to NIS 155,183 thousand, as compared to NIS 50,000 in 2018.

As a result of the above, the balance of cash and cash equivalents in the reported period decreased by NIS 29,308 thousand and amounted to NIS 57,998 thousand as at December 31, 2019.

6. Sources of funding

All of the Company's operations are funded with its own resources and equity. The Company does not use external funding sources.

1 As to gross data, the loss ratio and expenses ratio are computed on the basis of gross premiums earned. With regard to retained amounts data, the claims ratio and the expenses ratio are computed on the basis of premiums earned in retention.

2 Home and property and others sectors.

7. The Company's business strategy and its main objectives

For details of the Company's business strategy and its main objectives, see Section 4.14 in Chapter A (Description of the Company's Business) of the periodic report.

8. Material events subsequent to the financial statements date

After the reporting date, a substantial spreading of the coronavirus took place in Israel and worldwide (hereinafter: “the Event”), with severe implications on the local and global economy. Consequently, the Company took steps to ensure its continued orderly operation as regarding the meeting of its obligations to its customer and the adjustment of all aspects of its operations.

These steps included, inter alia:

- Activation of management’s Incident Management Team.
- Activation of the Company’s program for transition to remote work (managers and employees, including sales and service centers).
- Adjustment of the work environment in the offices of the Company to comply with the guidelines of the Ministry of Health.
- Ongoing monitoring and control of developments and of the business and monetary implications on investments and on the various insurance sectors of the Company.

To the date of publication of the annual report, the principal effect of the Event on the business results of the Company is the sharp drop of prices in the international financial markets and in the Israeli capital market. Since the beginning of 2020 until shortly before the publication of the annual report, the Company has accrued losses of NIS 199m million from investments in the capital market. The effect on the comprehensive income, after tax, and on the equity of the Company is NIS 131m. Perseverance of these events could also adversely affect the capital ratio.

The sector that is most strongly affected by these events is the overseas travel insurance sector, for which there is virtually no public demand at present. At any rate, as at the publication date of the annual report, these events did not have a material effect on the underwriting results of the Company.

Ralph Mucerino	Yfat Reiter
Chairman of the Board	CEO

March 24, 2020

AIG Israel Insurance Company Ltd

Declarations relating to the Financial Statements

Declaration

I, Yfat Reiter declare that:

1. I reviewed the interim report of AIG Israel Insurance Company Ltd. (hereafter – "the insurance company") for the year ended December 31, 2018 (hereafter – "the report").

2. Based on my knowledge, the report does not include any misstatement of a material fact or omit to disclose a material fact the presentation of which in the report is necessary for the purpose of ensuring that under the circumstances in which those presentations are included, they will not be misleading regarding the period covered by the report.

3. Based on my knowledge, the quarterly financial statements and other financial information included in the report reflect fairly, in all material respects, the financial position, results of operations, changes in shareholders' equity and cash flows of the insurance company for the date and periods covered by the report.

4. The Company's other certifying officers and I are responsible for establishing and maintaining controls and procedures relating to 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.

____

Yfat Reiter - CEO

March 24, 2020

Declaration

I, David Rothstein hereby declare that:

1. I reviewed the interim report of AIG Israel Insurance Company Ltd. (hereafter – "the insurance company") for the year ended December 31, 2019 (hereafter – "the report").

2. Based on my knowledge, the report does not include any misstatement of a material fact or omit to disclose a material fact the presentation of which in the report is necessary for the purpose of ensuring that under the circumstances in which those presentations are included, they will not be misleading regarding the period covered by the report.

3. Based on my knowledge, the quarterly financial statements and other financial information included in the report reflect fairly, in all material respects, the financial position, results of operations, changes in shareholders' equity and cash flows of the insurance company for the date and periods covered by the report.

4. The Company's other certifying officers and I are responsible for establishing and maintaining controls and procedures relating to 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

March 24, 2020

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

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

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

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

The Insurance Company's management with the supervision of its Board of Directors evaluates the effectiveness of the internal control of the Insurance Company over financial reporting as at December 31, 2019, based on criteria set in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation management believes that as at December 31, 2019 the internal control of the Insurance Company over financial reporting is effective.

Chairman of the Board: Mr. Ralph Mucerino ___________________

CEO: Ms. Yfat Reiter ___________________

CFO: Mr. David Rothstein ___________________

Date of approval of financial statements: March 24, 2020

Chapter C: Financial Statements

AIG Israel Insurance Company Ltd

AIG ISRAEL INSURANCE COMPANY LTD.

2019 ANNUAL REPORT

AIG ISRAEL INSURANCE COMPANY LTD.

2019 ANNUAL REPORT

TABLE OF CONTENTS

	Page
AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING	2
AUDITORS' REPORT	3
FINANCIAL STATEMENTS DENOMINATED IN NEW ISRAELI SHEKELS (NIS):	
Statement of financial position	4-5
Statement of comprehensive income	6
Statement of changes in equity	7
Statement of cash flows	8-9
Notes to the financial statements	10-113

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Auditors' Report

To the Equity Holders of

AIG ISRAEL INSURANCE COMPANY LTD.

Regarding the Audit of Internal Control over Financial Reporting

We have audited the internal control over financial reporting of AIG Israel Insurance Company Ltd. (hereinafter "the Company") as at December 31, 2019, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's board of directors and management are responsible for maintaining effective internal control over financial reporting and their assessment of the effectiveness of the Company's internal control over financial reporting is included in the Annual report. Our responsibility is to express an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB), as adopted by the Institute of Certified Public Accountants in Israel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating the risk of material weakness, and testing and evaluating the design and operating effectiveness of internal control. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Internal control over the financial reporting of a Company that is an institutional body is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards (IFRS) and in accordance with the disclosure requirements of the Commissioner of Capital Markets, Insurance and Savings under the Control of Financial Services (Insurance) Law, 1981. Internal control over financial reporting of a Company that is an institutional body includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company (including their removal from its possession); (ii) provide reasonable assurance that transactions are recorded as necessary to enable preparation of financial statements in accordance with International Financial Reporting Standards (IFRS) and in accordance with the disclosure requirements of the Commissioner of Capital Markets, Insurance and Savings under the Control of Financial Services (Insurance) Law, 1981 and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or detection of unauthorized acquisition, use,

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or disposition (including their removal from its possession) of the Company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any current evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as at December 31, 2019, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with generally accepted auditing standards in Israel, the Company’s statements of financial position as at December 31, 2019 and 2018, and the statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2019 and 2018, and our report dated _____________, 2020 expressed an unqualified opinion on those financial statements and also included emphasis of matter regarding the exposure to contingent liabilities detailed in Note 30.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 24, 2020

Somekh Chaikin
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Auditors' Report

To the Equity Holders of

AIG ISRAEL INSURANCE COMPANY LTD.

We have audited the accompanying statements of financial position of AIG Israel Insurance Company Ltd. ("the Company") as at December 31, 2019 and 2018 and the statements of comprehensive income, changes in equity and cash flows each of the two years in the period ended December 31, 2019. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audit.

The financial statements of the Company as at December 31, 2016 and for the year ended on that date were audited by other auditors whose report dated March 21, 2017 was unqualified.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditors Regulations (Auditor's Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the board of directors and management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018 and the results of its operations, changes in equity and cash flows for each of the two years in the period ended December 31, 2019, in conformity with International Financial Reporting Standards (IFRS) and in accordance with the disclosure requirements of the Commissioner of Capital Markets, Insurance and Savings under the Control of Financial Services (Insurance) Law, 1981.

Without qualifying our opinion, we hereby draw attention to Note 30 to the financial statements, regarding the exposure to contingent liabilities.

We have also audited in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB) of the United States on auditing internal control over financial reporting as adopted by the Institute of Certified Public Accountants in Israel, the internal control over financial reporting of the Company as at December 31, 2019, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated ____________, 2020 expressed an unqualified opinion on the effectiveness of internal control over financial reporting.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 24, 2020

AIG ISRAEL INSURANCE COMPANY LTD.

STATEMENTS OF FINANCIAL POSITION

	Note	December 31 2019	December 31 2018 *
		NIS in thousands	
Assets			
Intangible assets	5	**31,722**	35,047
Deferred acquisition costs	6	**157,386**	157,629
Property and equipment	7	**37,376**	11,617
Reinsurance assets	13, 28	**701,185**	718,971
Premiums collectible	9	**178,905**	180,029
Deferred tax assets, net		**-**	12,406
Other accounts receivable	8	**41,430**	41,974
		1,148,004	1,157,673
Financial investments:	10		
Marketable debt instruments		**1,796,238**	1,731,531
Non-marketable debt instruments		**90,192**	76,861
Other		**99,737**	77,738
TOTAL FINANCIAL INVESTMENTS		**1,986,167**	1,886,130
Cash and cash equivalents	11	**57,998**	87,306
TOTAL ASSETS		**3,192,169**	3,131,109

* See Note 2w(1) regarding the first-time application of IFRS 16, Leases. In accordance with the selected transition method, comparative figures have not been restated.

Ralph Mucerino	Yfat Reiter	David Rothstein
Chairman of the Board	**C.E.O**	**C.F.O**

Date of approval of financial statements by Board of Directors March 24, 2020.

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

AIG ISRAEL INSURANCE COMPANY LTD.

STATEMENTS OF FINANCIAL POSITION

	Note	December 31 2019	December 31 2018 *
		NIS in thousands	
Equity and liabilities			
EQUITY:	12		
Share capital		**6**	6
Share premium		**250,601**	250,601
Other capital reserves		**15,708**	** 15,708
Retained earnings		**585,907**	** 558,892
TOTAL EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY		**852,222**	825,207
LIABILITIES:			
Liabilities with respect to non-profit-participating insurance contracts	13	**1,904,206**	1,885,307
Liabilities with respect to current taxes		**18,300**	17,233
Liabilities with respect to deferred taxes, net	18	**5,317**	-
Liabilities with respect to employee benefits, net	29	**5,279**	3,057
Liabilities towards reinsurers	30	**278,511**	297,928
Other accounts payable	19	**128,334**	102,387
TOTAL LIABILITIES		**2,339,947**	2,305,902
TOTAL EQUITY AND LIABILITIES		**3,192,169**	3,131,109

* See Note 2w(1) regarding the first-time application of IFRS 16, Leases. In accordance with the selected transition method, comparative figures have not been restated.

** After reclassification, see Note 2y.

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

AIG ISRAEL INSURANCE COMPANY LTD.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	2019	2018 *	2017 *
		Year ended December 31		
		NIS in thousands		
Gross premiums earned	20	1,181,142	1,145,519	1,092,070
Premiums earned by reinsurers		(195,627)	(170,467)	(170,454)
Premiums earned in retention	20	985,515	975,052	921,616
Gains (losses) on investments, net, and financing income	21	95,347	(18,568)	65,483
Commission income	22	42,375	44,842	41,736
TOTAL INCOME		1,133,237	1,001,326	1,028,835
Payments and changes in liabilities with respect to insurance contracts, gross		(622,067)	(680,353)	(693,418)
Share of reinsurers in increase in insurance liabilities and payments with respect to insurance contracts		80,886	107,595	129,879
Payments and changes in liabilities with respect to insurance contracts, in retention	23	(541,181)	(572,758)	(563,539)
Commissions, marketing expenses and other acquisition costs	24	(243,787)	(243,934)	(236,780)
General and administrative expenses	25	(80,305)	(74,819)	(72,747)
Financing income (expenses)	26	456	5,006	(2,781)
TOTAL EXPENSES		(864,817)	(886,505)	(875,847)
INCOME BEFORE TAXES ON INCOME		268,420	114,821	152,988
Taxes on income	18	(91,405)	(40,579)	(55,883)
PROFIT FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		177,015	74,242	97,105
BASIC EARNINGS PER SHARE:				
Basic earnings per share		30.89	12.96	16.95
Number of shares used in computation of basic earnings per share		5,730	5,730	5,730

* See Note 2w(1) regarding the first-time application of IFRS 16, Leases. In accordance with the selected transition method, comparative figures have not been restated.

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

AIG ISRAEL INSURANCE COMPANY LTD.

STATEMENTS OF CHANGES IN EQUITY

	Share capital	Share premium*	Other reserves*	Retained earnings*	Total
	NIS in thousands				
BALANCE AS AT JANUARY 1, 2019	**6**	**250,601**	**15,708**	**558,892**	**825,207**
Total comprehensive income for the year				**177,015**	**177,015**
Dividend (see note 12c(3))				**(150,000)**	**(150,000)**
BALANCE AS AT DECEMBER 31, 2019	**6**	**250,601**	**15,708**	**585,907**	**852,222**
BALANCE AS AT JANUARY 1, 2018	6	250,601	15,708	534,650	800,965
Total comprehensive income for the year				74,242	74,242
Dividend (see note 12c(3))				(50,000)	(50,000)
BALANCE AS AT DECEMBER 31, 2018	6	250,601	15,708	558,892	825,207
BALANCE AS AT JANUARY 1, 2017	6	250,601	15,708	487,545	753,860
Total comprehensive income for the year				97,105	97,105
Dividend (see note 12c(4))				(50,000)	(50,000)
BALANCE AS AT DECEMBER 31, 2017	6	250,601	15,708	534,650	800,965

* After reclassification, see Note 2y.

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

AIG ISRAEL INSURANCE COMPANY LTD.

STATEMENTS OF CASH FLOWS

	Year ended December 31		
	2019	**2018 ***	**2017 ***
	NIS in thousands		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net cash provided by (used in) operations (Appendix A)	**152,654**	76,844	(17,402)
Interest paid	**(607)**	-	-
Interest received	**59,133**	59,494	59,325
Dividend received	**1,421**	428	63
Income taxes paid	**(91,115)**	(75,394)	(62,799)
Income taxes received	**17,830**	35,701	14,833
Net cash provided by (used in) operating activities	**140,381**	97,073	(5,980)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment in property and equipment	**(2,355)**	(5,900)	(5,132)
Investment intangible assets	**(11,960)**	(11,656)	(17,199)
Net cash used in investing activities	**(14,315)**	(17,556)	(22,331)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividend paid to the equity holders of the Company	**(150,000)**	(50,000)	(50,000)
Repayment of principal of lease liabilities	**(5,183)**	-	-
Net cash used in financing activities	**(155,183)**	(50,000)	(50,000)
EFFECT OF FLUCTUATIONS IN EXCHANGE RATE ON CASH AND CASH EQUIVALENTS	**(191)**	(131)	(3)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(29,308)**	29,386	(78,314)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**87,306**	57,920	136,234
CASH AND CASH EQUIVALENTS AT END OF YEAR	**57,998**	87,306	57,920

* See Note 2w(1) regarding the first-time application of IFRS 16, Leases. In accordance with the selected transition method, comparative figures have not been restated.

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

AIG ISRAEL INSURANCE COMPANY LTD.

STATEMENTS OF CASH FLOWS

	Year ended December 31		
	2019	**2018 ***	**2017 ***
	NIS in thousands		
APPENDIX A - CASH FLOWS FROM OPERATIONS:			
Profit for the year	**177,015**	74,242	* 97,105
Adjustments with respect to:			
Items not involving cash flows:			
Change in liability with respect to non-profit participating insurance contracts	**18,899**	130,300	108,242
Change in reinsurance assets	**17,786**	(49,543)	(10,869)
Change in deferred acquisition costs	**243**	(8,272)	(7,530)
Taxes on income	**91,405**	40,579	55,883
Change in liability with respect to employee benefits, net	**2,222**	(432)	776
Depreciation of property and equipment	**9,305**	5,337	5,513
Amortization of intangible assets	**15,285**	15,057	12,567
Losses (gains), net, on financial investments:			
Marketable debt instruments	**(29,737)**	68,575	(3,935)
Non-marketable debt instruments	**(2,743)**	(7,927)	(1,896)
Marketable shares	**-**	-	-
Marketable exchange-traded funds	**(7,223)**	8,052	(6,982)
Effect of fluctuations in exchange rate on cash and cash equivalents	**191**	131	3
	115,633	201,857	151,772
Changes in asset and liability items:			
Liabilities towards reinsurers	**(19,417)**	50,641	(9,878)
Investments in financial assets, net	**(60,334)**	(195,027)	(186,443)
Premiums collectible	**1,124**	(6,201)	(20,294)
Other accounts receivable	**544**	6,575	3,941
Other accounts payable	**(1,579)**	6,611	6,762
Liabilities for current taxes, net	**(385)**	(1,932)	(979)
	(80,047)	(139,333)	(206,891)
Adjustments with respect to interest and dividend:			
Interest paid	**607**	-	-
Interest received	**(59,133)**	(59,494)	(59,325)
Dividend received	**(1,421)**	(428)	(63)
	(59,947)	(59,922)	(59,388)
Net cash provided by (used in) operations	**152,654**	76,844	(17,402)

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

* See Note 2w(1) regarding the first-time application of IFRS 16, Leases. In accordance with the selected transition method, comparative figures have not been restated.

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

NOTE 1 - GENERAL

AIG Israel Insurance Company Ltd (hereinafter: "the Company") was incorporated in Israel on March 27, 1996 as a private, limited liability company. The Company commenced its insurance activity in May 1997. The Company does not hold any subsidiaries or related companies. The Company has no foreign operations through branches or investees.

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

The Company's sole shareholder is AIG Holdings Europe Limited (hereinafter: “AHEL”), which holds all the issued share capital of the Company. AHEL is a member of the global AIG concern.

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

Definitions:

1) The Company – AIG Israel Insurance Company Ltd.

2) The parent company – AHEL

3) The Commissioner - The Commissioner of the Capital Market, Insurance and Savings.

4) The Supervision Law – The Supervision of Financial Services (Insurance) Law, 1981.

5) Investment contracts – policies that do not constitute insurance contracts.

6) Reinsurance assets – the reinsurers’ share in the reserves for insurance contracts and in the contingent claims.

7) CPI - The Consumer Price index published by the Israeli Central Bureau of Statistics.

8) Known CPI - The CPI known at the end of the month.

9) Related parties - as defined in IAS 24, "Related Party Disclosures".

10) Interested party - as defined in the Israeli Securities (Annual Financial Statements) Regulations, 2010.

11) Life insurance reserve - Actuarial reserve calculated in accordance with the principles generally accepted for this purpose in Israel.

12) Unexpired risks reserve - Reserves calculated in accordance with the Regulations for Calculation of General Insurance Reserves.

13) Outstanding claims - Known outstanding claims, with the addition of the expected progression of claims that have been incurred but not enough reported (I.B.N.E.R.) plus claims that have been incurred but not reported (I.B.N.R).

NOTE 1 - GENERAL (continued):

14) Details of Account Regulations - Supervision of Insurance Businesses (Details of Account) Regulations, 1998.

15) The Investment Regulations – The Supervision of Financial Services (Provident Funds) (Investment Rules Applicable to Financial Institutions) Regulations, 2012.

16) Account Segregation Regulations in Life Insurance - The Supervision of Insurance Regulations (Method of Segregation of Accounts and Assets of an Insurer in Life Insurance), 1984.

17) Regulations for Calculation of General Insurance Reserves - The Supervision of Insurance Businesses Regulations (Method of Calculation of Provisions for Future Claims in General Insurance), 1984, as amended.

18) Exposure to reinsurers - Debit balances with the Company's reinsurers, including the reinsurer's share in the Company's outstanding claims and unexpired risks reserve, all being net of the reinsurer's deposits with the Company and the amount of letters of credit given against the liability of a reinsurer.

19) Insurance contract - A contract under which one party (the insurer) takes a significant insurance risk from another party (policy holder), by agreement to indemnify the policy holder if a defined uncertain future event (insurance event) adversely affects the policy holder.

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

21) Premium - Premium including fees and proceeds for auxiliary services.

22) Premiums earned - premiums that relate to the reporting period.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

a. Basis of presentation of financial statements

The Company's financial statements as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019, were prepared by the Company in accordance with International Financial Reporting Standards (hereinafter: "IFRS"), which are standards and interpretations issued by the International Accounting Standard Board. In addition, the financial statements were prepared in accordance with the disclosure requirements prescribed in the Supervision Law and the regulations enacted thereunder, where these apply to insurance companies. The financial statements have been approved for publication by the Company's Board of Directors on March 24, 2020.

The operating cycle period of the Company is one year, with the exception of compulsory vehicle and general insurance liability sectors that have a long tail, and the personal accidents and life insurance sectors that are characterized by long-term commitments.

In connection with the presentation of these financial statements, the following should be indicated:

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

1) Unless otherwise stated, the significant accounting policies described below have been applied on a consistent basis in relation to all the years presented.

2) The financial statements have been prepared under the historical cost convention, except for the principal assets and liabilities, as follows: insurance liabilities, financial instruments measured at fair value through profit or loss, liabilities for employee retirement obligations and provisions for deferred taxes.

3) The preparation of financial statements under IFRS, and especially the financial statements of an insurance company, requires management to make certain significant accounting estimates. It is also required that management exercise discretion in the process of applying the accounting policies of the Company. The principal assumptions used in the preparation of the Company's financial statements are based on actuarial estimates. Actual results could differ materially from the estimates and assumptions used by management. For information regarding the material accounting estimates and judgments applied by the Company, see Note 3 below.

b. Structure of the financial statements

The statements of financial position, which primarily include the Company's assets and liabilities, are presented in accordance with International Accounting Standard No. 1 - Presentation of Financial Statements, and in accordance with the Commissioner's directives.

c. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker in the Company who is responsible for allocating resources to and assessing the performance of the operating segments of the Company. For further details regarding the operating segments, see Note 4.

d. Translation of balances and transactions denominated in foreign currency:

1) Functional currency and presentation currency

Items reflected in the financial statements of the Company are measured in New Israel Shekels, which is the currency of the principal economic environment in which the Company operates (hereinafter: "the functional currency"). The financial statements of the Company are presented in New Israel Shekels, which is also the presentation currency of the Company, and are rounded to the nearest thousand unless stated otherwise.

The table below sets out the changes in the exchange rate of the U.S. dollar ("dollar") and the Consumer Price Index in the reporting periods:

	Exchange rate of the Dollar	CPI for particular month
	%	%
Year ended December 31, 2019	**(7.8)**	**(0.4)**
Year ended December 31, 2018	8.1	0.8

As at December 31, 2019, the exchange rate of the U.S. dollar was \$1 = NIS 3.456.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued):

d. Translation of balances and transactions denominated in foreign currency (continued:

2) Transactions and balances

Transactions denominated in currencies other than the functional currency (hereinafter: “foreign currency”) are translated into the functional currency by means of the exchange rate prevailing on the date of the transaction. Financial assets and liabilities denominated in foreign currency at the reporting date are translated into the functional currency at the exchange rate prevailing on that date. Exchange rate differentials stemming from the settlement of accounts relating to the above transactions and from the translation of monetary assets and liabilities denominated in a foreign currency are carried to profit or loss at the rates of exchange prevailing at the end of the period.

Translation differences with respect to non-monetary items, such as equity securities (e.g. shares and options) measured at fair value are translated into the functional currency at the exchange rate in effect on the date that fair value is determined and are recognized in the statement of comprehensive income as part of the gain or loss arising on changes in their fair value under "gains on investments, net, and financing income".

Gains or losses arising from exchange rate fluctuations relating to deposits and nonmarketable securities are also recognized in comprehensive income under " gains on investments, net, financing income".

Gains or losses arising from other exchange rate fluctuations are carried to comprehensive income under "financing income".

e. Property and equipment

Property and equipment are initially recognized at the cost of acquisition. Subsequent costs incurred are either added to the carrying value of the asset in question or recognized as a separate asset, as appropriate, only if it may be expected that the future economic benefits attributable to the item will flow to the Company and that the cost of the asset may be reliably measured. If part of the item of property and equipment is replaced, the carrying value of that part is eliminated from the accounts. All other repair costs, as well as maintenance expenses, are charged to profit or loss in the reporting period in which they are incurred.

Property and equipment are presented at cost less accumulated depreciation and impairment losses. The historical cost includes costs that are directly attributable to the purchase of the items.

Depreciation and impairment of property and equipment presented at cost are carried to profit or loss.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued):

e. Property and equipment (continued):

Depreciation on assets is calculated on a straight-line basis, which best reflects the anticipation pattern of consumption of the economic benefits that are inherent in the asset, in order to reduce the cost of the assets to their residual value over their estimated useful life, as follows:

	Annual depreciation rate
	%
Computers and communications equipment	20 - 33
Office furniture and equipment	7 - 15

Leasehold improvements are depreciated on a straight-line basis over the shorter of the lease term and the expected life of the improvement.

The useful life, depreciation method and residual value of an asset are reviewed at every balance-sheet date, as necessary.

Gains or losses on the disposal of assets are determined by comparing the carrying amount of the asset and the net consideration received for the asset; these gains and losses are carried to profit or loss under “other income (expenses)”.

As to impairment, see section g. below.

f. Leases

The accounting policy applied in relation to leases until December 31, 2018 is as follows:

The criteria for the classification of a lease as a financing lease or an operating lease are based on the nature of the agreements and are reviewed on the date of the engagement according to the following principles, as set out in IAS 17, Leases.

Accordingly, where the Company is a lessee and all the risks and rewards of ownership of the leased asset have been transferred to the Company, the lease is classified as a financing lease. The leased asset is measured at the beginning of the lease period as the lower of the fair value of the leased asset or the present value of the minimum lease payments. The leased asset is depreciated over its useful life or the lease period, whichever is shorter. Where the risks and rewards of ownership of the leased asset have not been substantially transferred, the lease is classified as an operating lease and the lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease period.

The accounting policy applied as from January 1, 2019 in relation to leases, is as follows:

Commencing on January 1, 2019, the Company implements IFRS 16, Leases, which supersedes IAS 17, Leases. As to the first-time implementation of the new standard, see Note w1.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued):

f. Leases (continued)

Determining whether an arrangement contains a lease:

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

a. The right to obtain substantially all of the economic rewards from

b. The use of the identified asset; and the right to direct the use of the identified asset.

Leased assets and lease liabilities

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

Since the interest rate that is implicit in the lease cannot be readily determined, the lessor’s incremental interest rate is used.

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

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

Term of the lease

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

Variable lease payments

Variable lease payments that depend on an index or a rate are initially measured using the index or rate as at the lease commencement date and included in the initial measurement of the lease liability. In the event of a change in the cash flow of future lease fees as a result of a change in the index or the rate, the balance of the liability is updated against the usage-right asset. Other variable lease payments that are not included in the measurement of the liability are recognized in profit or loss on the date that the conditions for such payments are fulfilled.

Depreciation of a right-of-use asset

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued):

f. Leases (continued)

Reassessment of a lease liability

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

g. Intangible assets (software)

Software licenses acquired are capitalized on the basis of the actual costs incurred in the acquisition of the specific software and in the preparation of that software for use. These costs are amortized by the straight-line method over the estimated useful life of the asset (three to five years). The residual values of the assets, their useful lives and their amortization method are reviewed and updated on an individual basis at every balance sheet date.

Costs relating to the development or maintenance of software are expensed as incurred.

Development costs that are directly attributable to the development of identifiable and unique software products controlled by the Company, which meet the conditions for recognition as intangible assets, as specified below, are recognized as intangible assets. Those costs include the wages of the software development employees.

Costs incurred in respect of software development projects (see below) are recognized as intangible assets when the following conditions are met:

- It is technically feasible that the intangible asset will be completed and become available for use;
- Management intends to complete the intangible asset and use or sell it;
- The intangible asset may be used or sold;
- The manner in which the intangible asset will generate probable future economic benefits is demonstrable;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
- The ability of management to reliably measure the expenditure attributable to the intangible asset during its development.

Other software development costs that do not meet the above criteria are expensed as incurred. Software development costs previously expensed are not recognized as an asset in subsequent periods. Capitalized development costs are presented as intangible assets and amortized as from the time that the asset is available for use (i.e., when it is in the location and condition necessary for it to be capable of functioning in the manner intended by management), by the straight-line method, over its useful live (which does not exceed 5 years).

As to impairment, see section h. below.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued):

h. Impairment of non-financial assets

Depreciable assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount is not recoverable. The amount of loss recognized in respect of impairment is the amount by which the carrying value of the asset exceeds its recoverable amount. The recoverable amount of an asset is the higher of the fair value of that asset, less costs to sell, and its value in use. For the purpose of impairment testing, assets are grouped by reference to the lowest possible level at which separate cash flows can be identified (cash-generating units). At each balance sheet date, non-financial assets that have been impaired are tested for the purpose of determining whether or not any previously recognized impairments of value can be reversed.

i. Non-derivative financial assets

1) Classification

The Company classifies its financial assets as either financial assets at fair value through profit or loss or as loans and receivables. The classification is determined by reference to the purpose for which the assets were acquired. Management of the Company determines the classification of financial assets on the date of their initial recognition.

a) Financial assets at fair value through profit or loss

This category is comprised of two subcategories - financial assets held for trading purposes and financial assets designated to be measured at fair value through profit or loss. A financial asset is placed in this category if it has been acquired principally for the purpose of sale in the short term or if management has specifically placed the asset in the category, if the Company manages such investments and makes purchase and sale decisions in respect thereof based on the fair value, in accordance with the manner in which the Company documented the risk management or investment strategy, or if the purpose is to prevent an accounting mismatch.

Attributable transaction costs are carried to profit or loss as incurred. These financial assets are measured at fair value and the changes therein are recognized in profit or loss.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are initially recognized at fair value with the addition of attributable transaction costs. Subsequently, loans and receivables are measured at depreciated cost by the effective interest method, less impairment losses. The loans and receivables of the Company are included in the balance sheet under “other accounts receivable”, “premiums collectible”, “nonmarketable debt instruments” and “cash and cash equivalents”.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued):

i. Non-derivative financial assets (continued)

2) Recognition and measurement

Ordinary purchases and sales of financial assets are recorded on the date of settlement of the transaction, this being the date on which the asset is transferred either to or by the Company. The investments are initially recognized at fair value with the addition of transaction costs, for all financial assets that are not presented at fair value through profit or loss. Financial assets that are presented at fair value through profit or loss are initially recognized at fair value, while the transaction costs are carried to profit or loss. Financial assets are derecognized when the rights to the cash flows from the investments have either expired or been transferred, and the Company has, in addition, transferred all the risks and rewards stemming from the ownership of those assets. In subsequent periods, financial assets at fair value through profit or loss are measured at fair value. Loans and receivables are measured at amortized cost, based on the effective interest method.

Gains or losses stemming from changes in the fair value of financial assets at fair value through profit or loss are presented in the statement of profit or loss and other comprehensive income under “gains on investments, net, and financing income in the period in which the gains or losses accrued. Dividend income from financial assets at fair value through profit or loss is recognized in the statement of profit or loss and other comprehensive income under “gains on investments, net, and financing income” insofar as the Company is entitled to this income.

<u>Determination of fair value</u>

The fair value of financial instruments quoted in an active market is based on the current selling price of those instruments. If the financial asset is traded in a market that is not active, or if the instrument is not listed for trading, the Company uses a variety of valuation methods for determining the fair value. These methods include a reliance on recent transactions carried out under market conditions, a reliance on other instruments the principal characteristics of which are similar to those of the instrument being valued, an analysis of discounted cash flows, and the use of option-pricing models that are based primarily on market data and as little as possible on data specific to the Company itself.

The carrying amount of certain financial assets, including cash and cash equivalents, trade receivables, other accounts receivable, other short-term investments and deposits is close or identical to their fair value.

As to the fair value of financial assets measured at fair value, see Note 10 below.

