

AIG Israel Insurance Company Ltd

Interim Financial Report

(Unaudited)

As of June 30, 2017

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Directors' report
AIG Israel Insurance Company Ltd ("the Company")
for the period ended June 30, 2017

The directors' report on the business of the Company as of June 30, 2017 ("**the directors' report**"), reviews the Company and developments in its business in the first half of 2017 ("**the reported period**"). The information in this report are as of June 30, 2017 ("**the date of report**") unless otherwise is indicated explicitly.

The Company is an "insurer" as this term is defined in the Supervision of Financial Services Law (Insurance), 1981. Therefore, this report is prepared based on Regulations 68-69 and the Second Addendum to the Insurance Business Supervision Regulations (Report Information), 1998 ("**the Reporting Regulations**") and according to the guidance issued by the Supervisor of Capital Markets, Insurance and Savings in the Israel Ministry of Finance ("**the Supervisor of Insurance**" or "**the Supervisor**"). This directors' report was prepared assuming that the user is also holding the Company's 2016 periodic report.

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

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

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

Forward looking information

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



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1. Condensed description of the Company:

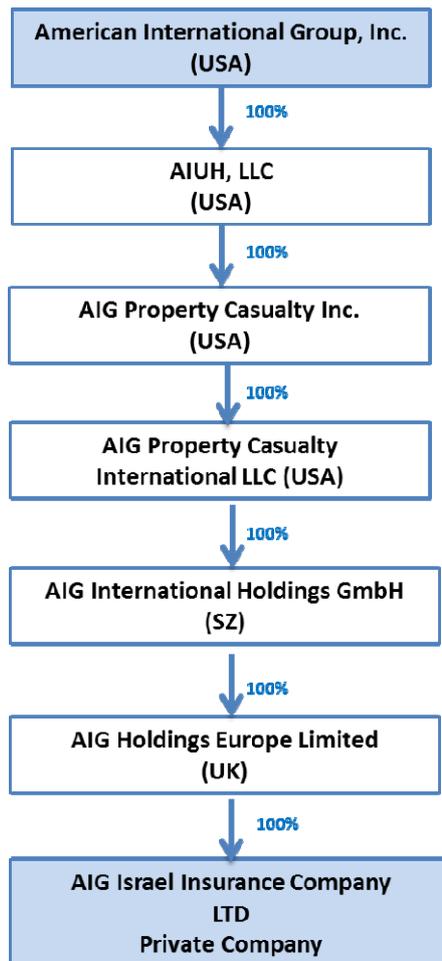
1.1 Organizational structure

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

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

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

The following is the undated holding structure of the Company:





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

The Company is operating in three business divisions (vehicle and home insurance, life and health insurance and commercial insurance), headquarters, distribution channels and customer service.

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

1.2 Areas of activity

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

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

1.3 Dependency on customers or marketing entities

The Company has no dependency on any single customer in most business activities. For more information see Sections 2.1.3, 2.2.3, 2.3.3, 2.4.3, 2.5.3 and 2.6.3 in Chapter A (description of company's business) in the company's 2016 periodic report.

1.4 Developments or material changes in reinsurance agreements

For information about reinsurance see Section 4.5 in Chapter A (description of company's business) in the company's 2016 periodic report.

1.5 Material events since last financial statements

Note exceptional events took place since the last financial statements.



2. Description of business environment:

General

In accordance with data published by the Authority, there are more than 15 Israeli insurance companies currently active in Israel; most of these companies are engaged in general insurance. In accordance with these data, as of December 31, 2016, insurance fees from the general insurance business amounted to NIS 21,480 million (excluding Karnit); the share of the 5 largest insurance companies – Harel, Clal, Phoenix, Migdal and Menorah – was NIS 12,523 million, or 58% of the total premiums in the Israeli general insurance sectors.

For further details regarding the competition in the different lines of business of the company and regarding the measures taken by the company to face competition in this competitive market, see Sections 2.1.2, 2.2.2, 2.3.2, 2.4.2, 2.5.2 and 2.6.2 in Chapter A (description of company's business) in the Company's 2016 periodic report.

