AIG Israel Insurance Company Ltd

Financial Report for Year Ended 2018

Contents

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Chapter A: Description of the Company's Business
For the year ended December 31, 2018

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

March 26, 2019

Description of corporate business for the year ended December 31, 2018

This report constitutes a description of the Company's business as of December 31, 2018 and reviews the Company and the development of its business as occurred in 2018 ("**the reported period**"). The information in this report as updated as of December 31, 2018 ("**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:

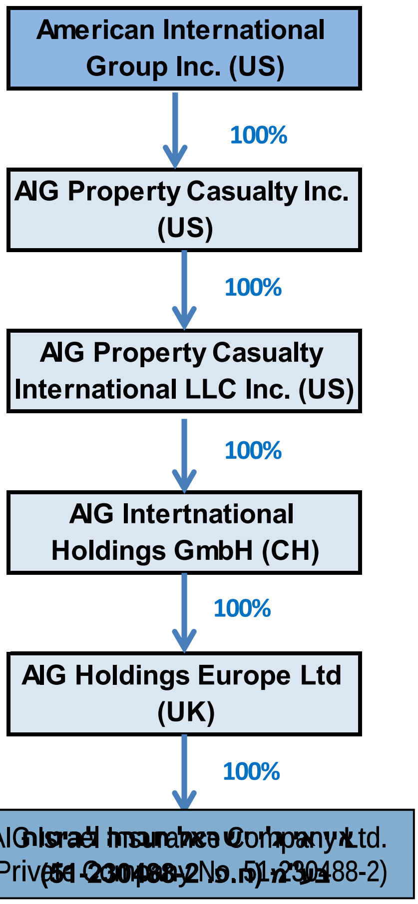
1. Part A: the activity of the Company and the development of its business

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 and the 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.

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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 - property vehicle

General

The Company began its activity in this segment in 1997. Property vehicle insurance is also known as comprehensive vehicle insurance or "third-party insurance" and is voluntary. Property vehicle 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 property vehicle 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.

Property vehicle 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 in March 2018. 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 3.0% in 2016; 3.1% in 2017; and 3.0% in 2018.

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.

New subrogation arrangement

Within the framework of the State Budget for 2019, which was published in the Official Gazette in April 2018, a proposal was made to modify the accounting mechanism between the National Insurance Institute ("**the institute**") and the insurance companies ("**the New Subrogation Arrangement**"). The purpose of the change, as defined in the explanatory section, is, among others, 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 proposal, it was suggested 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, Coverage of their liability.

According to the aforementioned publication, the new subrogation arrangement will apply to road accidents that occur as of January 1, 2019, as well as to past accidents that occurred from January 1, 2014 until December 31, 2018 and for which no claim or demand has yet been filed by the institute by January 1, 2019. Events in previous periods, as well as events for which a request has been filed by the institute in the period 2014-2018, a detailed accounting will be carried out between the insurance company and the institute.

The new subrogation arrangement has no effect on the Company's financial statements for 2018. The Company is examining the future effect of the new subrogation arrangement on the Company, which, at this stage cannot be estimated, inter alia, as the related implementation guidelines and regulations have yet to be published.

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 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, this 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 is discussing 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.

In January 2019, the Kaminitz Committee submitted interim conclusions. Following are the principals of the Committee's interim conclusions, as presented in the report published for public comments:

- - Having deliberated two alternatives - differential payment by periods or uniform discounting - the Committee has opted for the uniform track, as the simplest and most effective.
- - The Committee determined that the discount interest rate of 3% should be reinstated, in order to protect the stability of the insurance companies.
- - The Committee rejected the possibility of periodic payments to injured persons, as an annuity, in place of a one-time payment; among others, in order to avoid a long-term relationship between the parties.
- - The members of the Committee agreed on a "firm" mechanism for updating of the discount interest rate to reflect market conditions.
- - The Committee is considering the possibility of encouraging the establishment of funds for the joint investment of damage monies to injured person are interested in such investment. The recommendations will be completed after the public's comments are received.

To the best of the Company’s knowledge, the Kaminitz Committee is currently discussing the comments received from the public. Their impact on the conclusions of the Committee cannot be estimated.

The Company is following the above developments and, at present, has decided not to change its original assessment as to the rate of the discount interest rate, as described above, this pending the submission of the final report of the Kaminitz Committee and the issue of a final ruling by the Supreme Court regarding the discounting of damages to victims of road accidents.

As at December 31, 2018, the provision for the reduction of the discount interest rate amounts to NIS 58.0 million (gross), including NIS 7.2 million in respect of the Company’s share in the pool, and NIS 42.1 million in retention.

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 cover various professional professionals against claims filed against them for damages caused to a third party as a result of professional error or negligence, coverage of directors or officers in respect of an act or omission that they committed

during their term of office and coverage for embezzlement damages and cyber insurance covering 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 the claim. In other words, the coverage is given to claims that were filed during the insurance period even if the cause was created prior to the beginning of the insurance period.

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: 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 2017 and 2018, 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 hold capital that is 120% of the minimum regulatory capital, and also 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 2016-2018, see Note 12 to the financial statements.

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

2.1 **Operating segment 1 – Property vehicle 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, bumpers and VIP services.

In 2018, 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 <u>**Competition**</u>

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 2018, the main competition in this segment, by premium turnover are IDI Insurance Company Ltd ("**Direct Insurance**") (14%), the Phoenix Insurance Company Ltd ("**the Phoenix**") (12.3%), Menorah Insurance Company Ltd ("**Menorah**") (12.2%), Migdal Insurance Company Ltd. ("**Migdal**") (11.1%) and Harel Insurance Company Ltd. ("**Harel**") (9.8%). The market share of the Company in this segment in total premiums during that period is 4.1%.

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 that context note that the insurance company service index for 2016 was published in June 2018 ("**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 <u>ranked first</u> in the following components of the service index: claims' index in the vehicle property sector, the digital tools index, and second in the service index in the vehicle property sector.

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

2.1.3 <u>**Customers**</u>

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):

	2018	**2017**	**2016**
Direct marketing	314,025	286,218	240,671
Through insurance agents	59,562	66,271	73,452
Total	**373,587**	**352,489**	**314,123**

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 2018 in terms of premiums for policies that were in effect in the previous year is 72.7%.

f. The rate of customers who are also insured in compulsory vehicle insurance in 2018 is 91.8%.

g. The following information shows customers in property vehicle insurance in terms of premium in 2018 in percentage terms by years of first engagement:

First year of the first policy with the Company:	**%**
2018	36%
2017	21%
2016	12%
Until 2015	31%
Total	**100%**

2.2 Operating segment 2 – 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 2018, the total share of these companies in the total gross premiums in the segment is 55.3% The share of the Company out of the total premiums in this sector was about 3.1 %.

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 first in first in the overall service index for insurance companies in the compulsory vehicle insurance segment and first in customer satisfaction in compulsory vehicle insurance.

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):

	2018	2017	2016
Direct marketing	158,907	144,139	124,677
Through insurance agents	15,538	16,135	21,407
Total	**174,445**	**160,274**	**146,084**

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 2018 in terms of premiums for policies that were in effect in the previous year is 80.1%.
f. The rate of customers who are also insured in property vehicle insurance in 2018 is 96.1%.
g. The following information shows customers in compulsory vehicle insurance in terms of premium in 2018 in percent by years of first engagement:

First year of the first policy with the Company:	%
2018	32%
2017	20%
2016	12%
Through 2015	36%
Total	**100%**

2.3 Operating segment 3 - 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 asset owners who are interested to insure their home and/or contents. When the insurance is bought for mortgage purposes, the insurance mostly covers the structure only and the mortgage bank is registered as a nonrecourse beneficiary.

In 2018, the Company did not develop material new products in this segment.

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

2.3.2 Competition

According to information released, 13 insurance companies are active in this segment, resulting in fierce competition. According to data in the financial statements for the first nine months of 2018, the main competitors in this segment, by premium turnover are the Phoenix (14.0%), Harel (13.4%), Clal (12.1%), Migdal (12.1%) and Menorah (10.5%). 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 ranks first in the digital tools and claim payment components and second in the overall service component in home insurance.

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 may help the Company to become the lead player in this insurance sector.

AIG

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 2018 in terms of premiums for policies that were in effect in the previous year is 93.8%.
d. The following information shows customers in home insurance in terms of premium in 2018 in percent by years of first engagement:

First year of the first policy with the Company	%
2018	19%
2017	14%
2016	11%
Until 2015	56%
Total	**100%**

2.4 Operating segment e - Commercial insurance

2.4.1 Products and services

a. Professional Liability Insurance

Coverage for various professionals from 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 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 2018, 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 2018, the main competitors in this segment by premium turnover are Harel (22.6%), the Phoenix (12.5%), Migdal (10.6%), Ayalon (12.0%) and Clal (11.8%). The share of the company in the professional liability and other liability from total premium turnover in the reported period is 2.4%, and the share of the Company in the property and engineering insurance by premium turnover in that period is 1.8%.

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 5 – 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 2018, the leading insurers in this segment by premium turnover are Harel (37.4%), the Phoenix (18.4%) and Clal (17.1%). The share of the Company of total segment premium turnover in the reported period is 1.9%.

The share of the Company in personal accident segment of the total premium turnover in the segment in the reported period is 8.7%.

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

According to data published by the Ministry of Finance, the Company is ranked first in the following index components: in overseas travel insurance - claim payment and customer satisfaction; and second in the service index in the personal accidents and overseas travel sectors.

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.

The information included in this section constitutes forward looking information, which is based, among other things, on the current results of the Company. Actual results may be different than the estimated results, and may vary significantly, among other things, as a result of regulatory changes applicable to the Company and lower rating in the five factors underlying the service index.

In 2018, the Company did not develop material new products in this segment.

2.5.3 **Customers**

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

	2018	2017	2016
Private customers – personal accidents insurance	159,730	168,235	171,196
Private customers – severe illness insurance	27,315	28,944	27,101
Overseas travel insurance	39,712	37,702	19,850
Collective policies	216	363	1,184
Total	**226,973**	**235,244**	**219,331**

b. The Company mainly sells its products to private customers through direct marketing.
c. In the overseas travel segment, there is dependency on an agreement related to Leumi Card and Isracard 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 of Isracard and Leumi Card 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 23.8% of gross premiums.

2.6 **Operating segment 6 – 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 protecting 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.

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 94.0% 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 first in the digital-tools component, second in life insurance risk services, and second in claims payment in life insurance risk.

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.

On July 25, 2018, an Amendment to the Consumer Protection Law (Amendment No. 57), 2018, was published in the Official Gazette. The aforesaid Amendment introduces, inter alia, provisions that require institutional bodies that provide telephone services via automated call routing systems to provide human response in various matters (handling of malfunctions, billing inquiries and termination of engagement) already at the initial stage of the call. It is further stipulated that the wait for human response will not exceed six minutes from the commencement of the call; nevertheless, the Commissioner is authorized to determine exceptions in this regard and to place restrictions on the routing of customer to a messaging service. The Amendment will come into effect on July 25, 2019.

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**"). In April 2018, the Minimum Capital Regulations were published in the Official Gazette, providing for the minimum capital required for obtaining an insurer license in Israel. The Company believes that the Regulations are expected to enhance the competitiveness in the insurance sector, in view of the reduction of the capital requirement for obtaining an insurance company license. To the date of publication of the report, the Company is unable to estimate the effect of said Regulations on the operations of the Company.

  The information concerning the possible implications of the Minimum Capital Requirements constitutes forward-looking information that is based on assessments and assumptions of the Company, and the actual outcome may significantly differ from the projections, among others, in view of the uncertainty regarding the entry of the insurance market by new players.

- In March 2018, the Commissioner published a circular, Directives regarding an Insurer's Solvency Capital Requirement **("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. The provisions of equity circular apply to insurance companies That the circular regarding the implementation of an economic solvency policy of an Solvency II-based insurance company (**"the Solvency Circular"**) does not apply to them, Insurability returns Solvency applies, and pending certification by the Commissioner regarding audits accountant for implementing Solvency Circular.

In this context, it should be noted that in February 2019, a draft circular was published that aims to correct the amounts appearing under Section 2, “Calculation of equity for SCR purposes” in the equity circular, as included in the Supervision of Financial Services Regulations (Insurance) (Minimum Capital Required of an Insurer), 1988, such that said amounts will be linked to the CPI in accordance with the linkage mechanism set out in said Regulations.

Concurrently, the Commissioner's position regarding the definition of recognized capital and required equity in complex capital instruments was also published at the same time. In such a position, the Commissioner determines what is proper interpretation of the terms "required capital" and "recognized capital".

Additionally, in June 2018, the Commissioner published her position, in the form of a Q&A file, on the implementation of a Solvency-II-based economic solvency regime in insurance companies. This publication reflects the position of the Commissioner and her binding interpretation, inter alia, of the provisions of the equity circular and the solvency circular.

- 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.

  In February 2018, the Commissioner published a draft circular regarding the Non-yield dependent investments committee. The purpose of the draft is to set provisions for the non-yield dependent investment committee, which will replace the investment regulations after their cancellation, and to regulate various aspects of the committee's work and composition, so that they will be adapted to the committee's functions and the current framework of corporate governance. Within the framework of the draft, provisions were made, inter alia, regarding the composition of the committee and the qualifications of its members, restrictions regarding the appointment of a committee member, the appointment of a chairman, the functions of the committee and its methods of work.

- The computation of General insurance reserves regulations, govern, among other things, the method and frequency for computing general insurance reserves.

  As aforesaid, in March 2018, the Commissioner published an amendment to the provisions of the consolidated circular regarding measurement. The purpose of the amendment is to assimilate existing legal provisions in the consolidated circular, including the provisions of the Control of Financial Services (Provident Funds) (Calculation of Value of Assets) Regulations, 5769-2009, and the provisions of the Calculation of Insurance Reserves in General Insurance Regulations.

- The Supervision of Financial Services Regulations (Insurance) (The Board of Directors and its Committees), 2007 **("The Board of Directors Regulations")**, which discuss the Board of Directors and its authorities and set rules for the proper function of the board and its committees, its composition, issues that must be discussed and be decided, attendance and legal quorum, board committees, delegation of powers, etc.

In August 2018, the provisions of the consolidated circular concerning the board of directors of a public institution ("**the Board Circular**"). The Board Circular is designated to fully supersede the circular concerning the work of the board of directors as well as most of the provisions of the Board of Directors Regulations, with the exception of a regulation concerning the prevention of conflict of interests in public institutions. The Board Circular sets out provisions concerning the qualifications of the Board members, its composition, competency, responsibilities and conduct, including provisions regarding committees of the Board, this being based on international standards. The Board Circular will come into effect on April 24, 2019 (the cancellation date of the Board of Directors Regulations).

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

Regulatory codex

Reporting to the Commissioner Chapter

- In February 2018, the Commissioner published an amendment to the provisions of the consolidated circular regarding reinsurance reports to the Commissioner. The purpose of the amendment is to update the structure of the information reported to the Commissioner regarding reinsurance agreements, on three levels of reference: periodic reporting, immediate reporting and the manner in which reports are submitted to the Commissioner.
- In March 2018, the Commissioner published another draft regarding reports to the Commissioner. As part of the aforesaid draft, it was determined that the "Reporting of Yield Components" and "List of Assets at the Single Asset" reports, published today on the websites of the institutional entities, will also be reported to the Commissioner through the reporting system (Signal Portal).
- In May 2018, the Commissioner published an amendment to the provisions of the consolidated circular in the Reports to the Commissioner chapter. The amendment updates the provisions of the consolidated circular, by introducing two additional reports: "Solvency Report" and "Supplementary Solvency Report". The aforesaid reports include designated files for reporting the results of the economic solvency ratio for the economic balance sheet data, the composition of equity, the capital requirement for the scenarios, compliance with the capital requirement and the public reporting schedules of the "Economic Solvency Ratio Report".
- In May 2018, the Commissioner published an additional amendment to the provisions of the consolidated circular in the Reports to the Commissioner chapter. This amendment requires public institutions to submit quarterly reports to the Commissioner on the exposure to groups of entities.

- In June 2018, the Commissioner published an amendment to the provisions of the consolidated circular concerning reports to the Commissioner. The amendment updates the provisions of Chapter 3 in Part 4 of Title 5 of the consolidated circular, “Reporting to the Commissioner of the Capital Market”, aiming to improve and update the content of the reports. Among others, within the framework of said amendments reporting provisions were introduced into the Reports to the Commissioner Chapter concerning outsourcing in public institutions, exposure to a group of entities and regarding officers and functions in public institutions.
- In August 2018, the Commissioner issued a letter to the insurance companies concerning the deferral of the reporting and publication of the economic solvency ratio results. Among others, the letter defers the date of publication of the economic solvency ratio report for the December 31, 2017 data on the websites of the insurance companies, in order to allow them to properly prepare for such reporting and complete the audit process.
- In December 2018, an amendment to the consolidated circular concerning the updating of Form 3 was published. The amendment updates Form 3 to include additional information requirements that the Authority needs to perform its duties.

Public Reporting Chapter

- In March 2018, the Commissioner published a new chapter of the Regulation Codex - Consolidated Circular - Public Reporting. This chapter incorporates all the directives of the Commissioner pertaining to the periodic reports by public institutions to the public. The provisions of the new chapter supersede the Supervision of Financial Services Regulations (Insurance) (Financial Reports), 2007.
- In December 2018, an amendment to the Public Reporting Chapter was published. The amendment stipulates, inter alia, that paragraphs will be added to the quarterly directors’ report, describing the purpose of the quarterly directors’ report, similarly to the text included in the appendix to the annual directors’ report, and introduces a provision that prohibits the description in the report of statutory provisions already described in prior periodic reports of the insurer.

Investment Asset Management

- In March 2018, the Commissioner published Circular 2018-9-7 concerning an amendment to the consolidated circular regarding the management of investment assets. As part of the amendment, a number of significant structural changes were made in relation to the two editions published in the past. The purpose of the structural changes is to create, inter alia, a logical sequence and relevant links between all the instructions that deal with the management of investment assets, while presenting them in a clear and simple manner.
- In July 2018, the Commissioner published Circular 2018-9-24, concerning an amendment to the consolidated circular, Management of Investment Assets (Nonmarketable Loans). The amendment changes the rate of the existing quantitative restriction of 3% of the volume of assets managed by the public institution to 5%.

Chapter on the approval of officers and reporting on position holders

- In March 2018, the Commissioner published Circular No. 2018-9 regarding the amendment of the provisions of the Consolidated Circular regarding the approval of officers and reporting on position holders. The purpose of the circular is to update the provisions of various circulars regarding officers, and to consolidate the provisions of the existing circulars into one framework.