3) Impairment of assets presented at amortized cost

The Company assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets presented at amortized cost is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued):

i. Non-derivative financial assets (continued)

3) Impairment of assets presented at amortized cost (continued)

Objective evidence of impairment of a financial asset or a group of financial assets may include observable data that were brought to the attention of the Company regarding loss events, including: significant financial difficulties experienced by the issuer or the debtor; breach of contract, such as default or delinquency in interest or principal payments; the probability that the debtor will enter bankruptcy or other financial reorganization; the disappearance of an active market for the financial asset as a result of financial difficulties; or where observable data indicate that there is a measurable decrease in the estimated future cash flows; and other indications.

If objective evidence of impairment exists, the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of the estimated future cash flows from such asset (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate (i.e. the effective interest rate calculated for the asset upon its initial recognition in the financial statements). The carrying amount of the asset is reduced and the amount of the loss is recognized in the statement of profit or loss and other comprehensive income. As a practical expedient, the group may measure impairment on the basis of an instrument’s fair value, using an observable market price.

4) Impairment of assets presented at amortized cost (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively attributed to an event occurring after the impairment was recognized (such as an improvement in the debtor’s credit rating), the reversal of the previously recognized impairment loss is recognized in profit or loss.

j. Premiums collectible

The balance of collectible premiums relates to amounts receivable from the policy holders of the Company for insurance policies sold in the ordinary course of business.

Premiums collectible are initially recognized at fair value and subsequently measured at amortized cost by the effective interest method, less a provision for doubtful debts. A provision for doubtful debts is created when objective evidence exists to the effect that the Company is unable to collect all the outstanding debts receivable under their original terms. The carrying amount of the debt is reduced by means of a provision account, with the amount of the loss being recognized in profit or loss. When a trade receivable is not collectible, it is written off against the provision doubtful debts. Reversal of previously write offs in subsequent periods is carried to profit or loss.

k. Cash and cash equivalents

Cash and cash equivalents include cash in hand and short-term bank deposits with maturity dates not exceeding three months from the date of the investment.

l. Share capital

Ordinary shares of the company are classified as share capital.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued):

m. Trade payables

Trade payables are obligations of the Company to pay for goods or services acquired from suppliers in the ordinary course of business. Trade payables are recognized at the trade date on which the Company becomes a party to the contractual terms. Trade payables are initially recognized at fair value less any attributable transaction costs.

n. Liabilities towards reinsurers and other accounts payable

Outstanding liabilities towards reinsurers and other accounts payable are initially recognized at fair value and subsequently measured at depreciated cost by the effective interest method. The carrying amount of liabilities towards reinsurers and other accounts payable is close or identical to their fair value.

o. Current and deferred taxes

The tax expense for the period is comprised of current taxes, deferred taxes and taxes relating to prior years. Taxes are recognized in profit or loss. The amount payable or receivable for taxable income for the year, which is recognized as current taxes, is calculated on the basis of the tax laws enacted or substantially enacted at the date of the statement of financial position. Management periodically evaluates the tax positions applied in tax assessments in relation to situations where the applicable tax rules are open for interpretation and, where necessary, creates provisions that reflect the amounts that are expected to be payable to the tax authorities.

The Company recognizes deferred taxes in full, using the liability method, in respect of all timing differences between the amounts of assets and liabilities as presented in the financial statements and the equivalent amounts as computed for tax purposes. The above notwithstanding, deferred taxes are not recognized if the timing differences are created upon initial recognition of an asset or liability that on the date of the transaction do not affect profit or loss, either for accounting purposes or for tax purposes.

Deferred taxes are calculated based on the tax rates and tax loss that have been enacted, or substantially enacted, as at the date of the statement of financial position, and that are expected to apply upon the realization of the deferred tax asset or the settlement of the deferred tax liability.

Deferred tax assets are recognized for deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilized.

Deferred income tax assets and liabilities are offset only if:

- There is a legally enforceable right to offset current tax assets against current tax liabilities; and
- When the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity where there is an intention to settle the balances on a net basis.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued):

p. Employee benefits:

1) Liability for severance and pension payments

In accordance with the provisions of Israel labor laws and agreements, and in accordance with the Company’s prevailing practice, the Company is required to make severance payments to employees who are dismissed or who retire from their employment in certain circumstances. The Company’s severance-pay liability to most of its employees is handled as a defined benefit plan and, for other employees, as a defined contribution plan.

a) Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. Obligations for contributions to defined contribution pension plans are recognized as an expense in profit or loss in the periods during which related services are rendered by employees.

For employees who are covered by a defined contribution plan, the contributions are recognized as employee benefit expense commensurate with the receipt from employees of the service in respect of which they are entitled to the contributions. Prepaid contributions are recognized as an asset to the extent that a refund of the excess amounts or a reduction in the future payments is available.

b) Defined benefit plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.

In relation to the Company’s obligation to those employees covered by a defined benefit plan, the benefits receivable by an employee entitled to severance pay upon retirement are based on the number of years of service and the final salary.

The total liability for employee retirement obligations, net, presented in the statement of financial position is the present value of the defined benefit obligation as at the date of the statement of financial position, less the fair value of the plan assets. The defined benefit obligation is measured annually basis by an actuary, using the projected unit credit method.

This method takes into account the expected dates and amounts of benefit payments, subject to the anticipated rate of salary rise, mortality and employee turnover probabilities, and subject to the Company's policy regarding payment of the benefits, discounted as at the balance sheet date, using a discount rate that is based on the yield as at the reporting date of indexed corporate bonds that are denominated in NIS and with maturity dates approximating that of the Company’s obligations.

When the benefits granted by the Company to the employees are improved or reduced, that portion of the increased benefits relating to past employee service or the gain or loss on the reduction is immediately recognized in profit or loss upon the revision or reduction of the plan.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued):

p. Employee benefits (continued)

1) Liability for severance and pension payments (continued)

b) Defined benefit plan (continued)

The Company recognizes gains or losses on the settlement of a defined benefit plan when the settlement occurs. Such gains or losses are the difference between the portion of the present value of the defined benefit obligation being settled as at the settlement date, and the settlement price, including transferred plan assets.

Remeasurements of the net defined benefit liability comprise actuarial gains and losses, the return on plan assets (excluding interest) as well as any change in the effect of the asset ceiling (if any, excluding interest). Remeasurements are carried to profit or loss and not directly to retained earnings through other comprehensive income, since they are immaterial.

2) Vacation and recreation pay

Every employee is entitled by law to vacation and recreation days, both calculated on an annual basis. The degree of entitlement is based on the length of service. The Company creates a provision for vacation and recreation pay on the basis of the accumulated entitlement of each employee.

The Company expects that the vacation benefit to be fully settled within 24 months of the end of the reporting period in which the employees provide the related services. Accordingly, the liability in respect of this benefit is measured based on the amount that the Company expects to pay for the unutilized entitlement accrued as at the end of the reporting period.

3) Bonus plans

The Company recognizes a liability and an expense in respect of bonuses in the existence of a contractual obligation or where previous practice has created constructive obligation to make such payments and at least one of the following conditions is met:

(a) The formal terms and conditions of the plan include a formula for determining the amount of the benefit;
(b) The Company sets the amounts payable prior to approving the financial statements for publication; or
(c) A pattern of past activity provides clear evidence for the amount of the Company’s constructive obligation.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued):

q. Provisions

Provisions are recognized when the Company has an existing legal or constructive obligation arising out of past events; it is expected that an outflow of resources will be required to settle the liability; and the amount of the liability can be reliably estimated.

Provisions are measured at the present value of the projected cash flows required to settle the liability. The present value is computed by using a pre-tax discount rate that reflects current market evaluations of both the time value of the money and the specific risks associated with the liability. An increase in the provision that is caused by the passage of time is treated as an interest expense. As to insurance claims, see t. below.

Legal claims

A provision for claims is recognized when the Company has a present legal obligation or a constructive obligation as a result of a past event, and it is more likely than not that an outflow of the Company's resources will be required to settle the obligation, and the obligation can be reliably estimated. When the effect of the time value is material, the provision is measured at its present value.

r. Revenue recognition:

1) Premiums

Premiums stemming from general insurance operations are recorded as income on the basis of monthly yield reports. Premiums stemming from life insurance operations and long-term health insurance operations are recorded as income as and when they fall due under the terms of the relevant policy.

Revenues from gross premiums and changes in the related unearned premiums are carried to "gross premiums earned".

Premiums received for policies that commence after balance sheet date are recorded as prepaid premiums under "other accounts payable".

The income reflected in the financial statements are net of policies cancelled by policy holders and of cancellations and provisions stemming from the default of premiums, subject to the provisions of any law, and include payments for related services (towing, repairs etc.).

Premiums, commissions and claims arising from underwriting pools are recorded on a proportionate basis in accordance with the rate of the Company's participation in the relevant contracts. Compulsory vehicle insurance premiums are recognized upon payment of the premium (which may also be in the form of settlement of the debt and transferring it to a credit card company), since coverage is conditional upon payment of the premium.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued):

r. Revenue recognition (continued):

2) Income from commissions

Income from commissions received from reinsurers are recognized on the basis of the dates of entitlement to receive the commissions under the agreements, net of change in deferred acquisition costs in respect of reinsurers.

3) Gains (losses) on investments, net, and financing income (expenses)

Gains and losses on investments, net, and financing income include net gains (losses) from the sale of financial assets, interest income in respect of amounts invested, dividend income, changes in the fair value of financial assets at fair value through profit or loss, and gains and losses from exchange differences on assets. Interest income from financial assets classified as loans and receivables is recognized as it accrues, using the effective interest method. Dividend income is recognized when the Company’s right to receive payment is established. If a dividend is received in respect of marketable securities, the Company recognizes this income on the Ex dividend day.

Financing expenses include interest expenses, linkage differences and exchange differences on loans received, interest and exchange differences on deposits and on balances of reinsurers, and changes in the time value of provisions. Borrowing costs, which are not capitalized, are recognized in profit or loss using the effective interest method.

In the statements of cash flows, interest received and dividends received are presented as part of cash flows from investing activities. Interest paid and dividends paid are presented as part of cash flows from financing activities. Accordingly, financing costs that were capitalized to qualifying assets are presented together with interest paid as part of cash flows from financing activities.

s. General and administrative expenses

General and administrative expenses are classified into overhead to settle claims (which are included under "payments and change in liability with respect to insurance contracts, gross"), into acquisition related expenses (included under "commissions, marketing expenses and other acquisition costs"), and into a balance of other general and administrative expenses included in this item.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued):

t. Insurance contracts

International Financial Reporting Standard No.4, 'Insurance Contracts' (hereinafter: "IFRS 4"), which addresses insurance contracts, allows insurers to continue applying the accounting policy applied by them prior to the date of transition to IFRSs regarding insurance contracts that they issue (including related acquisition costs and related intangible assets), as well as reinsurance contracts that they purchase.

The significant accounting policies and methods of computation relating to general insurance operations and life insurance operations used in the preparation of these financial statements were as follows:

1) General insurance:

a) As to revenue recognition, see r. above.

b) The item "payments and changes in liabilities with respect to insurance contracts, gross and in retention" includes, among others, settlement and direct handling costs of claims paid and indirect expenses to settle outstanding claims, as well as an adjustment of the provision recorded in previous years for pending claims, for direct handling costs and for indirect claim settlement expenses.

c) Liabilities for insurance contracts and deferred acquisition costs

Insurance reserves and pending claims included in "liabilities with respect to insurance contracts", and the reinsurers' share in the reserve and in the pending claims included in "reinsurance assets", and deferred acquisition costs in general insurance, are computed in accordance with the Supervision of Financial Services Regulations (Insurance) (Calculation of General Insurance Reserves), 2013 (hereinafter: "the Calculation of Reserves Regulations"), the Commissioner's directives, and standard actuarial methods for computing pending claims, which are applied at the Chief Actuary's discretion. As from December 31, 2016, the "best practice" was implemented for the first-time, as discussed in (d)(5) below.

d) Liabilities for insurance contracts composed of insurance reserves and pending claims, as follows:

1) The unearned premium reserve reflects the insurance premium for the insurance period subsequent to the balance sheet date.

2) A provision for premium deficiency is created if the unearned premium (less deferred acquisition costs) does not cover the anticipated cost for insurance contracts on the basis of actuarial assessment.

3) Insurance reserves and pending claims:

a. The pending claims reflected in the financial statements are assessed by an actuary, Mr. Ernst Segal, who declared that he has assessed the pending claims in accordance with the provisions of the Supervision Law, the directives and guidelines of the Commissioner and generally accepted actuarial principles, and that, to the best of his knowledge and according to his best assessment, the pending claims are a sufficient provision for the Company's liabilities with respect to the claims pending in the abovementioned sectors, both in total and in each individual sector, as in effect on the date of the financial statements. The actuary's assessments relate to the gross amounts and to the amounts in retention.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

t. Insurance contracts (continued):

1) General insurance (continued):

d) Liabilities for insurance contracts composed of insurance reserves and pending claims, as follows (continued):

3) Insurance reserves and pending claims (continued):

b. The Company's management believes that the outstanding claims are appropriate, since they are mainly calculated on an actuarial basis and their balance includes appropriate provisions, to the extent necessary, for IBNR and IBNER. In sectors and claim types where there is statistical significance, IBNR and IBNER provisions have been computed on an actuarial basis. The use of actuarial methods that rely on the claim development is most suitable when stable and sufficient information is available on claim payments and/or individual estimates of the expected total claim cost. When information available from claim experience is insufficient, the actuary may sometimes use a calculation that weighs a known estimate (of the Company and/or a sector), such as loss ratio, with actual claim development. Greater weight is given to estimations that are based on experience, as time passes and additional claim information is accumulated.

In January 2015, the Commissioner’s Position, "Best Practice for Calculation of General Insurance Reserves for Financial Reporting" (hereinafter - "the Best Practice") was published. The Commissioner’s Position includes, among others, explanations to several principles: professionalism, consistency and prudence, which were not previously defined by the actuarial appraisal circular. The principle of prudence requires from an actuary to determine whether it is fairly likely that the reserve in retention is sufficient to cover the liabilities of the insurer. For compulsory vehicle and liability insurance, the "fairly likely" test will be a probability of at least 75%. In addition, the Commissioner’s Position also refers to the discount rate of liability flow. The Commissioner’s Position applies to financial statements as at December 31, 2015 and thereafter.

c. Provision for indirect expenses to settle pending claims - in accordance with the provisions of IFRS 4, the provisions for pending claims also incorporate a provision for indirect claim settlement expenses.

e) That part of the commission and other acquisition expenses that relates to unearned premiums in retention is carried forward to subsequent reporting periods as deferred acquisition costs. These expenses are computed, for each individual sector, as the lower of the actual expenses incurred, or a percentage of the unearned premiums (according to the standard rates stipulated by the Supervision Regulations).

f) The total amount of the subrogated claims in the balance sheet does not exceed the amount which, in the opinion of management, is collectible.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

t. Insurance contracts (continued):

2) Life insurance:

a) In accordance with the provisions of the Life Insurance Segregation of Accounts Regulations, the Company’s life insurance business and the related assets are managed separately.

b) As to revenue recognition, see r. above.

c) Life insurance reserves, the portion of those reserves attributable to reinsurers, and deferred acquisition costs have been computed by the Company’s actuary, Mr. Tom Hamo, who has declared that the amounts in question were calculated based on the Company’s data (the accuracy and completeness of which he has reviewed) in accordance with accepted actuarial methods and the data utilized by the Company in connection with its insurance plans. As to the actuarial methods used in calculating the insurance liabilities, see Note 27e(1) below.

d) Deferred acquisition costs:

1) In accordance with the provisions of the Details of Account Regulations, the deferred acquisition costs of new life insurance policies (hereinafter: "DAC") include those general and administrative expenses that relate to the acquisition of new policies. Under these provisions, the DAC are depreciated in equal annual installments over the shorter of 15 years or the term of the policy.

2) The Company's actuary assesses the recoverability of the DAC every year in order to verify that the liabilities for insurance policies, net of the DAC, for policies sold since 1999 is sufficient, and that the policies are expected to generate future income to cover the DAC deduction and the insurance liabilities, operating expenses and commissions in respect of those policies. If necessary, a special reduction is recognized such that the amount of DAC does not exceed the amount coverable by future revenue. According to the Company actuary’s declaration, deferred acquisition expenses for policies that were recognized as an asset in the accounts of the Company, can be covered by future revenue.

The assumptions used in this assessment include assumptions regarding cancellations, operating expenses, yield on assets, mortality and morbidity rates, which are determined by the Company’s actuary on an annual basis based on past experience and the relevant latest surveys known to the Company as at the date of calculation.

e) Liability adequacy testing for life insurance contracts

The Company tests the adequacy of the liabilities arising from life insurance contracts. If the test indicates that the premiums received are not sufficient to cover the discounted amounts of expected claims, fees and expenses, a special reserve is recorded for the deficiency. The test is performed at the level of each product. The cash flows are discounted at a real risk-free interest rate plus a non-liquidity premium.

The assumptions used in the above-mentioned tests include assumptions regarding cancellations, operating expenses, yield on assets, and mortality and morbidity rates; the assumptions are set by the actuary every year based on tests, past experience and other relevant studies.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued):

t. Insurance contracts (continued):

3) Health insurance:

a) As to revenue recognition, see r. above.

b) Liabilities in respect of health insurance contracts

In accordance with the directives of the Commissioner, pending claims included in the financial statements in respect of health insurance are evaluated by the actuary, Mr. Tom Hamo, who declared that he has evaluated the pending claims in accordance with the Supervision Law, the guidelines and directives issued by the Commissioner and generally accepted actuarial principles. Mr. Segal declared that, to the best of his knowledge and according to his best assessment, the pending claims are a sufficient provision for the Company’s liabilities with respect to the claims pending in the abovementioned sectors, both in total and in each individual sector, as in effect on the date of the financial statements. The actuary’s assessments relate to the gross amounts and to the amounts in retention

The provisions for pending claims, the direct expenses and overheads arising therefrom as well as provisions for IBNR were included under "liabilities with respect to insurance contracts".

u. Earnings per share

The computation of basic earnings per share is based on the profit distributable to ordinary shareholders, divided by the number of ordinary shares in circulation during the period.

v. Transactions with controlling shareholders and dividend distribution

Assets and liabilities included in a transaction with a controlling shareholder are measured at fair value on the date of the transaction. Since the transaction is on the equity level, the Company recognizes the difference between the fair value and the consideration from the transaction to equity.

The distribution of dividends to the Company's shareholders is recognized as a liability in the Company’s statement of financial position in the period in which the Company's board of directors approves the distribution of such dividends.

w. First-time application of new standards, amendments to standards and interpretations

1. IFRS 16, Leases:

Commencing on January 1, 2019 (hereinafter: “date of first-time implementation”), the Company implements IFRS 16, Leases (hereinafter: “IFRS 16” or “the Standard”), which supersedes the provisions of IAS 17, Leases (hereinafter: “the Previous Standard”). The principal effect of implementation of the Standard is the cancellation of the existing requirement that lessees classify the lease as an operating or a financing lease. Instead the new Standard presents a uniform model for the accounting treatment of all leases, similarly to the treatment of financing leases under the Previous Standard. Up until the date of first-time implementation of the Standard, the Company classified the leases in which it is the lessee as operating leases, as it did not substantially retain all of the risks and rewards from the assets.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued):

w. First-time application of new standards, amendments to standards and interpretations (continued):

1. IFRS 16, Leases (continued):

Pursuant to the Standard, for agreements in which the Company is the lessee, the Group recognizes a right-of-use asset and a lease liability on the effective date of the lease, excluding in the exceptions set out in the Standard, under which lessees may choose not to implement the requirements to recognize right-of-use asset and a liability in relation to short-term leases of up to one year and/or leases where the base asset has a low value. Accordingly, the Company recognizes depreciation and amortization expenses in respect of a usage-right asset, examines the need for an impairment provision in respect of a usage-right asset, in accordance with the provisions of IAS 36, and recognizes financing expenses for a lease liability. Therefore, as at the date of first-time implementation of the Standard, the lease payments relating to assets under operating lease, previously carried to general and administrative expenses in the statement of profit or loss, are recognized as assets and the related depreciation expenses are presented as depreciation and amortization expenses.

The Company has opted for the modified retrospective adoption of the Standard, without restatement of the comparative figures. For all leases, the balance of the lease liability on the date of first-time implementation of the Standard was calculated at the present value of the balance of the future lease payments, discounted at the Company’s incremental interest rate as at such date, calculated based on the average duration of the lease commencing on the date of first-time implementation, commensurate with the recognition of a right-of-use asset in the same amount. Therefore, the implementation of the Standard did not affect the equity of the Company on the date of first-time implementation.

As a result of the implementation of IFRS 16, as at January 1, 2019, the Company recognized right-of-use assets and lease liabilities of NIS 32,709 thousand in respect of leases that were classified as operating leases under IAS 17. The depreciated balance of the aforesaid right-of-use assets and lease liabilities as at December 31, 2019 is NIS 27,257 thousand and NIS 27,526 thousand, respectively. Right-of-use assets and lease liabilities are presented under property and equipment and under accounts payable, respectively, in the statements of financial position. Additionally, the classification of lease payments in the statement of cash flows was prospectively modified, such that the principal component is included in financing activities and the interest component is presented in accordance with the Company’s policy concerning interest paid.

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

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued):

w. First-time application of new standards, amendments to standards and interpretations (continued):

2. IFRIC 23, Uncertainty over Income Tax Treatments

The Interpretation clarifies the implementation of the recognition and measurement requirements of IAS 12 where there is uncertainty over income tax treatments. According to the Interpretation, in determining taxable income (loss) for tax purposes, the tax bases, carryforward tax losses, unutilized tax credit and tax rates in the event of uncertainty, the Company has to consider whether it is probable that the tax authority will accept its elected tax treatment. If it is probable that the tax authority will accept the tax treatment elected by the Company, the Company will recognize the tax effects on the financial statements consistently with said tax treatment. In opposition, if it is not probable that the tax authority will accept the elected tax treatment, the uncertainty should be reflected in the accounts by using one of the following methods: the most likely outcome, or the expected value. In considering whether it is probable or not that the tax authority will accept the tax treatment elected, it should be assumed that the tax authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so. Additionally, changes in circumstances or new information that could alter such assessment must be considered. The application of the Interpretation did not have a material effect on the financial statements of the Company.

x. New standards and interpretations not yet adopted

1) IFRS 9 (2014), Financial Instruments (hereinafter: “the Standard”).

The Standard replaces the existing provisions of IAS 39, Financial Instruments: Recognition and Measurement. The Standard includes updated provisions for the classification and measurement of financial instruments and applies to all financial assets that are within the scope of IAS 39. The Standard determines that, upon initial recognition, all financial assets are to be measured at fair value. In subsequent periods, debt instruments will be measured at amortized cost only if the two following cumulative criteria are met:

- The asset is held within the framework of a business model that is designated to hold the assets for the purpose of collecting the contractual cash flows deriving from them (hereinafter: “the Principal and Interest Only Criterion”);
- Pursuant to the contractual terms of the financial asset, the Company is entitled, on certain dates, to receive cash flows that constitute solely principal payments and interest payments on the balance of the principal.

The subsequent measurement of all the remaining debt instruments and other financial assets will be at fair value. The Standard makes a distinction between debt instruments to be measured at fair value through profit or loss and debt instruments to be measured at fair value through other comprehensive income. Financial assets that are equity instruments will be measured in subsequent periods at fair value and the differences will be carried to profit or loss or to other comprehensive income (loss), based on the accounting policy elected by the Company for each individual instrument. Equity instruments that are held for trading must be measured at fair value through profit or loss.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued):

x. New standards and interpretations not yet adopted (continued):

Additionally, the Standard contains a new model for recognizing expected credit losses (‘expected credit loss’ model) in respect of most types of financial debt assets, as well as new provisions and requirements concerning hedge accounting.

1) **IFRS 9 (2014), Financial Instruments (hereinafter: “the Standard”) (continued):**

The Standard is effective for annual periods commencing on January 1, 2018. Early adoption is permitted.

In view of the Company’s decision to adopt the amendment to IFRS 4, Insurance Contracts, and to postpone the adoption of IFRS 9 until the anticipated date of first-time implementation of IFRS 17, Insurance Contracts, as described in Note 2x(2) and 2x(3) below, the Company has not yet examined the implications of the adoption of the Standard on the financial statements.

2) **Amendment to IFRS 4, Insurance Contracts, implementation of IFRS 9, Financial Instruments, together with IFRS 4 (hereinafter: “the Amendment”)**

The Amendment presents two optional exemptions for the upcoming implementation of IFRS 9 by insurers:

- Deferring the effective date of IFRS 9 to January 1, 2021 (or to an earlier date, if the effective date of the forthcoming new standard regarding insurance contracts falls earlier) for insurance companies that are predominantly engaged in the issue of insurance contracts that are within the scope of IFRS 4 and that have not yet adopted an earlier version of IFRS 9. During the deferral period, the Company will continue implementing the provisions of IAS 39, Financial instruments: Recognition and Measurement. Additionally, a company implementing the deferral options would be required to include various disclosures in its financial statements. Such disclosures include, inter alia, disclosure of fair value and disclosure of changes in the fair value of different groups of financial assets, based on their classification under IFRS 9, as well as a disclosure on the exposure to credit risks.
- Adjustment of the results under IFRS 9 in respect of financial assets that relate to insurance contracts and are measured at fair value through profit or loss in accordance with IFRS 9.

The implementation of the exemptions provided for in the Amendment relates to the effective date of IFRS 9 and is voluntary for companies that meet the criteria set out in the Amendment. Since the Company meets the criteria for the deferral of the effective date of IFRS 9, the Company has decided to defer the date of adoption of IFRS 9 until January 1, 2021, the anticipated date of first-time implementation of IFRS 17, Insurance Contracts.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued):

x. New standards and interpretations not yet adopted (continued):

2) **Amendment to IFRS 4, Insurance Contracts, implementation of IFRS 9, Financial Instruments, together with IFRS 4 (hereinafter: "the Amendment") (continued):**

According to the standard, the entity's activities are substantively associated with insurance when:

a) The carrying amount of its liabilities which arise from insurance contracts, including deposit components, is significant relative to the total carrying amount of all liabilities; and

b) The book carrying amount of the liabilities that are associated with insurance, relative to the total carrying mount of all liabilities, is:
- Greater than 90%; or
- 80%-90% (inclusive), and the insurer has no significant activities unrelated to insurance.

The Company meets the above criteria, as its activities are substantively related to insurance, and therefore implements the Temporary Exemption from IFRS 9 that is afforded by IFRS 4. As at December 31, 2015, the carrying amount of the Company's liabilities arising from contracts that are within the scope of IFRS 4 constitutes approximately 96% of the total carrying amount of the Company's liabilities. Since the aforesaid date, no changes occurred in the activities of the Company that require reassessment.

3) **IFRS 17, Insurance Contracts (hereinafter: "the Standard")**

In June 2019, a proposed amendment to IFRS 17 was published, which proposes, inter alia, postponing by one year the first-time implementation of the Standard to January 1, 2022, with a corresponding deferral of the optional exemption afforded to insurers that meet certain criteria, of adopting the provisions of IFRS 9 as from January 1, 2022. Additionally, the International Accounting Standards Board plans to discuss, shortly before the end of the first quarter of 2020, comments on the proposal that call for the deferral of the first-time implementation by an additional year, i.e. to January 1, 2023 (see also Note 3w(3) below). The updated standard is expected to be published in mid-2020.

The Standard establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts (including reinsurance contracts), superseding the relevant existing provisions. The new Standard may have significant impact on the financial statements of insurance companies.

According to the Standard, entities will recognize and measure a liability for future coverage in respect of groups of insurance contracts at the risk-adjusted present value of the future cash flows from the contracts that incorporates all of the available for the cash flows in a manner that is consistent with observable market input; with the addition of (for a liability) or less (for an asset) the amount representing the unrealized profit from the group of contracts (the contractual service margin). Income from insurance contracts, for each reporting period, is derived from changes in the liability for future coverage relating to the various components of the consideration that the insurance company demands for the contract (e.g. insurance contract acquisition costs, risk adjustment, allocation of the contractual service margin to the period, anticipated claims and expenses for the period).

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued):

x. New standards and interpretations not yet adopted (continued):

3) **IFRS 17, Insurance Contracts (hereinafter: "the Standard")**

Nevertheless, an entity may apply a more simplified measurement model to certain contracts (e.g. contracts with insurance coverage of up to one year), under which the amount attributed to remaining services will be measured by allocating the premium over the coverage period (Premium Allocation Approach).

The Standard is effective for annual periods commencing on January 1, 2021. Early adoption is permitted. The Standard is to be applied retrospectively. If this is impracticable, one of the two following approaches should be applied: retrospective implementation with certain exemptions or implementation of the fair value approach.

The Company is currently considering the implications of the adoption of the Standard on the financial statements. The Company will not opt for early implementation.

In its meeting on March 2020, the IASB decided to amend the Standard and postpone the first-time application of the Standard by two years, to January 1, 2023. The optional practical expedient granted to insurers that comply with certain criteria, to adopt the provisions of IFRS 9 commencing on January 1, 2023, will be postponed accordingly. The amended Standard is expected to be published in mid-2020.

y. Reclassification

An amount of NIS 4,624 thousand as at January 1, 2017 was reclassified from retained earnings to other reserves. This relates to assessment discussions in the United States concerning income of NIS 4,624 thousand recognized in respect of management services provided to the Company in 2016 by AIG companies in the United States. The Israeli tax authorities consented to the recognition of an expense in Israel subject to specific conditions, with which the Company has complied.

NOTE 3 - SIGNIFICANT ACCOUNTING ESTIMATES AND AREAS OF DISCRETION

Estimates and judgments are constantly tested, and are based on past experience and other factors, including expectations with regard to future events that are deemed to be reasonable in the light of existing circumstances.

Material accounting estimates and assumptions

The Company formulates estimates and assumptions with respect to the future. By their very nature, it is rare for accounting estimates to be identical to actual results. The estimates and assumptions that may give rise to a significant risk of the performance of material adjustments to the carrying amount of assets and liabilities in the following fiscal year are described below.

a. Actuarial estimates with respect to insurance liabilities

The actuarial assessments are based on statistical estimates that contain an element of uncertainty. The statistical estimates are based on various assumptions that may not necessarily be realized. The assumptions employed for the purposes of the actuarial forecasts affect the final level of the provision.

Accordingly, the actual cost of claims may be higher or lower than the statistical estimate. Previous assumptions may change in the light of new information that may be received. In such case, the provision will change in accordance with the change in assumptions and in the light of actual results, and the differences arising during the reporting year will be included in the insurance business report.