Developments in the company's macro-economic environment

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

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

	Jan-June 2017	Jan- June 2016	April- June 2017	April- June 2016	2016
Government bonds indexes					
General government bonds	0.9%	2.7%	0.8%	1.2%	0.9%
Linked government bonds	0.2%	3.4%	0.9%	1.6%	0.7%
NIS government bonds	1.3%	2.2%	0.7%	1.0%	1.2%
Corporate bonds indexes					
Tel Bond 60	2.8%	2.1%	1.6%	1.3%	2.3%
Tel Bond NIS	3.4%	1.6%	1.4%	0.9%	2.4%
Shares indexes					
Tel-Aviv 125	0.5%	(7.9%)	3.0%	(3.1%)	(2.5%)

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

For information on general trends in the insurance sector and their effect on company's business, see Section 4.3 in Chapter A (description of company's business) in the Company's 2016 periodic report.

Characteristics and developments in principal insurance lines of business

For information about characteristics and developments in principal insurance lines of business of the Company, see Sections 2.1.2, 2.2.2, 2.3.2, 2.4.2, 2.5.2, 2.6.2, 4.1, 4.5 and 4.7 in Chapter A (description of company's business) in the Company's 2016 periodic report.

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

The following is a summary of major regulatory changes and the key issues that are relevant to the activity of the Company, as published by the Supervisor in circulars and drafts during the reported period until shortly before the date of issuing this report:



Discounting regulations and the Vinograd Committee recommendations

On June 8, 2014, the Vinograd Committee was appointed, with the mandate to examine whether the data used by the Israel National Insurance Institute (NII) to calculate benefits for workplace injuries are up-to-date, and whether modifications are needed in life expectancy tables and interest rates used in discounting NII workplace injury benefits. Recommendations of the committee were published in March 2016, and include, among other things, recommendations for updating payments according to the current, higher, life expectancy and discounting one-off payments using 2% interest rate, rather than 3%, given the lower interest rate in recent years.

Following the recommendations of the Vinograd Committee, the National Insurance Regulations (Discounting) (Amendment), 2016 ("the amendment to the Discounting Regulations") were published in the official gazette, adopting the recommendations of the Vinograd Committee, and on October 1, 2017 ("the **effective date**"), such that its provisions will apply to the calculation of discounted value from the effective date and thereafter. The amendment to the Discounting Regulations is supposed to lower the discount rate, and as a result, to increase claim payments in compulsory vehicle insurance.

Solvency II-based regime

In June 2017, and following the draft that was published in February 2017, the Supervisor issued a circular on the implementation of a solvency regime that is based on Solvency II ("**the Solvency II circular**" and "**the Directive**", respectively). That directive includes a comprehensive review of risks the insurance companies are exposed to, and standards for their management and measurement, and is based on three tiers: a quantitative tier that concerns a risk-based solvency ratio; a qualitative tier, concerning internal control processes, risk management and corporate governance and self-assessment of risks and solvency (ORSA); the third tier concerns the promotion of market discipline, disclosure and reporting. Except for a number of aspects that were adapted to the Israeli market, the provisions in the Solvency II circular are based as much as possible on the quantitative tier of the Directive and its related provision, to maintain comparability and equivalence between the Israeli and European regulatory regimes.

The Solvency circular indicates that an insurance company has a duty to comply with Financial Services Supervision Regulations (Insurance) (Minimum Required Capital by Insurers), 1998 ("**Minimum Capital Regulations**") provisions and the supervisor provisions thereunder, and that at the same time, the Authority will act to promote those regulations, such that their provisions on minimum required capital will not apply to insurance companies that are governed by the Solvency circular (and that after the insurance company obtains the approval of the Supervisor after an audit of implementing the provisions of the circular in the insurer's financial statements). The provisions of the Solvency circular took effect beginning on June 30, 2017, but insurance companies are able to calculate the required capital for solvency reasons as of the date of the annual report only, through the end of 2018.

For more information about solvency ratio and minimum capital requirement (MCR), see Chapter 3 below.