Health Insurance Chapter

- In February 2018, a circular was published concerning the amendment of the provisions of the Consolidated Circular concerning the disclosure and reporting to policyholders in health insurance. The purpose of the circular is to determine the format in which information reports will be sent to insurance candidates and to policyholders, as well as the conditions for transferring information to the insured by digital means.
- In March 2018, the Commissioner published an amendment to the provisions of the late circular. The purpose of the circular is to enable policyholders to receive notices from the insurance companies in an accessible and convenient manner, both by e-mail and by text messages to the mobile phone. This is part of the Authority's policy to encourage the use of digital means in the interfaces between the insurance company and the insured.
- In May 2018, the Commissioner published an amendment to the provisions of the consolidated circular, Deductible in Surgical Insurance. The objective of the circular is to define the manner in which insurance companies may offer policyholders surgical coverage that includes a deductible, in order to allow interested policyholders to acquire a more limited insurance coverage, thereby reducing their monthly premium.

Misappropriation and Fraud Chapter

- In May 2018, the Commissioner published an amendment to the provisions of the consolidated circular, Misappropriation and Fraud by Persons Within and Outside the Organization. The objective of the circular is the assimilation of the provisions of Public Institutions Circular 2006-9-3, Misappropriation and Fraud by Persons Within and Outside the Organization, into the provisions of the consolidated circular, including the updating of expired provisions.

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 May 2018, the Commissioner published Circular 2018-10-3, Services of Agents and Advisors to Customers. The circular aims to set a standard for the services by a license holder to its customers. The provisions of the circular supplement the provisions of Circular 2011-9-7, Services to Customers of Public Institutions, guarantee the provision of adequate service by a license holder and set out the principles and conditions for the collection of fees and reimbursement of expenses that are paid directly by the customer.
- In May 2018, the Commissioner published an amendment to Circular 2017-10-4, Involvement of an Unlicensed Entity in the Marketing and Sales of an Insurance Product other than Collective Insurance (hereinafter: “the Leads Circular”). The amendment is designated to adjust the circular to the bill passed by the Ministerial Legislation Committee, which allows travel agents to market overseas travel insurance, such that the travel agents and the insurance companies will be, jointly and severally, accountable to the customers with regard to the process of joining the insurance. In this context it should be noted that, in February 2018, a circular was published, pursuant to which the effective date of the Leads Circular for purposes of overseas travel insurance will be May 1, 2019.
- In June 2018, the Commissioner published a circular, Outsourcing in Public Institutions. The circular sets out principles for outsourcing in public institutions, including the process of outsourcing operations and their current management. In December 2018, an amendment to said circular was published, which clarifies that its provisions will apply to new outsourcing agreements that are signed as from April 1, 2019, while outsourcing agreements entered into prior to said date will be adjusted for the provisions of the circular by said date.
- In June 2018, the Commissioner published a circular, Management of Compliance Risks in Public Institutions, which amends the provisions of the consolidated circular. The objective of the circular is the assimilation of the provisions of Public Institutions Circular 2013-9-20, Management of Compliance Risks in Public Institutions, into the provisions of the consolidated circular.
- In June 2018, the Commissioner published a circular, Launch of a New Insurance Plan or Code of a Provident Fund or Entering a New Area of Operaions. The objective of the circular is the assimilation of the provisions of Public Institutions Circular 2006-9-5 into the provisions of the consolidated circular.
- In July 2018, the Commissioner published a circular that amends the provisions of Insurance Circular 2015-1-27, Institution and Marketing of Letters of Service. The amendment introduces additional provisions regarding the marketing of letters of service, in order to prevent situations that make it difficult for the policyholder to compare a letter of service sold by the insurance company to that sold by another entity, thereby reducing the insurance costs.

- In July 2018, the Commissioner published her position on the summary of the findings of cyber audits. This position describes the principal findings of the penetration tests and presents recommendations for reducing risks. According to the aforesaid position, while the public institutions are working to reinforce the cyber network, the findings in most institutions indicate the need to improve such network, with emphasis on changes across the board in the fields of information security and cyber and the ever-growing threats.
- In July 2018, the Commissioner published an amendment to the circular, Joining Insurance, (2016-1-7). The amendment determines, among other things, that the first stage of the process of matching the needs to the candidate for insurance will include checking the list of insurance products existing in his possession by querying the insurance site, in order to prevent a situation in which the insured is offered similar products that are in his possession and are not required of him, and also that a marketing entity will not perform such a query unless he has received permission for individual use from the candidate for insurance..
- In July 2018, the Commissioner published an amendment to the circular, Annual and Quarterly Report to Planholders and Policyholders in Public Institutions. The amendment amends, inter alia, several clauses pertaining to the furnishing of the tax confirmations for the insurance policies in the name of the policyholder and regarding documents signed by a policyholder that the Company is required to present in the summary details of his existing policies in the company.
- In August 2018, the Commissioner published a statement of position regarding carpooling. According to the statement of position, carpooling that meets that cumulative conditions set out in Regulation 84B of the Transportation Regulations is covered by vehicle compulsory and property insurance policies and do not require the acquisition of designated insurance policies.
- In August 2018, the Commissioner published a call for public comments on periodic payments under the Victims of Road Accidents Law. In said call, the Commissioner seeks to examine the implications of a new regularization that will provide, as a rule, for CPI-linked periodic payments of compensation for loss or earning capacity and ongoing expenses to victims that are assigned a disability of 20% of their future earning capacity.
- In August 2018, the Commissioner published Circular 2018-9-29, Institution of Insurance Plans and a Provident Fund Code, which is to supersede Circular 2015-9-5 and set out, inter alia, a procedure for the filing of notification of an insurance plan or a change therein.
- In August 2018, the Commissioner published an amendment to the provisions of the consolidated circular, Duties of an Appointed Actuary and the Risk Manager of an Insurer, and their Relationship with other Functions (Circular 2018-9-28), which aims to assimilate the provisions of Sections 3 and 14 of Circular 2006-1-14 into the consolidated circular. The amendment determines, inter alia, that the actuary's appendix and declaration that are submitted as part of the institution of insurance plans are to be signed by the appointed actuary, who will possess the necessary experience and qualifications, in view of the impact of product pricing on the requisite reserves in the public institution.
- In August 2018, the Commissioner published an amendment to Circular 2016-1-17, Online Interface for the Location of Insurance Products, which aims to improve the transparency and availability of the data to the public of policyholders. The amendment includes, inter alia, additional provisions and requirements concerning the transfer of information to the Commissioner for the operation of the interface.

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 2018, a draft memorandum of the Control of Financial Services (Insurance) (Amendment No.) (Dispute Resolution Institution) Law, 5727 - 2017. The purpose of the draft is to streamline the procedures for settling disputes in the insurance sector in Israel, taking into account the differences in power between those seeking to exercise their rights and the insurance company, as well as reducing the burden placed on the courts, among other things, to establish within the Authority a dispute resolution institution that will enable exhaustion of the rights of applicants.
- In February 2018, the Commissioner published a draft amendment to the circular regarding the service to customers of institutional entities. As part of the draft, it is proposed to amend Circular 2011-9-7, "Service to customers of institutional bodies", such that the circular will include provisions intended to improve the quality of service provided to institutional customers. The circular prescribes general principles for the provision of services to institutional customers, and obliges an institutional body to determine a service agreement.
- In February 2018, the Commissioner published a draft circular regarding approval of the existence of insurance. The purpose of the draft is to prescribe provisions for arrangements for the conduct of insurance companies and insurance agents in the issuance of a certificate of existence of insurance.
- In June 2018, the Commissioner published draft directives for the amendment of the consolidated circular concerning the management of information technology in public institutions, for the purpose of assimilating the provisions of Circular 2010-9-4, Information Technology Management in Public Institutions, into the provisions of the consolidated circular.
- In June 2018, the Commissioner published draft directives for the amendment of the consolidated circular concerning the management of business continuity in public institutions. The purpose of the aforesaid draft is to assimilate the provisions of Circular 2013-9-11, Management of Business Continuity in Public Institutions, into the provisions of the consolidated circular.
- In July 2018, the Commissioner published draft directives for the amendment of the consolidated circular concerning information requirements for websites of public institutions. The aforesaid draft amends the website circular (Information Requirements for Websites of Public Institutions; 2015-9-11), aiming to enhance the competition in surgical policies and overseas travel insurance policies by removing the barriers that encumber the establishment of comparison mechanisms for consumers.
- In July 2018, the Commissioner published draft directives for the amendment of the consolidated circular, Title 6, Part 3, concerning a uniform underwriting questionnaire for medical expenses insurance. The aforesaid draft proposes that insurers be required to use a uniform preliminary underwriting questionnaire for medical expenses insurance, such as surgical insurance policies, transplants and medication insurance policies and critical illness insurance policies.

- In July 2018, the Commissioner published draft directives for the circular concerning benchmarks for an appointed actuary in accordance with the Equal Rights for People with Disabilities Law. The aforesaid draft determines that a public institution that grants housing loans will not refuse a housing loan to a person with a life-shortening disability, subject to compliance with the conditions that are set out in the Equal Rights for People with Disabilities Law, 1998. The draft further determines that an insurer selling life insurance under a mortgage will not refuse to sell such policy to a disabled person, by reason of his disability, unless, among others, the decision of the insurer in the matter was based on the decision of an appointed actuary appointed for this purpose.
- In August 2018, a draft amendment to the consolidated circular was published (Part 4 of Title 5, Chapter 4, Special Reports). The objective of the amendment is to provide guidance to insurance companies on the reporting of multiple property damages, such as in the event of earthquake, wide-spread fires etc.
- In August 2018, the Commissioner published a draft circular, Collection of Statistical Data - Public Inquiries. The draft provides guidelines to insurance companies on the collection of statistical data regarding public inquiries that are made with the public institutions, which will allow the Authority to obtain extensive and reliable information on public inquiries to facilitate the identification of matters requiring regularization and the review of the standard of service provided in handling such inquiries.
- In August 2018, the Commissioner published a draft amendment to the Supervision of Financial Services Directives (Insurance) (Terms of Motor Vehicle Compulsory Insurance Contract) (Amendment No. 2), 2018. The draft amendment contains, inter alia, adjustments to the provisions of the Law for the Amendment of the Motor Vehicle Insurance Ordinance (No. 22), 2017 as well as updates and adjustments to the standard policy for trade - compulsory vehicle insurance.

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 capital requirements and repayment ratio. 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 Regulation 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 property vehicle 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 2018 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 in Israel and 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 2018 to reinsurers, see note 27 and 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. **Vehicle property insurance**

Until the end of February 2017, the Company was engaged in this sector in an XOL reinsurance contract with AIOA. The premiums recorded in favor of AIOA in the reported period were NIS 17 thousand. No fees are paid under this contract. 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.

d. **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 2,403 thousand. No fees are paid under this contract. The Company activated the reinsurance contracts in 2018 and the coverage ceiling of the contract is in an unlimited amount.

e. **Home insurance**

The Company entered in the reported year into a surplus reinsurance contract with AIOA. Fee is fixed as a share of premium (approximately 25%).

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 1.15%. 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, 2018, the insurance amount covered by proportional reinsurance in relation to earthquakes is NIS 2,545 million, while amounts covered in non-proportional reinsurance amount to NIS 62,566 million.

As of the date of this report, the Company acquired reinsurance coverage of NIS 845 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:	2018	2017	2016
Proportional	3,107	4,639	4,656
Proportional - earthquake	911	516	2,317
Non-proportional - earthquake	8,424	7,760	7,613
Total	**12,442**	**12,915**	**14,586**

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 12,442 thousand, and fees amount to NIS 1,277 thousand.

f. **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 2018, the Company entered into an insurance contract of the XOL type from the retention amount of the Company up to an amount of NIS 165 million with the AIOA companies, and the Company renewed the aforementioned engagement in respect of 2019 up to an amount of NIS 145 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 1,369 thousand. Commissions from reinsurance amounted to NIS 171 thousand.

g. **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 122,284 thousand. The Company received fees on those contracts at a fixed rate of 27.5% to 35.5% 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.

h. **Life insurance**

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

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

In 2017, 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 2018. 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	18,882	75%
Partner Re	5,017	20%
Gen Re	839	3%
AIRCO	449	2%
Total	25,188	**100%**

i. **Summary of reinsurance results in general and health insurance (in thousands of NIS):**

	Property vehicle			Compulsory vehicle			Home insurance		
	2018	2017	2016	2018	2017	2016	2018	2017	2016
Reinsurance premiums	17	108	115	2,403	2,214	2,016	12,442	12,915	14,586
Income / (loss)	17	108	115	(16,794)	(19,632)	(28,583)	6,769	9,406	8,970

	Health			Commercial (*)			Total		
	2018	2017	2016	2018	2017	2016	2018	2017	2016
Reinsurance premiums	3,077	3,277	3,037	138,482	129,137	122,040	156,421	147,651	141,794
Income / (loss)	552	(698)	(504)	16,823	188	(55,284)	7,367	(10,628)	(75,286)

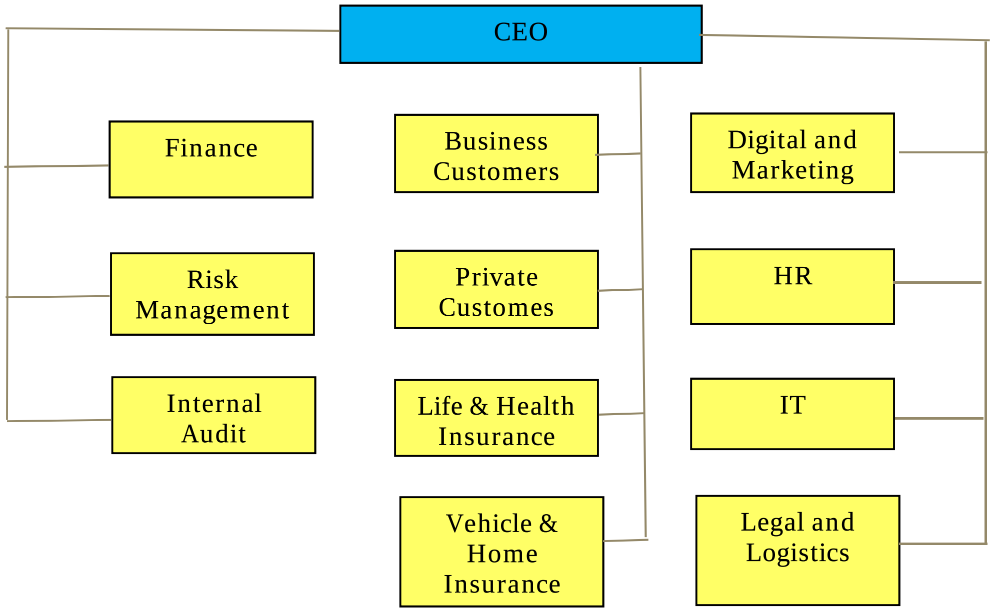
(*) Reinsurance premiums in commercial insurance are proportional contracts only and include earthquake premium of NIS 17,955 thousand in 2018 and NIS 14,575 thousand in 2017.

For more information on reinsurance results, see note 27.f.5.3 to the financial statements.

4.6 **Human capital**

a. General

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, 2018, the Company had 755 employees, compared with 803 employees at the end of 2017. Some 70% of employees work in the Company's sales centers, compared with 69% in 2017.

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 is constantly reviewing its workforce and an option for improving efficiency in connection with its employees.

The weighted number of employees in the Company based on full-employment equivalent as of December 31, 2018 and 2017, based on the organizational structure if as follows:

Activity area:	**2018**	**2017**
Sales and services centres	464	476
Claims	75	77
Headquarters - business divisions	42	45
IT	50	51
Administrative and general	19	18
HR	19	21
Finance	20	20
Marketing and digital	11	14
Total	**700**	**721**

b. Executives:

- Senior management, including the CEO, comprised on the date of issuing this report 13 executives compared to 13 at the end of 2017.
- For more information about management – see Regulation 26A in Chapter D to the report "Additional Information on the Corporation".
- As of December 31, 2018, the board of the Company includes 8 directors, 3 of them are external (independent) 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 amendment 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_aigמדיניות-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. Property vehicle insurance

Policies in this segment are marketed mainly through direct marketing. The average commission paid to agents (before VAT) is 11.2% 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 3.6% 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.

Detailed below is a statutory change published in the reported period in relation to commissions or payments to distribution channels:
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.

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, 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. 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.

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

Provider	2018	2017
Comtech Ltd	2.2	2.9
CodeOasis	2.1	1.4
Dortal software systems Ltd	1.5	1.7

- **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 2018 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 2017 and 2018, the Company invested NIS 34.7 million in hardware and software, primarily in respect of the new CRM system, digitization (mainly of the Company’s website) and automation. The balance of depreciated cost of computer systems (including computer software) in the Company as of December 31, 2018 was NIS 39.7 million.

4.10 Seasonality

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

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**

2017 Quarter	1	2	3	4	Total
Vehicle property insurance	97,347	81,046	95,053	79,043	352,489
Compulsory vehicle insurance	43,162	36,952	43,194	36,966	160,274
Home insurance	28,239	24,168	29,857	25,923	108,187
Commercial insurance	43,768	33,502	32,508	31,176	140,954
Health insurance	55,445	58,618	64,657	56,524	235,244
Life insurance	31,849	31,537	31,779	31,888	127,053
Total	**299,810**	**265,823**	**297,048**	**261,520**	**1,124,201**

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 eight registered trademarks of the AIG – trademarks number 143541, 249430, 143544, 148118, 148119, 148120, 151905, 249429.

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, and to the date of the report the Company is in the process of registering additional trademarks.

e. 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.

f. 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:

Risk type	Risk factors	The degree of influence of the risk factor on the Company		
		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:

- 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
- Increasing sales in each insurance line of business=
- Balancing between the insurance lines of business without relying on any given line of business
- Priority for investment in digital and automation.
- Constantly exploring new means of distribution
- 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 8 directors, of which 3 are independent directors. In the reported period, the Board held 12 board meetings.

For information about external 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 2018, the internal auditor invested 3,550 hours in his work. In 2019, the scope of employment was set at 4,150 hours.

In addition to the internal audit performed by the internal auditor, the internal auditor performs periodic audits by the internal audit function 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 2018, the compensation of the internal auditor and his team was NIS 1.8 million. Total compensation to the internal auditor in 2017 was NIS 1.6 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 2018 and 2017 and the number of hours invested:

2018	**Fee for audit and tax services**	**Audit related services**	**Special tax services**	**Other services[1]**	**Total**
NIS thousand	715	173	29	9	926
Hours	3,471	432	77	76	4,056

2017[2]	**Fee for audit and tax services**	**Audit related services**	**Special tax services**	**Other services**	**Total**
NIS thousand	843	142	51	128	1,164
Hours	4,874	550	98	517	6,039

1 Other services include translation and consulting services.
2 The data in the table include the fees paid to the PwC accounting firm, that ended its office as auditor of the Company at the end of 2017.