Had the actuarial results been higher or lower by 10% compared with the estimates of the Company's actuary, the gross amount of the insurance liabilities would have been higher or lower by app. NIS 143 million.

b. Provisions for lawsuits

Several legal claims and petitions to certify claims as class actions are pending against the Company. In evaluating the chances of legal claims that were filed against it, the Company relied on opinions prepared by its legal counsel. These legal opinions are based on the legal counsel's best professional judgment, taking into consideration the stage of the proceedings and the accumulated legal experience with the various issues. Since the outcome of the claims are decided by the courts, they may differ from said assessments. See Note 30 for additional information.

c. Impairment testing of deferred acquisition costs in life insurance

As discussed in Note 2t(2), the Company tests whether the amount of DAC exceeds the amount coverable by estimated future income from existing insurance contracts, and, as necessary, reduces DAC accordingly. This test requires the use of estimates concerning the anticipated amounts of income from existing insurance contracts, including an estimation of the useful life of the existing insurance policy portfolio.

d. Deferred taxes

The Company recognizes deferred tax assets and liabilities based on the differences between the carrying amounts and the tax bases of assets and liabilities. The Company regularly reviews its deferred tax assets for recoverability, based on historical taxable income, projected future taxable income, the expected timing of the reversals of existing temporary differences and the implementation of tax planning strategies. If the Company is unable to generate sufficient future taxable income, or if there is a material change in the actual effective tax rates or time period within which the underlying temporary differences become taxable or deductible, the Company could be required to eliminate a portion of the deferred tax assets or increase the deferred tax liabilities resulting in an increase in its effective tax rate and an adverse impact on its reported operating results.

NOTE 4 - OPERATING SEGMENTS

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

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

a. Life insurance segment

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

b. Health insurance segment

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

c. General insurance segment

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

- <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 (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 damage occasioned to a third party as a result of a mistake or professional negligence. Insurance coverage to directors and officers in respect of an unlawful act or oversight by the directors and officers in their professional capacity, for funds misappropriation damages and for cyber events.

- <u>Property and others sector</u>

  Property sectors other than motor vehicles and liability, consisting primarily of property insurance, subcontractors and mechanical breakdown insurance.

- <u>Other liability sectors</u>

  Other liability sectors provide cover for the liability of the insured with respect to damage that the insured causes to a third party. These sectors include: third-party liability, employer's liability and product liability.

NOTE 4 - OPERATING SEGMENTS (continued):

	Year ended December 31, 2019				
	Life insurance	**Health insurance ***	**General insurance**	**Not allocated to operating segments**	**Total**
			NIS in 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**
Gains on investments, net, and financing income	**5**	**5,768**	**52,446**	**37,128**	**95,347**
Commission income	**9,162**	**279**	**42,934**		**52,375**
Total income	**119,584**	**207,271**	**769,254**	**337,128**	**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 in insurance liabilities and payments with respect to insurance contracts	**13,945**	**1,426**	**65,515**		**80,886**
Payments and change in liabilities for 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)	**-**	**-**	**1,525**	**(1,069)**	**456**
Total comprehensive income before tax	**33,202**	**54,023**	**145,136**	**36,059**	**268,420**

* The health insurance segment mainly includes the results of the personal accidents sector.

NOTE 4 - OPERATING SEGMENTS (continued):

	Year ended December 31, 2018				
	Life insurance	Health insurance *	General insurance	Not allocated to operating segments	Total
	NIS in thousands				
Gross premiums earned	129,951	226,983	788,585		1,145,519
Premiums earned by reinsurers	(25,188)	(3,077)	(142,202)		(170,467)
Premiums earned in retention	104,763	223,906	646,383		975,052
Gains (losses) on investments, net, and financing income	2	(827)	(6,463)	(11,280)	(18,568)
Commission income	6,159	289	38,394		44,842
Total income	110,924	223,368	678,314	(11,280)	1,001,326
Payments and change in liabilities with respect to insurance contracts, gross	(41,280)	(98,611)	(540,462)		(680,353)
Share of reinsurers in increase in insurance liabilities and payments with respect to insurance contracts	8,365	2,237	96,993		107,595
Payments and change in liabilities for insurance contracts, in Retention	(32,915)	(96,374)	(443,469)		(572,758)
Commissions and other acquisition costs	(38,784)	(55,311)	(149,839)		(243,934)
General and administrative expenses	(11,642)	(26,148)	(37,029)		(74,819)
Financing income	-	-	1,679	3,327	5,006
Total comprehensive income (loss) before tax	27,583	45,535	49,656	(7,953)	114,821

* The health insurance segment mainly includes the results of the personal accidents sector.

NOTE 4 - OPERATING SEGMENTS (continued):

	Year ended December 31, 2017				
	Life insurance	**Health insurance ***	**General insurance**	**Not allocated to operating segments**	**Total**
	NIS in thousands				
Gross premiums earned	127,051	235,232	729,787		1,092,070
Premiums earned by reinsurers	(22,794)	(3,283)	(144,377)		(170,454)
Premiums earned in retention	104,257	231,949	585,410		921,616
Gains on investments, net, and financing income	2	4,533	33,341	27,607	65,483
Commission income	4,066	367	37,303		41,736
Total income	108,325	236,849	656,054	27,607	1,028,835
Payments and change in liabilities with respect to insurance contracts, gross	(52,426)	(110,908)	(530,084)		(693,418)
Share of reinsurers in increase in insurance liabilities and payments with respect to insurance contracts	9,261	3,614	117,004		129,879
Payments and change in liabilities for insurance contracts, in Retention	(43,165)	(107,294)	(413,080)		(563,539)
Commissions and other acquisition costs	(39,957)	(56,594)	(140,229)		(236,780)
General and administrative expenses	(9,828)	(28,666)	(34,253)		(72,747)
Financing income / (expenses)	-	-	711	(3,492)	(2,781)
Total comprehensive income (loss) before tax	15,375	44,295	69,203	24,115	152,988

* The health insurance sector mainly includes the results of the personal accidents sector.

NOTE 4 - OPERATING SEGMENTS (continued):

	December 31, 2019				
	Life insurance	Health insurance *	General insurance	Not allocated to operating segments	Total
	NIS in thousands				
Assets					
Intangible assets	-	-	-	31,722	31,722
Deferred acquisition costs	-	325	69,911	87,150	157,386
Financial investments:					
Marketable debt instruments	-	111,716	1,116,331	568,191	1,796,238
Non-marketable debt instruments	-	-	89,146	1,046	90,192
Other	-	-	-	99,737	99,737
Total financial investments	-	111,716	1,205,477	668,974	1,986,167
Cash and cash equivalents	2,331	6,524	22,143	27,000	57,998
Reinsurance assets	14,237	2,068	684,880	-	701,185
Premiums collectible	40	6,956	171,909	-	178,905
Other assets	3,716	-	37,714	37,376	78,806
Total assets	20,324	127,589	2,192,034	852,222	3,192,169
Liabilities					
Liabilities for non-profit-participating insurance contracts	59,135	107,106	1,737,965	-	1,904,206
Other liabilities	13,319	327	422,095	-	435,741
Total liabilities	72,454	107,433	2,160,060	-	2,339,947

* The health sector mainly includes the results of the personal accidents sector.

NOTE 4 - OPERATING SEGMENTS (continued):

	December 31, 2018				
	Life insurance	**Health insurance ***	**General insurance**	**Not allocated to operating segments**	**Total**
	NIS in thousands				
Intangible assets	-	-	-	35,047	35,047
Deferred acquisition costs	-	362	73,887	83,380	157,629
Financial investments:					
Marketable debt instruments	-	124,893	1,025,386	581,252	1,731,531
Non-marketable debt instruments	-	-	75,688	1,173	76,861
Other	-	-	-	77,738	77,738
Total financial investments	-	124,893	1,101,074	660,163	1,886,130
Cash and cash equivalents	4,365	11,562	36,379	35,000	87,306
Reinsurance assets	14,058	2,171	702,742	-	718,971
Premiums collectible	69	5,708	174,252	-	180,029
Other assets	3,321	-	51,059	11,617	65,997
Total assets	21,813	144,696	2,139,393	825,207	3,131,109
Liabilities					
Liabilities for non-profit-participating insurance contracts	58,416	124,839	1,702,052	-	1,885,307
Other liabilities	12,318	252	408,025	-	420,595
Total liabilities	70,734	125,091	2,110,077	-	2,305,902

* The health sector mainly includes the results of the personal accidents sector.

NOTE 4 - OPERATING SEGMENTS (continued):

Additional data for the general insurance segment

	Year ended December 31, 2019						
	Compulsory vehicle insurance	**Vehicle property insurance**	**Home insurance**	**Professional liability**	**Property and others***	**Other liability sectors***	**Total**
	NIS in 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	6,60	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
Gains on investments, 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 liabilities with respect to insurance contracts, gross	(141,639)	(229,708)	(63,766)	(19,792)	(27,680)	(10,478)	(493,063)
Share of reinsurers in increase of insurance liabilities and payments with respect to insurance contracts	8,738	-	1,750	21,396	28,061	5,570	65,515
Payments and change in liabilities with respect to insurance contracts, in retention	(132,901)	(229,708)	(62,016)	1,604	381	(4,908)	(427,548)
Commissions, marketing expenses and other acquisition costs	(26,745)	(63,984)	(29,663)	(19,467)	(8,722)	(7,824)	(156,405)
General and administrative expenses	(10,267)	(15,756)	(13,798)	(1,068)	(498)	(303)	(41,690)
Financing income	-	695	798	16	-	16	1,525
Total expenses	(169,913)	(308,753)	(104,679)	(18,915)	(8,839)	(13,019)	(624,118)
Total comprehensive income before tax	29,410	74,875	13,956	14,817	6,102	5,976	145,136
Gross liabilities with respect to insurance contracts as at December 31, 2019	738,523	266,120	123,199	258,852	95,846	255,425	1,737,965
Liabilities with respect to insurance contracts in retention as at December 31, 2019	589,271	266,120	116,415	38,470	1,714	41,095	1,053,085

* Property and others consist primarily of the results of the property insurance sector, which accounts for 97% of total premiums in said sectors.
Other liability sectors consist primarily of the results of the third-party liability insurance sector, which accounts for 46% of total premiums in said sectors.

NOTE 4 - OPERATING SEGMENTS (continued):

Additional data for the general insurance segment (continued)

	Year ended December 31, 2018						
	Compulsory vehicle insurance	**Vehicle property insurance**	**Home insurance**	**Professional liability**	**Property and others***	**Other liability sectors***	**Total**
	NIS in thousands						
Gross premiums	174,445	373,587	19,209	71,157	46,367	32,053	816,818
Reinsurance premiums	(2,403)	(17)	(12,442)	(65,370)	(45,445)	(27,667)	(153,344)
Premiums in retention	172,042	373,570	106,767	5,787	922	4,386	663,474
Change in balance of unearned premiums, in retention	(5,117)	(6,187)	(6,130)	(115)	543	(85)	(17,091)
Premiums earned, in retention	166,925	367,383	100,637	5,672	1,465	4,301	646,383
Losses on investments, net, and financing income	(2,819)	(1,501)	(395)	(812)	(141)	(795)	(6,463)
Commission income	-	-	1,536	18,562	10,759	7,537	38,394
Total income	164,106	365,882	101,778	23,422	12,083	11,043	678,314
Payments and change in liabilities with respect to insurance contracts, gross	(152,650)	(229,213)	(63,216)	(74,476)	(12,352)	(8,555)	(540,462)
Share of reinsurers in increase of insurance liabilities and payments with respect to insurance contracts	19,197	-	5,161	58,658	10,554	3,423	96,993
Payments and change in liabilities with respect to insurance contracts, in retention	(133,453)	(229,213)	(58,055)	(15,818)	(1,798)	(5,132)	(443,469)
Commissions, marketing expenses and other acquisition costs	(26,181)	(62,751)	(30,314)	(16,750)	(6,645)	(7,198)	(149,839)
General and administrative expenses	(8,749)	(13,592)	(12,598)	(980)	(621)	(489)	(37,029)
Financing income	-	846	801	23	-	9	1,679
Total expenses	(168,383)	(304,710)	(100,166)	(33,252)	(9,064)	(12,810)	(628,658)
Total comprehensive income (loss) before tax	(4,277)	61,172	1,612	(10,103)	3,019	(1,767)	49,656
Gross liabilities with respect to insurance contracts as at December 31, 2018	689,536	270,203	101,903	277,189	93,349	269,872	1,702,052
Liabilities with respect to insurance contracts in retention as at December 31, 2018	542,437	270,203	95,110	47,635	3,638	40,287	999,310

* Property and others consist primarily of the results of the property insurance sector, which accounts for 97% of total premiums in said sectors.
Other liability sectors consist primarily of the results of the third-party liability insurance sector, which accounts for 42% of total premiums in said sectors.

NOTE 4 - OPERATING SEGMENTS (continued):

Additional data for the general insurance segment (continued)

	Year ended December 31, 2017						
	Compulsory vehicle Insurance	**Vehicle property insurance**	**Home insurance**	**Professional liability**	**Property and others***	**Other liability sectors***	**Total**
	NIS in thousands						
Gross premiums	160,274	352,489	108,187	65,312	40,769	34,873	761,904
Reinsurance premiums	(2,214)	(108)	(12,915)	(59,932)	(39,038)	(30,167)	(144,374)
Premiums in retention	158,060	352,381	95,272	5,380	1,731	4,706	617,530
Change in balance of unearned premiums, in retention	(8,178)	(23,226)	(2,769)	1,587	(62)	528	(32,120)
Premiums earned, in retention	149,882	329,155	92,503	6,967	1,669	5,234	585,410
Gains on investments, net, and financing income	14,486	7,435	2,168	4,011	760	4,481	33,341
Commission income	-	-	1,546	17,897	10,011	7,849	37,303
Total income	164,368	336,590	96,217	28,875	12,440	17,564	656,054
Payments and change in liabilities with respect to insurance contracts, gross	(149,788)	(228,667)	(37,637)	(69,975)	(20,704)	(23,313)	(530,084)
Share of reinsurers in increase of insurance liabilities and payments with respect to insurance contracts	21,846	-	1,579	52,658	18,903	22,018	117,004
Payments and change in with respect to insurance contracts, in retention	(127,942)	(228,667)	(36,058)	(17,317)	(1,801)	(1,295)	(413,080)
Commissions, marketing expenses and other acquisition costs	(22,698)	(59,411)	(27,320)	(16,511)	(6,758)	(7,531)	(140,229)
General and administrative expenses	(6,918)	(13,061)	(10,984)	(1,570)	(1,023)	(697)	(34,253)
Financing income	-	-	707	4	-	-	711
Total expenses	(157,558)	(301,139)	(73,655)	(35,394)	(9,582)	(9,523)	(586,851)
Total comprehensive income (loss) before tax	6,810	34,451	22,562	(6,519)	2,858	8,041	69,203
Gross liabilities with respect to insurance contracts as at December 31, 2017	625,446	261,904	74,596	220,250	92,857	282,754	1,557,807
Liabilities with respect to insurance contracts in retention as at December 31, 2017	492,800	261,904	68,176	42,133	3,632	37,442	906,087

* Property and others consist primarily of the results of the property insurance sector, which accounts for 96% of total premiums in said sectors.
Other liability sectors consist primarily of the results of the third-party liability insurance sector, which accounts for 44% of total premiums in said sectors.

NOTE 5 - INTANGIBLE ASSETS:

	Software
	NIS in thousands
Cost:	
Balance as at January 1, 2018	100,900
Additions during the year *	11,656
Retirements in during the year	(4,252)
Balance as at December 31, 2018	**108,304**
Additions during the year *	11,960
Retirements in during the year	(12,904)
Balance as at December 31, 2019	**107,360**
Accumulated amortization:	
Balance as at January 1, 2018	62,452
Additions during the year	15,057
Retirements during the year	(4,252)
Balance as at December 31, 2018	**73,257**
Additions during the year	15,285
Retirements during the year	(12,904)
Balance as at December 31, 2019	**75,638**
Depreciated balance:	
As at December 31, 2019	**31,722**
As at December 31, 2018	35,047

* Additions in respect of computer software include additions in respect of proprietary development: in 2019 - NIS 10,627 thousand and in 2018 - NIS 10,250 thousand.

NOTE 6 - DEFERRED ACQUISITION COSTS:

a. Composition

	December 31	
	2019	2018
	NIS in thousands	
Life insurance (see section b.)	**87,150**	83,380
Health insurance (see section b.)	**325**	362
General insurance	**69,911**	73,887
Total	**157,386**	157,629

b. Changes in deferred acquisition costs (life insurance and health insurance):

	Life insurance	Health Insurance	Total
		NIS in thousands	
Balance as at January 1, 2018	82,133	477	82,610
Additions (acquisition costs)	24,275	362	24,637
Current depreciation	(6,236)	(477)	(6,713)
Depreciation relating to cancellations	(16,792)	-	(16,792)
Balance as at December 31, 2018	83,380	362	83,742
Additions (acquisition costs)	28,212	325	28,537
Current depreciation	(7,235)	(362)	(7,597)
Depreciation relating to cancellations	(17,207)	-	(17,207)
Balance as at December 31, 2019	87,150	325	87,475

NOTE 7 - PROPERTY AND EQUIPMENT:

a. Composition of assets and accumulated depreciation thereon, grouped by major classifications, and changes therein in 2019, are as follows:

	Computers and communications equipment	Office furniture and equipment	Leasehold improvements	Total
	NIS in thousands			
Cost:				
Balance as at January 1, 2019	29,154	7,239	7,840	44,233
Recognition of right-of-use assets upon first-time implementation of IFRS 16 *	-	-	32,709	32,709
Balance as at January 1, 2019 after first-time implementation	29,154	7,239	40,549	76,942
Additions during year	1,999	204	152	2,355
Retirements during year	(9,780)	(994)	(992)	(11,766)
Balance as at December 31, 2019	21,373	6,449	39,709	67,531
Accumulated depreciation:				
Balance as at January 1, 2019	24,546	3,098	4,972	32,616
Depreciation in respect of right-of-use assets	-	-	5,452	5,452
Additions during year	2,711	655	487	3,853
Retirements during year	(9,780)	(994)	(992)	(11,766)
Balance as at December 31, 2019	17,477	2,759	9,919	30,155
Depreciated balance as at December 31, 2019	3,869	3,690	29,790	37,376
Carrying amount of right-of-use assets as at December 31, 2019	-	-	27,257	27,257
Carrying amount of all items of property and equipment as at December 31, 2019	3,896	3,690	2,533	10,119

* See Note 2w(1) regarding the first-time application of IFRS 16, Leases. In accordance with the selected transition method, comparative figures have not been restated.

In 2019, the Group wrote off property and equipment in the amount of NIS 11,766 thousand (2018: NIS 7,381 thousand) that was fully depreciated and is not used by the Company.

NOTE 7 - PROPERTY AND EQUIPMENT (Continued):

b. Composition of assets and accumulated depreciation thereon, grouped by major classifications, and changes therein in 2018, are as follows:

	Computers and communications equipment	Office furniture and equipment	Leasehold improvements	Right-of-use assets	Total
	NIS in thousands				
Cost:					
Balance as at January 1, 2018	29,686	7,990	8,038	-	45,714
Additions during year	2,066	1,151	2,683	-	5,900
Retirements during year	(2,598)	(1,902)	(2,881)	-	(7,381)
Balance as at December 31, 2018	29,154	7,239	7,840	-	44,233
Accumulated depreciation:					
Balance as at January 1, 2018	23,336	3,730	7,594	-	34,660
Additions during year	3,808	1,270	259	-	5,337
Retirements during year	(2,598)	(1,902)	(2,881)	-	(7,381)
Balance as at December 31, 2018	24,546	3,098	4,972	-	32,616
Depreciated balance as at December 31, 2018	4,608	4,141	2,868	-	11,617

NOTE 8 - OTHER ACCOUNTS RECEIVABLE:

	December 31	
	2019	**2018**
	NIS in thousands	
Prepaid expenses	**18,540**	19,081
Employees	**249**	144
Insurance companies and insurance brokers	**19,249**	19,372
Related parties (see note 28a)	**2,396**	2,487
Other	**996**	890
Total other accounts receivable	**41,430**	41,974

As at December 31, 2019 and December 31, 2018, no allowance for doubtful accounts was required in respect of other accounts receivable.

NOTE 9 - PREMIUMS COLLECTIBLE:

a. Composition:

	December 31	
	2019	**2018 ****
	NIS in thousands	
Premiums collectible (*)	**185,085**	189,088
Less – allowance for doubtful accounts (see section c.)	**(6,180)**	(9,059)
Total premiums collectible	**178,905**	180,029
(*) Includes backdated checks, payments by standing order and payments though credit card companies	**163,060**	162,220

As to the linkage terms of the premium collectible, see Note 27c(3).

The Company has no balance of premium collectible from related parties, see note 28a.

NOTE 9 - PREMIUMS COLLECTIBLE (Continued):

b. Aging:

	December 31	
	2019	**2018**
	NIS in thousands	
Unimpaired premiums collectible:		
Not overdue	**175,740**	176,738
Overdue (*):		
Less than 90 days	**560**	792
Between 90 and 180 days	**2,605**	2,499
Total unimpaired premiums collectible	**178,905**	180,029
Impaired premiums collectible	**6,180**	9,059
	185,085	189,088
Less – allowance for doubtful accounts	**(6,180)**	(9,059)
Total premiums collectible	**180,029**	180,029

As at December 31, 2019 and December 31, 2018, the Company had no unimpaired premiums collectible that more than 180 days overdue.

(*) Includes NIS 96 thousand for overdue life insurance receivables as at December 31, 2019 (December 31, 2018 - NIS 9 thousand).

c. Change in allowance for doubtful accounts:

	Year ended December 31	
	2019	**2018**
	NIS in thousands	
Balance as at January 1	**(9,059)**	(10,404)
Change in allowance for the year - carried to profit and loss	**2,879**	1,345
Balance as at December 31	**(6,180)**	(9,059)

NOTE 10 - FINANCIAL INVESTMENTS:

Composition of financial investments:

	December 31, 2019		
	At fair value through profit or loss	**Loans and receivables**	**Total**
	NIS in thousands		
Marketable debt instruments (a)	**1,796,238**	**-**	**1,796,238**
Non-marketable debt instruments (b)	**-**	**90,192**	**90,192**
Other (d)	**99,737**	**-**	**99,737**
Total	**1,895,975**	**90,192**	**1,986,167**

	December 31, 2018		
	At fair value through profit or loss	**Loans and receivables**	**Total**
	NIS in thousands		
Marketable debt instruments (a)	1,731,531	-	1,731,531
Non-marketable debt instruments (b)	-	76,861	76,861
Other (d)	77,738	-	77,738
Total	1,809,269	76,861	1,886,130

a. **Composition of marketable debt instruments** (designated upon initial recognition at fair value through profit or loss):

	December 31	
	2019	**2018**
	NIS in thousands	
Government bonds	**680,128**	619,981
Other non-convertible marketable debt instruments	**1,116,110**	1,111,550
Total marketable debt instruments	**1,796,238**	1,731,531

b. **Composition of nonmarketable debt instruments** (presented as loans and receivables):

	Carrying amount		Fair value	
	2019	**2018**	**2019**	**2018**
	NIS in thousands			
Presented at depreciated cost, excluding bank deposits	**89,146**	75,688	**90,488**	76,352
Bank deposits	**1,046**	1,173	**1,303**	1,440
Total non-convertible debt instruments	**90,192**	76,861	**91,791**	77,792

As at December 31, 2019 and December 31, 2018, no non-marketable debt instruments are overdue or impaired.

NOTE 10 - FINANCIAL INVESTMENTS (continued):

c. Details regarding interest and linkage in respect of debt instruments:

	Effective interest*	
	2019	**2018**
	Percentage	
Marketable debt instruments:		
Linkage basis:		
Linked to CPI	**2.97%**	3.31%
NIS denominated	**3.61%**	3.71%
Non-marketable debt instruments:		
Linkage basis:		
Linked to CPI	**3.66%**	5.24%
NIS denominated	**1.79%**	4.60%

* Weighted average.

d. Other financial investments:

	December 31	
	2019	**2018**
	NIS in thousands	
Marketable * - designated upon initial recognition at fair value through profit or loss	**99,737**	77,738

* Other financial investments consist primarily of investments in mutual funds.

e. Interest rates used in determining fair value

The fair value of financial nonmarketable debt instruments, the data regarding the fair value of which is presented in the financial statements for disclosure purposes only, is determined by discounting the estimated future cash flows in respect of these instruments. The discount rates are based on government-bond yields and margins of corporate bonds, as measured in the Tel Aviv Stock Exchange, with the addition of premium in respect of non-marketability. The interest rates used in discounting are set by Fair Spread Ltd., which provides quoted interest rates in relation to various risk ratings.

	December 31	
	2019	**2018**
	Percentage	
AA rating or more	**0.61%**	1.69%
A rating	**1.70%**	4.18%

NOTE 10 - FINANCIAL INVESTMENTS (continued):

f. Fair value hierarchy of financial assets

Fair value hierarchy is determined as follows:

- Level 1 **-** Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – Inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly.
- Level 3 **-** Inputs for the asset or liability that are not based on observable market data.

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

Further to the above, no transfers of fair value measurements of financial assets were made between raising the various levels of the fair value hierarchy.

NOTE 11 - CASH AND CASH EQUIVALENTS:

	December 31	
	2019	**2018**
	NIS in thousands	
Balances in banks	**34,692**	66,529
Deposits available for withdrawal on demand	**23,306**	20,777
Total cash and cash equivalents	**57,998**	87,306

As at balance sheet date, cash and cash equivalents in banks were bear current interest that is based on the interest rates applicable to daily bank deposits (0.09%).

NOTE 12 - SHAREHOLDERS' EQUITY AND EQUITY REQUIREMENTS:

a. Composition of share capital:

	Number of shares			
	Authorized		Issued and fully paid	
	December 31			
	2019	**2018**	**2019**	**2018**
Ordinary shares of NIS 1 par value	**45,000,100**	45,000,100	**5,730**	5,730

b. Rights attaching to shares

Rights to vote at the general meeting, the right to receive dividends, rights upon the liquidation of the Company, and the right to appoint directors in the Company.

NOTE 12 - SHAREHOLDERS' EQUITY AND EQUITY REQUIREMENTS (Continued):

c. 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.

d. Solvency II-based economic solvency regime:

1) On June 1, 2017, the Commissioner issued a circular on the provisions for implementing Solvency II-based regime. The directive includes a comprehensive examination of risks to which insurance companies are exposed and standards for management and measurement, and is based on three tiers: a quantitative tier, concerning a risk-based solvency ratio; 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.

   With the exception of a few 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, this 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, inter alia, that in the period from June 30, 2017 to December 31, 2024 (hereinafter: "**the Deployment Period**"), the provisions of the solvency capital requirement will be progressively applied in increments of 5 points a year, such that the solvency capital requirement as at June 30, 2017 will not be less than 60% of the solvency capital requirement stipulated in the appendix to the circular (hereinafter: "SCR"), and the solvency capital requirement of an insurance company that is calculated for the data as at December 31, 2024 and thereafter will not be less than the SCR.

2) On October 1, 2017, the Commissioner issued a letter to the managers of the insurance companies regarding the distribution of dividends by an insurance company (hereinafter: "the Letter"). According to the letter:

   a) Pending the receipt of the Commissioner's approval regarding an auditor's audit of the implementation of the Solvency Circular, an insurance company may distribute dividends if the following conditions are met:

      1. After the distribution, the Company's ratio of recognized capital to required capital (hereinafter: "the Solvency Ratio") at least 115% according to the existing Capital Regulations or superseding directives.

      2. After the distribution, the Company has a Solvency Ratio of at least 100% according to the Solvency Agreement, 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 set by the Company's Board of Directors.

   b) After the date of receipt of the Commissioner's approval regarding an auditor's audit of the implementation of the provisions of the Solvency Circular - an insurance company may distribute a dividend if it meets the condition stated at the end of section (a) above.

NOTE 12 - SHAREHOLDERS' EQUITY AND EQUITY REQUIREMENTS (Continued):

d. Solvency II-based economic solvency regime (continued):

c) An insurance company that distributes a dividend, as above, will deliver all of the following to the Commissioner, within 20 business days from the date of distribution:

- An annual profit forecast for the two years following the dividend distribution date;
- An updated debt servicing plan of the insurance company approved by the company's board of directors, as well as an updated debt servicing plan of the holding company that holds the insurance company that was approved by the board of directors of the holding company;
- An updated capital management plan approved by the board of directors of the insurance company, which also includes extensive reference to meeting the Solvency Ratio target set by the board of directors over time, without regard to the Deployment Period and without a share-scenario adjustment period;
- A copy of the minutes of the discussion by the board of directors of the insurance company in which the distribution of the dividend was approved, together with the background material for the discussion.

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 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.

e. Dividend:

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

   On November 26, 2019, the Board of Directors of the Company decided on the distribution of a dividend in the amount of NIS 50 million, representing approximately NIS 8,726 per share. The dividend was paid on November 28, 2019.

2) On August 28, 2018, the Board of Directors of the Company decided on the distribution of a dividend in the amount of NIS 50 million, representing approximately NIS 8,726 per share. The dividend was paid on August 29, 2018.

3) On March 21, 2017, the Board of Directors of the Company decided on the distribution of a dividend in the amount of NIS 50 million, representing approximately NIS 8,726 per share. The dividend was paid on March 27, 2017.

NOTE 13 - LIABILITIES WITH RESPECT TO NON-PROFIT-PARTICIPATING INSURANCE CONTRACTS:

	December 31					
	2019	2018	2019	2018	2019	2018
	Gross		Reinsurance (*)		Retained amount	
	NIS in thousands					
Insurance contracts in the life insurance segment	**59,135**	58,416	**14,237**	14,058	**44,898**	44,358
Insurance contracts in the health insurance segment	**107,106**	124,839	**2,068**	2,171	**105,038**	122,668
Insurance contracts in the general insurance segment	**1,737,965**	1,702,052	**684,880**	702,742	**1,053,085**	999,310
Total liabilities with respect to non-profit-participating insurance contracts	**1,904,206**	1,885,307	**718,971**	718,971	**1,203,021**	1,166,336

* Primarily in respect of reinsurers that are related parties, see Note 28a.