Additionally, in July 2017, the Supervisor issued a circular on reporting to the Supervisor titled "Results of Economic Solvency Calculation". The purpose of the circular is to set a format for reporting by insurance companies to the Supervisor about economic solvency ratio calculation results under the Solvency circular. Among other things, the circular requires that the Board of Directors of an insurance company has to discuss the economic solvency calculation results, as submitted to it by the insurance company's management, prior to filing them to the supervisor, and also that insurance companies are required to file to the Supervisor within 30 days from the date of reporting a copy of the minutes of discussions that were held by the board and the solvency committee.



Regulatory codex

Home insurance segment

In April 2017, an amendment was issued to the uniform circular in home insurance. The amendment defers the effective date of the uniform circular concerning water damages in home insurance to September 2017, to allow more time to prepare for compliance with the circular, which includes, among other things, engagement with service providers and re-approval of terms and rates with the Authority.

Overseas travel insurance

In July 2017, an amendment to chapters in the uniform circular concerning overseas travel insurance was issued. That amendment defers the effective date of the uniform circular to September 2017.

Circulars

- In April 2017, the Supervisor issued Circular 2017-10-1 on annual reporting on premiums, policies and payment of fees of financial institutions. The provisions of the circular indicate the reports that financial institutions are required to file to the Supervisor as to the scale of their activity in the distribution market, including the amount of premiums that are transferred to them, brokerage fees and distribution fees that are registered in the systems of the financial institution as payable to insurance agents.
- In July 2017, the Supervisor issued an amendment to Circular 2016-10-13 on the involvement of unlicensed entity in marketing and selling of insurance products other than group policies. The purpose of the amendment was to revise the effective date such that the circular will apply to overseas travel beginning in June 2018, following a recommendation of the High-Court of Justice in case 14/8973 Israeli Travel Agents and Tourism Advisors Association v. Supervisor of Capital Markets et al.
- In July 2017, the Supervisor issued an amendment to Circular 2017-9-3 titled "Transfer of Information Files through Vaults", such that certain provisions in that circular will take effect on September 3, 2017.

Drafts

- In April 2017, the Supervisor issued a draft circular titled "Life Insurance Plans for Home Mortgage Loans". The purpose of the draft was to set terms and conditions to be included in home mortgage insurance plans, such that the purchased insurance coverage will match the terms and conditions of the loan throughout the life of the loan, and that including by obtaining the necessary information from the lending bank for updating the terms of the policy according to up-to-date loan information.
- In April 2017, the Supervisor issued draft circular on investment rules that apply to and are mandatory for financial institutions. The purpose of the draft amendment is to expand investment options of financial institutions and to allow them to invest in companies that deal with the provisions of credit to households that are related parties in terms and limitations that were set in that draft amendment, including securing loan principal by an autonomous, non-recurring guarantee from a bank or another financial institution before a financial institution can provide its proportionate share in the value of the loan.
- In June 2017, the Minister of Finance issued Draft Compensation to Road Accident Victims Decree (Division of Compensation Burden among Insurers), 2017. The draft decree suggests to update the division of liability in accidents involving motorcycles, such that the non-motorcycle vehicle will bear 95% of compensate for bodily injuries of motorcycle riders, instead of 75%. The purpose of the decree is to reduce the cost of compulsory insurance premiums and allow growth in the proportion of motorcycles of total motorized vehicles in Israel.



- In July 2017, the Minister of Finance issued Draft Financial Services Supervision Regulation (Insurance) (Minimum Required Capital for Insurer Licensing), 2017 ("**the Minimum Capital Regulations**"). The purpose of the draft Minimum Capital Regulations is to increase competition in the insurance market through lowering capital requirements for licensing as an insurer, similarly to the requirements of the directive and requirements in other countries, for the purpose of obtaining insurer license only. The draft Minimum Capital Regulations, together with the draft circular titled "Required Capital for Solvency" that the Supervisor issued on the same date will supersede the current minimum capital regulation when become mandatory.
- In July 2017, Draft Capital for Solvency Guidelines was issued. The draft intends to replace the provisions of minimum capital regulations regarding required capital of an insurer for solvency purpose, and was published concurrently and as complementary measure to draft regulations on the minimum capital required for licensing an insurance company. The draft indicates that its provisions will apply to insurance companies not governed by the Solvency circular, as well as those governed by the Solvency circular until they obtain the Supervisor's approval that they performed an audit of the Solvency circular implementation.
- In July 2017, the Supervisor issued a draft titled "Required Disclosure Structure in Periodic Report by Insurance Companies on Solvency II-based Regime". The draft sets out the structure for required disclosure in periodic reports of insurance companies on a Solvency II-based regime. The draft circular requires insurance companies to include in their periodic report a chapter disclosing a Solvency II-based ratio (economic solvency ratio report), according to the disclosure structure in the draft circular, and that this chapter will appear after the financial statements. Additionally, the draft circular includes various transitional provisions as to the required disclosure in upcoming periodic reports.