5.4 Effectiveness of internal controls and the procedures over financial reporting and disclosure of the Company

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, 2018, 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 based on Solvency II

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	Shay Feldman CEO

March 26, 2019

Chapter B: Directors Report of Company's Business
for the Year Ended December 31, 2018

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

Table of Contents

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 September 30, 2018, insurance premiums arising from the general insurance business amounted to NIS 18,134 million; the share of the 5 largest insurance companies – Harel, Clal, Phoenix, Migdal and Menorah – amounted to NIS 10,301 million, which constituted 57% 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:

	2018	2017	2016
Government-bond indexes:			
General government bonds	**(1.3%)**	3.6%	0.9%
Linked government bonds	**(1.4%)**	3.4%	0.7%
NIS government bonds	**(1.2%)**	3.7%	1.2%
Corporate-bond indexes:			
Tel Bond 60	**(0.8%)**	5.8%	2.3%
Tel Bond NIS	**(4.3%)**	7.5%	2.4%
Share indexes -			
Tel-Aviv 125	**(2.3%)**	6.4%	(2.5%)

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):

	2018	2017	2016
Gross premiums earned	**1,145,519**	1,092,070	1,037,400
Premiums earned by reinsurers	**(170,467)**	(170,454)	(168,023)
Premiums earned – retained amount	**975,052**	921,616	869,377
Gains on investments, net, and financing income	**(18,568)**	65,483	18,475
Income from commissions	**44,842**	41,736	43,553
Total income	**1,001,326**	1,028,835	931,405
Payments and changes in liabilities in respect of insurance contracts – gross	**(680,353)**	(693,418)	(756,904)
Share of reinsurers in increase in insurance liabilities and payments with respect to insurance contracts	**107,595**	129,879	192,796
Payments and changes in liabilities in respect of insurance contracts – retained amount	**(572,758)**	(563,539)	(564,108)
Total other expenses	**(313,747)**	(312,308)	(320,290)
Income before taxes on income	**114,821**	152,988	47,007
Taxes on income	**(40,579)**	(55,883)	(15,833)
Income for the year and total comprehensive income for the year	**74,242**	97,105	31,174

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

	December 31	
	2018	**2017**
Other assets	**281,073**	275,307
Deferred acquisition costs	**157,629**	149,357
Financial investments and cash	**1,973,436**	1,817,713
Reinsurance assets	**718,971**	669,428
Total assets	**3,131,109**	2,911,805
Shareholders' equity	**825,207**	800,965
Liabilities in respect of insurance contracts	**1,885,307**	1,755,007
Other liabilities	**420,595**	355,833
Total equity and liabilities	**3,131,109**	2,911,805

Shareholders' equity and capital requirements

As at December 31, 2018, the Company's shareholders' equity exceeds the shareholders' equity requirement under the Minimum Capital Regulations, by NIS 176.4 million.

For details regarding the amounts of capital required of the Company, existing amounts under the Minimum Capital Regulations, and the payment of dividends in the reported period, see Note 12 to the financial statements.

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

The following are details of the solvency ratio and the minimum capital requirement (MCR). The data was not audited or reviewed as part of an audit or review of the financial statements:

A. Solvency Ratio (in thousands of NIS)

	December 31, 2018	December 31, 2017*
Regardless of the provisions in deployment period:		
Equity for the purpose of solvency capital requirement (SCR)	1,063,774	1,009,522
Solvency capital requirement	655,304	618,223
Surplus as at the reporting date	**408,470**	**391,299**
Solvency ratio as at reporting date (percentage)	162%	163%
Meeting milestones during the deployment period:		
Equity for the purpose of SCR during the period of deployment	1,063,774	1,009,522
Solvency capital requirement during the deployment period	417,230	373,153
Surplus during the period of deployment	**646,544**	**636,369**

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

	December 31, 2018	December 31, 2017*
MCR	178,982	167,919
Equity for the purpose of MCR	1,063,774	753,860

* Restated due to a technical error. The correction of the error decreased equity for SCR purposes by NIS 43.9 million and increased the solvency capital requirement by NIS 17.8 million. Surplus decreased by NIS 61.7 million and the solvency ratio decreased from 175% to 163%.

The Company believes (considering the provisions for the deployment period, as set out in Circular 2017-1-9, Implementation of a Solvency-II-based Economic Solvency Regime), that it will not be required to raise resources for compliance with the solvency ratio provided by law 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.

As to the Company's economic solvency ratio report as at December 31, 2017 - see the Company's interim financial statements as at September 30, 2018.

4. Results of operations

In 2018, the Company's volume of gross premiums continued to grow (rising by 4.4% as compared to 2017). The total gross premiums in the reported period amounted to NIS 1,173 million, compared with NIS 1,124 million in 2017.

Total premiums in retention in the reported period amounted to NIS 992 million, as compared to NIS 954 million in the corresponding period in 2017, an increase of 4.0%.

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
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
2016							
Gross premiums	314,123	146,084	103,433	219,331	137,810	126,151	1,046,932
Premiums – retained amount	314,008	144,068	88,847	216,295	15,770	104,785	883,773
Total gross as % of total	30.0	14.0	9.9	20.9	13.2	12.0	100.0
Total retained as % of total	35.4	16.3	10.1	24.5	1.8	11.9	100.0

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

	2018	2017	2016
Profit (loss) from vehicle property insurance	**61,172**	35,451	(4,958)
Profit (loss) from compulsory vehicle insurance	**(4,277)**	6,810	(18,448)
Profit from home insurance	**1,612**	22,562	15,457
Profit (loss) from commercial insurance	**(8,851)**	4,380	(9,424)
Profit from health insurance	**45,535**	44,295	42,041
Profit from life insurance	**27,583**	15,375	14,086
Other – income not allocated to insurance segments	**(7,953)**	24,115	8,253
Profit before tax	**114,821**	**152,988**	**47,007**
Taxes on income	**(40,579)**	(55,883)	(15,833)
Profit for the year and total comprehensive income for the year	**74,242**	**97,105**	**31,174**

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. Profit before tax in the reported period amounted to NIS 114.8 million, as compared to NIS 153.0 million in 2017. The decrease in profit resulted from a sharp drop in gains on investments in 2018 as compared to 2017 (see section b. below). The underwriting profit of the year increased significantly, from NIS 90.3 million in 2017 to NIS 128.4 million. This increase was due both to the improvement in the ratio of claims and to the improvement in the ratio of expenses.

b. Losses on investments, net, amounted to NIS 18.6 million in the reported period, as compared to gains of NIS 65.5 million in 2017. The significant decrease in gains on investments was due to substantial declines in the prices of government and corporate bonds in 2018, particularly in the last quarter of the year (see section 2 below).

c. The Company's profit from vehicle property insurance in the reported period amounted to NIS 61.2 million, as compared to profit of NIS 35.5 million in 2017. The underwriting profit from vehicle property insurance amounted to NIS 61.8 million in the reported period, as compared to profit of NIS 28.0 million in 2017. The significant increase in profit stemmed primarily from the larger volumes of the Company's operations (earned premiums), alongside a significant improvement in the ratio of claims, which declined from 69% in 2017 to 62% in 2018. The reduction in the frequency of accidents and theft allowed the release of reserves from previous event years, particularly the 2017 event year.

d. The Company's loss from compulsory vehicle insurance amounted to NIS 4.3 million in 2018, as compared to profit of NIS 6.8 million in 2017. The transition to loss was due to the loss of NIS 2.8 million on investments, as compared to gains of NIS 14.5 million on investments in 2017. The underwriting loss amounted to NIS 1.5 million, as compared to a loss of NIS 7.7 million in 2017. The improvement in the underwriting loss was due mainly to a smaller provision for the Company's insurance contracts in the compulsory vehicle insurance sector as a result of the "Discount Regulations", as compared to the provision created in 2017. In 2018, the Company's liabilities in respect of insurance contracts in the compulsory vehicle insurance sector increased by NIS 6.6 million due to the "Discount Regulations", as compared to an increase of NIS 11.5 million in the Company's liabilities in 2017. (As to developments regarding the "Discount Regulations", see Section 1.2.2 in Chapter A (Description of the Company's Business) of the periodic report). The Company's share in the losses of the pool in 2018 amounted to NIS 12.4 million, as compared to NIS 12.0 million in 2017.

e. The Company's profit from home insurance amounted to NIS 1.6 million in the reported period, as compared to NIS 22.6 million in 2017. The underwriting profit of the Company from home insurance amounted to NIS 1.2 in the reported period, as compared to profit of NIS 19.7 million in 2017. The significant reduction in profit was due mainly to the effect of weather damages in the first half of 2018, as well as the increase in water damage claims. This increase in water damage claims was due both to third-party claims from previous years and to the increase in claims as a result of the implementation of the provisions of the consolidated circular in the home insurance sector, Handling of Water Damages in the Home Insurance Sector (hereinafter: "the Plumbers Circular") that came into effect in September 2017.

f. The Company's profit from health insurance amounted to NIS 4.5 million in the reported period, as compared to profit of NIS 44.3 million in 2017. The underwriting profit in the reported period amounted to NIS 46.4 million, as compared to NIS 39.8 million in 2017. The increase in profit stemmed mainly from the improvement of profit in the overseas travel sector.

g. The Company's profit from life insurance amounted to NIS 27.6 million in the reported period, as compared to profit of NIS 15.4 million in 2017. The increase in profit was due to the significant reduction in the claims' ratio.

h. The Company's loss from professional liability insurance amounted to NIS 10.1 million in the reported period, as compared to a loss of NIS 6.5 million in 2017. The losses in the reported period and in 2017 resulted mainly from the negative development of a few claims in directors' and officers' insurance. The increased loss in the reported period as compared to 2017 was due mainly to losses of NIS 0.8 million on investments, as compared to gains of NIS 4.0 on investments in 2017.

i. The Company's profit from other property sectors amounted to NIS 3.0 million in the reported period, as compared to a profit of NIS 2.9 million in 2017.

j. The Company's loss from other liability sectors amounted to NIS 1.8 million in the reported period, as compared to profit of NIS 8.0 million in 2017. The loss in the reported period was due to a significant reduction in the gains on investments (a loss of NIS 0.8 million on investments in the reported period, as compared to a gain of NIS 4.5 million on investments in 2017) and to the higher claims' ratio.

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

a. **Underwriting profits (losses) (in thousands of NIS):**

	2018	2017	2016
Vehicle property	**61,827**	28,016	(7,614)
Home insurance	**1,206**	19,687	13,746
Property and others sectors	**3,160**	2,098	2,065

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

	2018		2017		2016	
	LR%	CR%	LR%	CR%	LR%	CR%
Property vehicle insurance:						
Gross	**62%**	**83%**	69%	91%	78%	103%
In retention	**62%**	**83%**	69%	91%	78%	103%
Home insurance:						
Gross	**55%**	**93%**	36%	72%	41%	78%
In retention	**58%**	**99%**	39%	79%	43%	84%
Property and others sectors						
Gross	**30%**	**48%**	55%	75%	94%	116%
In retention *	**123%**	**(116%)**	108%	(26%)	114%	(13%)

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

c. **Compulsory vehicle insurance**

The pool losses reduced the reported profit in 2018 by NIS 12.4 million as compared to a decrease of NIS 12.0 million in the reported profit in 2017.

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.

5. Cash flow and liquidity

Net cash provided by operating activities in 2018 amounted to NIS 97,080 thousand, as compared to NIS 5,980 thousand used in operating activities in 2017.

Net cash used in investing activities in 2018 amounted to NIS 17,563 thousand, as compared to NIS 22,331 thousand in 2017.

Net cash used in financing activities (a dividend paid) in 2018 amounted to NIS 50,000 thousand, as compared to NIS 50,000 in 2017.

As a result of the above, the balance of cash and cash equivalents in the reported period increased by NIS 29,386 thousand and amounted to NIS 87,306 thousand as at December 31, 2018.

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.

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

There were no material events subsequent to the date of the financial statements.

Ralph Mucerino Chairman of the Board	Shay Feldman CEO

March 26, 2019

AIG Israel Insurance Company Ltd

Declarations relating to the Financial Statements

Declaration

I, Shay Feldman 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, 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.

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Shay Feldman - CEO

March 26, 2019

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, 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.

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David Rothstein - CFO

March 26, 2019

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

Management, with the supervision of the Board of Directors of AIG Insurance Company Ltd. (hereafter the "the Insurance Company") are responsible for setting and maintaining effective internal control over financial reporting. The internal controls system of the insurance company was planned in order to provide reasonable assurance to management and Board of Directors to the effect that the financial statements are prepared and presented fairly in accordance with International Financial Reporting Standards and in accordance with the directives of the Supervisor of Insurance.
All internal controls have inherent limitations regardless of the quality of planning. Therefore, even if it is determined that these controls are effective they can only provide a reasonable measure of assurance regarding the preparation and presentation of financial statements.

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

The Insurance Company's management with the supervision of its Board of Directors evaluates the effectiveness of the internal control of the Insurance Company over financial reporting as at December 31, 2018, 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, 2018 the internal control of the Insurance Company over financial reporting is effective.

Chairman of the Board: Mr. Ralph Mucerino ___________________

CEO: Mr. Shay Feldman ___________________

CFO: Mr. David Rothstein ___________________

Date of approval of financial statements: March 26, 2019

Chapter C: Financial Statements

AIG Israel Insurance Company Ltd

This translation is for convenience purposes only.

AIG ISRAEL INSURANCE COMPANY LTD.

2018 ANNUAL REPORT

AIG ISRAEL INSURANCE COMPANY LTD.

2018 ANNUAL REPORT

TABLE OF CONTENTS

Somekh Chaikin
KPMG Millenium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv, 6100601
Tel + 972 3 684 8000

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 of December 31, 2018, 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

Somekh Chaikin
KPMG Millenium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv, 6100601
Tel + 972 3 684 8000

acquisition, use, 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 of December 31, 2017, 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 statement of financial position as of December 31, 2018, and the statements of comprehensive income, changes in equity and cash flows for the period ended December 31, 2018, and our report dated March 26, 2019 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 26, 2019

Somekh Chaikin
KPMG Millenium Tower
17 Ha’arba’a Street, PO Box 609
Tel Aviv, 6100601
Tel + 972 3 684 8000

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 of December 31, 2018 and the statements of comprehensive income, changes in equity and cash flows for the year ended December 31, 2018. 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 of 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 of December 31, 2017 and the results of its operations, changes in equity and cash flows for the year then ended 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 of December 31, 2018, 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 March 26, 2019 expressed an unqualified opinion on the effectiveness of internal control over financial reporting.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 26, 2019

AIG ISRAEL INSURANCE COMPANY LTD.

STATEMENTS OF FINANCIAL POSITION

	Note	December 31 2018	December 31 2017
		NIS in thousands	
Assets			
Intangible assets	5	**35,047**	38,448
Deferred acquisition costs	6	**157,629**	149,357
Fixed assets	7	**11,617**	11,054
Reinsurance assets	13, 28	**718,971**	669,428
Premiums collectible	9	**180,029**	173,828
Current tax assets		**-**	3,428
Deferred tax assets, net		**12,406**	-
Other accounts receivable	8	**41,974**	48,549
		1,157,673	1,094,092
Financial investments:	10		
Marketable debt instruments		**1,731,531**	1,588,676
Non-marketable debt instruments		**76,861**	85,174
Other		**77,738**	85,943
TOTAL FINANCIAL INVESTMENTS		**1,886,130**	1,759,793
Cash and cash equivalents	11	**87,306**	57,920
TOTAL ASSETS		**3,131,109**	2,911,805

Ralph Mucerino	**Shay Feldman**	**David Rothstein**
Chairman of the Board	**C.E.O**	**C.F.O**

Date of approval of financial statements by Board of Directors March 26, 2019.

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

AIG ISRAEL INSURANCE COMPANY LTD.

STATEMENTS OF FINANCIAL POSITION

	Note	December 31 2018	December 31 2017
		NIS in thousands	
Equity and liabilities			
EQUITY:	12		
Share capital		6	6
Share premium		250,601	250,601
Other capital reserves		11,084	11,084
Retained earnings		563,516	539,274
TOTAL EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY		825,207	800,965
LIABILITIES:			
Liabilities with respect to non-profit-participating insurance contracts	13	1,885,307	1,755,007
Liabilities with respect to current tax assets		17,233	-
Liabilities with respect to deferred taxes, net	18	-	9,281
Liabilities with respect to employee rights upon retirement, net		3,057	3,489
Liabilities towards reinsurers	29	297,928	247,287
Other accounts payable	19	102,387	95,776
TOTAL LIABILITIES		2,305,902	2,110,840
TOTAL EQUITY AND LIABILITIES		3,131,109	2,911,805

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	2018	2017	2016
		Year ended December 31		
		NIS in thousands		
Gross premiums earned	20	1,145,519	1,092,070	1,037,400
Premiums earned by reinsurers		(170,467)	(170,454)	(168,023)
Premiums earned in retention	20	975,052	921,616	869,377
Gains (losses) on investments, net, and financing income	21	(18,568)	65,483	18,475
Commission income	22	44,842	41,736	43,553
TOTAL INCOME		1,001,326	1,028,835	931,405
Payments and changes in liabilities with respect to insurance contracts, gross		(680,353)	(693,418)	(756,904)
Share of reinsurers in increase in insurance liabilities and payments with respect to insurance contracts		107,595	129,879	192,796
Payments and changes in liabilities with respect to insurance contracts, in retention	23	(572,758)	(563,539)	(564,108)
Commissions, marketing expenses and other acquisition costs	24	(243,934)	(236,780)	(242,330)
General and administrative expenses	25	(74,819)	(72,747)	(81,370)
Financing income (expenses)	26	5,006	(2,781)	3,410
TOTAL EXPENSES		(886,505)	(875,847)	(884,398)
INCOME BEFORE TAXES ON INCOME		114,821	152,988	47,007
Taxes on income	18	(40,579)	(55,883)	(15,833)
PROFIT FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		74,242	97,105	31,174
BASIC EARNINGS PER SHARE:				
Basic earnings per share		12.96	16.95	5.44
Number of shares used in computation of basic earnings per share		5,730	5,730	5,730

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				
BBALANCE AS OF JANUARY 1, 2018	**6**	**250,601**	**11,084**	**539,274**	**800,965**
Total comprehensive income for the year				**74,242**	**74,242**
Dividend (see note 12c(3))				**(50,000)**	**(50,000)**
BBALANCE AS OF DECEMBER 31, 2018	**6**	**250,601**	**11,084**	**563,516**	**825,207**
BBALANCE AS OF JANUARY 1, 2017	6	250,601	11,084	492,169	753,860
Total comprehensive income for the year				97,105	97,105
Dividend (see note 12c(3))				(50,000)	(50,000)
BBALANCE AS OF DECEMBER 31, 2017	6	250,601	11,084	539,274	800,965
BBALANCE AS OF JANUARY 1, 2016	6	250,601	11,084	565,995	827,686
Total comprehensive income for the year				31,174	31,174
Dividend (see note 12c(4))				(105,000)	(105,000)
BBALANCE AS OF DECEMBER 31, 2016	6	250,601	11,084	492,169	753,860

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

AIG ISRAEL INSURANCE COMPANY LTD.