NOTE 14 - LIABILITIES WITH RESPECT TO INSURANCE CONTRACTS IN THE GENERAL INSURANCE SEGMENT:

a.1.Liabilities with respect to insurance contracts in the general insurance segment, by category:

	December 31					
	2019	2018	2019	2018	2019	2018
	Gross		Reinsurance		Retained amount	
	NIS in thousands					
Compulsory vehicle insurance and liability sectors:						
Provision for unearned premiums	**131,490**	134,819	**45,812**	50,518	**85,678**	84,301
Pending claims	**1,121,310**	1,101,778	**538,152**	555,720	**583,158**	546,058
Total liabilities in compulsory vehicle insurance and liability sectors *	**1,252,800**	1,236,597	**583,964**	606,238	**668,836**	630,359
Property and others sector:						
Provision for unearned premiums	**246,124**	247,029	**23,875**	24,423	**222,249**	222,606
Pending claims	**239,041**	218,426	**77,041**	72,081	**162,000**	146,345
Total liabilities in property and others sector	**485,165**	465,455	**100,916**	96,504	**384,249**	368,951
Total liabilities with respect to insurance contracts in the general insurance segment	**1,737,965**	1,702,052	**684,880**	702,742	**1,053,085**	999,310

NOTE 14 - LIABILITIES WITH RESPECT TO INSURANCE CONTRACTS IN THE GENERAL INSURANCE SEGMENT (Continued):

a.1.Insurance liabilities with respect to insurance contracts in the general insurance segment, by category (continued):

	December 31					
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
	Gross		**Reinsurance**		**Retained amount**	
Deferred acquisition costs:			**NIS in thousands**			
Compulsory vehicle insurance and liability sectors	**23,701**	24,116	**12,804**	12,672	**10,897**	11,444
Property and others sector	**46,210**	49,771	**5,630**	6,389	**40,580**	43,382
Total	**69,911**	73,887	**18,434**	19,016	**51,477**	54,826
Liabilities with respect to general insurance contracts, net of deferred acquisition costs:						
Compulsory vehicle insurance and liability sectors (see b(1) below)	**1,229,099**	1,212,481	**571,160**	593,566	**657,393**	618,915
Property and others sector (see b(2) below)	**438,955**	415,684	**95,286**	90,115	**343,669**	325,569
Total liabilities with respect to general insurance contracts, net of deferred acquisition costs	**1,668,054**	1,628,165	**666,446**	683,681	**1,001,608**	944,484
* Of said amount, liability for compulsory vehicle sector	**738,523**	689,536	**149,252**	147,099	**589,271**	542,437

NOTE 14 - LIABILITIES WITH RESPECT TO INSURANCE CONTRACTS IN THE GENERAL INSURANCE SEGMENT (Continued):

a.2. Insurance liabilities with respect to insurance contracts in the general insurance segment, by method of computation:

	December 31					
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
	Gross		**Reinsurance**		**Retained earnings**	
	NIS in thousands					
Actuarial valuations:						
Mr. Ernst Segal	**1,360,351**	1,320,203	**615,193**	627,800	**745,158**	692,403
Total actuarial valuations	**1,360,351**	1,320,203	**615,193**	627,800	**745,158**	692,403
Provision for unearned premiums	**377,614**	381,849	**69,687**	74,942	**307,927**	306,907
Total insurance liabilities with respect to insurance contracts in the general insurance segment	**1,737,965**	1,702,052	**684,880**	702,742	**1,053,085**	999,310

NOTE 14 - LIABILITIES WITH RESPECT TO INSURANCE CONTRACTS IN THE GENERAL INSURANCE SEGMENT (Continued):

b. Changes in liabilities with respect to insurance contracts in the general insurance segment, net of deferred acquisition costs:

b1. Compulsory vehicle insurance and liability sectors:

	December 31					
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
	Gross		**Reinsurance**		**Retained amounts**	
			NIS in thousands			
Balance as at the of beginning of the year	**1,212,481**	1,106,694	**593,566**	543,990	**618,915**	562,704
Ultimate cost of claims for the current underwriting year	**251,369**	251,085	**85,201**	91,972	**166,168**	159,113
Change in balances as at beginning of the year as result of linkage to CPI and investment gains in accordance with the discount assumption inherent in the liabilities	**32,583**	(3,973)	**-**	-	**32,583**	(3,973)
Change in estimate of ultimate cost of claims with respect to previous underwriting years	**(114,951)**	(400)	**(54,334)**	(3,208)	**(60,617)**	2,808
Total change in ultimate cost of claims	**169,001**	246,712	**30,867**	88,764	**138,134**	157,948
Payments in settlement of claims during the year:						
With respect to current underwriting year	**(1,343)**	(1,797))	**(215)**	(553)	**(1,128)**	(1,244)
With respect to previous underwriting years	**(151,040)**	(139,128)	**(53,058)**	(38,635)	**(97,982)**	(100,493)
Total payments for period	**(152,383)**	(140,925)	**(53,273)**	(39,188)	**(99,110)**	(101,737)
Balance as at the end of the year	**1,229,099**	1,212,481	**571,160**	593,566	**657,939**	618,915

1. The opening and closing balances include pending claims and unearned premium, and are net of deferred acquisition costs.
2. The ultimate cost of claims includes the balance of pending claims, provision for premium deficiency and unearned premium, net of deferred acquisition costs and with the addition of total payments made in respect of claims, including direct and indirect expenses incurred in the settlement of claims.
3. The payment include direct and indirect expenses incurred in the settlement of claims (general and administrative expenses attributable to the claims), allocated between the various underwriting years.
4. The change in the estimate of the ultimate cost of claims in respect of underwriting years prior to 2016 derives mainly from the compulsory vehicle insurance sector, following the implications of the amendment to the National Insurance Institute's Discounting Regulations published in September 2016 pursuant to the conclusions of the Vinograd Committee. For details, see Note 27e(3).

NOTE 14 - LIABILITIES WITH RESPECT TO INSURANCE CONTRACTS IN THE GENERAL INSURANCE SEGMENT (Continued):

b. Changes in liabilities with respect to insurance contracts in the general insurance segment, net of deferred acquisition costs (continued):

b2. Property and others sector:

	December 31					
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
	Gross		**Reinsurance**		**Retained amount**	
			NIS in thousands			
Balance as at the beginning of the year	**415,684**	384,366	**90,115**	90,143	**325,569**	294,223
Ultimate cost of claims with respect to events in the reporting year	**358,082**	342,247	**40,008**	37,412	**318,074**	304,835
Change in ultimate cost of claims with respect to events in prior years	**(37,185)**	(37,468)	**(10,196)**	(21,699)	**(26,989)**	(15,769)
Payments made during the year in settlement of claims:						
With respect to events in the reporting year	**(219,336)**	(204,619)	**(9,931)**	(7,913)	**(209,405)**	(196,706)
With respect to events in prior years	**(80,946)**	(78,906)	**(14,921)**	(10,011)	**(66,025)**	(68,895)
Total payments	**(300,282)**	(283,525)	**(24,852)**	(17,924)	**(275,430)**	(265,601)
Change in provision for unearned premium, net of deferred acquisition costs	**2,656**	10,064	**211**	2,183	**2,445**	7,881
Balance as at the end of the year	**438,955**	415,684	**95,286**	90,115	**343,669**	325,569

1. The opening and closing balances include pending claims, a provision for premium deficiency and unearned premiums and is net of deferred acquisition costs.
2. The ultimate cost of claims in respect of events in the reporting year includes the balance of pending claims at the end of the reporting year, with the addition of total payments for claims in the reporting period, including direct and indirect expenses incurred in the settlement of claims.
3. Payments to settle claims include direct and indirect expenses incurred in the settlement of claims (general and administrative costs attributable to claims), allocated between the various damage years.

NOTE 14 - LIABILITIES WITH RESPECT TO INSURANCE CONTRACTS IN THE GENERAL INSURANCE SEGMENT (Continued):

c1. Review of development of estimated liabilities in respect of insurance contracts less deferred acquisition costs, gross, in the compulsory vehicle and liability insurance sectors as at December 31, 2019, by underwriting year, in NIS thousands (CPI-adjusted) *:

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Claims paid (accumulated) at end of year:											
After first year	2,776	2,148	2,987	2,482	2,328	2,244	1,576	2,783	1,802	1,343	
After two years	13,324	20,664	11,366	14,826	13,314	14,348	13,941	15,422	11,538		
After three years	24,296	43,917	28,730	32,146	37,268	38,654	36,460	42,498			
After four years	37,417	74,429	45,851	56,611	68,331	60,464	60,268				
After five years	53,443	84,553	59,694	105,494	89,009	78,489					
After six years	66,783	93,791	86,615	130,096	110,567						
After seven years	75,824	105,214	96,799	138,510							
After eight years	91,321	116,939	121,205								
After nine years	98,106	123,665									
After ten years	103,322										
Assessment of accumulated claims (including payments) at end of year:											
After first year (**)	213,227	217,843	216,597	220,825	240,504	207,554	230,838	251,898	275,924	250,594	
After two years	209,123,	236,101	224,527	235,713	168,914	195,811	217,930	230,267	239,565		
After three years	218,056	239,486	226,649	170,974	184,375	211,852	210,769	216,254			
After four years	166,479	192,580	162,891	220,360	206,474	201,664	232,272				
After five years	163,739	162,536	157,193	217,479	219,549	193,254					
After six years	133,446	157,948	156,977	201,771	207,093						
After seven years	137,951	166,731	174,957	193,871							
After eight years	141,518	161,744	161,606								
After nine years	140,628	154,526									
After ten years	127,564										
Excess (deficit) relative to first year, which does not include accumulation (***)	**38,916**	**38,054**	**1,285**	**26,489**	**(619)**	**8,411**					**112,535**
Rate of deviation relative to first year, which does not include accumulation, in percentages	23.4%	19.8%	0.8%	12.0%	-0.3%	4.2%					12.5%
Cost of accumulated claims as at December 31, 2019	**127,564**	**154,526**	**161,606**	**193,871**	**207,093**	**193,254**	**232,272**	**216,254**	**239,525**	**250,954**	**1,976,918**
Accumulated payments through December 31, 2019	103,322	123,665	121,205	138,510	110,567	78,489	60,268	42,498	11,538	1,343	791,405
Balance of pending claims	24,242	30,861	40,402	55,362	96,526	114,764	172,003	173,756	227,987	249,611	1,185,514
Pending claims through underwriting year 2009											**43,586**
Total liabilities in respect of insurance contracts in compulsory vehicle and liability sectors, net of deferred acquisition costs as at December 31, 2019											**1,229,100**

(*) The amounts above are presented in inflation-adjusted values to allow presentation of development based on real values.

(**) Estimated accumulated claims at the end of the first year include the reserve for unearned premium, less deferred acquisition costs.

(***) The difference between estimated accumulated claims in the first year (that does not include accumulation) and estimated accumulated claims as at the reporting date.

NOTE 14 - LIABILITIES WITH RESPECT TO INSURANCE CONTRACTS IN THE GENERAL INSURANCE SEGMENT (Continued):

c2. Review of development of estimated liabilities in respect of insurance contracts less deferred acquisition costs, in self-retention, in the compulsory vehicle and liability insurance sectors as at December 31, 2019, by underwriting year, in NIS thousands (CPI-adjusted) *:

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Claims paid (accumulated) at end of year:											
After first year	2,242	1,606	2,149	2,124	2,150	1,299	1,244	2,179	1,248	1,129	
After two years	9,444	9,340	8,266	10,437	10,263	9,015	10,359	9,988	8,667		
After three years	19,129	20,435	23,020	23,746	26,775	26,812	27,933	28,469			
After four years	29,543	33,302	36,042	37,928	48,792	44,764	47,121				
After five years	38,089	41,232	46,232	58,781	65,075	57,533					
After six years	46,586	48,485	56,096	72,288	79,331						
After seven years	53,538	58,663	63,300	77,922							
After eight years	60,215	68,389	72,698								
After nine years	64,992	73,276									
After ten years	66,934										
Assessment of accumulated claims (including payments) at end of year:											
After first year (**)	126,384	126,049	133,458	148,506	160,170	128,713	144,820	159,541	171,033	166,256	
After two years	119,286	123,369	128,239	138,324	104,355	111,409	123,896	134,911	142,141		
After three years	122,077	127,749	129,553	85,788	112,319	116,591	121,456	129,788			
After four years	86,226	89,631	83,450	103,904	123,023	113,879	132,722				
After five years	83,129	79,382	82,261	104,332	131,940	116,194					
After six years	75,012	78,904	79,723	102,072	127,267						
After seven years	77,867	90,372	86,858	100,240							
After eight years	77,172	88,928	84,098								
After nine years	77,422	83,720									
After ten years	74,945										
Excess (deficit) relative to first year, which does not include accumulation (***)	**11,281**	**5,910**	**(647)**	**3,664**	**(4,244)**	**(2,315)**					**13,649**
Rate of deviation relative to first year, which does not include accumulation, percentages	13.1%	6.6%	-0.8%	3.5%	-3.4%	-2.0%					2.8%
Cost of accumulated claims as at December 31, 2019	**74,954**	**83,720**	**84,098**	**100,240**	**127,267**	**116,194**	**132,722**	**129,788**	**142,141**	**166,256**	**1,157,371**
Accumulated payments through December 31, 2019	66,934	73,276	72,698	77,922	79,331	57,533	47,121	28,469	8,667	1,129	513,080
Balance of pending claims	8,012	10,444	11,400	22,318	47,936	58,661	85,601	101,320	133,474	165,127	644,292
Pending claims through underwriting year 2009											**13,648**
Total liabilities in respect of insurance contracts in compulsory vehicle and liability sector, net of deferred acquisition costs as at December 31, 2019											**657,940**

(*) The amounts above are presented in inflation-adjusted values to allow presentation of development based on real values.

(**) Estimated accumulated claims at the end of the first year include the reserve for unearned premium, less deferred acquisition costs.

(***) The difference between estimated accumulated claims in the first year (that does not include accumulation) and estimated accumulated claims as at the reporting date.

NOTE 14 - LIABILITIES WITH RESPECT TO INSURANCE CONTRACTS IN THE GENERAL INSURANCE SEGMENT (Continued):

c3. Review of development of estimated liabilities in respect of insurance contracts less deferred acquisition costs, gross, in the compulsory vehicle insurance sectors as at December 31, 2019, by underwriting year, in NIS thousands (CPI-adjusted) *:

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Claims paid (accumulated) at end of year:											
After first year	1,901	1,325	1,798	1,885	1,960	1,161	1,190	1,852	1,095	1,088	
After two years	8,373	5,891	7,125	9,581	9,587	7,764	11,751	8,888	8,084		
After three years	17,570	13,982	20,910	22,619	24,782	24,308	29,031	26,436			
After four years	27,338	23,292	33,217,	35,045	43,959	41,324	46,700				
After five years	38,609	30,723	42,314	49,246	58,791	52,997					
After six years	45,996	37,711	51,488	64,752	75,371						
After seven years	52,660	46,242	58,649	71,743							
After eight years	59,499	48,926	62,801								
After nine years	65,203	54,557									
After ten years	66,534										
Assessment of accumulated claims (including payments) at end of year:											
After first year (**)	117,145,	119,842	122,077	140,963	153,637	122,136	148,852	161,894	180,725	165,255	
After two years	118,232	116,258	126,107	143,361	108,870	114,172	135,202	145,887	155,757		
After three years	123,494	118,331	127,561	88,520	120,521	117,711	133,752	137,784			
After four years	89,788	86,138	78,868	104,028	128,068	113,109	149,739				
After five years	87,290	72,345	77,290	105,454	134,740	114,460					
After six years	74,307	70,814	78,915	102,116	131,443						
After seven years	77,815	70,774	80,192	98,204							
After eight years	77,934	69,582	78,244								
After nine years	76,381	66,395									
After ten years	74,593										
Excess (deficit) relative to first year, which does not include accumulation (***)	**15,194**	**19,743**	**623**	**5,824**	**(3,375)**	**(1,350)**					**36,660**
Rate of deviation relative to first year, which does not include accumulation, in percentages	16.9%	22.9%	0.8%	5.6%	-2.6%	-1.2%					7.9%
Cost of accumulated claims as at December 31, 2019	**74,593**	**66,395**	**78,244**	**98,204**	**131,443**	**114,460**	**149,739**	**137,784**	**155,757**	**165,255**	**1,171,875**
Accumulated payments through December 31, 2019	66,534	54,557	62,801	71,743	75,371	52,997	46,700	26,436	8,084	1,088	466,312
Balance of pending claims	8,059	11,838	15,443	26,461	56,072	61,463	103,039	111,348	147,674	164,166	705,563
Pending claims through underwriting year 2009											**20,766**
Total liabilities in respect of insurance contracts in compulsory vehicle sectors, net of deferred acquisition costs as at December 31, 2019											**726,328**

(*) The amounts above are presented in inflation-adjusted values to allow presentation of development based on real values.

(**) Estimated accumulated claims at the end of the first year include the reserve for unearned premium, less deferred acquisition costs.

(***) The difference between estimated accumulated claims in the first year (that does not include accumulation) and estimated accumulated claims as at the reporting date.

NOTE 14 - LIABILITIES WITH RESPECT TO INSURANCE CONTRACTS IN THE GENERAL INSURANCE SEGMENT (Continued):

c4. Review of development of estimated liabilities with respect to insurance contracts less deferred acquisition costs, in self-retention, in the compulsory vehicle insurance sector as at December 31, 2019 by underwriting year, in NIS thousands (CPI-adjusted):

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Claims paid (accumulated) at end of year:											
After first year	1,901	1,325	1,798	1,885	1,960	1,161	1,190	1,852	1,095	1,088	
After two years	8,373	5.891	7,125	9,581	9,587	7,764	10,071	8,888	8,084		
After three years	17,570	13,982	20,910	22,137	24,782	24,308	26,569	26,436			
After four years	27,338	23,100	33,217	34,563	43,959	41,324	44,205				
After five years	35,378	30,531	42,314	48,089	58,719	52,780					
After six years	42,766	37,519	51,488	61,236	71,906						
After seven years	49,430	46,050	58,334	66,632							
After eight years	54,870	48,734	62,486								
After nine years	59,474	53,479									
After ten years	60,795										
Assessment of accumulated claims (including payments) at end of year:											
After first year (**)	105,649	103,918	112,591	129,576	141,415	114,978	136,116	150,246	161,639	153,395	
After two years	102,901	98,407	106,093	122,495	94,392	98,230	111,735	123,592	131,626		
After three years	105,662	100,843	108,768	76,207	101,804	102,215	109,786	119,552			
After four years	72,216	69,673	69,482	87,523	107,801	98,668	119,321				
After five years	70,805	62,438	67,631	88,012	113,992	102,302					
After six years	64,410	63,610	69,549	85,920	110,825						
After seven years	66,664	61,623	71,182	84,355							
After eight years	66,366	61,459	70,553								
After nine years	66,537	58,312									
After ten years	65,464										
Excess (deficit) relative to first year, which does not include accumulation (***)	**6,752**	**11,361**	**(1,071)**	**3,167**	**(3,024)**	**(3,634)**					**13,551**
Rate of deviation relative to first year, which does not include accumulation, in percentages	9.3%	16.3%	-1.5%	3.6%	-2.8%	-3.7%					3.4%
Cost of accumulated claims as at December 31, 2019	**65,464**	**58,312**	**70,553**	**84,355**	**110,825**	**102,302**	**119,321**	**119,552**	**131,626**	**153,395**	**1,015,705**
Accumulated payments through December 31, 2019	60,795	53,479	62,486	66,632	71,906	52,780	44,205	26,436	8,084	1,088	447,892
Balance of pending claims	4,669	4,833	8,067	17,724	38,919	49,522	75,116	93,116	123,542	152,306	567,813
Pending claims through underwriting year 2009											**9,264**
Total liabilities in respect of insurance contracts in compulsory vehicle sectors, net of deferred acquisition costs as at December 31, 2019											**577,078**

(*) The amounts above are presented in inflation-adjusted values to allow presentation of development based on real values.

(**) Estimated accumulated claims at the end of the first year include the reserve for unearned premium, less deferred acquisition costs.

(***) The difference between estimated accumulated claims in the first year (that does not include accumulation) and estimated accumulated claims as at the reporting date.

NOTE 14 - LIABILITIES WITH RESPECT TO INSURANCE CONTRACTS IN THE GENERAL INSURANCE SEGMENT (Continued):

c5. Aggregate data for underwriting years in the compulsory vehicle insurance sector:

For the year ended December 31, 2019:

	Underwriting year						
	2019	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**
	NIS in thousands						
Gross premium	181,987	173,968	159,878	146,100	146,608	146,125	134,861
Retained income/(loss) for underwriting year – accumulated	(7,977)	8,645	12,729	(1,339)	13,640	3,303	22,234
Effect of investment gains on accumulated retained income for the underwriting year	2,380	5,081	5,250	6,474	5,599	6,682	7,324

c6. Aggregate data for underwriting years in other liability insurance sectors:

For the year ended December 31, 2018:

	Underwriting year						
	2019	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**
	NIS in thousands						
Gross premium	104,137	105,571	98,570	99,580	102,559	90,924	79,131
Retained income/(loss) for underwriting year – accumulated	(105)	1,184	1,648	2,053	68	(4,849)	(11,160)
Effect of investment gains on accumulated retained income for the underwriting year	883	1,814	2,095	2,956	3,318	2,989	3,946

NOTE 14 - LIABILITIES WITH RESPECT TO INSURANCE CONTRACTS IN THE GENERAL INSURANCE SEGMENT (Continued):

c7. Composition of income (loss) in retention in the compulsory vehicle insurance sector:

	Income (loss) for current underwriting year	Income (loss) for prior underwriting years	Income (loss) for current underwriting year	Income (loss) for prior underwriting years
	Gross		Retained amount	
	NIS in thousands			
Year ended:				
2019	(18,240)	41,365	(7,977)	37,387
2018	(28,090)	7,017	(11,225)	6,948
2017	(15,723)	2,901	(6,241)	13,048

c8. Composition of income (loss) in retention in the other liability insurance sector:

	Income (loss) for current underwriting year	Income (loss) for prior underwriting years	Income (loss) for current underwriting year	Income (loss) for prior underwriting years
	Gross		Retained amount	
	NIS in thousands			
Year ended:				
2019	(8,394)	76,958	(105)	20,897
2018	(8,976)	(6,107)	(694)	(11,173)
2017	(8,418)	(1,222)	(824)	2,346

NOTE 15 - ADDITIONAL DATA CONCERNING THE LIFE INSURANCE SEGMENT:

a. Details of gross liabilities with respect to insurance contracts, by financial and insurance exposure

Data for the year ended December 31, 2019 (NIS in thousands):

	Policies not containing a savings element	Total
	Risk sold as individual policy	
	Individual	
Insurance reserves	**3,220**	**3,220**
Pending claims	**55,915**	**55,915**
Total	**59,135**	**59,135**

* The Company has no collective policies.

NOTE 15 - ADDITIONAL DATA CONCERNING THE LIFE INSURANCE SEGMENT (Continued):

a. Details of gross liabilities with respect to insurance contracts, by financial and insurance exposure (continued):

Data for the year ended December 31, 2018 (NIS in thousands):

	Policies not containing a savings element	Total
	Risk sold as individual policy	
	Individual	
Insurance reserves	678	678
Pending claims	57,738	57,738
Total	58,416	58,416

* The Company has no collective policies.

b. Details of results by type of policy

Data for the year ended December 31, 2019 (NIS in thousands):

	Policies not containing a savings element	Total
	Risk sold as individual policy	
	Individual	
Gross risk premiums	**140,351**	**140,351**
Income from life insurance business	**33,202**	**33,202**
New annualized premium	**37,754**	**37,754**
Payments and change in liabilities for insurance contracts, gross	**46,903**	**46,903**

Data for the year ended December 31, 2018 (NIS in thousands):

	Policies not containing a savings element	Total
	Risk sold as individual policy	
	Individual	
Gross risk premiums	129,869	129,869
Income from life insurance business	27,583	27,583
New annualized premium	29,949	29,949
Payments and change in liabilities for insurance contracts, gross	41,280	41,280

* The Company has no collective policies.

NOTE 15 - ADDITIONAL DATA CONCERNING THE LIFE INSURANCE SEGMENT (Continued):

b. Details of results by type of policy (continued):

Data for the year ended December 31, 2017 (NIS in thousands):

	Policies not containing a savings element	Total
	Risk sold as individual policy	
	Individual	
Gross risk premiums	127,053	127,053
Income from life insurance business	15,375	15,375
New annualized premium	24,796	24,796
Payments and change in liabilities for insurance contracts, gross	52,426	52,426

* The Company has no collective policies.

NOTE 16 - BREAKDOWN OF LIABILITIES IN RESPECT OF INSURANCE CONTRACTS IN THE HEALTH INSURANCE SEGMENT:

a. Breakdown of liabilities in respect of insurance contracts, by insurance and financial exposure:

Data for the year ended December 31, 2019 (NIS in thousands):

	Long-term	Short-term	Total
By insurance exposure - insurance reserves	**-**	**2,457**	**2,457**
Pending claims	**88,305**	**16,344**	**104,649**
Total	**88,305**	**18,801**	**107,106**

Personal accidents (individual) is the most significant item in long-term healthcare coverage, and travel insurance is the most significant in the short-term insurance.

There is no difference between the actuarial assessments in the healthcare sectors and the overall amount of the liability in the financial statements.

NOTE 16 - BREAKDOWN OF LIABILITIES IN RESPECT OF INSURANCE CONTRACTS IN THE HEALTH INSURANCE SEGMENT (Continued):

a. Breakdown of liabilities in respect of insurance contracts, by insurance and financial exposure:

Data for the year ended December 31, 2018 (NIS in thousands):

	Long-term	Short-term	Total
By insurance exposure - insurance			
Reserves	-	2,398	2,398
Pending claims	95,531	26,910	122,441
Total	95,531	29,308	124,839

Personal accidents (individual) is the most significant item in long-term healthcare coverage, and travel insurance is the most significant in the short-term insurance.

There is no difference between the actuarial assessments in the healthcare sectors and the overall amount of the liability in the financial statements.

b. Breakdown of results by type of policy in the healthcare insurance segment

Data for the year ended December 31, 2019 (NIS in thousands):

	Long-term	Short-term	Total
Gross premiums	**164,440**	**39,776**	*** 204,216**
Income from healthcare insurance business	**32,608**	**21,415**	**54,023**
New annualized premium	**17,538**	**-**	**17,538**

* Of which individual premiums of NIS 204,045 thousand and collective premiums of NIS 171 thousand. The most significant coverage is personal accidents (individual) in long-term healthcare insurance, and travel insurance in short-term insurance.

Data for the year ended December 31, 2018 (NIS in thousands):

	Long-term	Short-term	Total
Gross premiums	187,045	39,928	* 226,973
Income from healthcare insurance business	36,710	8,825	45,535
Annualized premium - new	1,527	-	1,527

* Of which individual premiums of NIS 234,853 thousand and collective premiums of NIS 391 thousand. The most significant coverage is personal accidents (individual) in long-term healthcare insurance, and travel insurance in short-term insurance.

NOTE 16 - BREAKDOWN OF LIABILITIES IN RESPECT OF INSURANCE CONTRACTS IN THE HEALTH INSURANCE SEGMENT (Continued):

b. Breakdown of results by type of policy in the healthcare insurance segment (continued)

Data for the year ended December 31, 2017 (NIS in thousands):

	Long-term	Short-term	Total
Gross premiums	197,179	38,065	* 235,244
Income from healthcare insurance business	41,728	2,567	44,295
Annualized premium - new	36,399	-	36,399

* Of which individual premiums of NIS 217,915 thousand and collective premiums of NIS 1,416 thousand. The most significant coverage is personal accidents (individual) in long-term healthcare insurance, and travel insurance in short-term insurance.

NOTE 17 - CHANGES IN LIABILITIES WITH RESPECT TO LIFE INSURANCE CONTRACTS AND HEALTH INSURANCE CONTRACTS:

	Life insurance	Health insurance
	NIS in thousands	
Balance as at January 1, 2018	67,282	129,918
Decrease (increase) in premiums accounted for as liabilities	(82)	2,134
Changes in pending claims and IBNR	(8,784)	(7,213)
Balance as at December 31, 2018	58,416	124,839
Decrease (increase) in premiums accounted for as liabilities	**2,543**	**1,461**
Changes in pending claims and IBNR	**(1,824)**	**(19,194)**
Balance as at December 31, 2019	**59,135**	**107,106**

NOTE 18 - TAXES ON INCOME:

a. Tax laws applicable to the Company

1) General

The Company is a "financial institution", as defined in the Value Added Tax Law, 1975. The tax applicable to the income of financial institutions is comprised of corporate tax and profit tax.

2) Special tax arrangements for the insurance industry – agreement with the tax authorities

The Association of Insurance Companies and the tax authorities have entered into an agreement (hereinafter: "the Tax Agreement") that addresses specific tax issues and is renewed and updated from time to time. As at December 31, 2019, tax agreements have been signed, as above, for tax years up to and including the 2016 tax year. The provision for tax included in the financial statements is based on the principles of the Tax Agreement. The Tax Agreement addresses, inter alia, the following issues:

- Direct expenses incurred by insurance companies in acquiring life insurance contracts (deferred acquisition costs - DAC): Deferred acquisition costs incurred commencing in 2015 and thereafter are allowed in deduction for tax purposes in equal parts over ten years (as compared to depreciation over the term of the policy, but not more than 15 years, in the financial statements – see Note 2t(d)(1)). It should be noted that deferred acquisition costs incurred until 2014 (inclusive) are deductible for tax purposes in equal parts over four years only.
- Allocation of expenses to preferred income – For income that is taxable at reduced tax rates and tax-exempt income received by insurance companies ("preferred income"), an allocation of expenses is carried out, whereby part of the preferred income is turned into fully taxable income, in proportion to the rate of allocation. The rate of allocation set out in the agreement depends on the source of the funds from which the preferred income is derived.
- Taxation of marketable securities – Income and/or expenses from securities are reported for tax purposes on realization basis. Such income/expenses do not include linkage differences, interest and amortization of discount in respect of marketable securities that are reported on accrual basis. Also, the aforesaid income/expenses do not include material impairment which is carried directly to profit or loss. Such impairment will only be considered as loss for tax purposes on realization basis.
- Provision for overhead relating to the settlement of claims: The provision for overhead relating to the settlement of claims in general insurance and health insurance for each of the underwriting years 2013-2020 will be partially adjusted, and the adjusted amount will be allowed for tax purposes over the three following tax years.

The Company is not a member of the Association of Life Insurance Companies Ltd., but an agreement signed between the Company and the Tax Authority determines that the aforesaid agreements will also apply to the Company.

Current and deferred taxes in these financial statements were determined based on the principles of those agreements.

NOTE 18 - TAXES ON INCOME (Continued):

b. Tax rates applicable to the Company

Set forth below are the applicable tax rates (as to the difference between the theoretical tax and taxes on income included in profit or loss - see section f. below):

	Corporate tax rate	Profit tax rate	Overall tax rate for financial institutions
		%	
Year:			
2017	24.0	17.00	35.04
2018 and thereafter	23.0	17.00	34.19

c. Final tax assessments

To the date of approval of these financial statements, the Company has received final tax assessments through tax year 2015.

d. Taxes on income included in profit or loss:

	Year ended December 31		
	2019	**2018**	**2017**
	NIS in thousands		
Current taxes	**(74,726)**	(61,764)	(45,299)
Current taxes in respect of previous years	**1,044**	(502)	(2,082)
Deferred taxes relating to the creation and reversal of temporary differences	**17,723**	21,687	(8,486)
Effect of change in the tax rates	**-**	-	(16)
	(91,405)	(40,579)	(55,883)

NOTE 18 - TAXES ON INCOME (Continued):

e. Deferred taxes

Deferred tax assets and liabilities are offset when there is an enforceable legal right to offset current tax assets against current tax liabilities and when the deferred taxes relate to taxes on income levied by the same tax authority. The offset amounts are as follows:

Composition:

	Deferred acquisition costs	Vacation and recreation pay	Gain on securities	Allowance for doubtful accounts	Other	Total
			NIS in thousands			
Balance of deferred tax asset (liability) as at January 1, 2018	(14,054)	2,763	(4,484)	3,557	2,937	(9,281)
Changes carried to profit or loss	2,485	274	19,592	(460)	(177)	21,687
Balance of deferred tax asset (liability) as at December 31, 2018	(11,596)	3,037	15,108	3,097	2,760	12,406
Changes carried to profit or loss	**3,351**	**942**	**(20,759)**	**(984)**	**(273)**	**(17,723)**
Balance of deferred tax asset (liability) as at December 31, 2019	**(8,245)**	**3,979**	**(5,651)**	**2,113**	**2,487**	**(5,317)**

The deferred taxes are presented in the balance sheet under deferred tax liabilities.