Entry into and marketing of new lines of business

The Company did not enter any new lines of business during the reported period.



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

The following is balance sheet highlights (in thousand NIS):

	June 30, 2017	June 30, 2016	December 31, 2016
Other assets	275,936	* 251,967	253,139
Deferred acquisition expenses	147,631	149,415	141,827
Financial investments and cash	1,719,105	* 1,612,147	1,696,771
Reinsurance assets	666,075	615,764	658,559
Total assets	2,808,747	2,629,293	2,750,296
Shareholders' equity	752,467	732,739	753,860
Liabilities in respect of insurance	1,708,652	1,566,900	1,646,765
Other liabilities	347,628	329,654	349,671
Total equity and liabilities	2,808,747	2,629,293	2,750,296

* After reclassification – see note 2u to the 2016 annual financial statements of the Company.

The following is comprehensive income highlights (in thousands of NIS)

	Jan-June 2017	Jan-June 2016	April-June 2017	April-June 2016	2016
Gross earned premiums	537,709	506,856	264,016	255,637	1,037,400
Premiums earned by reinsurers	(85,175)	(83,115)	(34,877)	(40,828)	(168,023)
Premiums earned in retention	452,534	423,741	229,139	214,809	869,377
Net investment revenue and financing revenue	27,990	10,203	17,061	8,530	18,475
Fee revenue	20,359	23,011	10,298	10,972	43,553
Total revenue	500,883	456,955	256,498	234,311	931,405
Payments and change in liability for insurance contracts, in retention	(274,396)	(287,379)	(140,409)	(146,472)	(564,108)
Total other expenses	(151,482)	(154,935)	(76,806)	(74,949)	(320,290)
Income before income taxes	75,005	14,641	39,283	12,890	47,007
Taxes on income	(26,398)	(4,588)	(13,568)	(4,707)	(15,833)
Income for the period and total comprehensive income for the period	48,607	10,053	25,715	8,183	31,174



Capital and capital requirements

As of June 30, 2017, the Company's capital exceeds the level required as of that date under the Minimum Capital Requirement Regulations by NIS 142.4 million. For more information, see note 5 to the condensed interim financial information.

For more information about the capital required from the Company and existing amounts according to minimum equity regulations, and about a distribution of NIS 50 million dividend to AHEL, see note 5 to the financial statements.

Information about solvency ratio and minimum capital requirement (MCR):

Information about solvency ratio and capital requirement (MCR) is as follows (the information is unaudited and were not reviewed by the independent auditors):

a. Solvency ratio (NIS in thousands):

	December 31, 2016
Regardless of the provisions in deployment period:	
Equity for purposes of solvency capital requirement (SCR)	1,053,417
Solvency capital requirement (SCR)	600,415
Surplus as of December 31, 2016	453,002
Solvency ratio as of December 31, 2016 (%)	175%

Milestones during deployment period:

Equity for purposes of solvency capital requirement in deployment period	1,053,417
Solvency capital requirement in deployment period	360,249
Surplus in deployment period	693,168

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

	December 31, 2016
Minimum capital requirement (MCR)	179,368
Equity for purposes of MCR	753,860



4. Results of operations

The Company continued in the reported period to increase gross premiums, by 6.5% y/y. Total gross premiums in the reported period amounted to NIS 565.6 million compared with NIS 530.9 million in the corresponding period in 2016.