STATEMENTS OF CASH FLOWS

	Year ended December 31		
	2018	**2017**	**2016**
	NIS in thousands		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net cash provided by (used in) operations (Appendix A)	**76,844**	(17,402)	184,682
Interest received	**59,494**	59,325	41,449
Dividend received	**428**	63	259
Income taxes paid	**(75,394)**	(62,799)	(60,349)
Income taxes received	**35,701**	14,833	38,590
Net cash provided by (used in) operating activities	**97,073**	(5,980)	204,631
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment in property and equipment	**(5,900)**	(5,132)	(6,396)
Investment intangible assets	**(11,656)**	(17,199)	(16,716)
Net cash used in investing activities	**(17,556)**	(22,331)	(23,112)
CASH FLOWS FROM FINANCING ACTIVITIES -			
dividend paid to the equity holders of the Company	**(50,000)**	(50,000)	(105,000)
Net cash used in financing activities	**(50,000)**	(50,000)	(105,000)
EFFECT OF FLUCTUATIONS IN EXCHANGE RATE ON CASH AND CASH EQUIVALENTS	**(131)**	(3)	(2,528)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**29,386**	(78,314)	73,991
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**57,920**	136,234	62,243
CASH AND CASH EQUIVALENTS AT END OF YEAR	**87,306**	57,920	136,234

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

AIG ISRAEL INSURANCE COMPANY LTD.

STATEMENTS OF CASH FLOWS

	Year ended December 31		
	2018	**2017**	**2016**
	NIS in thousands		
APPENDIX A - CASH FLOWS FROM OPERATIONS:			
Profit for the year	**74,242**	* 97,105	* 31,174
Adjustments with respect to:			
Items not involving cash flows:			
Change in liability with respect to non-profit participating insurance contracts	**130,300**	108,242	228,776
Change in reinsurance assets	**(49,543)**	(10,869)	(110,409)
Change in deferred acquisition costs	**(8,272)**	(7,530)	7,848
Taxes on income	**45,588**	* 55,883	* 15,833
Change in retirement benefit obligations, net	**(432)**	776	(68)
Depreciation of property and equipment	**5,337**	5,513	6,430
Amortization of intangible assets	**15,057**	12,567	9,297
Losses (gains), net, on financial investments:			
Marketable debt instruments	**68,575**	(3,935)	17,594
Non-marketable debt instruments	**(7,927)**	(1,896)	3,094
Marketable shares	**-**	-	4,162
Marketable exchange-traded funds	**8,052**	(6,982)	(3,456)
Effect of fluctuations in exchange rate on cash and cash equivalents	**131**	3	2,528
	201,857	151,772	181,629
Changes in asset and liability items:			
Liabilities towards reinsurers	**50,641**	(9,878)	(22,182)
Investments in financial assets, net	**(195,027)**	(186,443)	47,446
Premiums collectible	**(6,201)**	(20,294)	(4,836)
Other accounts receivable	**6,575**	3,941	(9,019)
Other accounts payable	**6,611**	6,762	2,228
Liabilities for current taxes, net	**(1,932)**	(979)	(50)
	(139,333)	(206,891)	13,587
Adjustments with respect to interest and dividend:			
Interest received	**(59,494)**	(59,325)	(41,449)
Dividend received	**(428)**	(63)	(259)
	(59,922)	(59,388)	(41,708)
Net cash provided by operations	**76,844**	(17,402)	184,682

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

* Reclassified.

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) Shareholders' Equity Regulations - The Supervision of Insurance Business Regulations (Minimum Shareholders' Equity Required from an Insurer), 1998, as amended.

17) 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.

18) 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.

19) 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.

20) 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.

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

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

23) 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, 2018 and 2017 and for each of the three years in the period ended December 31, 2018, 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 of Financial Services (Insurance) Law, 1981 and the regulations enacted thereunder.

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.

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	Known CPI	CPI for particular month
	%	%	%
Year ended December 31, 2018	**8.1**	**1.2**	**0.8**
Year ended December 31, 2017	(9.8)	0.3	0.4

As of December 31, 2018, the exchange rate of the U.S. dollar was $1 = NIS 3.748.

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 financial assets other than monetary items, such as equity securities (e.g. shares and options), and which are classified as financial instruments at fair value through profit or loss, 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 is calculated on a straight-line basis over the useful life of the assets, in order to arrive at their residual value, 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”.

As to impairment, see section g. below.

f. 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).

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 and an appropriate portion of the relevant overhead.

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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued):

f. Intangible assets (software) (continued):

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 g. below.

g. 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.

h. 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. 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):

h. 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.

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

3) Offsetting of financial instruments

Financial assets and liabilities are offset, and the net amount reported in the statement of financial position when there is an immediate legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued):

h. Non-derivative financial assets (continued)

4) 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.

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.

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.

i. Premiums collectible

The balance of collectible premiums relates to amounts receivable from the policy holders of the Company for insurance policies granted 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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued):

j. 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.

k. Share capital

Ordinary shares of the company are classified as share capital.

l. 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 initially recognized at fair value and subsequently measured at depreciated cost by the effective interest method.

m. 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.

n. 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 of current taxes recognized 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 of 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):

o. 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.

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 curve of corporate bonds, as published by the quoting company, Fair Spread Ltd.

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.

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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued):

o. Employee benefits (continued):

1) Liability for severance and pension payments (continued)

b) Defined benefit plan (continued)

With respect to the remainder of its 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.

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.

p. 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 s. below.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued):

p. Provisions (continued)

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.

q. 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 and joint insurance 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.

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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued):

q. Revenue recognition (continued):

3) Gains on investments, net, and financing income

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.

r. 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.

s. 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 q. 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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

s. Insurance contracts (continued):

1) General insurance (continued):

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.

(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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

s. **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) (continued)

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 for optimal estimation. 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.

(d) Liabilities with respect to insurance contracts comprises insurance reserves and pending claims, as described below.

4) Excess of income over expenses

In January 2015, the Commissioner issued an update to the circular concerning the calculation of insurance reserves in general insurance, pursuant to which, commencing in the financial statements as of December 31, 2015, a reserve will no longer be calculated for excess of income over expenses.

Additionally, in January 2015, the Commissioner's Position, "Best Practice for Calculation of General Insurance Reserves for Financial Reporting" was published, alongside a circular on this issue. The Commissioner's Position addresses, among others, the following issues:

- The principle of prudence, whereby “a reserve adequate for covering the liabilities of the insurer" signifies that it is fairly likely that the reserve in retention will be sufficient to cover the liabilities of the insurer. For pending claims in compulsory and liability insurance, the "fairly likely" criterion will be an estimated probability of at least 75%. However, to the extent that there are limitations in the statistical analysis, the actuary will exercise judgment, and may use generally accepted actuarial methods. The discount interest rate suitable for the prudence criterion is based on a risk-free interest curve that is adapted to the non-liquid nature of the liabilities. Additionally, in determining prudence, the method used in the revaluation of the assets backing liabilities in the financial statements.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

s. **Insurance contracts** (continued):

1) General insurance (continued):

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

4) Excess of income over expenses (continued):

- The discount rate of the flow of liabilities.
- Aggregation – for the purpose of calculating margins in respect of the uncertainty in statistical sectors (as defined in the circular), each sector must be considered separately, but the risks for all underwriting (or damage) years in a particular sector can be aggregated. Non-statistical sectors can be considered jointly.
- Determination of the amount of insurance liabilities for policies sold shortly before balance sheet date and for risks after balance sheet date.

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.

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 q. 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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

s. Insurance contracts (continued):

2) Life insurance (continued):

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 flow 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):

s. Insurance contracts (continued):

3) Health insurance:

a) As to revenue recognition, see q. 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. Ernst Segal, 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".

t. 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.

u. Dividend distribution

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.

v. Change in estimate

In 2018, the Company updated the manner of allocation of expenses in the financial statements, such that it is based on new estimates that are derived from the current volumes of activity and allocation of inputs of the Company. The changes were accounted for as a change in estimate and therefore did not involve the reclassification of the comparative figures. Consequently, the pre-tax comprehensive income from health insurance for 2018 increased by NIS 9.7 million, the pre-tax comprehensive income from life insurance for the same period decreased by NIS 1.2 million, and the pre-tax comprehensive income from general insurance for the same period decreased by NIS 8.0 million. The total effect of the aforesaid change on the pre-tax comprehensive income of the Company is immaterial.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued):

w. 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.

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.

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 Notes t(2) and t(4) below, the Company has not yet examined the implications of the adoption of the Standard on the financial statements.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued):

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

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

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.

In its meeting of November 2018, the International Accounting Standards Board (hereinafter: “IASB”) decided to postpone by one year the first-time implementation date of IFRS 17, Insurance Contracts, to January 1, 2022, with a corresponding deferral of the optional exemption of adopting the provisions of IFRS 9 as from January 1, 2022.

Consequently, if the proposal of the IASB is conclusively approved, the Company would be required to adopt the provisions of IFRS 17 and IFRS 9 for annual periods commencing after January 1, 2022.

3) IFRS 16, Leases:

The Standard supersedes International Accounting Standard (IAS) No. 17, Leases, and the related Interpretations. The provisions of the Standard cancel the existing requirement that lessees classify the lease as an operating or a financing lease. Instead, as for lessees, the new Standard presents a uniform model for the accounting treatment of all leases, pursuant to which the lessee is to recognize a usage right asset and a liability in respect of the lease in its financial statements. Notwithstanding, the Standard includes two exceptions to the general model, under which lessees may choose not to implement the requirements to recognize a usage right 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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued):

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

3) IFRS 16, Leases (continued):

The Standard is effective for annual periods commencing on January 1, 2019. The Standard offers various alternatives for the transitional provisions. Accordingly, companies may select one of the following alternatives upon first-time implementation: full retrospective implementation or cumulative effect implementation, i.e. implementation of the Standard (with certain available exemptions) as from the date of first-time implementation that requires the adjustment of the balance of retained earnings as of said date.

The Company intends to adopt the Standard as from January 1, 2019, under the cumulative approach, with adjustment of the balance of retained earnings as of January 1, 2019. The Company intends to opt for the implementation of the transitional provision, pursuant to which, on the date of first-time implementation, the Company will recognize a liability in respect of a lease at the present value of the balance of the future lease fees, discounted at the incremental interest rate of the lessee as of such date, 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 that were recognized as an asset or a liability prior to the date of first-time implementation. Consequently, the implementation of the Standard is not expected to affect the balance of retained earnings upon first-time implementation. The above changes are expected to increase the balance of usage right assets at the date of first-time implementation and to increase the balance of liability for leases at the date of first-time implementation, by immaterial amounts.

Accordingly, in subsequent periods, depreciation and amortization expenses in respect of a usage right asset will be recognized, and the need for an impairment provision in respect of a usage right asset, in accordance with the provisions of IAS 36, will be examined. Additionally, financing expenses in respect of a lease liability will be recognized. Therefore, as of the date of first-time implementation and in subsequent periods, depreciation expenses and financing expenses will be recognized in place of the rent expenses previously carried to general and administrative expenses in the statement of profit or loss for assets under operating leases.

Following are details of the exemptions that the Company intends to implement upon the first-time implementation of the Standard:

Not to implement the requirements to recognize a usage right asset and a liability in relation to short-term leases of up to one year. Not to implement the requirements to recognize a usage right asset and a liability in relation to leases that end within 12 months of the date of first-time implementation. Not to separate non-lease components from lease components, instead accounting for any lease component and its related non-lease components as a single lease component. Not to implement the requirements to recognize a usage right asset and a liability in relation to low-value leases. Use of hindsight, i.e. data available today that may not have been available on the original date of engagement, in assessing the lease period. Use of a uniform discount rate for lease contracts with reasonably similar characteristics (portfolio).

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued):

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

4) IFRS 17, Insurance Contracts (hereinafter - “the Standard”)

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).

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 will be applied retrospectively, with certain exemptions to the extent that full retrospectively implementation is impracticable.

In its meeting of November 2018, the IASB decided to postpone by one year the first-time implementation date of the Standard to January 1, 2022, with a corresponding deferral of the optional exemption afforded to insurance that meet certain criteria, of adopting the provisions of IFRS 9 as from January 1, 2022 (see also Note 2w(1) above). Consequently, if the proposal of the IASB is conclusively approved, the Company would be required to adopt the provisions of IFRS 17 and IFRS 9 for annual periods commencing after January 1, 2022.

The IASB will convene in the near term to consider further possible amendments and changes to the provisions of IFRS 17. An exposure draft specifying the deferral of the first-time implementation of the Standard, as aforesaid, alongside other amendments and modifications to the Standard, if any, is expected to be published in the coming months.

The Company has not yet commenced examining the effects of adopting the Standard on the financial statements.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued):

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

5) IFRIC 23, "Uncertainty Over Income Tax Treatments"

IFRIC 23 clarifies how to apply the recognition and measurement requirements of IAS 12 for uncertainties in income taxes. According to IFRIC 23, when determining the taxable profit (loss), tax bases, unused tax losses, unused tax credits and tax rates when there is uncertainty over income tax treatments, the entity should assess whether it is probable that the tax authority will accept its tax position. Insofar as it is probable that the tax authority will accept the entity’s tax position, the entity will recognize the tax effects on the financial statements according to that tax position. On the other hand, if it is not probable that the tax authority will accept the entity’s tax position, the entity is required to reflect the uncertainty in its accounts by using one of the following methods: the most likely outcome or the expected value. IFRIC 23 clarifies that when the entity examines whether or not it is probable that the tax authority will accept the entity’s position, it is assumed that the tax authority with the right to examine any amounts reported to it will examine those amounts and that it has full knowledge of all relevant information when doing so. Furthermore, according to IFRIC 23 an entity has to consider changes in circumstances and new information that may change its assessment. IFRIC 23 also emphasizes the need to provide disclosures of the judgments and assumptions made by the entity regarding uncertain tax positions.

IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. The interpretation includes two alternatives for applying the transitional provisions, so that companies can choose between retrospective application or prospective application as from the first reporting period in which the entity initially applied the interpretation.

The Company is examining the effects of IFRIC 23 on the financial statements with no plans for early adoption.

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 139 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 2s(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, 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	-	-	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):

	Year ended December 31, 2016				
	Life insurance	**Health Insurance ***	**General insurance**	**Not allocated to operating segments**	**Total**
	NIS in thousands				
Gross premiums earned	126,319	218,858	692,223		1,037,400
Premiums earned by reinsurers	(21,365)	(3,037)	(143,621)		(168,023)
Premiums earned in retention	104,954	215,821	548,602		869,377
Gains on investments, net, and financing income	3	1,533	10,608	6,331	18,475
Commission income	3,446	404	39,703		43,553
Total income	108,403	217,758	598,913	6,331	931,405
Payments and change in liabilities with respect to insurance contracts, gross	(44,105)	(97,000)	(615,799)		(756,904)
Share of reinsurers in increase in insurance liabilities and payments with respect to insurance contracts	10,960	3,137	178,699		192,796
Payments and change in liabilities for insurance contracts, in retention	(33,145)	(93,863)	(437,100)		
Commissions and other acquisition costs	(46,758)	(53,308)	(142,264)		(242,330)
General and administrative expenses	(14,414)	(28,546)	(38,410)		(81,370)
Financing income	-	-	1,488	1,922	3,410
Total comprehensive income (loss) before tax	14,086	42,041	(17,373)	8,253	47,007

* The health insurance 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				
Assets					
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
Nonmarketable 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):

	December 31, 2017				
	Life insurance	Health Insurance *	General insurance	Not allocated to operating segments	Total
	NIS in thousands				
Assets					
Intangible assets	-	-	-	38,448	38,448
Deferred acquisition costs	-	477	66,747	82,133	149,357
Financial investments:					
Marketable debt instruments	-	130,272	902,024	556,380	1,588,676
Nonmarketable debt instruments	-	-	83,886	1,288	85,174
Other	-	-	-	85,943	85,943
Total financial investments	-	130,272	985,910	643,611	1,759,793
Cash and cash equivalents	3,656	8,605	10,689	35,000	57,920
Reinsurance assets	15,634	2,074	651,720	-	669,428
Premiums collectible	157	5,586	168,085	-	173,828
Other assets	2,906	-	46,970	11,054	60,930
Total assets	22,353	146,984	1,932,222	810,246	2,911,805
Liabilities					
Liabilities for non-profit-participating insurance contracts	67,282	129,918	1,557,807	-	1,755,007
Other liabilities	11,281	192	335,079	9,281	355,833
Total liabilities	78,563	130,110	1,892,886	9,281	2,110,840

* 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, 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 4 - OPERATING SEGMENTS (continued):

Additional data for the general insurance segment (continued)

	Year ended December 31, 2016						
	Compulsory vehicle insurance	Vehicle property insurance	Home insurance	Professional liability	Property and others*	Other liability sectors*	Total
	NIS in thousands						
Gross premiums	146,084	314,123	103,433	65,773	38,102	33,935	701,450
Reinsurance premiums	(2,016)	(115)	(14,586)	(57,742)	(36,282)	(28,016)	(138,757)
Premiums in retention	144,068	314,008	88,847	8,031	1,820	5,919	562,693
Change in balance of unearned premiums, in retention	(286)	(11,429)	(3,963)	824	8	755	(14,091)
Premiums earned, in retention	143,782	302,579	84,884	8,855	1,828	6,674	548,602
Gains on investments, net, and financing income	4,472	2,134	752	1,343	251	1,656	10,608
Commission income	-	-	3,552	17,570	9,941	8,640	39,703
Total income	148,254	304,713	89,188	27,768	12,020	16,970	598,913
Payments and change in liabilities with respect to insurance contracts, gross	(164,584)	(236,673)	(41,540)	(93,799)	(32,614)	(46,589)	(615,799)
Share of reinsurers in increase of insurance liabilities and payments with respect to insurance contracts	30,599	-	4,958	73,467	30,525	39,150	178,699
Payments and change in liabilities with respect to insurance contracts, in retention	(133,985)	(236,673)	(36,582)	(20,332)	(2,089)	(7,439)	(437,100)
Commissions, marketing expenses and other acquisition costs	(27,065)	(58,867)	(24,159)	(16,830)	(6,870)	(8,473)	(142,264)
General and administrative expenses	(5,652)	(14,653)	(13,949)	(2,642)	(745)	(769)	(38,410)
Financing income	-	522	959	3	2	2	1,488
Total expenses	(166,702)	(309,671)	(73,731)	(39,801)	(9,702)	(16,679)	(616,286)
Total comprehensive income (loss) before tax	(18,448)	(4,958)	15,457	(12,033)	2,318	291	(17,373)
Gross liabilities with respect to insurance contracts as at December 31, 2016	563,257	229,188	72,443	230,229	87,024	287,571	1,469,712
Liabilities with respect to insurance contracts in retention as at December 31, 2016	447,320	229,188	65,787	41,732	3,492	40,268	827,787

* Property and others consist primarily of the results of the property insurance sector, which accounts for 90% of total premiums in said sectors.
Other liability sectors consist primarily of the results of the product liability insurance sector, which accounts for 35% of total premiums in said sectors.