Analysis of the deferred tax assets and liabilities:

	December 31	
	2019	2018
	NIS in thousands	
Deferred tax assets	**1,039**	22,879
Deferred tax liabilities	**(6,356)**	(10,473)
Deferred tax assets (liabilities), net	**(5,317)**	12,406

NOTE 18 - TAXES ON INCOME (Continued):

f. Theoretical tax

Following is a reconciliation of the theoretical tax expense, assuming all income and expenses, profits and losses in the statement of profit or loss are taxed at the statutory tax rate, and the amount of income tax recognized in the statement of profit or loss:

	Year ended December 31		
	2019	**2018**	**2017**
	NIS in thousands		
Profit before taxes on income	**268,420**	114,821	152,988
Overall statutory tax rate applicable to financial institutions (see b. above)	**34.19%**	34.19%	35.04%
Taxes computed based on the statutory tax rate	**91,766**	39,257	53,607
Increase (decrease) in income tax arising from:			
Expenses not deductible for tax purposes	**668**	820	1,471
Updating of deferred tax balances in respect of change in tax rates	**-**	-	16
Taxes in respect of previous years	**(1,044)**	502	769
Other	**14**	-	20
Taxes on income	**91,405**	40,579	55,883
Average effective tax rate	**34.05%**	35.34%	36.52%

NOTE 19 - OTHER ACCOUNTS PAYABLE:

	December 31	
	2019	**2018**
	NIS in thousands	
Employees and other payroll related Liabilities	**25,637**	27,341
Trade payables	**30,968**	29,613
Lease liabilities	**27,526**	-
Prepaid premiums	**22,629**	20,764
Commissions payable	**8,571**	9,251
Related parties (see note 28a)	**6,387**	5,911
Other	**6,616**	9,507
	128,334	102,387

NOTE 20 - PREMIUMS EARNED IN RETENTION:

	Year ended December 31, 2019		
	Gross	Reinsurance*	Retained amount
	NIS in thousands		
Life insurance premiums	**140,351**	**27,391**	**112,960**
Health insurance premiums	**204,2016**	**2,933**	**201,283**
General insurance premiums	**834,941**	**160,046**	**674,895**
Total premiums, gross	**1,179,508**	**190,370**	**989,138**
Less - change in balance of unearned premium **	**1,634**	**5,257**	**(3,623)**
Total premiums earned	**1,181,142**	**195,627**	**985,515**

	Year ended December 31, 2018		
	Gross	Reinsurance*	Retained amount
	NIS in thousands		
Life insurance premiums	129,869	25,187	104,682
Health insurance premiums	226,973	3,077	223,896
General insurance premiums	816,818	153,344	663,474
Total premiums, gross	1,173,660	181,608	992,052
Less - change in balance of unearned premium **	(28,141)	(11,141)	(17,000)
Total premiums earned	1,145,519	* 170,467	975,052

	Year ended December 31, 2017		
	Gross	Reinsurance*	Retained amount
	NIS in thousands		
Life insurance premiums	127,053	22,792	104,261
Health insurance premiums	235,244	3,277	231,967
General insurance premiums	761,904	144,374	617,530
Total premiums, gross	1,124,201	170,443	953,758
Less - change in balance of unearned premium **	(32,131)	11	(32,142)
Total premiums earned	1,092,070	* 170,454	921,616

* For information regarding reinsurance premiums with related parties, see note 28b below.
** The change in the unearned premium balance mainly arises from general insurance.

NOTE 21 - GAINS ON INVESTMENTS, NET, AND FINANCING INCOME:

	Year ended December 31		
	2019	**2018**	**2017**
	NIS in thousands		
Gains on assets held against non-profit participating liabilities, equity and other:			
Gains (losses) on financial investments, excluding interest, linkage differences, exchange differences and dividends on assets at fair value through profit or loss	**34,863**	(78,668)	7,036
Interest income, linkage differences and exchange differences on financial assets at fair value through profit or loss	**58,650**	59,226	54,815
Interest income on deposits and from cash and nonmarketable securities	**414**	446	3,580
Income from dividends	**1,420**	428	52
Total gains (losses) on investments, net, and financing income	**95,347**	(18,568)	65,483

NOTE 22 - REVNEUES FROM COMMISSIONS:

	Year ended December 31		
	2019	**2018**	**2017**
	NIS in thousands		
Reinsurance commissions, net of change in deferred acquisition costs relating to reinsurance	**52,375**	44,842	41,736

For information regarding commission revenue from related parties, see note 28b below.

NOTE 23 - PAYMENTS AND CHANGES IN LIABILITIES WITH RESPECT TO INSURANCE CONTRACTS, IN RETENTION:

	Year ended December 31		
	2019	**2018**	**2017**
	NIS in thousands		
Total payments and changes in liabilities with respect to life insurance contracts:			
Gross	**46,903**	41,280	52,426
Reinsurance (*)	**(13,945)**	(8,365)	(9,261)
Retained amount	**32,958**	32,915	43,165
Total payments and changes in liabilities with respect to general insurance contracts:			
Gross	**493,063**	540,462	530,084
Reinsurance (*)	**(65,515)**	(96,993)	(117,004)
Retained amount	**427,548**	428,817	413,080
Total payments and changes in liabilities with respect to health insurance contracts:			
Gross	**82,101**	98,611	110,908
Reinsurance (*)	**(1,426)**	(2,237)	(3,614)
Retained amount	**80,675**	96,374	107,294
Total payments and changes in liabilities with respect to insurance contracts, in retention	**541,181**	572,758	563,539

* Relates to payments and changes in liabilities in respect of reinsurers' share of insurance contracts with related parties, see note 28b below.

NOTE 24 - COMMISSIONS, MARKETING EXPENSES AND OTHER ACQUISITION COSTS:

	Year ended December 31		
	2019	2018	2017
	NIS in thousands		
Acquisition commissions	**38,347**	37,847	37,847
Marketing and other expenses (reclassified from general and administrative expenses)	**205,198**	214,360	214,360
Change in acquisition costs	**242**	(8,273)	(8,273)
Total commissions, marketing expenses and other acquisition costs	**243,787**	243,934	243,934

NOTE 25 - GENERAL AND ADMINISTRATIVE EXPENSES:

	Year ended December 31		
	2019	2018	2017
	NIS in thousands		
Payroll and related expenses	**198,815**	195,159	191,848
Depreciation and amortization	**24,576**	20,402	18,080
Office maintenance and communications	**11,842**	** 19,448	** 20,984
Marketing and advertising	**49,638**	53,540	44,899
Legal and professional consulting	**6,506**	7,350	6,375
Information technology expenses	**16,032**	14,787	15,600
Other	**9,653**	11,774	10,463
Total (*)	**317,062**	322,460	308,249
Less:			
Amounts classified to changes in liabilities and payments in respect of insurance contracts	**(31,559)**	(33,281)	(29,838)
Amounts classified to commissions, marketing expenses and other acquisition costs	**(205,198)**	(214,360)	(205,664)
Total general and administrative expenses	**80,305**	74,819	72,747
* General and administrative expenses include expenses relating to automation in the total amount of	**53,694**	54,477	52,520

* See Note 2w(1) regarding the first-time application of IFRS 16, Leases. In accordance with the selected transition method, comparative figures have not been restated.

NOTE 26 - FINANCING INCOME (EXPENSES):

	Year ended December 31		
	2019	2018	2017
	NIS in thousands		
Income (expenses) from income tax interest, net	**476**	1,163	(2,174)
Interest expenses in respect of lease (see Note 2w(1))	**(607)**	-	-
Income (expenses) in respect of interest and exchange differences	**587**	3,843	(607)
Total financing income (expenses)	**456**	5,006	(2,781)

NOTE 27 - RISK MANAGEMENT:

General

The Company operates in the following operative segments: general insurance, health insurance and life insurance (risk component only). The Company's operations expose it to the following risks:

- Insurance risks
- Market risks
- Liquidity risks
- Credit risks
- Operational risks

Other risks beyond those listed above include: reputational risk, legal risk, regulation and compliance risk and information security risk.

a. Description of risk management procedures and methods

1) The Company manages risk based on the risk management policy approved by the Board of Directors of the Company, which is aligned with rules and guidance of local regulation and the enterprise risk management policies of the AIG global corporation.

2) The risk management policy is designed to support the achievement of the Company’s business objectives and ensure controlled exposure to risks, in tune with changes in the business environment. The monitoring of and reporting on the implementation of the policy, including compliance with restrictions, are performed according to regulatory requirements and a reporting escalation procedure established by the Board of Directors and its committees.

3) The risk management process includes an ongoing process of identifying and mapping exposures in different processes, assessment and measurement of exposures and controls, reporting and assessing the alignment to the Company's risk appetite.

4) Risk management in the Company is based on three protection levels:
   - First line of defense – business units – responsible for risk management in the scope of their activity.
   - Second line of defense – support functions – risk management, compliance and enforcement , control functions etc. The role of those functions is, among others, to ensure that consistent processes are in place to detect, control, monitor and report risks.
   - Third line of defense – internal audit, which is responsible for conducting independent audits of the first and second line of defense.

5) The Company has committees and forums for the management of risks, in addition to forums on various professional issues, led by the CEO and other executives. The Company has committees to manage risk in: capital management, reserve management, operating risk management, cyber risk management, insurance risk management, and a committee for product development.

The Company applies the principles of Israeli Solvency II, which serve as a basis for assessing the economic capital required for the activity of the Company. In addition, the Company approved a risk appetite of 130% of the capital required under Solvency II. Risk appetite is based on an assessment of the Company’s principal risks and scenarios of the risk factors. Risk appetite serves as basis for developing the capital management policy and dividend distribution policy of the Company (see also Note 12 above).

NOTE 27 - RISK MANAGEMENT (Continued):

b. Legal requirements

The Commissioner's guidance on risk management are included, among others, in Circular No. 1-9-2014 (Title 5, Part 1, Chapter 10) (hereinafter: "the Consolidated Circular "), which addresses the duties of the risk manager and his/her relationships with other officers in the Company. According to the Consolidated Circular, the main duties of the risk manager are:

- Ensuring that high-quality processes are in place for the detection of material insurance risks, market risks, liquidity risks and counterparty risks inherent in assets and liabilities that may have impact on the financial stability of the entity.
- Quantifying and assessing the potential impact of material risks identified on the financial stability of the entity and on its liability towards policy holders.
- Assessing the risks inherent in new activities or products.
- Presenting to the Board of Directors and the Investment Committee existing and potential risks in investment assets for the establishment and updating of the investment policy.
- Periodically reporting to the Board of Directors, the Investment Committee and the CEO on exposures to risks and their potential impact on the financial stability of the entity.
- Examining, at least one every quarter and at the discretion of the Investment Committee, the correspondence of actual exposures to the risk management policy set by the Board of Directors and the Investment Committee and presenting relevant risk indicators.
- Periodically testing, at least annually, the adequacy, consistency, reliability and validity of the models implemented by him/her, using generally accepted statistical methods, such as back testing.
- There are other circulars that provide for the management of specific exposures on: readiness for disaster recovery, management of exposure to reinsurers, prevention of fraud and misappropriation, management of cyber risks, control over financial reporting (SOX), credit risk management. Solvency II and more.
- As part of the implementation of the provisions of the Solvency-II-based economic solvency regime, the Company assesses the economic capital that is required for its operations pursuant to said provisions. As part of the risk management, the Company pursues the control and assessment of significant business activities from a capital perspective as well, and the inclusion of economic capital considerations in the decision-making processes.

The Company has appointed a VP as a risk manager who works to implement regulatory requirements in this area.

NOTE 27 - RISK MANAGEMENT (Continued):

c. Market risks

The Company's market risks relate to financial assets and liabilities or insurance liabilities. The Company's asset portfolio arises mainly from its insurance activity. Management of proprietary investments is carried out in compliance with the provisions of the law, Company's investment policy, its credit policy and its risk management policy, as set by the Board of Directors and the Investment Committee. Most of the Company's funds are invested in Israel and a small part is invested overseas.

Market risk is the risk that the value or future cash flows of financial assets, financial liabilities, or insurance liabilities will change as a result of unanticipated changes in market prices. Market risks includes, inter alia, risks arising from changes in interest rates, credit spreads, share prices, the CPI, and foreign currencies.

The bond portfolio is managed by two external investment managers. The stock portfolio is invested in passive share instruments. The Company receives investment consulting from a related company.

1) Market risk sensitivity analyses

Following is a sensitivity analysis in relation to the impact of change in those factors on profit for the year and comprehensive income (equity). The sensitivity analysis refers to financial assets, financial liabilities and liabilities for insurance contracts as at each reporting date, assuming that all other factors remain constant. Thus, for example, the change in interest rate assumes that all other variables remain unchanged. In addition, it is assumed that said changes do not reflect permanent impairment of assets that are presented at depreciated cost or available-for-sale assets, and consequently, the above sensitivity analysis does not include impairment losses for those assets.

The sensitivity analysis reflects direct impacts only, without secondary impacts. It is further noted that sensitivity is not necessarily linear, and that the impact of larger or smaller changes or larger changes than those described below may not necessarily be derived through a simple extrapolation.

NOTE 27 - RISK MANAGEMENT (Continued):

c. Market risks (continued)

1) Market risk sensitivity analyses (continued):

Data as at December 31, 2019:

	Rate of interest (1)		Investments in equity instruments (2)		Rate of change in the CPI		Rate of change in foreign currency exchange rate	
	+1%	-1%	+10%	-10%	+1%	-1%	+10%	-10%
	NIS in thousands							
Profit (loss) (3)	**(37,733)**	**37,647**	**6,564**	**(6,564)**	**897**	**(897)**	**5,913**	**(5,913)**
Comprehensive income (equity) (4)	**(37,733)**	**37,647**	**6,564**	**(6,564)**	**897**	**(897)**	**5,913**	**(5,913)**

Data as at December 31, 2018:

	Rate of interest (1)		Investments in equity instruments (2)		Rate of change in the CPI		Rate of change in foreign currency exchange rate	
	+1%	-1%	+10%	-10%	+1%	-1%	+10%	-10%
	NIS in thousands							
Profit (loss) (3)	(31,313)	30,975	5,058	(5,058)	703	(703)	3,838	(3,838)
Comprehensive income (equity) (4)	(31,313)	30,975	5,058	(5,058)	703	(703)	3,838	(3,838)

(1) The sensitivity analysis of the change in interest relates to both fixed-rate instruments and variable-rate instruments. For fixed-rate instruments, the exposure relates to the carrying amount of the instrument; for variable-rate instruments, the exposure relates to the cash flow arising from the financial instrument. The calculation of the sensitivity analysis considers interest changes since the beginning of the year also for assets acquired during the year.

The impact of 1% increase/decrease in interest rate on comprehensive income for the insurance liability in the sensitivity analysis is estimated at NIS 4,359 / (4,687) thousand (2018 - NIS 3,517 / (3,612) thousand).

The sensitivity analysis is based on the carrying amount and not the economic value. This sensitivity analysis includes asset and liability items with direct interest risk, as discussed in Note 27c(2).

Note that the portion of liabilities included the sensitivity analysis out of total liabilities for non-profit-participating insurance contracts is 28.6%.

2) Investments in instruments that do not have a fixed cash flow or, alternatively, of the cash flow of which the Company does not have data.

3) The sensitivity analyses are presented net of the tax effect, in accordance with the tax rate applicable in the reported year.

4) The sensitivity analyses regarding the comprehensive income also reflect the effect on the profit (loss) for the reported period.

NOTE 27 - RISK MANAGEMENT (Continued):

c. Market risks (continued)

2) Direct interest risk

The direct interest risk is the risk that a change in the market interest rate will affect the value of or the cash flow from the asset or liability. This risk relates to assets that are settled in cash. The addition of the word "direct" underscores the fact that the change in the interest rate can also affect other types of assets, but not directly, such as the impact of a change in the interest rate on share prices.

Presented below is a breakdown of the assets and liabilities by exposure to interest risks:

	Non-profit-participating assets and liabilities as at December 31	
	2019	**2018**
	NIS in thousands	
Assets with direct interest risk:		
Marketable debt instruments	**1,796,238**	1,731,531
Non-marketable debt instruments:		
Non-marketable bonds	**17,022**	6,230
Other	**1,046**	1,173
Reinsurance asset	**149,250**	147,099
Cash and cash equivalents	**57,998**	87,306
Total assets with direct interest risk	**2,021,554**	1,973,339
Assets without direct interest risk	**1,170,615**	1,157,770
Total assets	**3,192,169**	3,131,109
Liabilities with direct interest risk:		
Liabilities in respect of non-profit-participating insurance contracts	**551,826**	510,461
Liabilities for employee retirement obligations	**5,279**	3,057
Liabilities in respect of reinsurers	**244,233**	249,761
Total liabilities with direct interest risk	**801,338**	763,279
Liabilities without direct interest risk	**1,538,609**	1,542,623
Equity	**852,222**	825,207
Total equity and liabilities	**3,192,169**	3,131,109
Total assets, net of liabilities	**852,222**	825,207

NOTE 27 - RISK MANAGEMENT (Continued):

c. Market risks (continued)

2) Direct interest risk (continued)

Assets without direct interest risk include shares, property and equipment, deferred acquisition costs and other assets as well as groups of balance sheet financial assets with a relatively low interest risk (collectible premiums, current balances of insurance companies and other accounts receivable).

Liabilities without a direct interest risk include liabilities in respect of non-profit-participating insurance contracts, liabilities in respect of deferred taxes, net, liabilities in respect of current taxes and other accounts payable.

3) Breakdown of assets and liabilities of the Company by linkage bases:

	December 31, 2019				
	In NIS - unlinked	In NIS - linked to the CPI	In foreign currency or linked thereto	Non-financial items and other	Total
	NIS in thousands				
Intangible assets				31,722	31,722
Deferred acquisition costs				157,386	157,386
Property and equipment				37,376	37,376
Reinsurance assets	30,946	631,488	38,751		701,185
Premiums collectible	87,130	77,252	14,523		178,905
Other accounts receivable	20,249	235	2,406	18,540	41,430
Other financial investments:					
Marketable debt instruments	904,191	892,047			1,796,238
Non-marketable debt instruments	80,896	9,296			90,192
Other			99,737		99,737
Total other financial investments	985,087	901,343	99,737		1,986,167
Other cash and cash equivalents	50,718		7,280		57,998
Total assets	1,174,130	1,610,318	162,697	245,024	3,192,169
Total equity				852,222	852,222
Liabilities:					
Liabilities for non-profit-participating insurance contracts	393,722	1,446,752	54,721		1,904,206
Current tax liabilities		18,300			18,300
Deferred tax assets, net				5,317	5,317
Retirement benefit obligations	5,279				5,279
Liabilities to reinsurers	244,234		15,843	18,434	278,511
Other accounts payable	126,055	-	2,279	-	128,334
Total liabilities	769,290	1,474,063	72,843	23,751	2,339,947
Total liabilities and equity	769,290	1,474,063	72,843	875,973	3,192,169
Total balance sheet exposure	404,840	16,255	89,854	(630,949)	

NOTE 27 - RISK MANAGEMENT (Continued):

c. Market risks (continued)

3) Breakdown of assets and liabilities of the Company by linkage bases (continued):

	December 31, 2018				
	In NIS – unlinked	In NIS - linked to the CPI	In foreign currency or linked thereto	Non-financial items and other	Total
	NIS in thousands				
Intangible assets				35,047	35,047
Deferred acquisition costs				157,629	157,629
Property and equipment				11,617	11,617
Reinsurance assets	29,393	644,071	45,561		718,971
Premiums collectible	83,466	77,688	18,875		180,029
Current tax assets				12,406	12,406
Other accounts receivable	20,195	114	2,584	19,081	41,974
Other financial investments:					
Marketable debt instruments	914,558	816,973			1,,731,531
Nonmarketable debt instruments	71,218	5,643			76,861
Other			77,738		77,738
Total other financial investments	985,776	822,616	77,738		1,886,130
Other cash and cash equivalents	75,692		11,614		87,306
Total assets	1,194,522	1,544,435	156,372	235,780	3,131,109
Total equity				825,207	825,207
Liabilities:					
Liabilities for non-profit-participating insurance contracts	386,381	1,429,988	68,938		1,885,307
Current tax liabilities, net		17,223			17,223
Retirement benefit obligations	3,057				3,057
Liabilities to reinsurers	249,761		29,105	19,062	297,928
Other accounts payable	102,380	-	7	-	102,387
Total liabilities	741,579	1,447,211	98,050	19,062	2,305,902
Total liabilities and equity	741,579	1,447,211	98,050	844,269	3,131,109
Total balance sheet exposure	452,943	97,224	58,322	(608,489)	

NOTE 27 - RISK MANAGEMENT (Continued):

d. Liquidity risk

The Company is exposed to risks stemming from the uncertainty as to the dates in which it would be required to pay claims to policy holders the amounts their claims in proportion to the scope of funds that will be available for that purpose on that date. A potential need to recruit funds unexpectedly and within a short time frame may require disposal of assets over a short-term period and the sale thereof at prices that would not necessarily reflect their market prices. Liquid assets are maintained at the rate set out in Company's related policy. The Company approved a liquidity model that is based on the AIG corporate methodology, with necessary local adjustments. The model presents the required level of liquidity based on various scenarios.

Management of assets and liabilities

The Company manages its assets and liabilities in accordance with the requirements of regulatory provisions and based on the approved ALM (Asset Liability Management) policy that is based on the reconciliation of assets and liabilities.

The tables below present the estimated maturity dates of the amounts of the undiscounted insurance liabilities of the Company.

The estimated maturity dates of the liabilities in respect of general insurance contracts were included in the table as follows:

Insurance liabilities estimated by the Company's actuary - on the basis of an actuarial estimate.

Insurance liabilities in sectors that are not assessed by the actuary.

The estimated maturity dates of the liabilities in respect of life and health insurance contracts were included in the tables on the basis of an actuarial estimate.

Liabilities in respect of life insurance contracts and health insurance contracts

	Up to one year	Between 1 and 5 years	Between 5 and 10 years	Between 10 and 15 years	More than 15 years	No fixed maturity date	Total
	NIS in thousands						
December 31, 2019	**69,894**	**81,211**	**4,060**	**1,236**	**9,840**	**-**	**166,241**
December 31, 2018	102,890	72,488	1,734	247	5,896	-	183,255

Liabilities in respect of general insurance contracts

	Up to one year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years	No fixed maturity date	Total
	NIS in thousands					
December 31, 2019	**662,612**	**358,576**	**241,028**	**458,344**	**17,405**	**1,737,965**
December 31, 2018	677,198	324,477	248,500	434,753	17,124	1,702,052

NOTE 27 - RISK MANAGEMENT (Continued):

e. Insurance risks

The business managers of the various insurance segments manage the insurance risks subject to the risk management policy approved by the Board of Directors, among others, by issuing guidelines for underwriting, acceptance of business and authorization hierarchies, as well as by transferring risks to reinsurers under contracts or by way of facultative insurance policies, in accordance with the retention policy approved by the Board of Directors.

As part of the development of new products and before engaging in material transactions, a comprehensive process is performed for identifying and evaluating the risks associated with the product or the transaction, and methods are established for their management and control. In the event of a suspected deterioration in the underwriting results that does not originate in random fluctuations, in-depth tests are conducted, inter alia, to assess the inherent risk, and if necessary, the assessment of insurance liabilities is adjusted and the underwriting policy is reviewed.

Additionally, in order to reduce the exposure to risks, the Company implements a stringent evaluation policy for claims, including ongoing evaluation of claim handling processes and investigations for the detection of fraud. The Group also employs an active policy for the current management of claims, in order to reduce the exposure to unexpected developments that may adversely affect it.

The Company's policy is to limit the exposure to catastrophes by stipulating maximum coverage amounts and by acquiring adequate reinsurance coverage. One of the objectives of the underwriting reinsurance policy is to limit the exposure to catastrophes to a predetermined estimated maximum loss, with reference to a given probability, based on models and/or studies, and in accordance with the risk appetite of the Company, as determined by the Board of Directors. The overall quantitative assessment of the exposure to insurance risks is performed based on the provisions of the economic solvency regime, which includes an evaluation of extreme scenarios for various risk categories and an evaluation of overall risk, in consideration of the correlations between them.

The actuaries of the Company conduct studies, exposure analyses and periodic evaluations of risk factors, such as: profitability tests for the operating segments, mortality and morbidity studies, premium deficiency reserves and exposure to earthquakes. These analyses serve both as a basis for risk assessment, using statistical indicators and sensitivity tests, in collaboration with the risk management unit, and as a part of the system of control over insurance activities.

The Company assesses its exposure to earthquake risk in Israel, which is the primary catastrophic event to which it is exposed, using international models, and acquires protection against this risk based on this assessment.

The insurance risks include, inter alia, the following:

Underwriting risks: The risk that erroneous pricing would be used as a result of deficiencies in the underwriting process and of the differences between the risk at the time of pricing and determining the premium and actual events, so that the premiums that are collected are not sufficient to cover future claims and expenses. The differences may arise from incidental changes in the business results and from changes in the cost of the average claim and/or the frequency of the claims due to various factors.

NOTE 27 - RISK MANAGEMENT (Continued):

e. Insurance risks (continued):

Reserve risks: The risk of an erroneous estimation of the insurance liabilities that could entail actuarial reserves that are insufficient to cover all the liabilities and claims. The actuarial models that the Company uses, inter alia, in assessing its insurance liabilities are based on the assumption that the pattern of behavior and claims in the past is indicative of future events. The Company's exposure is composed of the following risks:

- Model Risk – the risk of electing an erroneous model of pricing and/or for the assessment of the insurance liabilities.
- Parameter risk – the risk of use of erroneous parameters, including the risk that the amount payable for settlement of the insurance liabilities of the Company or the date of the settlement of the insurance liabilities would differ from the expected amount or date.
- Systemic risk: the risk of an unexpected future change in profitability trend in a calendar year.

Catastrophe risk: Exposure to the risk that a single event of extensive effect (a catastrophe) such as natural catastrophe, war, terrorism, fire or outbreak, would cause an accumulation of damages of extensive scope. The material catastrophic event to which the Company is exposed in Israel is an earthquake.

The amount of the loss expected in the general insurance business as a result of the exposure to a single extensive damage or accumulation of damages due to a large-scale event at a maximum possible loss (MPL) probability of 0.63%is NIS 783 million (gross) and NIS 31 million (self-retention). This rate is computed in accordance with Company's internal models

The expected rate of damage used in calculating catastrophe risk in general insurance as part of the minimum capital requirement computation is 1.75%. The expected loss in the general insurance business from exposure to an extensive single damage or accumulation of damages for a large-scale event at a maximum possible loss (MPL) probability of 1.75% is NIS 2,182 million (gross) and NIS 292 million (self-retention).

As to data regarding the various insurance products in respect of which the insurer is exposed to an insurance risk, see the breakdown of the insurance liabilities by insurance risk in Note 4 - Additional Data for the General Insurance Segment, and the breakdown of assets and liabilities in respect of life insurance contracts by insurance exposure, and in Note 16 - Breakdown of Liabilities in respect of Insurance Contracts in the Health Insurance Segment.

NOTE 27 - RISK MANAGEMENT (Continued):

e. Insurance risks (continued):

1. Insurance risk inherent in life insurance contracts

General

Presented below is a description of the various insurance products and the assumptions used in computing the liabilities related to those products, by type of product. In general, in accordance with the Commissioner's instructions, the insurance liabilities are computed by an actuary, based on generally accepted actuarial methods. The liabilities are computed in accordance with the relevant coverage data, such as age and sex of the policy holder, the period of insurance, the date of commencement of the insurance, the type of the insurance, periodic premium and the amount of insurance.

Actuarial methods used in computing the insurance liabilities

- The "individual personal accidents" plans include pure-risk products (death, severe illness, disability as a result of an accident, death as a result of an accident, permanent disability) that are sold as independent policies or attached to independent policies. For those plans, the liability is computed on an actuarial basis. The computation is based on the "Net Premium Reserve" method that includes in the expected proceeds all premium components and discounts the anticipated expenses and commissions.
- The liability in respect of pending claims in life insurance mainly include provisions for pending claims for risks of death and disability, and a provision for IBNR.
- The computation is made on a gross basis. The share of reinsurers is computed based on the agreements.

Main assumptions used in computing insurance liabilities

1) Discount rate

In the life insurance segment, which comprises pure risk products with fixed premium, the discount rate used is of 0.47%.

2) Mortality and morbidity rates

a) The mortality rates used to compute the insurance liabilities under life insurance policies in respect of mortality of policy holders were determined on the basis of studies conducted by reinsurers in combination with the mortality history studies performed by the Company.

b) The morbidity rates refer to the frequency of claims in respect of permanent disability on the basis of studies conducted by reinsurers.

Sensitivity analyses in life insurance as at December 31, 2019 (NIS in thousands):

	Morbidity and mortality rate	
	+10%	**-10%**
Profit (loss)	**(2,665)**	**4,131**

NOTE 27 - RISK MANAGEMENT (Continued):

e. Insurance risks (continued):

2. Insurance risk inherent in health personal accident contracts

General

Set forth below is the description of the various insurance contracts and the assumptions used for computation of the liabilities related to those products, based on the type of the product. In general, based on the supervisor's instructions, the insurance liabilities are computed by an actuary, based on accepted actuarial methods and consistently with previous year. The liabilities are computed in accordance with the relevant coverage data, such as age and sex of the insured person, the period of insurance, the date of commencement of the insurance, the type of the insurance, periodic premium and the amount of insurance.

Actuarial methods used in computing the insurance liabilities

- The "individual personal accidents" plan includes pure-risk products (death as a result of an accident, disability as a result of accident) that are sold as independent policies. For this plan, the liability is computed on an actuarial basis. The computation is based on the "Gross Premium Reserve" method, which includes in the expected proceeds all the premium components and discounts the expected expenses and commissions.
- The liability in respect of pending claims relating to health and personal accidents mainly include provisions for pending claims for risks of death as a result of an accident, severe illnesses and disability as a result of an accident and a provision for IBNR. For the personal accidents sectors - both individual and collective – “Link Ratio” models were set up on the basis of the accumulated cost of the claims (payments of the claims with the addition of specific assessments and the average cost per claim. The models are settled annually upon the development of quarterly damages. Cost drivers were calculated to optimize the estimation.
- This estimate includes a conservativism factor to bring the provision in the account to a prudence level of 75%.
- The computation is made on a gross basis. The share of reinsurers is computed based on the agreements.

Main assumptions used for the calculation of insurance liabilities:

- In January 2015, the Commissioner published a position – "Best Practice for Calculation of General Insurance Reserves for Financial Reporting". The Commissioner’s position includes, among others, explanations for the principles: professionalism, consistency, and prudence, which have not been previously defined in General Insurance Actuarial Assessment Circular 2015-1-1. The principle of prudence requires an actuary to verify that assessments in liability sectors are tuned to a probability of at least 75%. In addition, the Commissioner’s opinion also addresses liability cash flow discount rates for optimal assessments.
- According to the position of the Commissioner, commencing at the end of 2015, for purposes of pending claims in compulsory and liability sectors and the “reasonable probability” that reserves will be sufficient to cover the insurer’s liabilities will aim for an estimated probability of at least 75%.
- The Company implements the Reserve/Premium Risk Statistical Model (hereinafter: "the RPS model"), which is implemented by the AIG Group worldwide, in order to determine stochastically the 75th percentile estimate.

NOTE 27 - RISK MANAGEMENT (Continued):

e. Insurance risks (continued):

2. Insurance risk inherent in health personal accident contracts (continued)

Main assumptions used for the calculation of insurance liabilities (continued)

1) Discount rate

In the “personal accidents – individual” sector, the gross premium reserve is computed on the basis of a risk-free interest rate.

2) Morbidity and mortality rates

Morbidity rates refer to the frequency of claims relating to morbidity resulting from disability and accidents and to accidental death. These rates were determined based on the Company's past experience. The higher the assumption regarding the morbidity rate, the higher the insurance liability for morbidity resulting from disability and accidents and for accidental death.