In the reported period, total premiums earned in retention amounted to NIS 474.8 million compared with NIS 444.1 million in the corresponding period in 2016 a 6.9% increase.

Premiums by key insurance business segments (NIS in thousands):

Jan-June 2017	Life insurance	Health insurance	General insurance	Total
Gross	63,386	114,063	388,184	565,633
In retention	52,026	112,447	310,314	474,787
% of total gross	11.2	20.2	68.6	100.0
% of retention	11.0	23.7	65.4	100.0

Jan-June 2016	Life insurance	Health insurance	General insurance	Total
Gross	62,565	106,635	361,711	530,911
In retention	51,292	105,167	287,625	444,084
% of total gross	11.8	20.1	68.1	100.0
% of retention	11.6	23.7	64.7	100.0

Jan-December 2016	Life insurance	Health insurance	General insurance	Total
Gross	126,151	219,331	701,450	1,046,932
In retention	104,785	216,295	562,693	883,773
% of total gross	12.0	20.9	67.1	100.0
% of retention	11.9	24.5	63.6	100.0

The following is principle information on comprehensive income by key lines of business (in thousand NIS):

	Jan-June 2017	Jan-June 2016	April-June 2017	April-June 2016	Jan-Dec 2016
Income from compulsory vehicle activity	7,707	(7,414)	(3,151)	(4,461)	(18,448)
Income (loss) from property vehicle activity	17,791	(3,421)	8,763	7,083	(4,958)
Income from home insurance activity	8,615	9,208	4,618	4,690	15,457
Income from commercial insurance activity	1,201	(5,926)	4,851	(8,712)	(9,424)
Income from health insurance activity	23,468	18,552	13,581	7,464	42,041
Income from life insurance activity	7,118	4,218	4,108	3,184	14,086
Other - Income (loss) not attributed to any line of business	9,105	(576)	6,513	3,642	8,253
Income before taxes on income	75,005	14,641	39,283	12,890	47,007
Taxes on income	(26,398)	(4,588)	(13,568)	(4,707)	(15,833)
Income for the period and total comprehensive income for the period	48,607	10,053	25,715	8,183	31,174

Additional information on key segments – see note 4 to the condensed interim financial information.



The following is explanation on the development in some items:

- a. Net investment income and financing income was NIS 28.0 million, compared with NIS 10.2 million in the corresponding period of 2016. The increase in investment income mainly resulted from increased yields of corporate bonds and shares (see 2. Above).
- b. The loss of the Company from compulsory vehicle insurance in the reported period was NIS 7.7 million compared with a NIS 7.4 million loss in the corresponding period in 2016. The increase in income is mainly from improvement of claims ratio. Results for the corresponding period was mainly affected by the recommendations of the Vinograd Committee ("Vinograd"), at approx. NIS 14.5 million, including NIS 3.5 million in relation to the "Pool". The increase in income was also a result of investment gains in the reported period relative to the corresponding period in 2016.
- c. The income of the Company from property vehicle insurance in the reported period was NIS 17.8 million compared to a loss of NIS 3.4 million in the corresponding period in 2016. The increase in income resulted from a large decrease of claims ratio. Improvement was seen in claims ratio beginning in 2016, as a result of taking a number of measures in the disposal of the Company to reduce the cost of claims. This trend continued in the reported period. Resulting from this improvement of claims ratio, the Company was able fully release the provision for premium deficit, at NIS 2.5 million.
- d. The income of the Company from home insurance in the reported period was NIS 8.6 million compared with NIS 9.2 million in the corresponding period in 2016.
- e. The loss of the Company from professional liability insurance in the reported period was NIS 6.1 million compared with an income of NIS 10.6 million in the corresponding period in 2016. Losses in the reported period and the corresponding period in 2016 resulted from developments in previous years' claims in directors' liability insurance.
- f. The income of the Company from other property liability insurance in the reported period was NIS 1.6 million compared with income of NIS 1.6 million in the corresponding period in 2016.
- g. The income of the Company from other liability insurance in the reported period was NIS 5.7 million compared with an income of NIS 3.0 million in the corresponding period in 2016. The increase in this item is mainly a result of lower claims ratio and higher investment income.
- h. The income of the Company from health insurance in the reported period was NIS 23.5 million compared with NIS 18.5 million in income in the corresponding period in 2016. The increase in income mainly resulted from lower claims ratios and expenses.
- i. The income of the Company from life insurance in the reported period was NIS 7.1 million compared with NIS 4.2 million in the corresponding period in 2016. This increase mainly resulted from a decrease in expense ratio.