NOTE 5 - INTANGIBLE ASSETS:

	Software
	NIS in thousands
Cost:	
Balance as at January 1, 2017	**85,323**
Additions during the year *	17,199
Retirements in during the year	(1,622)
Balance as at December 31, 2017	100,900
Additions during the year *	11,656
Retirements in during the year	(4,252)
Balance as at December 31, 2018	**108,304**
Accumulated amortization:	
Balance as at January 1, 2017	51,507
Additions during the year	12,567
Retirements during the year	(1,622)
Balance as at December 31, 2017	62,452
Additions during the year	15,057
Retirements during the year	(4,252)
Balance as at December 31, 2018	**73,257**
Depreciated balance:	
As at December 31, 2018	**35,047**
As at December 31, 2017	38,448

* Additions in respect of computer software include additions in respect of proprietary development: in 2018 - NIS 10,250 thousand and in 2017 - NIS 15,592 thousand.

NOTE 6 - DEFERRED ACQUISITION COSTS:

a. Composition

	December 31	
	2018	2017
	NIS in thousands	
Life insurance (see section b.)	**83,380**	82,133
Health insurance (see section b.)	**362**	477
General insurance	**73,887**	66,747
Total	**157,629**	149,357

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

	Life insurance	Health insurance	Total
		NIS in thousands	
Balance as at January 1, 2017	79,687	837	80,524
Additions (acquisition costs)	22,767	477	23,244
Current depreciation	(6,273)	(837)	(7,110)
Depreciation relating to cancellations	(14,048)	-	(14,048)
Balance as at December 31, 2017	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

NOTE 7 - PROPERTY AND EQUIPMENT:

a. 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	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

b. Composition of assets and accumulated depreciation thereon, grouped by major classifications, and changes therein in 2017, are as follows:

	Computers and communications equipment	Office furniture and equipment	Leasehold improvements	Total
	NIS in thousands			
Cost:				
Balance as at January 1, 2017	29,764	8,035	8,422	46,221
Additions during year	3,805	1,012	315	5,132
Retirements during year	(3,883)	(1,057)	(699)	(5,639)
Balance as at December 31, 2017	29,686	7,990	8,038	45,714
Accumulated depreciation:				
Balance as at January 1, 2017	22,800	4,036	7,950	34,786
Additions during year	4,419	751	343	5,513
Retirements during year	(3,883)	(1,057)	(699)	(5,639)
Balance as at December 31, 2017	23,336	3,730	7,594	34,660
Depreciated balance as at December 31, 2017	6,350	4,260	444	11,054

NOTE 8 - OTHER ACCOUNTS RECEIVABLE:

	December 31	
	2018	**2017**
	NIS in thousands	
Prepaid expenses	**19,081**	20,021
Employees	**144**	278
Insurance companies and insurance brokers	**19,372**	18,973
Related parties (see note 28a)	**2,487**	8,406
Other	**890**	871
Total other accounts receivable	**41,974**	48,549

As at December 31, 2018 and December 31, 2017, no allowance for doubtful accounts was required in respect of other accounts receivable.

NOTE 9 - PREMIUMS COLLECTIBLE:

a. Composition:

	December 31	
	2018	**2017 ****
	NIS in thousands	
Premiums collectible (*)	**189,088**	184,232
Less – allowance for doubtful accounts (see section c.)	**(9,059)**	(10,404)
Total premiums collectible	**180,029**	173,828
(*) Includes backdated checks, payments by standing order and payments though credit card companies	**162,220**	156,341

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	
	2018	**2017**
	NIS in thousands	
Unimpaired premiums collectible:		
Not overdue	**176,738**	171,871
Overdue (*):		
Less than 90 days	**792**	838
Between 90 and 180 days	**2,499**	1,119
Total unimpaired premiums collectible	**180,029**	173,828
Impaired premiums collectible	**9,059**	10,404
	189,088	184,232
Less – allowance for doubtful accounts	**(9,059)**	(10,404)
Total premiums collectible	**180,029**	173,828

As at December 31, 2018 and December 31, 2017, the Company had no unimpaired premiums collectible that more than 180 days overdue.

(*) Includes NIS 9 thousand for overdue life insurance receivables as at December 31, 2018 (December 31, 2017 - NIS 11 thousand).

c. Change in allowance for doubtful accounts:

	Year ended December 31	
	2018	**2017**
	NIS in thousands	
Balance as at January 1	**(10,404)**	(8,063)
Change in allowance for the year - carried to profit and loss	**1,345**	(2,341)
Balance as at December 31	**(9,059)**	(10,404)

NOTE 10 - FINANCIAL INVESTMENTS:

Composition of financial investments:

	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**
Nonmarketable debt instruments (b)	**-**	**76,861**	**76,861**
Other (d)	**77,738**	**-**	**77,738**
Total	**1,809,269**	**76,861**	**1,886,130**

	December 31, 2017		
	At fair value through profit or loss	Loans and receivables	Total
	NIS in thousands		
Marketable debt instruments (a)	1,588,676	-	1,588,676
Nonmarketable debt instruments (b)	-	85,174	85,174
Other (d)	85,943	-	85,943
Total	1,674,619	85,174	1,759,793

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

	December 31	
	2018	2017
	NIS in thousands	
Government bonds	**619,981**	557,539
Other non-convertible marketable debt instruments	**1,111,550**	1,031,137
Total marketable debt instruments	**1,731,531**	1,588,676

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

	Carrying amount		Fair value	
	2018	2017	2018	2017
	NIS in thousands			
Presented at depreciated cost, excluding bank deposits	**75,688**	83,886	**76,352**	87,718
Bank deposits	**1,173**	1,288	**1,440**	1,638
Total non-convertible debt instruments	**76,861**	85,174	**77,792**	89,356

As at December 31, 2018 and December 31, 2017, 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*	
	2018	**2017**
	Percentage	
Marketable debt instruments:		
Linkage basis:		
Linked to CPI	**3.31%**	3.51%
Linked to USD	-	5.03%
NIS denominated	**3.71%**	3.98%
Nonmarketable debt instruments:		
Linkage basis:		
Linked to CPI	**5.24%**	3.67%
NIS denominated	**4.60%**	4.60%

* Weighted average.

d. Other financial investments:

	December 31	
	2018	**2017**
	NIS in thousands	
Marketable * - designated upon initial recognition at fair value through profit or loss	**77,738**	85,943

* 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	
	2018	**2017**
	Percentage	
AA rating or more	**1.69%**	1.49%
A rating	**4.18%**	2.84%

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	
	2018	**2017**
	NIS in thousands	
Cash and deposits available for withdrawal on demand	**87,306**	57,920
	87,306	57,920

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 (0.02%).

NOTE 12 - SHAREHOLDERS' EQUITY AND EQUITY REQUIREMENTS:

a. Composition of share capital:

	Number of shares			
	Authorized		Issued and fully paid	
	December 31			
	2018	**2017**	**2018**	**2017**
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:

1) Management's policy is to maintain a strong capital base in order to preserve the ability of the Company to continue operating to generate profits for its shareholders and to support future business activity. The Company is subject to the capital requirements set by the Commissioner.

2) In accordance with the Company's capital management policy, as approved by the Company's Board of Directors, which also includes a policy regarding the distribution of dividends, the Company must hold capital of 120% of the minimum shareholders' equity required and maintain a solvency ratio of 130% according to a regime based on the Solvency II Directive, and subject to certain additional conditions prescribed in such policy, the Company may pay a dividend to its shareholders above such threshold.

3) Following is information on the required and existing capital of the Company under the Supervision of Financial Services Regulations (Insurance) (Minimum Capital Required of an Insurer), 1998 (hereinafter: "the Capital Regulations") and the directives of the Commissioner.

	December 31	
	2018	**2017**
	NIS in thousands	
Amount required under the Regulations and the directives of the Commissioner (a)	**648,824**	672,592
Existing amount computed under the Capital Regulations:		
Initial basic capital	**825,207**	800,965
Total existing capital, computed under the Capital Regulations	**825,207**	800,965
Surplus as at the reporting date	**176,383**	**128,373**
Subsequent events:		
Dividend (3)	-	-
Surplus considering subsequent events	**176,383**	**128,373**
(a) The required equity includes, inter alia, capital requirements with respect to the following:		
Operations related to general insurance	**133,698**	124,754
Exceptional life insurance risks	**49,898**	46,122
Deferred acquisition costs in relation to life insurance	**83,380**	82,133
Investment assets and other assets	**68,401**	73,326
Catastrophe risks related to general insurance	**278,981**	314,639
Operating risks	**34,466**	31,618
Total amount required under the Capital Regulations	**648,824**	672,592

4) On August 28, 2018, the Company's Board of Directors 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.

5) On March 21, 2017, the Company's Board of Directors 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.

6) On April 19, 2016, the Company's Board of Directors decided on the distribution of a dividend in the amount of NIS 105 million, representing approximately NIS 18,325 per share. The dividend was paid on May 24, 2016.

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

d. Solvency II:

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% 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.

   On December 3, 2017, the Commissioner published a circular concerning the required structure of disclosure in the periodic report and on the websites of insurance companies in relation to the Solvency-II-based economic solvency regime. A report on the ratio of economic solvency for the data as at December 31, 2017 will be posted on the website on the date of publication of the periodic report as at June 30, 2018.

   On April 16, 2018, the Commissioner published a circular, "Amendment of the Provisions of the Unified Circular concerning Reports to the Commissioner – Solvency Reporting File", which addresses an update to the files to be used in reporting the solvency ratio results to the Commissioner on the basis of Solvency II, this similarly to the QTR reporting files in the Solvency-II Directive.

   Pursuant to the aforesaid and to the stated in Note 12d to the annual financial statements, in August 2018 a letter was received from the Commissioner that postpones the schedule for the calculation of data as at December 31, 2017.

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.

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

d. Solvency II (continued):

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.

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.

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

	December 31					
	2018	2017	2018	2017	2018	2017
	Gross		Reinsurance		Retained amount	
	NIS in thousands					
Insurance contracts in the life insurance segment	**58,416**	67,282	**14,058**	15,634	**15,634**	51,648
Insurance contracts in the health insurance segment	**124,839**	129,918	**2,171**	2,074	**122,668**	127,844
Insurance contracts in the general insurance segment	**1,702,052**	1,557,807	**702,742**	651,720	**999,310**	906,087
Total liabilities with respect to non-profit-participating insurance contracts	**1,885,307**	1,755,007	**(*) 718,971**	(*) 669,428	**1,166,336**	1,085,579

* 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					
	2018	2017	2018	2017	2018	2017
	Gross		Reinsurance		Retained amount	
	NIS in thousands					
Compulsory vehicle insurance and liability sectors:						
Provision for unearned premiums	**134,819**	121,430	**50,518**	42,444	**84,301**	78,986
Pending claims	**1,101,778**	1,007,020	**555,720**	513,631	**546,058**	493,389
Total liabilities in compulsory vehicle insurance and liability sectors *	**1,236,597**	1,128,450	**606,238**	556,075	**630,359**	572,375
Property and others sector:						
Provision for unearned premiums	**247,029**	232,186	**24,423**	21,356	**222,606**	210,830
Premium deficiency reserve	-	-	-	-	-	-
Pending claims	**218,426**	197,171	**72,081**	74,289	**146,345**	122,882
Total liabilities in property and others sector	**465,455**	429,357	**96,504**	95,645	**368,951**	333,712
Total liabilities with respect to insurance contracts in the general insurance segment	**1,702,052**	1,557,807	**702,742**	651,720	**999,310**	906,087

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					
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
	Gross		**Reinsurance**		**Retained amount**	
Deferred acquisition costs:			**NIS in thousands**			
Compulsory vehicle insurance and liability sectors	**24,116**	21,756	**12,672**	12,085	**11,444**	9,671
Property and others sector	**49,771**	44,991	**6,389**	5,502	**43,382**	39,489
Total	**73,887**	66,747	**19,016**	17,587	**54,826**	49,160
Liabilities with respect to general insurance contracts, net of deferred acquisition costs:						
Compulsory vehicle insurance and liability sectors (see b(1) below)	**1,212,481**	1,106,694	**593,566**	543,990	**618,915**	562,704
Property and others sector (see b(2) below)	**415,684**	384,366	**90,115**	90,143	**325,569**	294,223
Total liabilities with respect to general insurance contracts, net of deferred acquisition costs	**1,628,165**	1,491,060	**683,681**	634,133	**944,484**	856,927
* Of said amount, liability for compulsory vehicle sector	**689,536**	625,446	**147,099**	132,646	**542,437**	492,800

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:

	As of December 31					
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
	Gross		**Reinsurance**		**Retained earnings**	
	NIS in thousands					
Actuarial valuations:						
Mr. Ernst Segal	**1,320,203**	1,204,191	**627,800**	587,921	**692,403**	616,270
Total actuarial valuations	**1,320,203**	1,204,191	**627,800**	587,921	**692,403**	616,270
Provision for unearned premiums	**381,849**	353,616	**74,942**	63,799	**306,907**	289,817
Total insurance liabilities with respect to insurance contracts in the general insurance segment	**1,702,052**	1,551,807	**702,742**	651,720	**999,310**	906,087

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					
	2018	2017	2018	2017	2018	2017
	Gross		Reinsurance		Retained amounts	
	NIS in thousands					
Balance as at the of beginning of the year	**1,106,694**	1,060,523	**543,990**	540,581	**562,704**	519,942
Ultimate cost of claims for the current underwriting year	**251,085**	226,534	**91,972**	79,030	**159,113**	147,504
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	**(3,973)**	6,948	**-**	-	**(3,973)**	6,948
Change in estimate of ultimate cost of claims with respect to previous underwriting years	**(400)**	15,272	**(3,208)**	17,400	**2,808**	(2,128)
Total change in ultimate cost of claims	**246,712**	248,754	**88,764**	96,430	**157,948**	152,324
Payments in settlement of claims during the year:						
With respect to current underwriting year	**(1,797))**	(2,741)	**(553)**	(595)	**(1,244)**	(2,146)
With respect to previous underwriting years	**(139,128)**	(199,842)	**(38,635)**	(92,426)	**(100,493)**	(107,416)
Total payments for period	**(140,925)**	(202,583)	**(39,188)**	(93,021)	**(101,737)**	(109,562)
Balance as at the end of the year	**1,212,481**	1,106,694	**593,566**	543,990	**618,915**	562,704

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					
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
	Gross		**Reinsurance**		**Retained amount**	
			NIS in thousands			
Balance as at the beginning of the year	**384,366**	347,886	**90,143**	85,103	**294,223**	262,783
Ultimate cost of claims with respect to events in the reporting year	**342,247**	317,487	**37,412**	30,490	**304,835**	286,997
Change in ultimate cost of claims with respect to events in prior years	**(37,468)**	(30,483)	**(21,699)**	(10,005)	**(15,769)**	(20,478)
Payments made during the year in settlement of claims:						
With respect to events in the reporting year	**(204,619)**	(197,244)	**(7,913)**	(4,289)	**(196,706)**	(192,955)
With respect to events in prior years	**(78,906)**	(74,273)	**(10,011)**	(9,896)	**(68,895)**	(64,377)
Total payments	**(283,525)**	(271,517)	**(17,924)**	(14,185)	**(265,601)**	(257,332)
Change in provision for unearned premium, net of deferred acquisition costs	**10,064**	20,993	**2,183**	(1,260)	**7,881**	22,253
Change in premium deficiency reserve	**-**	-	**-**	-	**-**	-
Balance as at the end of the year	**415,684**	384,366	**90,115**	90,143	**325,569**	294,223

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, 2018, by underwriting year, in NIS thousands (CPI-adjusted) *:

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
Claims paid (accumulated) at end of year:											
After first year	3,696	2,768	2,142	2,978	2,475	2,321	2,244	1,576	2,774	1,797	
After two years	16,892	13,284	20,602	11,332	14,781	13,307	14,348	13,904	15,375		
After three years	36,239	24,222	43,785	28,643	32,101	37,261	38,581	36,354			
After four years	74,915	37,304	74,204	45,764	56,566	68,230	60,506				
After five years	93,477	53,282	84,328	59,607	105,301	88,845					
After six years	106,804	66,622	93,566	86,446	129,829						
After seven years	248,388	75,662	104,954	96,600							
After eight years	258,792	91,113	116,644								
After nine years	278,775	97,877									
After ten years	281,754										
Assessment of accumulated claims (including payments) at end of year:											
After first year (**)	245,490	212,582	217,184	215,942	220,157	239,776	207,554	230,838	251,136	253,033	
After two years	248,464	208,490	235,387	223,848	235,000	168,907	195,811	217,275	229,570		
After three years	251,788	217,397	238,762	225,963	170,930	184,368	211,255	210,136			
After four years	200,340	165,976	191,997	162,804	220,316	205,955	201,098				
After five years	193,432	163,244	162,311	157,106	216,948	218,990					
After six years	187,974	133,284	157,723	156,596	201,287						
After seven years	295,675	137,789	166,285	174,521							
After eight years	313,859	141,157	161,314								
After nine years	308,461	140,270									
After ten years	312,187										
Excess (deficit) relative to first year, which does not include accumulation (***)	**(111,498)**	**25,706**	**30,684**	**(11,717)**	**19,028**	**(13,305)**					**(61,181)**
Rate of deviation relative to first year, which does not include accumulation, in percentages	-55.8%	15.5%	16.0%	-7.2%	8.6%	-6.3%					-6.3%
Cost of accumulated claims as at December 31, 2018	**312,187**	**140,270**	**161,314**	**174,521**	**201,287**	**218,990**	**201,098**	**210,136**	**229,570**	**253,033**	**2,102,406**
Accumulated payments through December 31, 2018	281,754	97,877	116,644	96,600	129,829	88,845	60,506	36,354	15,375	1,797	925,581
Balance of pending claims	30,433	42,393	44,670	77,921	71,458	130,145	140,592	173,782	214,196	251,236	1,176,825
Pending claims through underwriting year 2008											**37,724**
Total liabilities in respect of insurance contracts in compulsory vehicle and liability sectors, net of deferred acquisition costs as at December 31, 2018											**1,214,549**

(*) 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, <u>in retention</u>, in the compulsory vehicle and liability insurance sectors as at December 31, 2018, by underwriting year, in NIS thousands (CPI-adjusted) *:

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
Claims paid (accumulated) at end of year:											
After first year	2,663	2,236	1,601	2,142	2,117	2,143	1,299	1,244	2,172	1,244	
After two years	14,001	9,415	9,311	8,241	10,405	10,257	9,015	10,332	9,958		
After three years	25,604	19,071	20,373	22,950	23,715	26,769	26,758	27,852			
After four years	39,050	29,454	33,201	35,972	37,896	48,719	44,655				
After five years	49,090	37,974	41,132	46,162	58,686	64,952					
After six years	58,229	46,471	48,384	55,997	72,152						
After seven years	72,853	53,422	58,531	63,179							
After eight years	80,286	60,079	68,229								
After nine years	86,711	64,842									
After ten years	88,180										
Assessment of accumulated claims (including payments) at end of year:											
After first year (**)	130,236	126,002	125,667	133,054	148,057	159,685	128,713	144,820	159,058	159,051	
After two years	131,843	118,925	122,996	127,851	137,906	104,349	111,409	123,525	134,503		
After three years	135,474	121,708	127,363	129,161	85,757	112,312	116,266	121,092			
After four years	88,485	85,965	89,359	83,381	103,872	122,726	113,561				
After five years	89,601	82,877	79,281	82,191	104,100	131,615					
After six years	91,092	74,897	78,803	79,552	101,847						
After seven years	92,944	77,752	90,145	86,665							
After eight years	96,721	76,985	88,705								
After nine years	95,516	77,235									
After ten years	97,599										
Excess (deficit) relative to first year, which does not include accumulation (***)	**(9,114)**	**8,731**	**655**	**(3,285)**	**2,026**	**(8,890)**					**(9,877)**
Rate of deviation relative to first year, which does not include accumulation, percentages	-10.3%	10.2%	0.7%	-3.9%	2.0%	-7.2%					-2.2%
Cost of accumulated claims as at December 31, 2018	**97,599**	**77,235**	**88,705**	**86,665**	**101,847**	**131,615**	**113,561**	**121,092**	**134,503**	**159,051**	**1,111,873**
Accumulated payments through December 31, 2018	88,180	64,842	68,229	63,179	72,152	64,952	44,655	27,852	9,958	1,244	505,243
Balance of pending claims	9,420	12,393	20,476	23,486	29,694	66,663	68,906	93,240	124,545	157,807	606,630
Pending claims through underwriting year 2008											**12,273**
Total liabilities in respect of insurance contracts in compulsory vehicle and liability sector, net of deferred acquisition costs as at December 31, 2018											**618,903**

(*) 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, 2018, by underwriting year, in NIS thousands (CPI-adjusted) *:

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
Claims paid (accumulated) at end of year:											
After first year	2,474	1,895	1,321	1,792	1,879	1,954	1,161	1,186	1,846	1,092	
After two years	13,007	8,348	5,873	7,104	9,552	9,581	7,744	11,715	8,862		
After three years	23,611	17,517	13,940	20,847	22,590	24,730	24,238	28,943			
After four years	35,035	27,255	23,221	33,154	34,979	43,849	41,203				
After five years	49,255	38,492	30,653	42,223	49,136	58,637					
After six years	58,181	45,879	37,619	51,370	64,596						
After seven years	66,678	52,523	46,125	58,509							
After eight years	75,122	59,341	48,800								
After nine years	80,096	65,028									
After ten years	81,370										
Assessment of accumulated claims (including payments) at end of year:											
After first year (**)	117,718	124,113	119,479	121,708	140,537	153,172	122,136	148,402	161,404	168,125	
After two years	135,813	117,875	115,906	125,725	142,927	108,864	113,831	134,793	145,446		
After three years	137,397	123,120	117,973	127,175	88,491	120,179	117,358	133,348			
After four years	96,703	89,516	85,878	78,804	103,753	127,704	112,771				
After five years	96,724	87,026	72,275	77,094	105,174	134,356					
After six years	94,460	74,190	70,622	78,713	101,847						
After seven years	88,249	77,602	70,583	79,987							
After eight years	93,426	77,720	69,394								
After nine years	91,311	76,172									
After ten years	90,509										
Excess (deficit) relative to first year, which does not include accumulation (***)	**6,195**	**13,344**	**16,484**	**(1,183)**	**1,906**	**(6,651)**					**30,094**
Rate of deviation relative to first year, which does not include accumulation, in percentages	6.4%	14.9%	19.2%	-1.5%	1.8%	-5.2%					7.2%
Cost of accumulated claims as at December 31, 2018	**90,509**	**76,172**	**69,394**	**79,987**	**101,847**	**134,356**	**112,771**	**133,348**	**145,446**	**168,125**	**1,111,954**
Accumulated payments through December 31, 2018	81,310	65,028	48,800	58,509	64,596	58,637	41,203	28,943	8,862	1,092	456,980
Balance of pending claims	9,198	11,144	20,593	21,478	37,251	75,719	71,568	104,404	136,585	167,033	654,974
Pending claims through underwriting year 2008											**22,507**
Total liabilities in respect of insurance contracts in compulsory vehicle and liability sectors, net of deferred acquisition costs as at December 31, 2018											**677,481**

(*) 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, 2018, by underwriting year, in NIS thousands (CPI-adjusted):

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
Claims paid (accumulated) at end of year:											
After first year	2,474	1,895	1,321	1,792	1,879	1,954	1,161	1,186	1,846	1,092	
After two years	13,007	8,348	5,873	7,104	9,552	9,581	7,744	10,040	8,862		
After three years	23,611	17,517	13,940	20,847	22,108	24,730	24,238	26,489			
After four years	35,035	27,255	23,030	33,154	34,496	43,849	41,203				
After five years	44,131	35,271	30,461	42,223	47,982	58,564					
After six years	52,388	42,659	37,428	51,370	61,089						
After seven years	59,448	49,302	45,933	58,195							
After eight years	66,583	54,727	48,609								
After nine years	70,101	59,317									
After ten years	71,316										
Assessment of accumulated claims (including payments) at end of year:											
After first year (**)	106,222	109,120	103,604	112,250	129,184	140,988	114,978	135,704	149,791	149,097	
After two years	117,973	102,590	98,109	105,772	122,125	94,386	97,937	111,397	123,218		
After three years	120,357	105,343	100,538	108,439	76,178	101,519	101,909	109,454			
After four years	76,060	71,997	69,462	69,419	87,296	107,497	98,373				
After five years	76,904	70,591	62,368	67,464	87,784	113,670					
After six years	78,761	64,303	63,440	69,376	85,698						
After seven years	75,638	66,484	61,460	71,004							
After eight years	77,145	66,187	61,296								
After nine years	77,632	66,358									
After ten years	76,839										
Excess (deficit) relative to first year, which does not include accumulation (***)	**(780)**	**5,640**	**8,166**	**(1,585)**	**1,598**	**(6,173)**					**6,866**
Rate of deviation relative to first year, which does not include accumulation, in percentages	-1.0%	7.8%	11.8%	-2.3%	1.8%	-5.7%					1.9%
Cost of accumulated claims as at December 31, 2018	**76,839**	**66,358**	**61,296**	**71,004**	**85,698**	**113,670**	**98,373**	**109,454**	**123,218**	**149,097**	**955,007**
Accumulated payments through December 31, 2018	71,316	59,317	48,609	58,195	61,089	58,564	41,203	26,489	8,862	1,092	434,733
Balance of pending claims	5,524	7,041	12,687	12,809	24,609	55,106	57,170	82,965	114,356	148,005	520,274
Pending claims through underwriting year 2008											**10,109**
Total liabilities in respect of insurance contracts in compulsory vehicle and liability sector, net of deferred acquisition costs as at December 31, 2018											**530,383**

(*) 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, 2018:

	Underwriting year						
	2018	2017	2016	2015	2014	2013	2012
	NIS in thousands						
Gross premium	176,331	159,890	146,100	146,608	146,125	134,861	115,159
Retained income/(loss) for underwriting year – accumulated	(11,225)	4,838	5,278	15,267	(1,933)	19,625	17,610
Effect of investment gains on accumulated retained income for the underwriting year	(308)	1,012	3,305	3,419	4,446	6,204	8,319

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

For the year ended December 31, 2018:

	Underwriting year						
	2018	2017	201	2015	2014	2013	2012
	NIS in thousands						
Gross premium	100,144	97,716	99,581	102,347	90,927	79,286	97,895
Retained income/(loss) for underwriting year – accumulated	(686)	(1,225)	2,249	(2,810)	(7,474)	(12,101)	(3,071)
Effect of investment gains on accumulated retained income for the underwriting year	(121)	376	1,390	1,790	1,836	3,202	5,078

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

c7. Composition of income (loss) in retention in compulsory the vehicle and 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:				
2018	(28,090)	7,017	(11,225)	6,948
2017	(15,723)	2,901	(6,241)	13,048
2016	(20,883)	(26,146)	(10,188)	(8,260)

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:				
2018	(8,976)	(6,107)	(694)	(11,173)
2017	(8,418)	(1,222)	(824)	2,346
2016	(5,571)	(58,013)	(184)	(11,558)

NOTE 15 - ADDITIONAL DATA CONCERNING THE LIFE INSURANCE SEGMENT:

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

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	**566**	**566**
Pending claims	**57,850**	**57,850**
Total	**58,416**	**58,416**

* The Company has no collective policies.

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

a. Details of liabilities with respect to insurance contracts, by financial and insurance exposure (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	
Insurance reserves	759	759
Pending claims	66,523	66,523
Total	67,282	67,282

* The Company has no collective policies.

b. Details of results by type of policy

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**

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 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, 2016 (NIS in thousands):

	Policies not containing a savings element	Total
	Risk sold as individual policy	
	Individual	
Gross risk premiums	126,151	126,151
Income from life insurance business	14,086	14,086
New annualized premium	25,280	25,280
Payments and change in liabilities for insurance contracts, gross	44,105	44,105

* 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, 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.

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, 2017 (NIS in thousands):

	Long-term	Short-term	Total
By insurance exposure - insurance Reserves	-	2,408	2,408
Pending claims	101,471	26,039	127,510
Total	101,471	28,447	129,918

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, 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**
New annualized premium	**1,527**	**-**	**1,527**

* Of which individual premiums of NIS 226,757 thousand and collective premiums of NIS 216 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, 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 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, 2016 (NIS in thousands):

	Long-term	**Short-term**	**Total**
Gross premiums	198,297	21,034	* 219,331
Income from healthcare insurance business	37,345	4,696	42,041
Annualized premium - new	29,445	-	29,445

* 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, 2017	57,065	119,988
Decrease (increase) in premiums accounted for as liabilities	1	(791)
Changes in pending claims and IBNR	10,216	10,721
Balance as at December 31, 2017	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**

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 Life Insurance Companies Ltd. and the Israeli Tax Authority 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, 2018, tax agreements have been signed, as above, for tax years up to and including the 2015 tax year. The tax agreements address, 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 2016 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 2s(d)(1)). It should be noted that deferred acquisition costs incurred until 2015 (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.

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):

a. Tax laws applicable to the Company (Continued)

3) Effect of the adoption of IFRS in Israel on tax liability

The Company prepares its financial statements in accordance with IFRS.

IFRS vary from accounting principles generally accepted in Israel and, accordingly, the preparation of financial statements in accordance with IFRS may reflect a financial position, operating results and cash flows that are materially different from those presented under accounting principles generally accepted in Israel.

According to statutory provisions published in 2010, 2012 and 2015 (hereinafter: “the Ad Hoc Provisions”), Accounting Standard No. 29 of the Israel Accounting Standard Board will not apply in determining the taxable income for tax purposes in respect of tax years 2007-2013, even if applied in the financial statements for said tax years. The significance of the Ad Hoc Provisions is that, in practice, IFRS will not apply in the calculation of the taxable income for tax purposes in respect of the aforesaid tax years.

On October 30, 2011, a memorandum of law was published for the amendment of the Income Tax Ordinance (hereinafter: “the Memorandum of Law”) as a result of the application of IFRS in the financial statements. Generally, the Memorandum of Law adopts IFRS. Nevertheless, the Memorandum of Law suggests several amendments to the Income Tax Ordinance, which will serve to clarify and determine the manner of computation of taxable income for tax purposes where uncertainty arises and IFRS do not coincide with the principles of the taxation method applied in Israel. The legislation proceedings in relation to the Memorandum of Law have not yet been completed and are not expected be completed in the near term.

As the legislation proceedings concerning the Memorandum of Law are still in progress, the Company believes that Ad Hoc Provisions issued for the years 2007 to 2013 will ultimately be extended to include 2015 through 2018. Accordingly, Company management expects that, at this stage, the new legislation will not apply to tax years preceding 2018.

Taking into consideration the Ad Hoc Provisions for tax years 2007 to 2013 and the Company's estimate regarding the likelihood of their extension to include the years 2016 to 2018, as above, the Company computed its taxable income for tax years 2007 to 2018 based on the Israeli accounting standards that were in force prior to the adoption of IFRS in Israel, subject to certain adjustments.

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:			
2016	25.0	17.00	35.90
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		
	2018	**2017**	**2016**
	NIS in thousands		
Current taxes	**(61,764)**	(45,299)	(22,865)
Deferred taxes relating to the creation and reversal of temporary differences	**21,687**	(8,486)	6,955
Effect of change in the tax rates	**-**	(16)	407
Taxes in respect of previous years	**(502)**	(2,082)	(330)
	(40,579)	(55,883)	(15,833)

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, 2017	(15,929)	2,243	8,633	2,826	1,448	(779)
Changes carried to profit or loss	1,875	559	(13,229)	820	1,489	(8,486)
Effect of change in tax rate (see b. above)	-	39	112	(89)	-	(16)
Balance of deferred tax asset (liability) as at December 31, 2017	(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**

The deferred taxes are presented in the balance sheet under deferred tax liabilities.

Analysis of the deferred tax assets and liabilities:

	December 31	
	2018	2017
	NIS in thousands	
Deferred tax assets	**22,879**	9,257
Deferred tax liabilities	**(10,473)**	(18,538)
Deferred tax assets (liabilities), net	**12,406**	(9,281)

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		
	2018	**2017**	**2016**
	NIS in thousands		
Profit before taxes on income	**114,821**	152,988	47,007
Overall statutory tax rate applicable to financial institutions (see b. above)	**34.19%**	35.04%	35.90%
Taxes computed based on the statutory tax rate	**39,257**	53,607	16,875
Increase (decrease) in income tax arising from:			
Expenses not deductible for tax purposes	**820**	1,471	461
Updating of deferred tax balances in respect of change in tax rates	**-**	16	(407)
Taxes in respect of previous years	**502**	769	(860)
Other	**-**	20	(236)
Taxes on income	**40,579**	55,883	15,833
Average effective tax rate	**35.34%**	36.52%	**33.68%**

NOTE 19 - OTHER ACCOUNTS PAYABLE:

	December 31	
	2018	**2017**
	NIS in thousands	
Employees and other payroll related liabilities	**27,341**	22,521
Trade payables	**29,613**	30,615
Prepaid premiums	**20,764**	16,983
Commissions payable	**9,251**	8,652
Related parties (see note 28a)	**5,911**	5,848
Other	**9,507**	11,157
	102,387	95,776

NOTE 20 - PREMIUMS EARNED IN RETENTION:

	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

	Year ended December 31, 2016		
	Gross	Reinsurance	Retained amount
	NIS in thousands		
Life insurance premiums	126,151	21,366	104,785
Health insurance premiums	219,331	3,036	216,295
General insurance premiums	701,450	138,757	562,693
Total premiums, gross	1,046,932	163,159	883,773
Less - change in balance of unearned Premium **	(9,532)	4,864	(14,396)
Total premiums earned	1,037,400	* 168,023	869,377

* 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		
	2018	**2017**	**2016**
	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	**(78,668)**	7,036	(25,238)
Interest income, linkage differences and exchange differences on financial assets at fair value through profit or loss	**59,226**	54,815	38,873
Interest income on deposits and from cash and nonmarketable securities	**446**	3,580	4,646
Income from dividends	**428**	52	194
Total gains on investments, net, and financing income	**(18,568)**	65,483	18,475

NOTE 22 - REVNEUES FROM COMMISSIONS:

	Year ended December 31		
	2018	**2017**	**2016**
	NIS in thousands		
Reinsurance commissions, net of change in deferred acquisition costs relating to reinsurance	**44,842**	41,736	43,553

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		
	2018	**2017**	**2016**
	NIS in thousands		
Total payments and changes in liabilities with respect to life insurance contracts:			
Gross	**41,280**	52,426	44,105
Reinsurance (*)	**(8,365)**	(9,261)	(10,960)
Retained amount	**32,915**	43,165	33,145
Total payments and changes in liabilities with respect to general insurance contracts:			
Gross	**540,462**	530,084	615,799
Reinsurance (*)	**(96,993)**	(117,004)	(178,699)
Retained amount	**428,817**	413,080	437,100
Total payments and changes in liabilities with respect to health insurance contracts:			
Gross	**98,611**	110,908	97,000
Reinsurance (*)	**(2,237)**	(3,614)	(3,137)
Retained amount	**96,374**	107,294	93,863
Total payments and changes in liabilities with respect to insurance contracts, in retention	**572,758**	563,539	564,108

* 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		
	2018	**2017**	**2016**
	NIS in thousands		
Acquisition commissions	**37,847**	38,646	40,454
Marketing and other expenses (reclassified from general and administrative expenses)	**214,360**	205,664	194,028
Change in acquisition costs	**(8,273)**	(7,530)	7,848
Total commissions, marketing expenses and other acquisition costs	**243,934**	236,780	242,330

NOTE 25 - GENERAL AND ADMINISTRATIVE EXPENSES:

	Year ended December 31		
	2018	**2017**	**2016**
	NIS in thousands		
Payroll and related expenses	**195,159**	191,848	186,665
Depreciation and amortization	**20,402**	18,080	15,727
Office maintenance and communications	**19,448**	20,984	21,698
Marketing and advertising	**53,540**	44,899	45,979
Legal and professional consulting	**7,350**	6,375	6,334
Information technology expenses	**14,787**	15,600	17,226
Other	**11,774**	10,463	9,460
Total (*)	**322,460**	308,249	303,089
Less:			
Amounts classified to changes in liabilities and payments in respect of insurance contracts	**(33,281)**	(29,838)	(27,691)
Amounts classified to commissions, marketing expenses and other acquisition costs	**(214,360)**	(205,664)	(194,028)
Total general and administrative expenses	**74,819**	72,747	81,370
* General and administrative expenses include expenses relating to automation in the total amount of	**54,477**	52,520	49,037

NOTE 26 - FINANCING INCOME (EXPENSES):

	Year ended December 31		
	2018	**2017**	**2016**
	NIS in thousands		
Income (expenses) in respect of interest and exchange differences	**5,006**	(2,781)	3,410
Total financing income (expenses	**5,006**	(2,781)	3,410

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. The Company develops risk assessment processes that can have impact on economic capital. In addition, the Company approved a risk appetite of 120% of statutory capital and 130% of 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.

The Company has appointed a risk manager who works to implement regulatory requirements in this area.

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 the parent company.

NOTE 27 - RISK MANAGEMENT (Continued):

c. Market risks (continued)

1) Market risk sensitivity analyses

Following is a sensitivity analysis in relation to the impact of change in those factors on profit (loss) 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. The sensitivity analysis does not consider the impact of profit-participating contracts, as indicated above. 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.

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)**

Data as at December 31, 2017:

	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)	(30,151)	29,965	5,656	(5,656)	771	(771)	1,801	(1,801)
Comprehensive income (equity) (4)	(30,151)	29,965	5,656	(5,656)	757	(757)	1,801	(1,801)

(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 3,517 / (3,612) thousand (2017 - NIS 3,214 / (3,232) 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 26.5%.