3) Cancellation rates

The rate of cancellations affects the insurance liabilities in respect of certain types of health insurance. Insurance contracts can be cancelled by the Company due to unpaid premiums or at the request of the owner of the policy. The assumptions as to the rates of cancellation are based on the Company's past experience based on the type of the product, the estimated useful life of the product and sales trends. A 10% increase or decrease in the cancellations assumption has no material effect on the profit, since the gross premium reserve is relatively small.

Sensitivity analysis for health insurance and personal accidents insurance as at December 31, 2019 (NIS in thousands):

	Cancellation rate (withdrawals, settlements and reductions)		Morbidity and mortality rate	
	+10%	**-10%**	**+10%**	**-10%**
Profit (loss)	**403**	**(446)**	**(5,077)**	**3,312**

3. Insurance risk in general insurance contracts

Summary of the main insurance sectors in which the Company operates

The Company writes insurance contracts in the field of general insurance, mainly in the vehicle property insurance, compulsory vehicle insurance, home insurance, liability insurance and property insurance sectors.

Compulsory vehicle insurance covers the policy holder and the driver for any liability they may arise a result of the provisions of the Road-Accident Victims’ Compensation Law, 1975, for personal injury caused as a result of the use of a motor vehicle to the driver, the passengers or pedestrians hit by the vehicle. Compulsory vehicle insurance claims are characterized by a long tail, i.e., sometimes a long period of time elapses from the occurrence of the event to the final settlement of the claim.

NOTE 27 - RISK MANAGEMENT (Continued):

e. Insurance risks (continued):

3. Insurance risk in general insurance contracts (continued)

Summary of the main insurance sectors in which the Company operates (continued)

Liability insurance policies are designed to cover the liability of a policy holder for any damage that he may cause to a third party. The main types of insurance are: liability to a third party, liability of employers, other liability insurances such as professional liability, product liability and directors' and officers' liability. The timing of the filing of the claims and the settlement thereof is affected by several factors, such as the type of coverage, the terms of the policy, and legislation and legal precedents. Normally, the claims in the liability sector are characterized by a long tail. i.e., sometimes a long period of time elapses from the occurrence of the event to the final settlement of the claim.

Vehicle damage insurance and-third party vehicle property insurance grant the policy holder coverage for property damage. The coverage is usually limited to the value of the damaged vehicle. The tariff for vehicle damage insurance, and the policy as a whole, are subject to approval by the Commissioner. The tariff is an actuarial tariff and partially differential (varies between policy holders and adjusted for the risk). The tariff is based on several parameters, relating both to the vehicle insured under the policy (e.g. type of vehicle, year of manufacture etc.) and to the attributes of the policy holder (age of the driver, claims history etc.). The underwriting procedure is partly performed through the tariff itself and partly based on a system of procedures that are designed to examine the claims history of the policy holder, including the presentation of a no-claim certificate from a previous insurer (for the three preceding years), presentation of an up-to-date certificate of protection etc. These procedures are automatically included in the policy issuance process. Vehicle damage insurance policies are generally issued for a one-year period. Also, in most cases, claims in respect of these policies are resolved close to the occurrence of the insurance event.

Property insurance policies are designated to provide the policy holder coverage against physical damage to his property and loss of profits due to the damage caused to his property. The main risks covered by property insurance policies are fire, explosion, burglary, earthquake and natural catastrophe. The property insurance policies may include coverage for loss of profits originating in physical damage to property. Property insurance constitutes an important part of home insurance, business insurance, engineering insurances, freight in transit (marine, land, air) etc. Claims regarding those policies are generally resolved close to the occurrence of the insurance event.

Principles of computation of the actuarial assessment in general insurance

a) The liabilities in respect of general insurance contracts include the following components:
   - Optimized estimation of pending claims
   - Conservativism addition to the 75% percentile
   - Provision for unearned premium
   - Provision for indirect expenses

NOTE 27 - RISK MANAGEMENT (Continued):

e. Insurance risks (continued):

3. Insurance risk in general insurance contracts (continued)

Principles of computation of the actuarial assessment in general insurance (continued)

b) In January 2015, Insurance Circular "Actuarial Assessment in General Insurance" was published. The provisions of this circular are designated to improve the quality of assessment liabilities in respect of general insurance contracts (hereinafter: “Insurance Reserves”), which are pivotal to the assessment of the liabilities of the insurer, and regulate the inclusion in the financial statements of a professional opinion by an appointed actuary (hereinafter: “Actuary”) in relation to the assessment of those insurance liabilities. This circular states the scope of actuarial assessment that the general insurance Actuary needs to perform, the actuarial report required of the Actuary and a declaration that the Actuary is required to sign, which is to be attached to the financial statements.

c) In January 2015, the Commissioner published a position, "Best Practice for Calculation of General Insurance Reserves for Financial Reporting" (hereinafter: "the Commissioner’s Opinion"). The Commissioner’s Opinion includes, among others, clarifications of the principles: professionalism, consistency, and prudence, which have not been previously defined in General Insurance Actuarial Assessment Circular 2015-1-1. The principle of prudence requires an actuary to verify that assessments in liability sectors are tuned to a probability of at least 75%. In addition, the Commissioner’s Opinion also addresses liability cash flow discount rates for optimal assessments.

d) In accordance with the guidelines of the Commissioner, pending claims are computed by an actuary based on generally accepted actuarial methods, initially according to the optimal assessment and thereafter with the requisite addition for reaching the 75th percentile. The election of the actuarial method appropriate for each insurance sector and for each year of event/underwriting is made using discretion as to the extent of the method’s suitability to the sector and, occasionally, using a combination of the various methods. The assessments are primarily based on past experience of the development of payments for claims and/or developments in the amount of payments and specific assessments. The assessments include assumptions regarding the cost of an average claim, costs of handling of claims and the frequency of claims. Further assumptions may relate to changes in rates of interest, exchange rates and the timing of payments. The payments of the claims include direct and indirect expenses for settlement of claims, net of subrogation and deductibles.

e) The use of actuarial methods that are based on the development of claims is mainly appropriate when there is stable and satisfactory information regarding payments of claims and/or specific assessments to assess the total anticipated cost of claims. Where the information available for actual claim experience is insufficient, the actuary may use a computation weighting a known estimate (in the Company and/or the sector), such as loss ratio, and the development of actual claims. Greater weight is given to the assessment that is based on experience as time elapses and further data is accumulated regarding the claims.

NOTE 27 - RISK MANAGEMENT (Continued):

e. Insurance risks (continued):

3. Insurance risk in general insurance contracts (continued)

Principles of computation of the actuarial assessment in general insurance (continued)

f) Also included are qualitative assessments and discretion as to the extent that past trends would not continue in the future. For example, due to a non-recurring event, internal changes, such as a change in the mix of the portfolio, the underwriting policy and procedures, as well as due to the effects of external factors such as legal rulings, legislation, etc. When changes as above are not fully reflected in the past experience, the actuary updates the models and/or makes specific provisions based on statistical and/or legal assessments, as appropriate.

g) For large claims of a non-statistical nature, the provision is determined (gross and retained) based on an opinion issued by Company's experts and in accordance with the recommendations of its legal advisors.

h) The share of the reinsurers in the pending claims is estimated taking into account the type of the agreement (proportionate/disproportionate), actual claim experience and the premium transferred to reinsurers.

i) The assessment of the pending claims in respect of the Company's share in the pool was based on a computation performed by the pool.

k) An examination is performed of the recoverability of the deferred acquisition costs and the cost of future claims, including other expenses related to the handling of the policy and claims.

Breakdown of actuarial methods in the principal insurance sectors

a) Vehicle property insurance

In the vehicle property sector, liabilities are computed based on the development of the claim payments and the development in payment amounts and the specific assessments, with reference to the types of coverage, such as comprehensive/third-party coverage, and the types of damages such as self-damage/third-party/theft/total loss. For the last months of damage, in respect of which there is insufficient data, the average method is also used to determine the cost of claim per policy.

b) Compulsory vehicle insurance

In the compulsory vehicle sector, liabilities are computed based on the development of payments, and the development in payments and pending claims in respect of smaller claims (up to the excess point). Liabilities above the excess point are computed using actuarial models that are based on development of frequency, multiplied by severity. The share of the reinsurer in the excess of loss claims is calculated using a model for larger claims and based on actual larger claims.

NOTE 27 - RISK MANAGEMENT (Continued):

e. Insurance risks (continued):

3. Insurance risk in general insurance contracts (continued)

Breakdown of actuarial methods in the principal insurance sectors (continued)

c) Liability insurance

In the liability sector, liabilities are computed based on the development of identified claims. For periods in respect of which there is insufficient data, the cost of claims is computed using the loss ratio method. For large claims, the specific assessments of the claims department are also taken into account.

d) Property and others insurance

In the property and others sectors, liabilities are computed based on the development of the claim payments and/or the development in the payments and pending claims, with the exception of coverage of water damage (pursuant to the Plumbers Circular) in home insurance, for which assessments were based on frequency and severity due to lack of data.

e) Assessment of indirect claim handling expenses

The indirect expense element in paid claims is calculated by the Finance Division. Those expenses include all costs of the Claims Department and an allocation of indirect expenses of the Company that are attributable to the settlement of claims (these include IT expenses, HR, depreciation and finance).

The unallocated loss adjustment expense (ULAE) factor is based on the historical ratio of payments not allocated to claims to claims paid in recent calendar years. The ULAE reserve was computed assuming one half the cost of settling a claim is incurred upon opening a file and the remainder upon closing it.

Since this calculation is made on a gross basis, while the liability sectors in commercial insurance have large IBNR amounts, adjustments were made in relation to liability sectors in calculating retention amounts.

Nevertheless, in allocating the ULAE reserves by sector, consideration was given to the duration from the initial reporting of the claims to their settlement.

The ULAE reserve was allocated by accident-year proportional to the unpaid indemnity reserves held, by accident-year.

Calendar year paid ULAE is available only in aggregate for all sectors combined. The paid ULAE by sector was estimated based on an allocation, by accident-year, proportional to the paid indemnity losses during the calendar year.

f) Principal assumptions taken into account in the actuarial assessment

- According to the Commissioner's position, as published in a circular on January 15, 2015, as from the end of 2015, for pending claims in compulsory and liability sectors, the test as to whether it is fairly likely that reserves will be sufficient to cover the liabilities of the insurer will ai, for a probability estimate of at least 75%
- The conservativism margin was obtained using stochastic models that estimate the volatility in claim experience. Those models also estimate random and systemic risks.

NOTE 27 - RISK MANAGEMENT (Continued):

e. Insurance risks (continued):

3. Insurance risk in general insurance contracts (continued)

f) Principal assumptions taken into account in the actuarial assessment (continued)

- The Company implements the Reserve/Premium Risk Statistical Model ("the RPS model"), which is implemented by the AIG Group worldwide, in order to determine stochastically the 75th percentile estimate.
- Pending claims in compulsory vehicle and liability sectors were not discounted.

g) Discount interest rate applicable to annuities

In 2014, the Ministries of Finance and Welfare appointed a committee, headed by Former Justice Eliyahu Vinograd (hereinafter: “the Vinograd Committee”), to examine the interest rate that is suitable for discounting National Insurance benefits. The Committee was requested to determine whether the 3% rate used since the 1970s is still reasonable with the passage of time. The Committee determined that the National Insurance Institute of Israel (hereinafter: “NII”) interest rate should be reduced to 2%. The Knesset has adopted these conclusions and amended the Discount Regulations of the National Insurance Institute, for the first time in four decades. The amendment came into effect on October 1, 2017, and thereafter this calculation applies to benefits payable by the NII for subsequent periods.

The additional recommendations of the Vinograd Committee were as follows:

- The Regulations tables will be updated promptly and every four years;
- The 2% interest rate will remain in effect until modified;
- The interest rate will be calculated as a four-year average of the average monthly yield-rates;
- The rate will not be less than zero and will not be modified by more than one percentage point.
- The life expectancy component will be added to the interest component in updating the Regulations.

Based on its assessment that the discount rates recommended by the Vinograd Committee will serve as the starting point for the calculation of damages to victims of personal injury in insurance claims, the Company has increased the insurance liabilities in the compulsory vehicle sector. The increase resulted from the use of a 2% interest rate for discounting annuities pertaining to payment projected until 2020 and a 1% interest rate for payments projected after 2020, in view of the anticipated further reduction of the discount interest rate under the aforementioned calculation mechanism.

In April 2018, the Minister of Justice and the Minister of Finance appointed a committee, headed by Erez Kaminitz, Deputy Attorney General, to thoroughly examine the appropriate discount interest rate for personal injury (hereinafter: “the Kaminitz Committee”). Concurrently, the Supreme Court discussed the matter of discounting damages to victims of road accidents. The Court has decided to defer the ruling in this matter, pending the conclusions of the Kaminitz Committee.

NOTE 27 - RISK MANAGEMENT (Continued):

e. Insurance risks (continued):

3. Insurance risk in general insurance contracts (continued)

g) Discount interest rate applicable to annuities (continued)

In June 2019, the Committee submitted its final recommendations in the matter to the Supreme Court. The recommendations prescribed a uniform discount interest rate of 3% and a mechanism for the future updating of the interest rate.

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

Consequently, the Company estimated the effect of the aforesaid ruling and reduced the provisions in the compulsory vehicle insurance segment for the reported year by approximately NIS 34.7 million in retention before tax.

As at December 31, 2019, the balance of the provision is approximately NIS 9.1 million in retention before tax, this in respect of subrogation claims by the National Insurance Institute against the Company. The provision includes NIS 3.5 million in respect of the Company's share in the pool. To the extent that the Court's recommendation to set a 3% interest rate for National Insurance claims is accepted, additional amounts may be released.

f. Credit risk data:

Credit risk arises from exposure to decrease in the quality of credit or default of borrowers as a result of deterioration of their financial strength. Investments in bonds, capital notes and deposits of companies are mainly rated A or above, representing a relatively low credit risk.

Acquisition of bonds is performed after thorough analysis of the investment based on the criteria and credit policy approved by the Investments Committee. Debts are regularly monitored, with special attention to problem debts. Once a quarter, the Company holds a problem debt forum, which is tasked with assessing the status of debt. The purpose of the forum is to discuss sensitive/problem debt, including in cases of rating downgrades.

The decision on the means to be taken to handle such debt is made by the functions who are authorized to decide on the handling of problem debts. A report on this matter is submitted to the Investments Committee of the Company.

1) Distribution of debt instruments by location*

	December 31, 2019		
	Marketable	**Non-marketable**	**Total**
		NIS in thousands	
Domestic	**1,796,238**	**90,192**	**1,886,430**
Total debt instruments	**1,796,238**	**90,192**	**1,886,430**

	December 31, 2018		
	Marketable	**Non-marketable**	**Total**
		NIS in thousands	
Domestic	1,731,531	76,861	1,808,392
Total debt instruments	1,731,531	76,861	1,808,392

* The Company has no debt instruments abroad.

NOTE 27 - RISK MANAGEMENT (Continued):

f. Credit risk data (continued):

2) Breakdown of assets by ratings:

a. Debt instruments (excluding cash and cash equivalents, premiums collectible and other receivables)

	Domestic rating		
	December 31, 2019		
	AA- and above	BBB through A+	Total
	NIS in thousands		
Debt instruments in Israel			
Marketable debt instruments:			
Government bonds	**680,128**	**-**	**680,128**
Corporate bonds	**749,860**	**366,250**	**1,116,110**
Total marketable debt instruments in Israel	**1,429,988**	**366,250**	**1,796,238**
Non-marketable debt instruments:			
Corporate bonds	**11,372**	**5,650**	**17,022**
Loans and receivables, excluding bank deposits	**72,124**	**-**	**72,124**
Deposits with banks and financial institutions	**1,046**	**-**	**1,046**
Total non-marketable debt instruments in Israel	**84,542**	**5,650**	**90,192**
Total domestic debt instruments	**1,514,530**	**371,900**	**1,886,430**

Debt instruments abroad

As at December 31, 2019, the Company has no debt instruments overseas.

NOTE 27 - RISK MANAGEMENT (Continued):

f. Credit risk data (continued):

2) Breakdown of assets by ratings (continued):

a. Debt instruments (excluding cash and cash equivalents, premiums collectible and other receivables) (continued)

	Domestic rating		
	December 31, 2018		
	AA- and above	BBB through A+	Total
	NIS in thousands		
Debt instruments in Israel			
Marketable debt instruments:			
Government bonds	619,981	-	619,981
Corporate bonds	721,516	390,034	1,111,550
Total marketable debt instruments in Israel			
Non-marketable debt instruments:			
Corporate bonds	4,470	1,760	6,230
Loans and receivables, excluding bank deposits	69,458	-	69,458
Deposits with banks and financial institutions	1,173	-	1,173
Total non-marketable debt instruments in Israel	75,101	1,760	76,861
Total domestic debt instruments	75,101	1,760	76,861

Debt instruments abroad

As at December 31, 2018, the Company has no debt instruments overseas.

b. Credit risk in respect of other financial assets (in Israel)

	Domestic rating		
	December 31, 2019		
	A and above	Not rated	Total
	NIS in thousands		
Accounts receivable - excluding balances of reinsurers	**-**	**218,818**	**218,818**
Cash and cash equivalents	**57,998**	**-**	**57,998**
	57,998	**218,818**	**276,816**

	Domestic rating		
	December 31, 2018		
	A and above	Not rated	Total
	NIS in thousands		
Accounts receivable - excluding balances of reinsurers	-	220,297	220,297
Cash and cash equivalents	87,306	-	87,306
	87,306	220,297	307,603

NOTE 27 - RISK MANAGEMENT (Continued):

f. Credit risk data (continued):

3) Additional data regarding credit risks:

a. Different scales are used for the rating of debt instruments in Israel and abroad. It should be noted that, in accordance with Capital Market Circular 2008-6-1, regarding the publication of a mechanism for conversion of the Israeli rating scale to the international rating scale, the Commissioner instructed that, through January 1, 2009, the rating companies that have been authorized by the Commissioner of Capital Market, Insurance and Savings to operate as a rating company pursuant to Capital Market Circular 2004/1 are to publish a mechanism for the conversion of the Israeli rating into the international rating.

b. As to balances with reinsurers amounting to NIS 701,185 thousand, see Note 13. See also Note 27f(5)(3).

4) Breakdown of exposure to investments in marketable and nonmarketable financial debt instruments, by industry:

	December 31, 2019	
	Balance sheet credit risk	
	Amount	% of total
	NIS in thousands	
Industry		
Construction and real estate	**447,015**	**23.7**
Defense	**9,463**	**0.5**
Banking	**232,482**	**12.3**
Investments and holdings	**28,595**	**1.5**
Communications	**27,827**	**1.5**
Commerce	**61,364**	**3.3**
High-tech	**16,527**	**0.9**
Production industry	**49,435**	**2.6**
Insurance and financial services	**59,548**	**3.2**
Other business services	**85,445**	**4.3**
Energy	**108,527**	**5.8**
Hospitality and tourism	**7,950**	**0.5**
	1,134,178	**60.1**
Loans to individuals	**72,124**	**3.8**
Government bonds	**680,128**	**36.1**
Total	**1,886,430**	**100.0**

NOTE 27 - RISK MANAGEMENT (Continued):

f. Credit risk data (continued):

4) Breakdown of exposure to investments in marketable and nonmarketable financial debt instruments, by industry (continued):

	December 31, 2018	
	Balance sheet credit risk	
	Amount	% of total
	NIS in thousands	
Industry		
Construction and real estate	474,960	26.3
Defense	15,395	0.9
Banking	226,200	12.5
Investments and holdings	68,450	3.8
Communications	61,564	3.4
Commerce	54,929	3.0
High-tech	13,810	0.8
Production industry	86,264	4.8
Insurance and financial services	31,753	1.8
Other business services	77,695	4.3
Electricity and water	2,954	0.2
Hospitality and tourism	4,979	0.3
	1,118,953	61.9
Loans to individuals	69,458	3.8
Government bonds	619,981	34.3
Total	**1,808,392**	**100.0**

5) Reinsurance

The Company’s insures some of its businesses by means of reinsurance (mostly with global AIG Corporation companies, which are related parties of the Company). However, the reinsurance does not relieve the direct insurers of their obligations towards their policy holders under the insurance policies.

The Company is exposed to risks arising from uncertainty as to the ability of the reinsurers to pay their share in the liability in respect of insurance contracts (the reinsurance assets) and their obligations in respect of claims paid. This exposure is managed by currently monitoring the reinsurer's position in the global market as well as the reinsurer’s the fulfillment of its financial obligations.

Pursuant to the guidelines set by the Commissioner, annual reports are submitted to the Board of Directors as to the maximum levels of exposure to the reinsurers with which the Company has entered (or will enter) into reinsurance agreements; such levels are based on the reinsurers' international rating. Those exposures are managed by individual assessment of reinsurers the exposure with respect to which is significant, including monitoring and development of risk-level indicators for all reinsurers with which the Company engages. Additionally, the exposure of the Company is primarily to reinsurers with high international ratings.

NOTE 27 - RISK MANAGEMENT (Continued):

f. Credit risk data (continued):

5) Reinsurance (continued):

1. In 2018 and 2019, most of the Company's general insurance contracts were with the following insurance companies, as follows:

- ("NHIC") New Hampshire Insurance Company
- ("NUFIC") National Union Fire Insurance Company of Pittsburgh, PA
- ("AHAC") American Home Assurance Company

The above-mentioned companies are global AIG Corporation companies and are related parties of the Company. For further details on balances and transactions with related parties, see Note 28. The said companies have been granted an A+ rating by S&P.

2. In 2018, most of the Company’s life insurance contracts were with the following insurance companies:

- Swiss Re, rated AA- by S&P.
- Partner Re, rated A+ by S&P.

2. In 2019, most of the Company’s life insurance contracts were with Swiss Re.

NOTE 27 - RISK MANAGEMENT (Continued):

f. Credit risk data (continued):

5) Reinsurance (continued):

3. Information regarding the exposure to credit risks

As at December 31, 2019:

Rating group	Total premiums to reinsurers	Net debit (credit) balances	Reinsurance assets: Life insurance	Reinsurance assets: Property insurance **	Reinsurance assets: Liability insurance	Deposits by reinsurers	Total exposure	Debts overdue: 0.5-1 year	Debts overdue: More than 1 year
	NIS in thousands								
AA- or above									
GEN RE	739	(130)	484	3	-	(296)	61	-	-
SWISS RE	22,822	(1,214)	10,514	-	-	(9,048)	252	-	-
	23,561	(1,344)	10,998	3	-	(9,344)	313	-	-
A									
Partner Reinsurance Co. Ltd.	5,010	(600)	3,239	-	-	(2,004)	635	-	-
AHAC*	14,712	(1,207)	-	6,810	58,368	(23,289)	40,682	-	-
NUFIC*	115,421	(9,416)	-	53,125	455,269	(181,651)	317,327	-	-
NHIC*	17,656	(1,449)	-	8,173	70,041	(27,946)	48,819	-	-
Other companies in the AIG global corporation*	12,108	(104)	-	34,874	285	-	35,055	-	-
Other	1,902	(207)	-	-	-	-	(207)	-	-
	166,809	(12,983)	3,239	102,982	583,963	(234,890)	442,311	-	-
Total	190,370	(14,327)	14,237	102,985	583,963	(244,234)	442,624	-	-

* Global AIG Corporation companies that are related parties of the Company.

** Also includes reinsurance assets of the health insurance sector in the amount of NIS 2,068 thousand (see Note 13).

NOTE 27 - RISK MANAGEMENT (Continued):

f. Credit risk data (continued):

5) Reinsurance (continued):

3. Information regarding the exposure to credit risks (continued)

As at December 31, 2018:

Rating group	Total premiums to reinsurers	Net debit (credit) balances	Reinsurance assets: Life insurance	Reinsurance assets: Property insurance **	Reinsurance assets: Liability insurance	Deposits by reinsurers	Total exposure	Debts overdue: 0.5-1 year	Debts overdue: More than 1 year
	NIS in thousands								
AA- or above									
GEN RE	839	23	1,857	11	-	(336)	1,555	-	-
SWISS RE	20,590	(1,279)	10,659	-	-	(8,236)	1,144	-	-
	21,089	(1,158)	12,876	11	-	(8,085)	3,633	-	-
A									
Partner Reinsurance Co. Ltd.	5,017	(429)	1,541	-	-	(2,007)	(895)	-	-
AHAC*	14,221	(2,296)	-	5,648	60,593	(23,919)	40,026	-	-
NUFIC*	110,921	(17,897)	-	44,066	472,623	(186,562)	312,231	-	-
NHIC*	17,065	(2,753)	-	6,780	72,711	(28,702)	48,035	-	-
Other companies in the AIG global corporation	12,372	(2,798)	-	42,124	310	-	39,636	-	-
Other	583	(158)	-	48	-	-	(110)	-	-
	160,179	(26,331)	1,541	98,666	606,237	(241,190)	438,923	-	-
Total	181,608	(27,587)	14,057	98,677	606,237	(249,762)	441,622	-	-

* Global AIG Corporation companies that are related parties of the Company.

** Also includes reinsurance assets of the health insurance sector in the amount of NIS 2,171 thousand (see Note 13).

NOTE 27 - RISK MANAGEMENT (Continued):

g. Operating risks

Operating risks could result in financial losses, damage to reputation, regulatory breaches, reduced operating efficiency, failure to achieve targets etc. The exposures could stem from deficiencies in or inadequacy of internal processes, human error, IT-system malfunction, regulatory non-compliance, or as a result of external events. In order to reduce the exposure to operating risks, the Company works to minimize the material risks mapped for the organization and performs risk assessments of specific processes in the business units.

The mechanism for the management of operating risks in the Company includes the appointment of "risk-management champions" in the various business units, who report risk events. The risk events and key risk indicators are reported in accordance with the reporting structure and hierarchy. The Company has also established an Operating Risk Management Committee, whose members include the managers of the various departments. The internal auditor is invited to take part in the Committee's meetings.

The Committee convenes every quarter and discusses risk management in various processes, the handling of risk events, etc.

In 2019, risk management routines were implemented for the current detection, handling, monitoring and reporting of exposures in the organizational operating processes. In addition, regular training was given to employees on detection and reporting of operating risk events.

As part of the overall risk management vision of the organization, the Company maintains an independent control unit. The control unit constitutes a second line of defense, implementing controls in addition to those of the first line of defense.

As part of the operating risk management, the Company designed a disaster recovery plan (DRP) and a business continuity plan (BCP) to recover in an instance of damage to operating infrastructure. In addition, the Company performs periodic risk surveys to detect fraud and misappropriation.

Information security and cyber – The Company manages its information security risk based on the related policy that it had approved, and has established a Cyber Committee for this purpose. The Chief Information Officer is preparing for the implementation of the regulatory requirements published on cyber security, this in addition to professional guidance of the international AIG Corporation. Additionally, the Company is insured under the cyber defense umbrella of the global AIG corporation.

Furthermore, the Company operates an internal audit function that performs periodic audits according to an annual and multi-annual work plan. This plan reflects the requirements of the law and the various directives.

h. Geographical risks:

	December 31, 2019				
	Government bonds	**Corporate bonds**	**Index funds**	**Other investments**	**Total balance-sheet exposure**
			NIS in thousands		
Israel	**680,128**	**1,037,675**	**-**	**131,167**	**1,848,970**
North America	**-**	**52,474**	**49,437**	**-**	**101,911**
Other	**-**	**42,984**	**50,300**	**-**	**93,284**
Total	**680,128**	**1,133,133**	**99,737**	**131,167**	**2,044,165**

NOTE 27 - RISK MANAGEMENT (Continued):

h. Geographical risks (continued):

	December 31, 2018				
	Government bonds	**Corporate bonds**	**Mutual funds**	**Other investments**	**Total balance-sheet exposure**
	NIS in thousands				
Israel	619,981	995,049	-	157,937	1,772,967
North America	-	100,015	-	-	100,015
Other	-	22,716	77,738	-	100,454
Total	**619,981**	**1,117,780**	**77,738**	**157,937**	**1,973,436**

The geographical exposure reported in the table for the different asset classes is based on the ultimate location of exposure, by country or region, as applicable. Where the location of ultimate exposure cannot be identified, the exposure is reported based on the location of issue or trading of the asset.

NOTE 28 – BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES

“Interested parties” – as defined in the Israeli Securities Regulations (Preparation of Annual Financial Statements), 2010.

“Related parties” - as defined in IAS 24 - "Related Party Disclosures".

The Company's key management personnel (which are included together with others in the definition of "related parties" under IAS 24) include members of the Board of Directors and members of senior management (hereinafter: "key management personnel").

a. Balances with interested and related parties:

		December 31			
		2019		2018	
	Note	**Global AIG corporation companies**	**Key management personnel**	**Global AIG corporation companies**	**Key management personnel**
		NIS in thousands			
Reinsurance assets	13, 27f(3)(5)	**686,945**	-	704,855	-
Accounts receivable	8	**2,396**	-	2,487	-
Accounts payable	19	-	**6,387**	-	5,911
Liabilities to reinsurers	29, 27f5(3)	**246,579**	-	266,362	-

NOTE 28 – BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Continued)

b. Transactions with interested and related parties

	Note	December 31 2019	2018	2017
		NIS in thousands		
Premiums – gross (*)	20	**91**	95	87
Reinsurance premiums (**)	20	**(159,897)**	(154,579)	(144,825)
Income from commissions (**)	22	**42,496**	40,040	38,567
Payments and change in liabilities in respect of insurance contracts (**)	23	**65,798**	97,894	119,156
General and administrative expenses (*)	25, 28c	**(14,586)**	(15,562)	(13,588)
General and administrative expenses (**)	25	**(852)**	(1,057)	-

* Transactions with key management personnel. Officers of the Company may purchase, from time to time, insurance contracts that were issued by the Company, at market conditions and in the ordinary course of business.

** Transactions with Global AIG Corporation companies.

c. Compensation and benefits to key management personnel:

	Year ended December 31 2019 No. of people	2019 Amount (NIS in '000)	2018 No. of people	2018 Amount (NIS in '000)	2017 No. of people	2017 Amount (NIS in '000)
Current benefits (28e2)	**13**	**12,591**	13	13,084	13	11,674
Post-employment benefits	**13**	**2,893**	13	2,478	13	1,914
		15,484		15,562		13,588

d. Compensation and benefits:

	Year ended December 31 2019 No. of people	2019 Amount (NIS in '000)	2018 No. of people	2018 Amount (NIS in '000)	2017 No. of people	2017 Amount (NIS in '000)
Fees to directors	**3**	**458**	3	488	3	500
	3	**458**	3	488	3	500

e. Income and expenses from related parties and interested parties

1) <u>Transactions with global AIG Corporation that are related parties of the Company</u>

Most of the Company's transactions with reinsurers are carried out with global AIG Corporation companies that are related parties of the Company. As to the amounts of such transactions, see a. and b. above and Note 27(f)(5)(3).

2) Bonuses to key management personnel

Current benefits include bonuses and other benefits to key management personnel, amounting to NIS 3,399 thousand (2018 – NIS 3,743 thousand; 2017 – NIS 2,855 thousand).

f. Appointment and approval of terms of employment of the Company CEO

In October 2019, the salary of the Company CEO – Yfat Reiter, was set at NIS 80,000 per month, plus a bonus as set out in the bonus plan for officers (see section 4.6 C to Part A: Description of the Entity's Business) plus accepted benefits (company car, cellular telephone and reimbursement of expenses).