5. Cash flows and liquidity

Net cash used in operating activities in the reported period was NIS 17.7 million, compared with net cash provided by operating activities at NIS 146.7 million provided by operating activities in the corresponding period in 2016.

Net cash used in investing activities in the reported period amounted to NIS 14.4 million, compared with NIS 9.9 million in the corresponding period in 2016.

Net cash used in financing activities of the Company in the reported period (paid dividend) was NIS 50 million, compared with NIS 105 million in the corresponding period in 2016.

As a result of the above, the balance of cash and cash equivalents in the reported period decreased by NIS 82.1 million and amounted NIS 54.1 million as of June 30, 2017.

6. Sources of funding

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

7. The effect of external factors

For more information, see section 2 above.

8. Material subsequent events

No material events occurred after the date of the financial statements.



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

Controls and procedures applied to disclosure

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

Internal controls over financial reporting

In the course of the quarter ending on June 30, 2017, no change has occurred in the internal control of the Company over financial reporting that materially affected or is reasonably expected to materially affect the Company's internal control on financial reporting.

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

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

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

Ralph Mucerino
Chairman of the Board of Directors

Shay Feldman
CEO

August 29, 2017

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 quarter ended June 30, 2017 (hereafter – "the report").
2. Based on my knowledge, the report does not include any misstatement of a material fact or omit to disclose a material fact the presentation of which in the report is necessary for the purpose of ensuring that under the circumstances in which those presentations are included, they will not be misleading regarding the period covered by the report.
3. Based on my knowledge, the quarterly financial statements and other financial information included in the report reflect fairly, in all material respects, the financial position, results of operations, changes in shareholders' equity and cash flows of the insurance company for the date and periods covered by the report.
4. The Company's other certifying officers and I are responsible for establishing and maintaining controls and procedures relating to disclosure¹ and internal controls over financial reporting of the insurance company; and -
 - (a) Accordingly, we have designed such disclosure controls and procedures, or have had such disclosure controls and procedures established under our charge, designed to ensure that material information relating to the insurance company is made known to us by others in the insurance company particularly during the period in which the reports were prepared;
 - (b) We designed internal controls over financial reporting, or supervised the design of such internal controls designed to provide a reasonable assurance regarding the reliability of the financial reporting and assurance to the effect that the financial statements are drawn up in accordance with International Financial Reporting Standards (IFRS) and in accordance with the directives of the Supervisor of Insurance.
 - (c) We assessed the effectiveness of controls and procedures regarding the disclosure of the insurance company and presented our conclusions regarding the effectiveness of disclosure controls and procedures as of the end of the period covered in the report, based on our estimate; and
 - (d) We disclosed in the report any change in the insurance company's internal controls over financial reporting which took place in this quarter and had a material effect or is expected to have a material effect on the insurance company's internal controls over financial reporting; and

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

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

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

Shay Feldman - CEO

August 29, 2017

Declaration

I, David Rothstein hereby declare that:

1. I reviewed the interim report of AIG Israel Insurance Company Ltd. (hereafter – "the insurance company") for the quarter ended June 30, 2017 (hereafter – "the report").
2. Based on my knowledge, the report does not include any misstatement of a material fact or omit to disclose a material fact the presentation of which in the report is necessary for the purpose of ensuring that under the circumstances in which those presentations are included, they will not be misleading regarding the period covered by the report.
3. Based on my knowledge, the quarterly financial statements and other financial information included in the report reflect fairly, in all material respects, the financial position, results of operations, changes in shareholders' equity and cash flows of the insurance company for the date and periods covered by the report.
4. The Company's other certifying officers and I are responsible for establishing and maintaining controls and procedures relating to disclosure¹ and internal controls over financial reporting of the insurance company; and -
 - (a) Accordingly, we have designed such disclosure controls and procedures, or have had such disclosure controls and procedures established under our charge, designed to ensure that material information relating to the insurance company is made known to us by others in the insurance company particularly during the period in which the reports were prepared;
 - (b) We designed internal controls over financial reporting, or supervised the design of such internal controls designed to provide a reasonable assurance regarding the reliability of the financial reporting and assurance to the effect that the financial statements are drawn up in accordance with International Financial Reporting Standards (IFRS) and in accordance with the directives of the Supervisor of Insurance.
 - (c) We assessed the effectiveness of controls and procedures regarding the disclosure of the insurance company and presented our conclusions regarding the effectiveness of disclosure controls and procedures as of the end of the period covered in the report, based on our estimate; and
 - (d) We disclosed in the report any change in the insurance company's internal controls over financial reporting which took place in this quarter and had a material effect or is expected to have a material effect on the insurance company's internal controls over financial reporting; and

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

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

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

David Rothstein - CFO

August 29, 2017

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 June 30, 2017, 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 June 30, 2017 the internal control of the Insurance Company over financial reporting is effective.

Mr. Ralph Mucerino
Chairman of the Board

Mr. Shay Feldman
CEO

Mr. David Rothstein
CFO

Date of approval of financial statements: August 29, 2017

AIG ISRAEL INSURANCE COMPANY LTD.

FINANCIAL INFORMATION FOR INTERIM PERIOD
(Unaudited)

JUNE 30, 2017

AIG ISRAEL INSURANCE COMPANY LTD.
FINANCIAL INFORMATION FOR INTERIM PERIOD
(Unaudited)

JUNE 30, 2017

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

Introduction

We have reviewed the attached financial information of AIG Israel Insurance Company Ltd ("the Company"), which is comprised of the condensed statement of financial position as of June 30, 2017 and the condensed statements of comprehensive income, changes in equity and cash flows for the six- and three-month periods ended on that date. The Board of Directors and management are responsible for the preparation and presentation of the financial information for this interim period in accordance with the provisions of International Accounting Standard No. 34, 'Interim Financial Reporting' (hereafter "IAS 34"), and they are also responsible for the preparation of the financial information for this interim period in accordance with the disclosure requirements of the Supervision of Financial Services (Insurance) Law, 1981 and the regulations promulgated thereunder. Our responsibility is to express a conclusion with respect to the financial information for this interim period, based on our review.

Scope of review

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

Conclusion

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

In addition, based on our review, no matter has come to our attention that causes us to believe that the above financial information does not comply, in all material respects, with the disclosure provisions of the Supervision of Financial Services (Insurance) Law, 1981 and the regulations promulgated thereunder.

Tel-Aviv, Israel
August 29, 2017

Kesselman & Kesselman
Certified Public Accountants (Isr.)
A member firm of PricewaterhouseCoopers International Limited

AIG ISRAEL INSURANCE COMPANY LTD.
CONDENSED STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2017

	June 30		December 31,
	2017	2016	2016
	(Unaudited)		(Audited)
	NIS in thousands		
A s s e t s			
Intangible assets	38,345	28,628	33,816
Deferred acquisition costs	147,631	149,415	141,827
Property and equipment	12,809	12,196	11,435
Reinsurance assets	666,075	615,764	658,559
Premiums collectible	172,942	* 159,155	153,534
Current tax assets	-	-	1,864
Other receivables	51,840	51,988	52,490
	<u>1,089,642</u>	<u>1,017,146</u>	<u>1,053,525</u>
Financial investments:			
Marketable debt instruments	1,470,735	1,188,120	1,310,175
Non-marketable debt instruments	114,594	* 220,986	171,285
Other	79,645	111,691	79,077
TOTAL FINANCIAL INVESTMENTS	<u>1,664,974</u>	<u>1,520,797</u>	<u>1,560,537</u>
CASH AND CASH EQUIVALENTS	<u>54,131</u>	<u>91,350</u>	<u>136,234</u>
TOTAL ASSETS	<u>2,808,747</u>	<u>2,629,293</u>	<u>2,750,296</u>

Ralph Mucerino
Chairman of the
Board
of Directors

Shay Feldman
C.E.O

David Rothstein
C.F.O

Date of approval of financial information for interim period by the Board of Directors of the Company:
August 29, 2017

* After reclassification – See note 2(u) to the 2016 annual financial statements of the Company.