NOTE 27 - RISK MANAGEMENT (Continued):

c. Market risks (continued)

1) Market risk sensitivity analyses (continued)

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.

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	
	2018	**2017**
	NIS in thousands	
Assets with direct interest risk:		
Marketable debt instruments	**1,731,531**	1,588,676
Non-marketable debt instruments:		
Non-marketable bonds	**6,230**	22,071
Other	**1,173**	1,288
Reinsurance asset	**147,099**	132,644
Cash and cash equivalents	**87,306**	57,920
Total assets with direct interest risk	**1,973,339**	1,802,599
Assets without direct interest risk	**1,157,770**	1,109,206
Total assets	**3,131,109**	2,911,805
Liabilities with direct interest risk:		
Liabilities in respect of non-profit-participating insurance contracts	**510,461**	466,823
Liabilities for employee retirement obligations	**3,057**	3,489
Liabilities in respect of reinsurers	**249,761**	225,103
Total liabilities with direct interest risk	**763,279**	695,415
Liabilities without direct interest risk	**1,542,623**	1,415,425
Equity	**825,207**	800,965
Total equity and liabilities	**3,131,109**	2,911,805
Total assets, net of liabilities	**825,207**	800,965

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, 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, net				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
Liabilities for current taxes		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):

c. Market risks (continued)

3) Breakdown of assets and liabilities of the Company by linkage bases (continued):

	December 31, 2017				
	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				38,448	38,448
Deferred acquisition costs				149,357	149,357
Property and equipment				11,054	11,054
Reinsurance assets	23,355	605,617	40,456		669,428
Premiums collectible	102,558	53,887	17,383		173,828
Current tax assets		3,428			3,428
Other accounts receivable	19,637	258	8,632	20,022	48,549
Other financial investments:					
Marketable debt instruments	810,416	770,577	7,683		1,588,676
Nonmarketable debt instruments	63,696	21,478			85,174
Other			25,932	60,011	85,943
Total other financial investments	874,112	792,055	33,615	60,011	1,759,793
Other cash and cash equivalents	56,299		1,621		57,920
Total assets	1,075,961	1,455,245	101,707	278,892	2,911,805
Total equity				800,965	800,965
Liabilities:					
Liabilities for non-profit-participating insurance contracts	354,885	1,338,089	62,033		1,755,007
Liabilities for deferred taxes – net				9,281	9,281
Retirement benefit obligation	3,489				3,489
Liabilities to reinsurers	225,101		4,599	17,587	247,287
Other accounts payable	95,748	-	28	-	95,776
Total liabilities	679,223	1,338,089	66,660	26,868	2,110,840
Total liabilities and equity	679,223	1,338,089	66,660	827,833	2,911,805
Total balance sheet exposure	396,738	117,156	35,047	(548,941)	

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, 2018	**102,890**	**72,488**	**1,734**	**247**	**5,896**	**-**	**183,255**
December 31, 2017	94,393	96,496	2,344	135	3,832	-	197,200

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, 2018	**677,198**	**324,477**	**248,500**	**434,753**	**17,124**	**1,702,052**
December 31, 2017	555,981	314,067	246,136	424,252	17,371	1,557,807

NOTE 27 - RISK MANAGEMENT (Continued):

e. Insurance risks

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.

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 0.58%is NIS 667 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 2,031 million (gross) and NIS 252 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 "Gross 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 0.59%.

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.

b) The morbidity rates refer to the frequency of claims in respect of severe illness morbidity. These rates were determined on the basis of studies conducted by reinsurers. The higher the assumption regarding the morbidity rate, the higher the insurance liability for severe illness morbidity.

Sensitivity analyses in life insurance as at December 31, 2018 (NIS in thousands):

	Morbidity and mortality rate	
	+10%	**-10%**
Profit (loss)	**(6,124)**	**3,526**

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" plans include pure-risk products (death as a result of an accident, disability as a result of accident) that are sold as independent policies. For those plans 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.

Key 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)

<u>Main assumptions used in computing insurance liabilities</u>

1) <u>Discount rate</u>

In the “personal accidents – individual” sector, the gross premium reserve is computed on the basis of a risk-free interest rate.

2) <u>Morbidity and mortality rates</u>

Morbidity rates refer to the frequency of claims in respect of severe illness morbidity, disability as a result of an accident, and death as a result of an accident. 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 severe illness morbidity and disability as a result of an accident.

3) <u>Cancellation rates</u>

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.

<u>Sensitivity analysis for health insurance and personal accidents insurance as at December 31, 2018 (NIS in thousands)</u>:

	Cancellation rate (withdrawals, settlements and reductions)		Morbidity and mortality rate	
	+10%	**-10%**	**+10%**	**-10%**
Profit (loss)	**314**	**(344)**	**(3,821)**	**2,460**

3. Insurance risk in general insurance contracts

<u>Summary of the main insurance sectors in which the Company operates</u>

The Company writes insurance contracts in the field of general insurance, mainly in the vehicle property insurance, compulsory vehicle 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)

<u>Principles of computation of the actuarial assessment in general insurance (continued)</u>

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.

j) The provision for unearned premiums is also calculated using a 75% probability, pursuant to the new guidance in the Commissioner’s Opinion.

k) We examine 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)

<u>Breakdown of actuarial methods in the principal insurance sectors (continued)</u>

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.

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 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 is discussing 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)

Interim conclusions were submitted in January 2019. Following are the principals of the Committee's interim conclusions, as presented in the report published for public comments:

- - Having deliberated two alternatives - differential payment by periods or uniform discounting - the Committee has opted for the uniform track, as the simplest and most effective.
- - The Committee determined that the discount interest rate of 3% should be reinstated, in order to protect the stability of the insurance companies.
- - The Committee rejected the possibility of periodic payments to injured persons, as an annuity, in place of a one-time payment; among others, in order to avoid a long-term relationship between the parties.
- - The members of the Committee agreed on a "firm" mechanism for updating of the discount interest rate to reflect market conditions.
- - The Committee is considering the possibility of encouraging the establishment of funds for the joint investment of damage monies to injured person are interested in such investment. The recommendations will be completed after the public's comments are received.

To the best of the Company's knowledge, the Kaminitz Committee is currently discussing the comments received from the public. Their impact on the conclusions of the Committee cannot be estimated.

The Company is following the above developments and, at present, has decided not to change its original assessment as to the rate of the discount interest rate, as described above, this pending the submission of the final report of the Kaminitz Committee and the issue of a final ruling by the Supreme Court regarding the discounting of damages to victims of road accidents.

As at December 31, 2018, the provision for the reduction of the discount interest rate amounts to NIS 58.0 million (gross), including NIS 7.2 million in respect of the Company's share in the pool, and NIS 42.1 million in retention.

NOTE 27 - RISK MANAGEMENT (Continued):

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, 2018		
	Marketable	**Nonmarketable**	**Total**
	NIS in thousands		
Domestic	**1,731,531**	**76,861**	**1,808,392**
Total debt instruments	**1,731,531**	**76,861**	**1,808,392**

	December 31, 2017		
	Marketable	**Nonmarketable**	**Total**
	NIS in thousands		
Domestic	1,588,676	85,174	1,673,850
Total debt instruments	1,588,676	85,174	1,673,850

* 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, 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 nonmarketable 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.

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, 2017		
	AA- and above	BBB through A+	Total
	NIS in thousands		
Debt instruments in Israel			
Marketable debt instruments:			
Government bonds	557,539	-	557,539
Corporate bonds	578,145	452,992	1,031,137
Total marketable debt instruments in Israel	1,135,684	452,992	1,588,676
Non-marketable debt instruments:			
Corporate bonds	20,191	1,880	22,071
Loans and receivables, excluding bank deposits	61,815	-	61,815
Deposits with banks and financial Institutions	1,288	-	1,288
Total nonmarketable debt instruments in Israel	83,294	1,880	85,174
Total domestic debt instruments	1,218,978	454,872	1,673,850

Debt instruments abroad

As at December 31, 2017, the Company has no debt instruments overseas.

b. Credit risk in respect of other financial assets (in Israel)

	Domestic rating		
	December 31, 2018		
	A and above	Not rated	Total
	NIS in thousands		
Accounts receivable - excluding balances of reinsurers	**-**	**180,342**	**180,342**
Cash and cash equivalents	**87,306**	**-**	**87,306**
	87,306	**180,342**	**267,648**

	Domestic rating		
	December 31, 2018		
	A and above	Not rated	Total
	NIS in thousands		
Accounts receivable - excluding balances of reinsurers	-	220,040	220,040
Cash and cash equivalents	57,920	-	57,920
	57,920	220,040	277,960

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 711,765 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, 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**

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, 2017	
	Balance sheet credit risk	
	Amount	% of total
	NIS in thousands	
Industry		
Construction and real estate	452,974	27.1
Banking	200,569	12.0
Investments and holdings	106,974	6.4
Communications	69,060	4.1
Commerce	47,634	2.8
High-tech	33,068	2.0
Production industry	28,520	1.7
Insurance and financial services	28,141	1.7
Oil and gas exploration	27,270	1.6
Other business services	26,415	1.6
Electricity and water	24,688	1.5
Transportation	7,456	0.4
Hospitality and tourism	1,727	0.1
	1,054,496	63.0
Loans to individuals	61,815	3.7
Government bonds	557,539	33.3
Total	**1,673,850**	**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 2017 and 2018, 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 2017 and 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.

NOTE 27 - RISK MANAGEMENT (Continued):

f. Credit risk data (continued):

5) Reinsurance (continued):

3. Information regarding the exposure to credit risks

As of 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	-	-
	21,429	(1,256)	12,516	11	-	(8,572)	2,699	-	-
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 international 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.

NOTE 27 - RISK MANAGEMENT (Continued):

f. Credit risk data (continued):

5) Reinsurance (continued):

3. Information regarding the exposure to credit risks (continued)

As of December 31, 2017

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	971	(231)	136	-	-	(388)	(483)	-	-
SWISS RE	19,241	(921)	12,740	-	-	(7,697)	4,122	-	-
Other	877	(6)	-	-	-	-	(6)	-	-
	21,089	(1,158)	12,876	-	-	(8,085)	3,633	-	-
A									
Partner Reinsurance Co Ltd.	4,028	7	2,758	-	-	(1,611)	1,154	-	-
AHAC*	13,641	(186)	-	6,838	55,525	(21,540)	40,637	-	-
NUFIC*	106,396	(1,450)	-	53,336	433,098	(168,016)	316,968	-	-
NHIC*	16,368	(223)	-	8,205	66,630	(25,849)	48,763	-	-
Other companies in the AIG international corporation	8,420	6,184	-	29,097	819	-	36,100	4,746	-
Other	501	(787)	-	247	-	-	(540)	-	-
	149,354	3,545	2,758	97,723	556,072	(217,016)	443,082	4,746	-
Total	170,443	2,387	15,634	97,723	556,072	(225,101)	446,715	4,746	-

***** Global AIG Corporation companies that are related parties of the Company.

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 2018, 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 set up 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 has obtained cyber insurance with maximum coverage of up to US$ 150 million, with a US$ 1 million deductible.

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 findings of a risk survey conducted as well as the requirements of the law and the various directives.

h. Geographical risks:

	December 31, 2018				
	Government bonds	Corporate bonds	Index 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**

NOTE 27 - RISK MANAGEMENT (Continued):

h. Geographical risks (continued):

	December 31, 2017				
	Government bonds	**Corporate bonds**	**Mutual funds**	**Other investments**	**Total balance-sheet exposure**
	NIS in thousands				
Israel	557,539	949,177	60,011	121,023	1,687,750
North America	-	96,143	-	-	96,143
Other	-	7,888	25,932	-	33,820
Total	**557,539**	**1,053,208**	**85,943**	**121,023**	**1,817,713**

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			
		2018		**2017**	
	Note	**Global AIG corporation companies**	**Key management personnel**	**Global AIG corporation companies**	**Key management personnel**
		NIS in thousands			
Reinsurance assets	13, 27f(3)(5)	**704,855**	-	653,548	-
Accounts receivable	8	**2,487**	-	8,406	-
Accounts payable	19	-	**5,911**	-	5,848
Liabilities to reinsurers	29	**266,362**	-	217,851	-

NOTE 28 – BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Continued)

b. Transactions with interested and related parties

	Note	December 31 2018	2017	2016
		NIS in thousands		
Premiums – gross (*)	20	**95**	87	68
Reinsurance premiums (**)	20	**(154,579)**	(144,825)	(139,547)
Income from commissions (**)	22	**40,040**	38,567	37,014
Payments and change in liabilities in respect of insurance contracts (**)	23	**97,894**	119,156	181,835
General and administrative expenses (*)	25	**(15,562)**	(13,588)	(18,480)
General and administrative expenses (**)	25	**(1,057)**	-	(1,036)
Financial expenses (**)	26	**-**	-	(7)

* 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 2018		2017		2016	
	No. of people	Amount (NIS in thousands)	No. of people	Amount (NIS in thousands)	No. of people	Amount (NIS in thousands)
Short-term benefits	**13**	**13,084**	13	11,674	13	16,685
Post-employment benefits	**13**	**2,478**	13	1,914	13	1,795
		15,562		13,588		18,480

d. Compensation and benefits:

	Year ended December 31 2018		2017		2016	
	No. of people	Amount (NIS in thousands)	No. of people	Amount (NIS in thousands)	No. of people	Amount (NIS in thousands)
Fees to directors	**3**	**488**	3	500	3	574
	3	**488**	3	500	3	574

e. Income and expenses from related parties and interested parties

1) <u>Transactions with global AIG Corporation companies 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

Short-term benefits include bonuses and other benefits to key management personnel, amounting to NIS 3,743 thousand (2017 – NIS 2,855 thousand; 2016 – NIS 4,243 thousand).

NOTE 29 - LIABILITIES TO REINSURANCE:

	December 31	
	2018	**2017**
	NIS in thousands	
Deposits of reinsurers (1) ,(2)	**249,762**	225,101
Deferred acquisition costs in respect of reinsurance	**19,061**	17,587
Related parties (1) ,(2)	**27,179**	2,446
Other	**1,926**	2,153
	297,928	247,287

(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 30 - 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 these 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.

a. Contingent liabilities – 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 be 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.

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.

NOTE 30 - CONTINGENT LIABILITES AND ENGAGEMENT IN LEASE AGREEMENTS (Continued):

a. Contingent liabilities – motions to certify class actions (continued):

2) On August 9, 2016, a motion to certify a class action was filed against a number of insurance companies, including the Company. The motion concerns the impact of customer age on the pricing of premiums in vehicle compulsory and property insurance. The overall amount claimed from all defendants jointly is NIS 100 million. The amount of personal damages sought of the Company is negligible.

On December 8, 2016, a mutually-agreed motion to amend the motion to certify was filed, requesting the court to permit the petitioners to amend to motion to certify by removing the arguments concerning the respondents’ compulsory insurance, and pursuing solely the proceedings regarding comprehensive insurance, this in view of the ruling in the Class Action 26351-09-13, Meyuhas et al. v. Menorah et. al.

On December 11, 2016, a ruling was handed down which approved the motion to amend the motion to certify. On June 21, 2017, the Company submitted its response to the motion to certify. On July 23, 2017, the petitioners submitted their response to the motion to certify. On August 18, 2017, the respondents filed a motion to strike the petitioners’ response to the respondents' responses to the motion to certify and, alternatively, to strike sections of the response.

On September 13, 2017, a pretrial hearing was held. The court ruled that the motion to certify does not include the grounds of practice. The Court further required the petitioners to inform the court of their position regarding the continuation of the proceedings by November 1, 2017.

On November 14, 2017, the petitioners notified the court that they intend to continue conducting the proceedings. On November 18, 2017, the court ruled that in light of the petitioners' position to continue the proceeding, the parties may submit concise supplementary arguments regarding the pending motion for a collateral deposit. On December 6 2017, the respondents filed a supplementary argument on their behalf regarding the motion for a collateral deposit.

On December 13, 2017, the petitioners filed a motion to the court to delay the ruling on the motion for a collateral deposit by seven days, claiming that the respondents have added new documents to their supplementary arguments that were not previously included by the petitioners, which the petitioners contest.

The court granted the request and on December 17, 2017 the petitioners filed a motion to strike the supplementary arguments of the respondents to the motion for a collateral deposit. The court ruled that the respondents’ response may be submitted by January 7, 2018 and the petitioners’ response to the respondents’ response may be submitted by January 17, 2018.

On January 7, 2018, the respondents submitted their response to the petitioners’ motion to strike the supplementary arguments and on January 17, 2018, the petitioners filed their response to the respondents' response.

On January 23, 2018, the court rejected the motion of the respondents to order the petitioners to deposit collateral.

On February 22, 2018, a pretrial hearing was held, in which the parties requested the court to approve a procedural arrangement whereby the parties will deliver questions to the declarants in place of cross-examinations, and that the summations stage will be held orally.

The court approved the procedural arrangement and held that the questions must be delivered in full by March 25, 2018 and responded to by May 17, 2018.

NOTE 30 - CONTINGENT LIABILITES AND ENGAGEMENT IN LEASE AGREEMENTS (Continued):

a. Contingent liabilities – motions to certify class actions (continued):

2) (continued)

On May 15, 2018, the court accepted the Company's request to postpone the deadline for responses to the questions until July 7, 2018. On May 21, 2018, the court informed the parties that the case is being assigned to another judge.

On June 24, 2018, the parties filed a motion for the approval of a procedural arrangement whereby the petitioners will submit written summations within 60 days of the complete submission of affidavits by the respondents, and the respondents will submit their summations 60 days thereafter. Additionally, the submission of written summations will be followed by the oral presentation of summations.

On July 9, 2018, the Company submitted the affidavit of its responses to the questions.

On July 19, 2018, the parties notified the court that the affidavits of responses to the questions have been submitted in full and that a ruling may be given in their motion for the approval of a procedural arrangement.

On July 26, 2018, the court approved the procedural arrangement motion submitted by the parties and scheduled the oral presentation of supplementary arguments for February 3, 2019.

The petitioners submitted their summations on October 26, 2018.

On January 20, 2019, the court approved the parties' motion to postpone a hearing and the motion that the respondents' summations be submitted 10 days prior to the date of the postponed hearing. i.e. by February 24, 2019.

On February 24, 2019, the court accepted the motion to extend the date for the submission of summations by the respondents until February 26, 2019. On February 26, 2019, joint summations were submitted by the respondents.

On March 6, 2019, oral supplementary arguments were presented. In said hearing, the court required the petitioners to notify the court whether they continue to pursue a ruling on the motion to certify or rescind it, this by March 20, 2019.

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 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, with regard to the possibility of updating the age and/or seniority when crossing the age and/or seniority bracket, entitling them to a reduction in the insurance premium.

The amount of the claim for all members of the class in relation to the Company is estimated at NIS 12,250 thousand. The personal damage claimed of the Company is negligible.