See Regulation 21 of Part D (Additional Information on the Entity) for further information on the compensation of interested parties and senior officers.

NOTE 29 - ASSETS AND LIABILITIES FOR EMPLOYEE BENEFITS

Employee benefits include post-employment benefits as well as short-term benefits.
As to the benefits to key management personnel, see Note 28c.

a. Composition of the liabilities for employee benefits, net

	December 31	
	2019	**2018**
	NIS in thousands	
Presented under other accounts payable:		
Short-term employee benefits	**9,867**	9,661
Presented under liabilities for employee benefits, net:		
Liability for employee benefits	**20,210**	17,216
Assets for employee benefits	**(14,931)**	(14,159)
	5,279	3,057

b. Post-employment benefit plans – defined benefit plans

According to the labor laws and Severance Pay Law in Israel, the Company is required to pay compensation to an employee upon dismissal or retirement or to make current contributions in defined contribution plans pursuant to section 14 to the Severance Pay Law, as specified below. The Company's liability is accounted for as a post-employment benefit.

The computation of the Company's employee benefit liability is made according to the current employment contract based on the employee's salary which, in management’s opinion, creates entitlement to receive the compensation.

The post-employment employee benefits are normally financed by contributions classified as defined benefit plan or as defined contribution plan, as detailed below:

Defined contribution plans

Section 14 to the Severance Pay Law, 1963 applies to part of the severance payments, pursuant to which the fixed contributions paid by the Company into pension funds and/or policies of insurance companies release the Company from any additional liability to employees for whom said contributions were made. These contributions and contributions for benefits represent defined contribution plans. The amounts funded as above are carried directly to profit or loss as an expense and are not included in the balance sheet. In 2019 and 2018, the expenses in respect of the defined contribution plans amounted to NIS 4,044 thousand and NIS 3,974 thousand, respectively, and were included under “payroll and related expenses”.

Defined benefit plan

The Company accounts for that part of the payment of severance pay that is not covered by contributions in defined contribution plans, as above, as a defined benefit plan for which an employee benefit liability is recognized and for which the Company deposits amounts in qualifying insurance policies.

NOTE 29 - ASSETS AND LIABILITIES FOR EMPLOYEE BENEFITS (Continued):

b. Post-employment benefit plans – defined benefit plans (continued):

1. Movement in the present value of the liability and in the fair value of the assets in respect of defined benefit plans, NIS in thousands

	Liability for defined benefit plan		Fair value of plan assets		Total liability (asset), net recognized in respect of defined benefit plan	
	2019	2018	2019	2018	2019	2018
Balance as at January 1	17,481	17,506	14,159	14,024	3,322	3,482
Cost of interest	637	533	511	439	126	94
Current servicing cost	1,490	1,606	-	-	1,490	1,606
Actuarial loss (gain) as a result of changes in financial assumptions	1,545	(222)	-	-	1,545	(222)
Other actuarial gain	1,226	926	-	-	1,226	926
Actual return, less interest income	-	-	1,191	-	(1,191)	-
Benefits paid	(2,169)	(2,868)	(1,745)	(990)	(424)	(1,878)
Employer's contributions to the plan	-	-	815	686	(815)	(686)
Balance as at December 31	20,210	17,481	14,931	14,159	5,279	3,322

2. Reasonably possible changes at the end of the reporting period in each actuarial assumption assuming that all other actuarial assumptions remain constant, affect the defined benefit obligation as follows (NIS in thousands):

	December 31, 2019		December 31, 2018	
	1% increase	1% decrease	1% increase	1% decrease
Rate of future salary increases	1,147	(926)	470	(350)
Discount rate	(795)	1,093	(341)	465

The assumptions concerning the future mortality rate are based on statistical data published and on widely accepted life tables.

NOTE 29 - ASSETS AND LIABILITIES FOR EMPLOYEE BENEFITS (Continued):

b. Post-employment benefit plans – defined benefit plans (continued):

3. Additional data

- The actual return on the plan assets in 2019 is approximately 11.4% (2018 – approximately 0.6%, 2017 – approximately 7.9%)
- The Group estimates the anticipated contributions into a funded defined benefit plan in 2020 at approximately NIS 1,069 thousand.
- As at the reporting date, the Group estimates the term of plan at 8.2 years (2018 – 8.6 years).

NOTE 30 - LIABILITIES TO REINSURERS:

	December 31	
	2019	**2018**
	NIS in thousands	
Deposits of reinsurers (1) ,(2)	**244,234**	249,762
Deferred acquisition costs in respect of reinsurance	**18,434**	19,061
Related parties (1) ,(2)	**13,693**	27,179
Other	**2,150**	1,926
	278,511	297,928

(1) For details of the deposits and balances of reinsurers, the vast majority of which are related parties – see Note 27(f)(5)(3).

(2) See also Note 28a.

NOTE 31 - CONTINGENT LIABILITES:

There is a general exposure, which cannot be assessed or quantified, that stems, inter alia, from the complexity of the services that the Company provides to its policy holders and the frequent changes in regulation. The complexity of such arrangements entails, among others, potential claims concerning a wide range of commercial and regulatory conditions. The types of claims and interpretations that may be raised in this field and the exposure arising from such and other claims cannot be anticipated in advance. Additionally, a general exposure arises from complaints against the Company that are filed from time to time with various authorities, such as Supervision, in relation to the rights of policy holders under insurance policies and/or the law. Such complaints are currently handled by public relations functions in the Company. The rulings of the authorities in such complaints, to the extent issued, are often given across the board. Occasionally, the complaining parties may threat the initiation of legal proceedings in relation to their complaint, including in the form of a motion to certify a class action. At such preliminary stages, the development of such proceedings cannot be assessed, and at any rate the potential exposure in their respect or the actual initiation of such proceedings cannot be estimated. Accordingly, no provision was created for said exposure.

Based on the opinion of its legal counsel concerning the chances of said proceedings, management of the Company believes that, where required, provisions have been included in the financial statements that are sufficient to cover any damages that may arise as a result of such claims. The total provision included in the financial statements is immaterial.

NOTE 31 - CONTINGENT LIABILITES (Continued):

a. Motions to certify class actions:

1) On June 9, 2016, a motion for certification of a class action was filed against the Company. According to the claim, the Company failed to pay salary and social benefits as required by law. The motion estimates the total amount of the class action at NIS 9,769 thousand.

On January 1, 2017, the Company filed its response to the motion to certify the claim as a class action. The petitioners filed their response to the Company's response on June 1, 2017. At the same time, the petitioners filed a motion for discovery of documents. On October 1, 2017, the Company filed its response to the motion for discovery of documents.

On February 12, 2018, the first 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, which has yet to be issued.

In the opinion 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 motion to certify a class action was filed against the Company and another insurance company.

The claimants allege overcharging of the policyholders and breach the increased obligations of the insurance companies towards their policyholders, as reflected in the ability to update the 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 members of the class in relation to the respondent is estimated at NIS 12,250 thousand. The personal damage claimed of 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 on the matter. On July 18, 2019, the court accepted the parties’ joint motion for a procedural arrangement. Four evidentiary hearings in the case have been scheduled to take place in the period from December 2019 to October 2020.

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

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

The date for submission of a response to the certification motion was extended until March 12, 2018, to allow consideration of a possible 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.

NOTE 31 - CONTINGENT LIABILITES (Continued):

a. Motions to certify class actions (continued):

3) (continued)

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.

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

In the opinion of 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 motion to certify a claim as a class action was filed against 13 insurance companies, including the Company (hereinafter: “the Respondents").

The petitioners' argue that the Respondents refrain from adding linkage differentials and/or interest to amounts ruled by a judicial authority, thereby violating Section 5(b) of the Adjudication of Interest and Linkage Law, 1961 (hereinafter: "the Law"). They claim that in cases where the debtor does not pay his debt on time, the law requires the addition of linkage differentials, the regular interest rate and the interest on arrears, starting from the date on which the debt was due 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.

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 proceeding is still in progress. Recently, on February 3, 2020, the parties submitted a notification of the scheduling of another mediation session.

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

5) On January 16, 2018, a claim and a motion to certify it as a class action were filed against the Company and 5 other insurance companies in the matter of refraining from paying the VAT component that applies to the cost of the damages in cases in which the alleged damages were not actually repaired to their policyholders and/or to third parties. The plaintiff estimates the compensation due to members of the class for each year in respect of the Company at 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.

NOTE 31 - CONTINGENT LIABILITES (Continued):

a. Motions to certify class actions (continued):

5) (continued)

Shortly before the hearing, the respondents jointly filed a motion to strike the response of the petitioner in light of new arguments and new documents presented. 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 May 2020.

In the opinion of the Company's management, which is based on the opinion of its legal counsel, the motion to certify the claim as a class action 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.

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.Following several extensions, the respondent is required to submit its response to the certification petition by February 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.

On November 7, 2019, the parties notified the court that they are negotiating a possible arrangement, and therefore request that the court extend the date for the submission of a response to the certification petition and postpone the date of the hearing. On November 8, 2019, the court accepted the notification, requiring the respondent to submit its response to the certification petition by January 16, 2020. On December 25, 2019, the respondent submitted a motion to extend the date for submission of its response to the certification petition. The court accepted the motion on the same day, requiring the respondent to submit its response to the certification petition by February 16, 2020.

NOTE 31 - CONTINGENT LIABILITES (Continued):

a. Motions to certify class actions (continued):

7) (continued)

The parties are in the process of a consensual rewarded withdrawal. The motion for withdrawal is to be submitted to the court by March 16, 2020. A pretrial hearing of the case has been scheduled for April 22, 2020.

At this preliminary stage of the claim, management of the Company and its legal counsel are studying the matter and believe that, at this early stage the chances of the motion to certify the claim as a class action cannot be estimated.

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 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.

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.

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.

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

	Number of claims	The amount claimed - NIS thousands
Pending motions to certify claims as class actions:		
Amount of claim specified	7	62,546
Amount of claim not specified	2	-
Total	9	62,546

NOTE 31 - CONTINGENT LIABILITES (Continued):

b. Claims resolved during the reported period:

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

   Following the legal proceeding, on April 28, 2019, notification was given of the filing of a statement of withdrawal by the petitioners.

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

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

   Following negotiations between the parties, a compromise agreement was reached and submitted to the court 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 32 - LEASES:

Leases in which the Company is the lessee

On January 1, 2019, the Group applied IFRS 16, Leases, for the first time. The leases of the Company include the lease of offices.

1. Information on material leases

The Company leases offices on #25 Hasivim St. in Petach Tikva. The contractual term of the aforesaid leases ends on December 31, 2024. The lease liability and right-of-use asset recognized in the statement of financial position as of December 31, 2019 in respect of the lease of offices amount to NIS 27,526 thousand (see Note 19) and NIS 27,258 thousand (see Note 7), respectively.

2. Right-of-use assets

The balance of right-of-use assets is presented in the note on property and equipment - see Note 7 above.

3. Lease liability

The balance of the lease liability is presented in the note on other accounts payable - see Note 19 above.

NOTE 32 – LEASES (Continued):

Analysis of maturity dates of lease liabilities of the Company

	December 31, 2019
	NIS in thousands
Up to one year	5,287
1-5 years	22,239
Over 5 years	-
Total	**27,526**

4. **Supplementary information on leases**

	2019
	NIS in thousands
Interest expense on lease liability	607
Expenses relating to variable lease payments that were not included in the measurement of the lease liability	5,452
Total	6,058

NOTE 33 - SUBSEQUENT EVENTS:

The spreading of the coronavirus in March 2020 (hereinafter: “the Event”) had severe implications on the local and global economy.

At the outset of the Event, the Company made preparations to ensure its continued orderly operation as regarding the meeting of obligations to its customers and maintaining its financial strength.

These preparations included, inter alia, the following steps:

- Activation of the executive Incident Management Team
- Activation of the Company’s program for transition to remote work (managers and employees, including sales and service centers).
- Adjustment of the work environment in the offices of the Company to comply with the guidelines of the Ministry of Health.
- Ongoing monitoring of the unfolding of the Event and of the business and monetary implications on the Company, including assessment of the possible exposures to investments, general insurance and life insurance as a result of the Event.

To the date of publication of the annual report, the principal effect of the Event on the business results of the Company is the sharp drop of prices in the international financial markets and in the Israeli capital market. As at the publication date of the annual report, the Company recognized pre-tax losses of NIS 199 million from investments for 2020. The effect on the comprehensive income, after tax, and on the equity of the Company is approximately NIS 131 million.

To the date of publication of the annual report, the Event has no material effect on the Company’s underwriting results in 2020. The sector that is most strongly affected is the overseas travel insurance sector, for which there is virtually no public demand at present. Additionally, the number claims in life insurance risk policies may rise in the future if mortality rates increase as a result of the Event.

Chapter D - Additional Information on the Entity

Regulation 25A

Company name:	**AIG Israel Insurance Company Ltd.**
Company no. with Registrar:	51-230488-2
Address:	#25 Hasivim St., Kiryat Matalon, Petach Tikva
Telephone no:	03-9272333
Facsimile:	03-9272366
Company website:	www.aig.co.il
Balance-sheet date:	December 31, 2019
Date of report:	March 24, 2020

Chapter D - Additional Information on the Entity

Table of Contents

Regulation 11: List of Investments in Subsidiaries and Related Companies as of the Date of the Report	**3**
Regulation 12: Changes in Investments in Subsidiaries and Related Companies in the Reported Period	**3**
Regulation 13: Profits or Losses of Subsidiaries and Related Companies in the Balance Sheet	**3**
Regulation 14: List of Groups of Balances of Loans Granted to the Date of the Report	**3**
Regulation 20: Trading on the Stock Exchange	**3**
Regulation 21: Remuneration of Interested Parties and Senior Officers	**3**
Regulation 21a: Company's controlling shareholder	**4**
Regulation 22: Transactions with controlling shareholders	**4**
Regulation 24: Shares and Convertible Securities Held by an Interested Party in the Company as of date of the Report	**4**
Regulation 24a: Authorized share capital, issued share capital and convertible securities	**4**
Regulation 24b: Company's shareholder register	**4**
Regulation 26: Directors of the Company	**5**
Regulation 26a:Senior officers of the Company	**8**
Regulation 26b: Number of Independent Authorized Signatories as determined by the Entity	**11**
Regulation 27: Auditors of the Company	**11**
Regulation 28: Changes in the Articles of Association and Memorandum of the Company in 2018	**11**
Regulation 29: Resolutions and Recommendations of the Board of Directors	**11**
Regulation 29a: Resolutions of the Company	**12**

Chapter D - Additional Information on the Entity

Regulation 11: List of Investments in Subsidiaries and Related Companies as of the Date of the Report
None.

Regulation 12: Changes in Investments in Subsidiaries and Related Companies in the Reported Period
None.

Regulation 13: Profits or Losses of Subsidiaries and Related Companies in the Balance Sheet for the Year Ended December 31, 2019
None.

Regulation 14: List of Groups of Balances of Loans Granted to the Date of the Report
None. The granting of loans is not the principal activity of the Company.

Regulation 20: Trading on the Stock Exchange
None. To the date of the report, no securities issued by the Company are listed for trade on the Stock Exchange.

Regulation 21: Remuneration of Interested Parties and Senior Officers
Presented below are details of the payments made by the Company and the payment liabilities assumed by the Company in the reported year to each of the five recipients of the highest salaries from among its officers, whether granted by the Company or by another (the amounts are denominated in NIS thousands, excluding payroll tax).

Details of the remunerated officer				Remuneration for services*			
Name	**Position**	**Appointment percentage**	**Percentage holding in the Company's equity**	**Salary ****	**Bonus**	**Other *****	**Total**
Shay Feldman (1)	CEO	100%	0%	2,198	164	-	2,363
Yfat Reiter (2)	CEO	100%	0%	854	171	686	1,711
Lior Scheinin (3)	Senior VP	100%	0%	1,079	187	-	1,266
Nurit Kantor	Senior VP	100%	0%	955	242	-	1,197
Ernst Segal	Supervising Actuary	70%	0%	789	211	-	1,001

(1) Stepped down as CEO of the Company on September 30, 2019.

(2) Took office as CEO of the Company on October 1, 2019.

(3) Stepped down on December 31, 2019.

* Compensation amounts in terms of cost to the entity.

** The above salary component includes, inter alia, the following components: gross monthly salary, social provisions, including provisions for employee termination obligations (advanced study fund and failure of work capacity, as customary, car value, various expenses, e.g. subsistence, mobile telephone, sick days and recreation, and any income carried to the salary due to a component granted to the employee).

*** Increase in the net provision for post-employment benefit plans.

Chapter D - Additional Information on the Entity

Compensation to CEO
In October 2019, the monthly salary of CEO was set to NIS 80,000 plus a bonus that is determined according to the bonus plan for officers in the Company (see paragraph 4.6c in Chapter A (Description of the Company's Business) in the periodic report) and customary social benefits (a Company car, mobile phone and expense reimbursement).

Directors' remuneration
Salary paid to outside directors - NIS 458 thousand, including VAT.

Regulation 21a: Company's controlling shareholders
To the date of the report, the controlling shareholder in the Company is AIG Holdings Europe Limited ("**AEHL**"), which holds 100% of the ordinary shares of the Company. AEHL is a member of American International Group Inc. ("**AIG**"). AIG holds the ultimate control permit of the Company.

Regulation 22: Transactions with controlling shareholders or transactions in the approval of which the controlling shareholder has personal interest, entered into by the Company in the reported year or subsequent to the end of the reported year through the date of the publication of this report or which still in effect at the date of publication of the report

Extraordinary transactions and engagements for obtaining services
See para. 4.5 (reinsurance) in Chapter A – Description of the Company's Business, and Note 29 (balances and transactions with interested and related parties) to the financial statements.

Negligible transactions
There were no negligible transactions with the controlling shareholder or transactions in the approval of which the controlling shareholder had personal interest.

Regulation 24: Shares and Convertible Securities Held by an Interested Party in the Company as of date of the Report

				Percentage holding		
Interested party	**Company no. with Registrar**	**Name of security**	**Par value on Dec. 31, 2018**	**In equity**	**In voting rights**	**In right to appoint directors**
AIG Holdings Europe Ltd.	Foreign company	Ordinary shares	5,730	100%	100%	100%

Regulation 24a: Authorized share capital, issued share capital and convertible securities
The Company's authorized share capital is NIS 45,000,100, comprised of 45,000,100 ordinary shares of NIS 1 par value each. The Company's issued and paid share capital is NIS 5,730, comprised of 5,730 ordinary shares of NIS 1 par value each.

Regulation24b: Company's shareholder register
For details regarding the sole shareholder of the Company, see Regulation 21a to this chapter.

Chapter D - Additional Information on the Entity

Regulation 26: Directors of the Company

1. **Name:** Ralph Mucerino - Chairman of the Board of Directors
   Passport no.: 516514209
   Year of birth: 1946
   Address for the service of process: 175 Water Street – 12th Floor, New York, NY 10038
   Citizenship: United States
   Member of Board committees: No
   Independent/outside director: No
   The director is an employee of the Company, a subsidiary, a related company or an interested party: Yes,
   President, Distribution Partners & Multinational Clients U.S General Insurance, Personal Insurance, AIG
   Date of commencement of service as director January 13, 2011
   Education and main occupation during the past 5 years as well as other companies in which he serves as a director: Academic education, COO of AIU.
   Relation to another interested party in the Company: No

2. **Name:** Steven Barnett
   Passport no.: 548111532
   Year of birth: 1964
   Address for the service of process: Villa 69, Street 2, Hattan 2, The Lakes, Dubai
   Citizenship: United Kingdom
   Member of Board committees: No
   Independent/outside director: No
   The director is an employee of the Company, a subsidiary, a related company or an interested party: Yes,
   Regional President, MEA AIG
   Date of commencement of service as director: August 13, 2018
   Education and main occupation during the past 5 years as well as other companies in which he serves as a director: Academic education. President, MEA AIG President & CEO of AIG Korea, Inc.;
   Relation to another interested party in the Company: No

3. **Name:** Neil Minnich
   Passport no.: 642957790
   Year of birth: 1960
   Address for the service of process: 701 Brickell Ave suite 19 Miami, FL USA 33131
   Citizenship: United States
   Member of Board committees: No
   Independent/outside director: No
   The director is an employee of the Company, a subsidiary, a related company or an interested party: Yes,
   Senior VP & Head of International Personal Auto & Property, AIG General Insurance
   Date of commencement of service as director: December 10, 2015
   Education and main occupation during the past 5 years as well as other companies in which he serves as a director: Academic education, MBA Corporate Finance; VP and Head of Personal Lines UK, AEL.
   Relation to another interested party in the Company: No

Chapter D - Additional Information on the Entity

4. **Name:** Ana Correia
   Passport no.: P350819
   Year of birth: 1979
   Address for the service of process: Street 7, Villa 6, Meadows 2, Dubai, UAE
   Citizenship: Portuguese
   Member of Board committees: No
   Independent/outside director: No
   The director is an employee of the Company, a subsidiary, a related company or an interested party: Yes,
   CFO AIG MENA Ltd.
   Date of commencement of service as director: November 11, 2018
   Education and main occupation during the past 5 years as well as other companies in which she serves as a director: Regulatory Controller AIG MEA Ltd.
   Relation to another interested party in the Company: No

5. **Name:** David Klein
   I.D. No.: 007256647
   Year of birth: 1935
   Address for the service of process: 30 Jabotinsky St., Kfar Saba
   Citizenship: Israeli
   Member of Board committees: Yes Investments Committee, Compensation Committee and Audit Committee.
   Independent/outside director: Yes. Possesses accounting and financial skills. Possesses insurance skills.
   The director is an employee of the Company, a subsidiary, a related company or an interested party: No
   Date of commencement of service as director: April 1, 2011
   Education and main occupation during the past 5 years as well as other companies in which he serves as a director: Academic education. PhD in Economics, owner of David Klein Financial Consulting Ltd.
   Relation to another interested party in the Company: No

6. **Name:** Arie Nachmias
   I.D. No.: 051604205
   Year of birth: 1952
   Address for the service of process: 1 Hohit St., Giva'at Hasla'im Rosh-HaAyin.
   Citizenship: Israeli
   Member of Board committees: Yes. Audit Committee, Investments Committee and Compensation Committee.
   Independent/outside director: Yes. Possesses accounting and financial skills. Possesses insurance skills.
   The director is an employee of the Company, a subsidiary, a related company or an interested party: No
   Date of commencement of service as director: January 19, 2016
   Education and main occupation during the past 5 years as well as other companies in which he serves as a director: Academic education. BA in Economics from Tel Aviv University, M.Sc. in Economics & Management from Hebrew University of Jerusalem, PhD in Management from University of Wisconsin–Milwaukee, Head of Master's Degree Program in Business Administration, Open University, outside director in Harel Finance Investment Management Ltd.
   Relation to another interested party in the Company: No

Chapter D - Additional Information on the Entity

7. **Name:** Jules Polak
   I.D. No.: 026059444
   Year of birth: 1946
   Address for the service of process: 6 Amos St., Ramat Gan
   Citizenship: Dutch
   Member of Board committees: Yes. Audit Committee and Compensation Committee.
   Independent/outside director: Yes. Possesses accounting and financial skills. Possesses insurance skills.
   The director is an employee of the Company, a subsidiary, a related company or an interested party: No
   Date of commencement of service as director: March 1, 2017
   Education and main occupation during the past 5 years as well as other companies in which he serves as a director: Academic education. BA in Accounting from Tel Aviv University, MBA in Business Administration from the Hebrew University of Jerusalem. Academic education, CPA, MBA. CEO of Jules Polak Business Management Ltd. Director at IBI Mutual Fund Management (1978) Ltd.
   Relation to another interested party in the Company: No

Chapter D - Additional Information on the Entity

Regulation 26a: Senior Officers of the Company

1. **Name:** Yfat Reiter
   I.D. No.: 029480548
   Year of birth: 1972
   Position in the Company: CEO
   Interested party or relative of another officer or of an interested party in the Company? No
   Education and main occupation during the past 5 years: Academic education. BA in Economics and Finance, MBA. VP Private Insurance in the Company. VP Personal Accidents, Life and Health Insurance.
   Year of commencement of service: 2019

   Yfat Reiter took office as CEO of the Company on October 1, 2019, in place of Mr. Shay Feldman.

2. **Name:** David Rothstein
   I.D. No.: 017016973
   Year of birth: 1958
   Position in the Company: CFO
   Interested party or relative of another officer or of an interested party in the Company? No
   Education and main occupation during the past 5 years: CPA, Academic education.
   Year of commencement of service: 2001

3. **Name:** Lior Scheinin
   I.D. No.: 028024099
   Year of birth: 1970
   Position in the Company: Senior VP Commercial Insurance and Field Sales
   Interested party or relative of another officer or of an interested party in the Company? No
   Education and main occupation during the past 5 years: Academic education. BBA in Economics, VP Individual Insurance.
   Year of commencement of service: 2003

   Lior Scheinin stepped down on December 31, 2019.

4. **Name:** Gil Tamir
   I.D. No.: 027471861
   Year of birth: 1974
   Position in the Company: Chief Information Systems Officer
   Interested party or relative of another officer or of an interested party in the Company? No
   Education and main occupation during the past 5 years: Academic education. Bsc. Information Systems Engineering. Director of Development - Partner Communications.
   Year of commencement of service: 2017

Chapter D - Additional Information on the Entity

5. **Name:** Yael Nadav
   I.D. No.: 028731131
   Year of birth: 1971
   Position in the Company: VP Human Resources
   Interested party or relative of another officer or of an interested party in the Company? No
   Education and main occupation during the past 5 years: Academic education. MA in Occupational Psychology, VP HR at Tnuva, Senior HR manager at Teva.
   Year of commencement of service: 2016

6. **Name:** Nurit Kantor
   I.D. No.: 031817356
   Year of birth: 1974
   Position in the Company: Senior VP Private Customers
   Interested party or relative of another officer or of an interested party in the Company? No
   Education and main occupation during the past 5 years: Academic education. BA and MA in Business Administration. VP Customer Service and Sales in Bezeq International.
   Year of commencement of service: 2012

7. **Name:** Gil Sagiv
   I.D. No.: 025469248
   Year of birth: 1973
   Position in the Company: VP Marketing and Digital, serves as the Company's Spokesperson.
   Interested party or relative of another officer or of an interested party in the Company? No
   Education and main occupation during the past 5 years: Academic education. BSc. Engineering (Technion), MBA Business Administration (Tel Aviv University).
   Year of commencement of service: 2014

8. **Name:** Olivia Zohar
   I.D. No.: 011179322
   Year of birth: 1970
   Position in the Company: VP Risk Management and Compliance
   Interested party or relative of another officer or of an interested party in the Company? No
   Education and main occupation during the past 5 years: Academic education. CPA, MBA.
   Year of commencement of service: 2013

9. **Name:** Aviram Gavish
I.D. No.: 029312550
Year of birth: 1972
Position in the Company: Chief Legal Counsel
Interested party or relative of another officer or of an interested party in the Company? No
Education and main occupation during the past 5 years: Academic education. Lawyer, Solicitor of England and Wales, MA in Commercial Law from the Tel Aviv University, LLB from the Hebrew University of Jerusalem. Also served as the Company VP Commercial Insurance for two years.
Year of commencement of service: 2012

10. **Name:** Thomas Lowe
I.D. No.: 327077798
Year of birth: 1976
Position in the Company: VP, Internal Audit
Interested party or relative of another officer or of an interested party in the Company? No
Education and main occupation during the past 5 years: Academic education. CPA (South African licensee), Certified IT Systems Auditor, Senior Manager Internal Audit, Controller, Financial Project Manager.
Year of commencement of service: 2013

11. **Name:** Orna Karni
I.D. No.: 025164567
Year of birth: 1973
Position in the Company: VP Strategy, Innovation and Business Development
Interested party or relative of another officer or of an interested party in the Company? No
Education and main occupation during the past 5 years: Academic education. B.A in Management, MBA, LL.B. VP Life and Health Insurance in the Company.
Year of commencement of service: 2014

12. **Name:** Lee Dagan
I.D. No.: 038345443
Year of birth: 1975
Position in the Company: VP Vehicle and Home Insurance
Interested party or relative of another officer or of an interested party in the Company? No
Education and main occupation during the past 5 years: Academic education. B.A Economics and Accounting, MBA both from the Hebrew University of Jerusalem. Deputy Commissioner of Capital Markets, Insurance and Savings. VP Professional HQ, Health Division, Clal Insurance Company.
Year of commencement of service: 2016

Chapter D - Additional Information on the Entity

Regulation 26B: Number of Independent Authorized Signatories as determined by the Entity
None.

Regulation 27: Auditors of the Company
Somekh Chaikin KPMG CPAs, 17 Ha'arba'a St. Tel Aviv.

To the best of the Company's knowledge, the auditors, including Mr. Abraham Fruchtman, CPA, who is the engagement partner in the said firm, are not interested parties and/or related to any senior officers or interested parties in the Company.

Regulation 28: Changes in the Articles of Association and Memorandum of the Company in 2019
None.

Regulation 29: Resolutions and Recommendations of the Board of Directors

a. Set forth below are the recommendations of the Board of Directors to the General Meeting and the resolutions of the Board of Directors that do not require the approval of a General Meeting:
    1. Payment of dividend (or distribution), as defined in the Companies Law, in any other way, or distribution of bonus shares: For details see Note 12 to the financial statements.
    2. Changes to the authorized or issued capital of the Company: None
    3. Changes to the Memorandum or Articles of Association of the Company: None.
    4. Redemption of shares: None.
    5. Early redemption of debentures: None.
    6. Non-arm's-length transaction between the Company and an interested party thereof, except for a transaction between the Company and a subsidiary thereof: See Regulation 22 above.

b. General Meeting resolutions that were passed other than as recommended by the Board of Directors: None.

c. Resolutions of Special General Meeting:
    1. On April 1, 2019, the General Meeting of the Company passed the following resolution: renewal of the officers and directors' liability insurance policy for the officers and directors of the Company.

    2. On November 28, 2019, the General Meeting of the Company passed the following resolution (pursuant to the Company's Audit Committee and the approval by the Board of Directors): renewal of the appointment of Somekh Chaikin as auditors of the Company ad authorizing management of the Company to negotiate the fees of the outside controller.

Chapter D - Additional Information on the Entity

Regulation 29a: Resolutions of the Company

a. Approval of acts under Section 255 of the Companies Law: None.
b. An act in accordance with Section 254(a) of the Companies Law, which has not been approved: None.
c. Transactions that require special approval in accordance with Section 270(1) to the Companies Law, provided that the transaction is an extraordinary transaction as defined in the Companies Law: See Regulation 22 above.
d. Exemption, insurance or liability to indemnify an officer as defined in the Companies Law, as in effect on the date of the report:

Insurance

The Company entered into an officers' liability insurance policy for the period from March 1, 2019 through February 29, 2020. The liability limit is US$ 25 million per claim and for the whole insurance period, including reasonable litigation expenses, as agreed with the insurer.

Indemnification

The Company has undertaken to indemnify in advance the officers in the Company in accordance with the wording of the indemnity letters it has provided to them. According to the indemnity letters, the Company has undertaken, to the extent allowed by law, to indemnify its officers for any liability or expense imposed upon them and/or incurred by them in consequence of an act performed by them by virtue of holding office in the Company. The aggregate amount of indemnity for all officers in respect of one or more than one of the events set by the Board of Directors shall not exceed 25% of the Company's equity. The Company has also undertaken to indemnify its officers for payment which was levied on them as part of payment to a victim of breach; the Company has also undertaken to indemnify its officers for expenses they incurred as part of a procedure for levying financial sanctions on those officers, including reasonable litigation expenses.