On June 18, 2017, the Company submitted its response to the motion to certify. On June 22, 2017, a pre-trial hearing was held, together with other claims filed against other insurance companies that deal with similar questions of fact and law. The court ordered that, at this stage of the proceedings, all claims concerning the practice of age transition will be discussed in a consolidated manner, and determined that they will participate in the hearing scheduled for September 13, 2017 to examine the continuation of the proceedings.

NOTE 30 - CONTINGENT LIABILITES AND ENGAGEMENT IN LEASE AGREEMENTS (Continued):

a. Contingent liabilities – motions to certify class actions (continued):

3) (continued)

On September 7, 2017, the petitioners submitted their response to the respondent's response to motion to certify. On September 13, 2017, a pre-trial hearing was held.

On January 16, 2018, the respondent responded to the petitioner’s motion for discovery of documents and rejected it on the grounds that these documents constitute a business secret and are therefore confidential.

A pre-trial hearing was held on February 22, 2018, in which it was decided that cross-examinations should be conducted in the case.

On May 21, 2018, the court informed the parties of the replacement of the panel of judges in the case.

On June 19, 2018, the court scheduled a pre-trial hearing of the case for December 19, 2018.

On November 12, 2018, the court accepted the motion to postpone the submission of summations by the respondents until November 28, 2018.

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

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

On January 30, 2019, the petitioners filed a written motion concerning the evidentiary hearings of the cases. The respondent is required to submit its response by February 12, 2019.

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.

4) 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.

In view of the settlement negotiations, the hearing was postponed to October 3, 2019.

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.

NOTE 30 - CONTINGENT LIABILITES AND ENGAGEMENT IN LEASE AGREEMENTS (Continued):

a. Contingent liabilities – motions to certify class actions (continued):

5) On June 22, 2017, a motion to certify a claim as a class action was filed against the Company.

   The plaintiff alleges that the Company has failed to reimburse employers that had paid the National Insurance Institute injury allowance amounts for workers injured in road accidents and which were defined as work accidents.

   The amount claimed of the Company is estimated at NIS 14,500 thousand.

   The Company filed a response to the motion to certify the claim as a class action and is awaiting the petitioner's response.

   On April 26, 2018, a hearing was held in the case, in which the court recommended that the petitioner cease to pursue the case. The petitioner has recently announced that it wishes to withdraw the claim that had been filed against the Company, while continuing to pursue the motion against the remaining insurance companies. On October 7, 2018, a ruling was issued that approves the withdrawal without ruling expenses.

6) 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 of the class, estimate the damage at tens of millions of shekels.

   The plaintiff is required to submit his response to the Respondents’ response to the motion to certify by May 6, 2018. On May 2, 2018, the Respondents filed a motion to extend the date of submission of their response. In their motion, the Respondents note that the parties intend to file a motion to postpone the date scheduled for hearing the case. The court determined that it will rule on the extension after the motion for the postponing of the hearing is filed. On May 7, 2018, a motion was filed to postpone the hearing of the case. The court accepted the motion and postponed the hearing to November 5, 2018.

   On July 4, 2018, the court accepted the petitioners’ motion to postpone the submission of their response to the Respondents’ response until September 6, 2018. On August 26, 2018, the petitioners filed an additional motion to extend the submission of their response to the response of the Respondents until September 24, 2018. The court accepted the motion. 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. A pre-trial hearing was scheduled for February 19, 2019.

   On February 19, 2019, a pre-trial hearing was held. The court raised various insights concerning the proceeding and suggested that the parties refer to a mediation proceeding. The parties are to inform the court by March 17, 2019 if they consent to mediation. No additional hearing has been scheduled. On March 13, 2019, the respondents submitted their response, expressing their consent to the court’s suggestion to refer the case to mediation.

   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.

NOTE 30 - CONTINGENT LIABILITES AND ENGAGEMENT IN LEASE AGREEMENTS (Continued):

a. Contingent liabilities – motions to certify class actions (continued):

7) On January 16, 2018, a claim and a motion to certify it as a class action were filed against the Company 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 motion of the Company, jointly with the other insurance companies named in the claim, to strike the certification motion in limine, since the case is not suitable for filing by an organization – was rejected by the court. The Company has submitted its response to the certification motion and the petitioner submitted its response to those of the respondents.

Shortly before the hearing, 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. The court ruled that the petitioner’s response will not be stricken, but permitted the respondents to submit a joint response, which 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 November 24, 2019, November 26, 2019 and December 1, 2019.

An additional hearing in the case was scheduled for February 20, 2019.

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.

8) On May 1, 2018, a claim and a motion to certify it as a class action in the amount of NIS 2.5 million was filed against the Company. The motion alleges 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.

A pre-trial hearing was scheduled for April 28, 2019. The Company is holding negotiations in an attempt to settle.

9) On May 8, 2018, a claim and a motion to certify it as a class action in the amount of NIS 262 million was filed against the Company and another insurance company. According to the motion, the Company allegedly disregards the value of the vehicle in calculating the insurance fees, yet takes such value into account upon the payment of such fees. It is therefore argued that the Company allegedly overcharges premium, contrary to related Supervision circulars.

Following discussions between the Company and the petitioner, the petitioner has recently announced that it wishes to withdraw the claim filed against the Company. On February 25, 2019, a ruling was issued that approved the withdrawal of the claim, without adjudication of expenses.

NOTE 30 - CONTINGENT LIABILITES AND ENGAGEMENT IN LEASE AGREEMENTS (Continued):

a. Contingent liabilities – motions to certify class actions (continued):

Pending motion to certify claims as class actions:	Number of claims	The amount claimed NIS in thousands
Amount relating to the Company	9	* 65,643

* The above amount of claims includes only the claims for which the Company has an estimate of the total amount of the claim.

b. Financial sanction

In January 2019, the Commissioner of the Capital Market imposed on the Company a financial sanction in the aggregate amount of NIS 1.8 million. This results from the Capital Market Authority's examination concerning addition to insurance policies, which was conduced in the second half of 2017. The financial sanctpion in the aforesaid amount was imposed after the Commissioner exercised his authority under the law, reducing the amount of the sanction by 50%, this inter alia, having determined that he has not found similar violations by the Company in the preceding three years and in view of the actions taken by the Company to prevent the recurrence of the violation and its review of the adequacy and implementation of the control processes.

c. Leases:

The Company has entered into a commercial lease for the real estate in its possession that is used for Company offices. This lease is non-cancellable and has a term of up to 5 years.

Minimum future lease payment for the non-cancellable operating leases as of December 31 are:

	December 31	
	2018	2017
	NIS in thousands	
First year	**4,876**	4,662
Second to fifth year	**19,365**	9,240
Fifth year and thereafter	**4,841**	-
	29,082	13,902

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, 2018
Date of report:	March 26, 2019

Table of Contents

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, 2018
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	CEO	100%	0%	2,096	474	-	2,570
Lior Scheinin	Senior VP	100%	0%	877	283	-	1,160
Nurit Kantor	Senior VP	100%	0%	844	311	-	1,155
Ernst Segal	Supervising Actuary	74%	0%	844	203	-	1,047
David Rothstein	VP	100%	0%	769	240	-	1,009

* 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.

Compensation to CEO
In October 2016, the monthly salary of CEO was set to NIS 95,000 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 488 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.

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 – 12^{th} 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.
   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.: 452109240
   Year of birth: 1960
   Address for the service of process: 58 Fenchurch Street London EC3M 4AB, England
   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 Vice President, Head of Accident, Health & travel, AIG Europe Ltd, AIG
   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. Vice President and Head of Personal Lines UK, AEL.
   Relation to another interested party in the Company: No

Name: Maureen Hackett
Passport no.: 21909619
Year of birth: 1964
Address for the service of process: 175 Water Street, 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,
Head of Individual Segment - Personal Lines, AIG
Date of commencement of service as director: August 23, 2017
Education and main occupation during the past 5 years as well as other companies in which she serves as a director: Academic education. Head of Global Property – Consumer, Executive Vice President' Chief Underwriting Officer, AIG Inc.
Relation to another interested party in the Company: No

The above director ended her office as director in the Company in February 2019.

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 MEA 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.
   Relation to another interested party in the Company: No

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, and Certified Public Accountant.
   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

Regulation 26a: Senior Officers of the Company

1. **Name:** Shay Feldman
   I.D. No.: 031872245
   Year of birth: 1974
   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. BBA in Economics (Tel Aviv-Yaffo Academic College), MA in Business Administration and Marketing from Derby University.
   Year of commencement of service: 2013

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

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

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
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). Chief Marketing Officer and member of management of Kardan Vehicle Ltd., holder of Avis' franchise in Israel.
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 serves as the legal counsel of AIG's EMEA Division.
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 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. In the last five years, served as VP Life and Health Insurance in the Company, Head of Life and Health Insurance in the Company.
Year of commencement of service: 2014

12. **Name:** Yifat Reiter
I.D. No.: 029480548
Year of birth: 1972
Position in the Company: VP Personal Accidents, Life and Health 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 Financing, MBA. VP Individual Insurance in the Company.
Year of commencement of service: 2014

13. **Name:** Lee Dagan
I.D. No.: 38345443
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

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 2018
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: For details, 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 February 13, 2018, 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 July 19, 2018, the General Meeting of the Company passed the following resolution: appointment of Mr. Steven Barnett as a director in the Company.

3. On October 31, 2018, the General Meeting of the Company passed the following resolution: appointment of Ms. Ana Correia as a director in the Company.

4. On November 29, 2018, 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.

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 February 1, 2018 through January 31, 2019. The liability limit is US$ 25 million per claim and for the whole insurance period, including reasonable litigation expenses, as agreed with the insurer.

In February 2019, the aforesaid insurance policy was renewed for 12 months under the same terms presented above.

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 26, 2019

Ralph Mucerino	**Shay Feldman**
Chairman of the Board	**C.E.O**

Chapter E: Actuary Reports

AIG Israel Insurance Company Ltd

GENERAL INSURANCE SECTORS – ACTUARY STATEMENT

AS OF DECEMBER 31, 2018

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, 2018, 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, 2018

2.1 Pending Claims

2.1.1 Non-aggregated sectors:

	Gross	Retention
	NIS in thousands	
Vehicle property	75,083	75,083
Comprehensive home	42,224	37,041
Loss of property	33,180	1,518
Engineering insurance	35,854	626
Vehicle compulsory	589,678	442,579
Employers' liability	60,124	8,130
Third-party liability	128,163	12,642
Product liability	60,684	12,076
Professional liability	229,310	38,867
Other	2,361	307
Total non-aggregated sectors	1,256,659	628,868
Total aggregated sectors	-	-
2.1.2 Total aggregated and non-aggregated sectors	**1,256,659**	**628,868**
2.2 Indirect expenses for all sectors	46,053	46,053
2.3 Premium deficiency:	422	422
Total pending claims, indirect expenses, premium deficiency reserve computed in accordance with actuarial valuation	**1,303,135**	**675,344**

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.

Chapter D – Comments and Clarifications

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. 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 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 is discussing 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.

Interim conclusions were submitted in January 2019. Following are the principals of the Committee's interim conclusions, as presented in the report published for public comments:

- - Having deliberated two alternatives - differential payment by periods or uniform discounting - the Committee has opted for the uniform track, as the simplest and most effective.
- - The Committee determined that the discount interest rate of 3% should be reinstated, in order to protect the stability of the insurance companies.
- - The Committee rejected the possibility of periodic payments to injured persons, as an annuity, in place of a one-time payment; among others, in order to avoid a long-term relationship between the parties.
- - The members of the Committee agreed on a “firm” mechanism for updating of the discount interest rate to reflect market conditions.
- - The Committee is considering the possibility of encouraging the establishment of funds for the joint investment of damage monies to injured person are interested in such investment. The recommendations will be completed after the public's comments are received.

To the best of the Company's knowledge, the Kaminitz Committee is currently discussing the comments received from the public. Their impact on the conclusions of the Committee cannot be estimated. The Company is following the above developments and, at present, has decided not to change its original assessment as to the rate of the discount interest rate, as described above, this pending the submission of the final report of the Kaminitz Committee and the issue of a final ruling by the Supreme Court regarding the discounting of damages to victims of road accidents.

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 2018. 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	540,418	534,125	589,678	10.40%
Vehicle property	70,833	70,677	75,083	6.23%
Comprehensive home insurance	38,988	39,075	42,224	8.06%
Engineering insurance	33,856	34,076	35,854	5.22%
Property	31,331	31,533	33,180	5.22%
Employers' liability	53,538	52,788	60,124	13.90%
Other	1,962	1,871	2,361	26.18%
Product liability	51,340	50,800	60,684	19.46%
Professional liability	190,615	181,741	229,310	26.17%
Third-party liability	118,450	117,085	128,163	9.46%
Total	**1,131,332**	**1,113,770**	**1,256,660**	**12.83%**

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	407,537	405,399	442,579	9.17%
Vehicle property	70,833	70,677	75,083	6.23%
Comprehensive home insurance	34,202	34,288	37,041	8.03%
Engineering insurance	591	596	626	5.12%
Property	1,434	1,443	1,518	5.21%
Employers' liability	7,239	7,134	8,130	13.96%
Other	255	243	307	26.47%
Product liability	10,216	10,105	12,076	19.51%
Professional liability	32,309	30,991	38,867	25.42%
Third-party liability	11,683	11,532	12,642	9.62%
Total	**576,300**	**572,406**	**628,869**	**9.86%**

g. The sensitivity of the conservative amounts is reflected by changing the risk free interest rate used for capitalization (including non-liquidity premium) by 0.5% or 1.0%.

Sensitivity analysis of conservative amounts without discounting to the risk-free interest – NIS in thousands						
Amounts in thousands of NIS	**Provision in books without discounting**	**Discounting: risk-free interest less 1.0%**	**Discounting: risk-free interest less 0.5%**	**Discounting: risk-free interest**	**Discounting: risk-free interest plus 0.5%**	**Discounting: risk-free interest plus 1.0%**
All sectors (gross)	1,256,660	1,130,215	1,122,902	1,108,857	1,108,857	1,062,762
Difference in NIS compared with provision in books		126,445	133,758	147,803	147,803	193,898
Difference in % compared with provision in books	0.0%	10.1%	10.6%	11.8%	11.8%	15.4%
All sectors (retention)	628,869	576,085	574,183	569,485	559,614	550,065
Difference in NIS compared with provision in books		52,784	54,687	59,384	69,255	78,804
Difference in NIS compared with provision in books	0.0%	8.4%	8.7%	9.4%	11.0%	12.5%

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 2017 and 2018 year-end and changes in provisions.

The main drivers of change in compulsory motor reserves is the Kaminitz Committee, as discussed above, along with an increase of pending claims in the portfolio, including IBNR reserves, stemming from the larger portfolio. The changes in professional liability and product liability lines are mostly due to a negative development in claims in 2018, in respect of previous years.

Comparison of annual actuarial estimate compared with previous years' actuarial estimate - gross

Sectors	Reserve as of 31.12.2017	Addition as of 31.12.2018	Change in reserve
Compulsory vehicle	533,947	589,678	55,731
Vehicle property	73,837	75,083	1,247
Comprehensive home	21,363	42,224	20,860
Engineering insurance	30,198	35,854	5,656
Property	42,806	33,180	-9,626
Employers' liability	58,732	60,124	1,392
Other	3,110	2,361	-750
Product liability	61,707	60,684	-1,023
Professional liability	180,698	229,310	48,613
Third-party liability	144,946	128,163	-16,783
Total	**1,151,343**	**1,256,660**	**105,317**

Comparison of annual actuarial estimate compared with previous years' actuarial estimate - retention

Sectors	Reserve as of 31.12.2017	Addition as of 31.12.2018	Change in reserve
Compulsory vehicle	401,303	442,579	41,276
Vehicle property	73,837	75,083	1,247
Comprehensive home	17,579	37,041	19,462
Engineering insurance	579	626	47
Property	1,913	1,518	-394
Employers' liability	7,479	8,130	651
Other	392	307	-85
Product liability	11,787	12,076	289
Professional liability	35,745	38,867	3,122
Third-party liability	12,783	12,642	-141
Total	**563,394**	**628,869**	**65,475**

March 26, 2019	General Insurance Actuary	Ernest Segal	
Date	Position	Name of Actuary	Signature

HEALTH INSURANCE SECTOR – ACTUARY STATEMENT

AS OF DECEMBER 31, 2018

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, 2018, 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.

1.5.2 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	75,100	74,388
Personal accidents – collective	6,819	6,819
Overseas travel– individual	18,477	18,477
Overseas travel – collective	0	0
Severe illness – individual	10,969	9,511
Total reported in general insurance	**111,366**	**109,196**

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	5,436
Collective	420
Total	**5,857**

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	5,218	5,218

Sub sector	Gross premium deficiency provision	Premium deficiency provision in retention
	NIS in thousands	
Personal accidents - collective	-	-

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 2018.

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. The comparison makes it possible to measure a further margin for conservatism included in the reserves for pending claims.

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 ???	68,647	69,025	75,100	8.80%
Personal accidents – collective	6,233	6,273	6,819	8.70%
Overseas travel– individual	16,890	16,228	18,477	13.86%
Overseas travel – collective	0	0	0	-212.24%
Severe illness	10,027	10,009	10,969	9.59%
Total - in health insurance	101,797	101,535	111,366	9.68%

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	67,997	68,379	74,388	8.79%
Personal accidents – collective	6,233	6,273	6,819	8.70%
Overseas travel– individual	16,890	16,228	18,477	13.86
Overseas travel – collective	0	0	0	-212.24%
Severe illness	8,693	8,678	9,511	9.60%
Total – in health insurance	99,813	99,557	109,196	9.68%

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)	111,366	103,645	102,580	101,535	100,512	99,509
Difference in NIS compared with provision without discounting	-	7,721	8,787	9,831	10,854	11,857
Difference in % compared with provision without discounting	0.00%	6.9%	7.9%	8.8%	9.7%	10.6%
All sectors (retention)	106,357	101,613	100,575	99,557	98,560	97,582
Difference in NIS compared with provision without discounting	-	4,744	5,783	6,800	7,797	8,775
Difference in % compared with provision without discounting	0.00%	4.5%	5.4%	6.4%	7.3%	8.3%

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 26, 2019	Health Insurance Actuary	Tom Hamo	
Date	Position	Name of Actuary	Signature

LIFE INSURANCE SECTOR – ACTUARY STATEMENT

As of December 31, 2018

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, 2018, 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	22,460	17,602	78%
Permanent disability	9,740	7,476	77%
Disability from accident	16,919	11,735	69%
Unemployment	154	77	50%
Severe illness	5,437	4,798	88%
Medical expenses	2,462	1,438	58%
Total life - individual	57,172	43,127	75%
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	566	566
Permanent disability	9,740	7,476
Disability from accident	16,919	11,735
Unemployment	154	77
Severe illness	5,437	4,798
Medical expenses	2,462	1,438
Total life – individual	57,172	43,127
Life – collective	0	0

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	617	617

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	61	48

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 26, 2019	Life Insurance Actuary	Tom Hamo F.IL.A.A	
Date	Position	Name of Actuary	Signature