Exemption

The Company has exempted its officers from liability in the event of the breach of the duty of care in good faith. The exemption will not apply to a breach of fiduciary duty, intentional or reckless breach, breach with intent of unlawful enrichment, and to a fine or forfeit imposed on the officer.

AIG Israel Insurance Company Ltd.

Date: March 24, 2020

Ralph Mucerino	**Yfat Reiter**
Chairman of the Board	**C.E.O**

<u>Chapter E: Actuary Reports</u>

AIG Israel Insurance Company Ltd

GENERAL INSURANCE SECTORS – ACTUARY STATEMENT

AS OF DECEMBER 31, 2019

AIG ISRAEL INSURANCE CO. LTD.

Chapter A - Identity of the actuary

I was requested by AIG Israel Insurance Co. Ltd. to evaluate the provisions listed in Chapter B hereafter in the general insurance sectors for the financial statements ("the provisions") of the insurer AIG Israel Insurance Co. Ltd. at December 31, 2019, as detailed below.

I am a salaried employee of the insurer. I am not an interested party in the insurer nor am I a relative of an interested party of the insurer.

I was appointed to this position on 31.12.2015.

Chapter B - Scope of the actuarial opinion

1. Wording of scope of the actuarial opinion section

1.1 For the purpose of calculating the insurer's provisions, I relied on data that I received from the insurer. My requests for information and data were satisfied adequately for the purpose of evaluating the provisions for financial statements purposes. I reviewed the reasonability and adequacy of the data, including comparing the said data with the data for the year to which the statement refers and the data for previous years.

1.2 Where necessary, my evaluation also relied on data received from other reliable sources. I reviewed the consistency and adequacy of the data and their relevance.

1.3 The actuarial assumptions that I used in my work, as well as the methods for evaluating the provisions specified in section 2 below were determined by me, to the best of my professional judgment, and subject to the instructions, directives and principles specified in section 1 to Chapter C, below.

1.4 To calculate the retention, I asked the entities responsible for the insurer's reinsurance for information concerning the insurer's reinsurance arrangements, the ability to collect claims, and problems with the reinsurers' payment policy. Based on the information that I received, I reviewed the effect and implications of the reinsurance arrangements on the provisions.

1.5 The following matters were also taken into account in my opinion:
The provision that was calculated for the Company's share of the "Pool" (Israel Motor Insurance Pool) was based on an assessment conducted by the Pool's actuary.

1.6 No reserve was taken for the absence of a correlation between the different sectors for the purpose of writing down the total provision for all the sectors included in my evaluation."

2. Data included in the section on the scope of the actuarial opinion

As of December 31, 2019

2.1 Pending Claims

2.1.1 Non-aggregated sectors:

	Gross	Retention
	NIS in thousands	
Vehicle property	72,416	72,416
Comprehensive home	59,717	54,620
Loss of property	32,984	393
Engineering insurance	39,474	119
Vehicle compulsory	634,770	485,519
Employers' liability	54,591	8,400
Third-party liability	125,799	14,377
Product liability	55,211	11,607
Professional liability	215,507	30,238
Other	2,766	355
Total non-aggregated sectors	1,293,233	678,043
Total aggregated sectors	-	-
2.1.2 Total aggregated and non-aggregated sectors	**1,293,233**	**678,043**
2.2 Indirect expenses for all sectors	49,311	49,311
2.3 Premium deficiency:	402	402
Total pending claims, indirect expenses, premium deficiency reserve computed in accordance with actuarial valuation	**1,342,946**	**727,756**

Chapter C – the Opinion

I hereby declare and confirm that in the following sectors, comprehensive flats, motor vehicle insurance – property (owned and third party), motor vehicles (New Version), 1970:

1. I evaluated the insurer's provisions listed in Chapter B in accordance with the instructions, directives and principles set forth below, and all in effect as of the date of the financial statements:

   a. The provisions of the Control of Financial Services (Insurance) Law, 1981, and regulations promulgated thereunder.
   b. Instructions and directives issued by the Commissioner of Insurance;
   c. Commissioner's position regarding calculation of general insurance reserves
   d. Acceptable actuarial principles.

2. After reviewing the data mentioned in Chapter B, I concluded that the data are reasonable and adequate, and that they can be relied on for the purpose of my evaluation.

3. I determined the assumptions and methods used to assess the provisions, to the best of my professional judgment, and in accordance with the instructions, directives and principles specified above.

4. To the best of my knowledge, the provisions specified in Chapter B, section 2.1.1 in respect of the non-aggregated sectors comprehensive flats, property loss, engineering, compulsory motor, employers liability, third party liability, product liability, professional liability and other form an adequate reserve for covering the insurer's commitments in respect of the pending claims, defined above, for each statistical sector listed separately, in effect as of the date of the financial statements.

5. To the best of my knowledge, the total provisions listed in Chapter B, section 2.1.2, form an adequate reserve for covering the insurer's commitments in respect of pending claims in the aggregated and non-aggregated sectors together, in effect as of the date of the financial statements.

6. To the best of my knowledge, the provision specified in Chapter B, section 2.2 forms an adequate reserve for covering the insurer's commitments in respect of indirect expenses to settle the claims in effect as of the date of the financial statements.

7. To the best of my knowledge, the provisions listed in Chapter B, section 2.3, form an adequate reserve for covering the insurer's commitment in respect of a deficit premium at retention level (inasmuch as such deficit premium exists) in the sectors listed, in effect as of the date of the financial statements.

<u>Chapter D – Comments and Clarifications</u>

1. **Comments, clarifications and explanations in connection with the actuary opinion I rendered, to the best of my professional judgment.**

    a. In January 2015 a new Insurance Circular was published - "Actuarial Assessment in General Insurance" - which is designed to enhance the quality of assessment of the reserves for an insurer's liability due to general insurance contracts (hereafter – "insurance reserves), which are an important element in the assessment of an insurer's liability, and to regulate the attachment of the professional opinion of an appointed actuary (hereafter – "the actuary") on these provisions to the financial statements. The circular establishes the scope of the actuarial assessment which the actuary is required to perform, the actuarial report he/she is required to prepare and the statement he/she is required to sign, which must be attached to the financial statements.

    b. In January 2015 the Commissioner published a position paper on "Best Practice for Calculation of Insurance Reserves in General Insurance for Financial Reporting" (hereafter – "the position paper"). The Commissioner's position paper includes, inter alia, explanations of the principles of professionalism, consistency and caution which have not been previously defined in circular 2015-1-1 on Actuarial Valuation in General Insurance. The principle of caution will require the actuary to verify that the valuations made in the liability sectors aim for a probability estimate of 75% at the very least. The Commissioner's position paper also refers to the issue of the discount rate applied to liabilities for best estimate purposes.

    c. In January 2015 a circular was published – "Calculation of Reserves in General Insurance – Update"; in accordance with the this circular, commencing in the financial statements as of December 31, 2015, the reserve in respect of the excess of income over expenses shall not be calculated for the liability insurance sectors and the compulsory vehicle insurance sector.

d. <u>Discount interest rate applicable to annuities</u>

1) In 2014, the Ministries of Finance and Welfare appointed a committee, headed by Former Justice Eliyahu Vinograd (hereinafter: "the Vinograd Committee"), to examine the interest rate that is suitable for discounting National Insurance benefits. The Committee was requested to determine whether the 3% rate used since the 1970s is still reasonable with the passage of time. The Committee determined that the NII interest rate should be reduced to 2%. The Knesset has adopted these conclusions and amended the Discount Regulations of the National Insurance Institute, for the first time in four decades. The amendment came into effect on October 1, 2017, and thereafter this calculation applies to benefits payable by the NII for subsequent periods.

2) The additional recommendations of the Vinograd Committee were as follows:

   - The Regulations tables will be updated promptly and every four years;
   - The 2% interest rate will remain in effect until modified;
   - The interest rate will be calculated as a four-year average of the average monthly yield-rates;
   - The rate will not be less than zero and will not be modified by more than one percentage point.
   - The life expectancy component will be added to the interest component in updating the Regulations.

3) Based on its assessment that the discount rates recommended by the Vinograd Committee will serve as the starting point for the calculation of damages to victims of personal injury in insurance claims, the Company has increased the insurance liabilities in the compulsory vehicle sector. The increase resulted from the use of a 2% interest rate for discounting annuities pertaining to payment projected until 2020 and a 1% interest rate for payments projected after 2020, in view of the anticipated further reduction of the discount interest rate under the aforementioned calculation mechanism.

4) In April 2018, the Minister of Justice and the Minister of Finance appointed a committee, headed by Erez Kaminitz, Deputy Attorney General, to thoroughly examine the appropriate discount interest rate for personal injury (hereinafter: "the Kaminitz Committee"). Concurrently, the Supreme Court discussed the matter of discounting damages to victims of road accidents. The Court has decided to defer the ruling in this matter, pending perusal of the conclusions of the Kaminitz Committee. In June 2019, the Committee submitted its final recommendations in the matter to the Supreme Court. The recommendations prescribed a uniform discount interest rate of 3% and a mechanism for the future updating of the interest rate.

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

e. In January 2018, a government decision was published regarding a change in the accounting mechanism between the National Insurance Institute ("the NII") and the insurance companies ("the new subrogation arrangement"). The purpose of the change is, inter alia, to increase the efficiency of the existing accounting arrangements between the institution and the insurance companies in all matters relating to the payment of compensation under the Compensation Law, while reducing the legal litigation between the parties. As part of the change, it was decided to amend the arrangement set forth in Section 328 (a) of the National Insurance Law regarding the settling of accounts between the Institute and the insurance companies in respect of payment of compensation for the benefit paid or to be paid by the Institute for Victims of Road Accidents pursuant to the Compensation Law, in order to Cover their liability.

The new subrogation arrangement has no effect on the Company's financial statements for 2019. The Company is examining the future effect of the new subrogation arrangement on the Company.

f. I do not use capitalization interest in the actuary assessment to assess the provisions for pending claims or indirect expenses. It is possible to measure the extent of conservativeness of using a 0% real interest compared with using a risk free capitalization interest including non-liquidity premium:

Effect of risk-free interest on discounting/non- discounting of provisions for pending claims - gross				
Sectors	Best estimate provision before discounting	Best estimate provision after discounting	Actual provision in books	Increment (%)
	NIS in thousands			
Compulsory vehicle	586,391	604,013	634,770	5.09%
Vehicle property	68,511	69,482	72,416	4.22%
Comprehensive home insurance	54,686	55,742	59,717	7.13%
Engineering insurance	34,718	35,244	39,474	12.00%
Property	29,010	29,563	32,984	11.57%
Employers' liability	48,873	50,640	54,591	7.80%
Other	2,415	2,505	2,766	10.39%
Product liability	46,357	47,851	55,211	15.38%
Professional liability	188,206	194,575	215,507	10.76%
Third-party liability	113,845	117,744	125,799	6.84%
Total	**1,173,020**	**1,207,358**	**1,293,234**	**7.11%**

Effect of risk-free interest on discounting/non- discounting of provisions for pending claims – retention				
Sectors	Best estimate provision before discounting	Best estimate provision after discounting	Actual provision in books	Increment (%)
	NIS in thousands			
Compulsory vehicle	450,461	463,423	485,519	4.77%
Vehicle property	68,511	69,482	72,416	4.22%
Comprehensive home insurance	50,018	50,967	54,620	7.17%
Engineering insurance	105	107	119	11.75%
Property	346	353	393	11.32%
Employers' liability	7,520	7,792	8,400	7.80%
Other	310	321	355	10.45%
Product liability	9,746	10,063	11,607	15.34%
Professional liability	26,409	27,345	30,238	10.58%
Third-party liability	13,011	13,474	14,377	6.70%
Total	**626,435**	**643,326**	**678,044**	**5.40%**

g. The sensitivity of the conservative amounts is reflected by changing the risk free interest rate used for discounting (including non-liquidity premium) by 0.5% or 1.0%.

Sensitivity analysis of conservativism regarding provisions in the books vs. the best estimate after being discounted based on changes in risk-fee interest – NIS in thousands

Amounts in thousands of NIS	Provision in books without discounting	Best estimate discounting: risk-free interest less 1.0%	Best estimate discounting: risk-free interest less 0.5%	Best estimate discounting: risk-free interest	Best estimate discounting: risk-free interest plus 0.5%	Best estimate discounting: risk-free interest plus 1.0%
All sectors (gross)	1,293,234	1,266,046	1,236,071	1,207,358	1,179,838	1,153,445
Difference in NIS compared with provision without discounting	-	27,188	57,163	85,875	113,395	139,789
Difference in % compared with provision without discounting	0.0%	2.1%	4.4%	6.6%	8.8%	10.8%
All sectors (retention)	678,044	667,708	655,302	643,326	631,758	620,581
Difference in NIS compared with provision without discounting	-	10,335	22,741	34,718	46,285	57,463
Difference in NIS compared with provision without discounting	0.0%	1.5%	3.4%	5.1%	6.8%	8.5%

h. The process of assessing the various actuarial provisions involves statistical uncertainty. These assessments are based on certain assumptions which best reflect the information currently available to us. There may be future changes, which will have an effect on these assumptions in terms of legislation, legal rulings and economic and social environments. It is impossible to predict these factors and they may affect the final cost of the claims thus affecting actuarial estimate of the provisions.

2. **Material changes in actuarial assumptions and methods compared with last year's actuarial assessment**

   a. There were no significant changes in the assumptions and methodology this year compared to last year.

3. **Material changes to provisions described in Chapter B compared to provisions described for the previous reporting period and the reasons for those changes, by sectors**

Below is information about provisions by insurance segment as of the 2018 and 2019 year-end and changes in provisions.

Compulsory vehicle – The total change in pending claims rose by NIS 45 million. This amount also includes the reduction in the reserve following a ruling of the Supreme Court (see Chapter D, section 5).

The rise is primarily due to the expansion of the portfolio, the decline in results in prior underwriting years and the significant increase in the reserves that we receive from the pool.

Home – Alongside the ongoing expansion of the portfolio, there is still uncertainty regarding water damages pursuant to the Plumbers Circular.

Professional liability – In 2019, claims developed significantly better than expected, particularly in relation to underwriting year 2017 and earlier underwriting years.

Comparison of annual actuarial estimate compared with previous year's actuarial estimate – gross

Sectors	Reserve as of 31.12.2018	Addition as of 31.12.2019	Change in reserve
Compulsory vehicle	589,678	634,770	45,092
Vehicle property	75,083	72,416	-2,667
Comprehensive home	42,224	59,717	17,494
Engineering insurance	35,854	39,474	3,620
Property	33,180	32,984	-196
Employers' liability	60,124	54,591	-5,533
Other	2,361	2,766	405
Product liability	60,684	55,211	-5,473
Professional liability	229,310	215,507	-13,804
Third-party liability	128,163	125,799	-2,365
Total	**1,256,660**	**1,293,234**	**36,574**

Comparison of annual actuarial estimate compared with previous year's actuarial estimate – retention			
Sectors	**Reserve as of 31.12.2018**	**Addition as of 31.12.2019**	**Change in reserve**
Compulsory vehicle	442,579	485,5149	42,940
Vehicle property	75,083	72,416	-2,667
Comprehensive home	37,041	54,620	17,579
Engineering insurance	626	119	-507
Property	1,518	393	-1,126
Employers' liability	8,130	8,400	270
Other	307	355	48
Product liability	12,076	11,607	-468
Professional liability	38,867	30,238	-8,629
Third-party liability	12,642	14,377	1,735
Total	**628,869**	**678,044**	**49,174**

March 24, 2020	General Insurance Actuary Director	Ernest Segal	
Date	Position	Name of Actuary	Signature

HEALTH INSURANCE SECTOR – ACTUARY STATEMENT

AS OF DECEMBER 31, 2019

AIG ISRAEL INSURANCE CO. LTD.

Chapter A - Identity of the actuary

I am a salaried employee of AIG Israel Insurance Co. Ltd. I am a full member of the Israel Association of Actuaries (F.IL.A.A) since 2017. In January 2019, I was appointed by the Company to serve as supervising actuary in life insurance.

I am not an interested party in the insurer nor am I a relative of an interested party in the insurer.

I was requested by AIG Israel Insurance Co. Ltd. to evaluate the provisions listed in Chapter B hereafter in the health insurance sector for the financial statements ("the provisions") of the insurer AIG Israel Insurance Co. Ltd. at December 31, 2019, as detailed below.

Chapter B - Scope of the actuarial opinion

1. Scope of the actuarial opinion section

1.1 For the purpose of calculating the insurer's provisions, I relied on data that I received from the insurer. My requests for information and data were satisfied adequately for the purpose of evaluating the provisions for financial statements purposes. I reviewed the reasonability and adequacy of the data, including comparing the said data with the data for the year to which the statement refers and the data for previous years.

1.2 Where necessary, my evaluation also relied on data received from other reliable sources. I reviewed the consistency and adequacy of the data and their relevance.

1.3 The actuarial assumptions that I used in my work, as well as the methods for evaluating the provisions specified in section 2 below were determined by me, to the best of my professional judgment, and subject to the instructions, directives and principles specified in section 1 to Chapter C, below.

1.4 To calculate the retention, I asked the entities responsible for the insurer's reinsurance for information concerning the insurer's reinsurance arrangements, the ability to collect claims, and problems with the reinsurers' payment policy. Based on the information that I received, I reviewed the effect and implications of the reinsurance arrangements on the provisions.

1.5 The following matters were also taken into account in my opinion:

1.5.1 The provision calculated in respect of incoming businesses (in that regard "incoming businesses" as defined in Insurance Business Supervision Regulations (Methods of Calculating Provisions for Future Claims in General Insurance), 1984): an estimate was not calculated since the company does not have business of this type.

The provision that was calculated for co-insurance where the company is not the leading insurer: the company does not have business of this type.

2. Data included in the section on the scope of the actuarial opinion

2.1 Provision for pending Claims

2.1.1 Sectors for which an actuary provision for pending claims was calculated:

Sub-sector- general insurance	Gross provision	Provision in Retention
	NIS in thousands	
Personal accidents – individual	68,517	67,759
Personal accidents – collective	4,220	4,220
Overseas travel– individual	11,104	11,104
Overseas travel – collective	0	0
Severe illness – individual	9,473	8,163
Total reported in general insurance	**93,314**	**91,247**

2.1.2 Provision for indirect expenses for settlement of claims

Provision for indirect expenses for settlement of claims (gross and retention)	
NIS in thousands	
Type of activity	**Health insurance**
Individual	4,449
Collective	266
Total	**4,715**

2.1.3 Provision deriving from conditions of insurance contracts (contract reserve)

In some of the products available in the personal accidents – individual sub-sector, we found that a provision needs to be made which arises from the conditions of the insurance contract.

Sub-sector	Gross provision	Provision in retention
	NIS in thousands	
Personal accidents – individual	6,619	6,619

2.1.4 Provision in respect of profit sharing

No provision was calculated since the company does not have business of this type.

Chapter C – the Opinion

"I hereby declare and confirm that in the following subsectors of health insurance, personal accidents individual and group, critical illness, travel abroad individual and group and medical expenses:

1. I evaluated the insurer's provisions listed in Chapter B in accordance with the instructions, directives and principles set forth below, and in effect as of the date of the financial statements:

   1.1 The provisions of the Control of Financial Services (Insurance) Law, -1981, and regulations promulgated thereunder.
   1.2 Instructions and directives issued by the Commissioner of Insurance;
   1.3 Acceptable actuarial principles.

2. After reviewing the data mentioned in Chapter B, I concluded that the data are reasonable and adequate, and that they can be relied on for the purpose of my evaluation.

3. I determined the assumptions and methods used to assess the provisions, to the best of my professional judgment, and in accordance with the instructions, directives and principles specified above.

4. To the best of my knowledge, the provisions specified in Chapter B form an adequate reserve for covering the insurer's commitments in respect of its liability arising from health insurance contracts included in the health insurance subsectors listed above, in effect as of the date of the financial statements."

Chapter D – Comments and Clarifications

1. Position of the Commissioner – As per the circular issued by the Commissioner, dated January 15, 2015, beginning on the 2015 year-end, testing that it is fairly likely that, based on a probability estimate of at least 75%, the reserves in the compulsory and liability sectors will be sufficient to cover insurer liabilities.

   The position of the Commissioner does not specifically refer to health insurance segments, but we believe that it should be also applied to those segments.

2. Discount interest rate was used only for calculating provisions arising from insurance contracts. Discount interest was only used to compute the provision deriving from the insurance contract. The interest rate is the NIS risk-free interest (linked to the CPI) which was published at the end of December 2019.

3. The risk-free, fixed-interest discount rate was set in light of the fact that a considerable portion of the Company's investments are made in high-rated government bonds and/or corporate bonds.

4. I do not discount the reserves; or in other words, I discount them at a real interest of 0%. For comparison purposes, I apply to the reserves a discounting of risk-free linked interest, plus illiquidity premium.

Effect of risk-free interest on discounting/non-discounting of provisions for pending claims – gross				
Sectors	**Best estimate provision before discounting**	**Best estimate provision after discounting**	**Actual provision in books**	**Increment (%)**
	NIS in thousands			
Personal accidents – individual	63,442	64,662	68,517	5.96%
Personal accidents – collective	3,908	3,940	4,220	7.10%
Overseas travel– individual	10,282	9,832	11,104	12.94%
Overseas travel – collective	0	0	0	-209.79%
Severe illness	8,771	8,931	9,473	6.07%
Total - in health insurance	86,402	87,366	93,314	6.81%
Severe illness – life	3,841	3,900	3,841	-1.52%
Medical expenses – life	2,109	2,127	2,109	-0.9%
Total reported in life insurance	5,950	6,028	5,950	-1.29%

Effect of risk-free interest on discounting/non-discounting of provisions for pending claims – retention				
Sectors	**Best estimate provision before discounting**	**Best estimate provision after discounting**	**Actual provision in books**	**Increment (%)**
	NIS in thousands			
Personal accidents – individual	62,740	63,945	67,759	5.96%
Personal accidents – collective	3,908	3,940	4,220	7.10%
Overseas travel– individual	10,282	9,832	11,104	12.946
Overseas travel – collective	0	0	0	-209.79%
Severe illness	7,558	7,697	8,163	6.06%
Total – in health insurance	84,488	85,415	91,247	6.83%
Severe illness – life	3,165	3,190	3,165	-0.77%
Medical expenses – life	1,280	1,290	1,280	-0.77%
Total reported in life insurance	4,445	4,479	4,445	-0.77%

5. The sensitivity of the conservative amounts is reflected by changing the interest rate used for discounting by 0.5% or 1.0%:

Sensitivity analysis of conservativism regarding provisions in the books vs. the best estimate after being discounted based on changes in risk-fee interest – NIS in thousands

Amounts in thousands of NIS	Provision in books without discounting	Best estimate discounting: risk-free interest less 1.0%	Best estimate discounting: risk-free interest less 0.5%	Best estimate discounting: risk-free interest	Best estimate discounting: risk-free interest plus 0.5%	Best estimate discounting: risk-free interest plus 1.0%
All sectors (gross)	93,314	89,486	88,412	87,366	86,345	85,350
Difference in NIS compared with provision without discounting	-	3,829	4,902	5,949	6,969	7,964
Difference in % compared with provision without discounting	0.0%	4.1%	5.3%	6.4%	7.5%	8.5%
All sectors (retention)	91,247	87,480	86,434	85,415	84,420	83,450
Difference in NIS compared with provision without discounting	-	3,767	4,813	5,832	6,827	7,797
Difference in % compared with provision without discounting	0.0%	4.1%	5.3%	6.4%	7.5%	8.5%

6. The process of assessing the various actuarial provisions involves statistical uncertainty. These assessments are based on certain assumptions which reflect the information currently available to us. There may be future changes, which will have an effect on these assumptions in terms of legislation, legal rulings and economic and social environments. It is impossible to predict these factors and they may affect the final cost of the claims thus affecting actuarial estimate of the provisions.

March 24, 2020	Health Insurance Actuary Director	Tom Hamo, F.IL.A.A	
Date	Position	Name of Actuary	Signature

LIFE INSURANCE SECTOR – ACTUARY STATEMENT

As of December 31, 2019

AIG INSURANCE CO. LTD.

Following is an actuary's declaration in relation to the Company's life insurance business.

Special attention is drawn to section A.4 of the declaration concerning comments and clarifications.

Section A.1 - Identity of the actuary

I am a salaried employee of AIG Israel Insurance Co. Ltd. I am a full member of the Israel Association of Actuaries (F.IL.A.A) since 2017. On January 2019 I was appointed by the Company to serve as supervising actuary in life insurance.

I am not an interested party in the insurer nor am a relative of an interested party.

I was requested by AIG Israel Insurance Co. to evaluate the provisions listed in Chapter B below in the life insurance sector for the financial statements ("the provisions") of the insurer AIG Israel Insurance Co. Ltd. at December 31, 2019, as detailed below.

Section A.2 - Scope of the actuarial opinion

1. The actuarial opinion

1.1 For the purpose of calculating the insurer's provisions, I relied on data that I received from the insurer. My requests for information and data were satisfied adequately for the purpose of evaluating the provisions for financial statements purposes. I reviewed the reasonability and adequacy of the data, including comparing the said data with the data for the year to which the statement refers and the data for previous years.

1.2 Where necessary, my evaluation also relied on data received from other reliable sources. I reviewed the consistency and adequacy of the data and their relevance.

1.3 The actuarial assumptions that I used in my work, as well as the methods for evaluating the provisions specified below were determined by me, to the best of my professional judgment, and subject to the instructions, directives and principles specified in section A.3 below.

1.4 To calculate the retention, I asked the entities responsible for the insurer's reinsurance for information concerning the insurer's reinsurance arrangements, the ability to collect claims, and problems with the reinsurers' payment policy. Based on the information that I received, I reviewed the effect and implications of the reinsurance arrangements on the provisions. I would like to indicate that the AIG Israel's life insurance proportional reinsurers are not part of the global AIG Corporation.

1.5 The following matters were also taken into account in my opinion:

1) The provision calculated in respect of incoming businesses was calculated by the actuary (in that regard "incoming businesses" as defined in Insurance Business Supervision Regulations (Methods of Calculating Provisions for Future Claims in General Insurance), 1984.

2) As of the date of this report, in segments relevant to this opinion, no joint insurance policies exist where the Company is the leading insurer.

2. Amounts of provisions

1) Provisions for pending claims (claims which have taken place buy have not yet been fully paid, whether approved or not) as well as the direct and indirect expenses arising there from (including provision for claims which have not yet been reported to the insurer):

a) Sectors in which an actuarial provision for pending claims was calculated:

Sector	Gross provision (NIS thousands)	Provision in retention (NIS thousands)	% retention
Life insurance	22,988	17,804	77%
Permanent disability	9,819	7,530	77%
Disability from accident	16,509	11,323	69%
Unemployment	124	62	50%
Severe illness	3,841	3,165	82%
Medical expenses	2,109	1,280	61%
Total life - individual	**55,390**	**41,164**	**74%**
Life – collective	0	0	0

b) Provision for indirect expenses for claim settlement

Sector	Gross provision (NIS thousands)	Provision in retention (NIS thousands)
Life insurance – individual	525	525

2. Provision (reserve) arising from terms of a separate life insurance contract:

a. The Company does not have plans on accrual basis.
b. The Company does not have claims that are paid as allowances/annuities
c. The Company does not have policies that provide profit sharing.
d. Complementary amount arising from testing reserve appropriateness – no need was identified for such complementary amount.
e. The company has insurance policies where some of the premium collected in the early years of the contract is designed to provide coverage at a later date – set forth below are the provisions in respect of fixed premium:

Sector	Gross provision (thousands of NIS)	Provision in retention (thousands of NIS)
Life insurance - individual	3,160	3,160

f. Additional provisions for policies with non-monthly premium install installments, for which unearned premium reserve is calculated:

Sector	Gross provision (thousands of NIS)	Provision in retention (thousands of NIS)
Life insurance - individual	60	50

3. Details on changes in provisions

Below is the amount of changes in provisions (in thousands of NIS) at both gross and retention levels, as follows:

1) For policies that came into effect after the end of the reported period of the last financial statements – the adjustment amount of the provisions – arising from the difference between the premium basic assumptions and the provision basic assumptions – no such adjustment was required.

2) For policies which came into effect before the end of the reported period of the last financial statements – the adjustment amount of the provisions – arising from changes in premiums, methods or the level of premium that is expected to be collected and other adjustments – no such adjustments were required.

Section A.3 – the Opinion

I hereby declare and confirm that in the life insurance sector:

1. I evaluated the insurer's provisions listed in Section A.2 above in accordance with the instructions, directives and principles set forth below, and in effect as of the date of the financial statements:

   a. The provisions of the Control of Financial Services (Insurance) Law, -1981, and regulations promulgated thereunder.
   b. Instructions and directives issued by the Commissioner of Insurance;
   c. Acceptable actuarial principles.

2. After reviewing the data mentioned in Chapter A.2, I concluded that the data are reasonable and adequate, and that they can be relied on for the purpose of my evaluation.

3. I determined the assumptions and methods used to assess the provisions, to the best of my professional judgment, and in accordance with the instructions, directives and principles specified above.

4. To the best of my knowledge, the provisions specified in Section A.2 form an adequate reserve for covering the insurer's commitments in respect of its liability arising from life insurance contracts, in effect as of the date of the financial statements.

Section A.4 – Comments and Clarifications

a. The types of coverage included in this report

1) Coverage for the event of death (risk, mortgage risk)
2) Coverage for total and permanent disability
3) Coverage for accident-caused disability
4) Coverage for accident-caused death
5) Coverage for unemployment
5) Coverage for serious illness
5) Coverage for medical expenses

Coverage for serious illness and health services not covered by basic government services are included in the actuarial report for the general segment.

b. Types of reserves and assumptions

The insurance portfolio comprises life insurance and health insurance coverage. All payments to policyholders are compensation in respect of an insurance event. The insurance amounts are paid as a one-off payment except for unemployment allowance insurance under which an allowance is paid for a period of up to a year. However, payments under health insurance coverage constitute indemnification withion the liability limit set out in the policy.

IBNR provisions in life insurance for insurance events outstanding in the Company, as is generally the custom in insurance companies, is based on the "triangles methods", which are methods that follow up the development of claims over time and which make it possible to estimate pending and unreported claims in accordance with past rates of paid claims or known claims (paid+pending).

c. Statistical and actuarial uncertainty

There is statistical uncertainty in the process of estimating the various actuarial reserves. These estimates are based on certain assumptions and these assumptions best reflect the things that are currently known to us. There may be future changes in the legal, judicial, social and economic environment that will have an effect on these assumptions. These changes may have an unpredictable effect on the total future actuarial reserves.

d. Exposure to future developments and changes

Changes and developments may occur in conditions in the Israeli life insurance market, following regulatory changes, court rulings, technological developments and changes in social and environmental conditions. Those factors may not be predicted in advance, and may have impact on final cost of claims, as well as the actuarial estimate for provisions.

e. Reconciliation of appendix data to the financial statements

The tables in the above appendices were prepared according to the guidelines of the Commissioner, and the composition of the data therein may not necessarily correspond to the information in the Company's financial statements and notes.

March 24, 2020	Life Insurance Actuary Director	Tom Hamo, F.IL.A.A	
Date	Position	Name of Actuary	Signature