AIG ISRAEL INSURANCE COMPANY LTD.
CONDENSED STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2017

	June 30		December 31,
	2017	2016	2016
	(Unaudited)		(Audited)
	NIS in thousands		
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	6	6	6
Share premium	250,601	250,601	250,601
Capital reserves	11,084	11,084	11,084
Retained earning	490,776	471,048	492,169
TOTAL EQUITY ATTRIBUTABLE TO COMPANY SHAREHOLDERS	752,467	732,739	753,860
LIABILITIES:			
Liabilities in respect of insurance contracts and investment contracts that are not yield dependent	1,708,652	1,566,900	1,646,765
Liabilities in respect of deferred taxes, net	3,892	2,784	779
Retirement benefit obligation, net	2,612	2,087	2,713
Liabilities to reinsurers	257,744	235,889	257,165
Liabilities for current taxes	3,856	14,958	-
Payables	79,524	73,936	89,014
TOTAL LIABILITIES	2,056,280	1,896,554	1,996,436
TOTAL EQUITY AND LIABILITIES	2,808,747	2,629,293	2,750,296

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

AIG ISRAEL INSURANCE COMPANY LTD.
CONDENSED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX AND THREE-MONTH PERIOD ENDED JUNE 30, 2017

	Six months ended		Three months ended		Year ended
	June 30		June 30		December 31,
	2017	2016	2017	2016	2016
	(Unaudited)		(Unaudited)		(Audited)
	NIS in thousands				
Gross earned premiums	537,709	506,856	264,016	255,637	1,037,400
Premiums earned by reinsurers	(85,175)	(83,115)	(34,877)	(40,828)	(168,023)
Premiums earned in retention	452,534	423,741	229,139	214,809	869,377
Investment income, net and financing income	27,990	10,203	17,061	8,530	18,475
Commission income	20,359	23,011	10,298	10,972	43,553
TOTAL INCOME	500,883	456,955	256,498	234,311	931,405
Payments and change in liabilities with respect to insurance contracts, gross	(324,347)	(390,388)	(165,565)	(219,122)	(756,904)
Share of reinsurers in increase of insurance liability and payments for insurance contracts	49,951	103,009	25,156	72,650	192,796
Payments and change in liabilities with respect to insurance contracts, retention	(274,396)	(287,379)	(140,409)	(146,472)	(564,108)
Commission, marketing expenses and other acquisition costs	(114,915)	(116,863)	(58,948)	(58,188)	(242,330)
General and administrative expenses	(36,290)	(40,685)	(17,912)	(20,138)	(81,370)
Financing income (expenses), net	(277)	2,613	54	3,377	3,410
TOTAL EXPENSES	(425,878)	(442,314)	(217,215)	(221,421)	(884,398)
INCOME BEFORE TAXES ON INCOME	75,005	14,641	39,283	12,890	47,007
Taxes on income	(26,398)	(4,588)	(13,568)	(4,707)	(15,833)
INCOME FOR THE PERIOD AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	48,607	10,053	25,715	8,183	31,174
BASIC EARNINGS PER SHARE:					
Basic income per share	8.48	1.75	4.49	1.43	5.44
Number of shares used in calculating basic income per share	5,730	5,730	5,730	5,730	5,730

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

AIG ISRAEL INSURANCE COMPANY LTD.
CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX AND THREE-MONTH PERIOD ENDED JUNE 30, 2017

	<u>Share capital</u>	<u>Share premium</u>	<u>Other reserves</u>	<u>Retained earnings</u>	<u>Total</u>
	NIS in thousands				
BALANCE AS OF JANUARY 1, 2017 (audited)	6	250,601	11,084	492,169	753,860
Total income and comprehensive income in the six months ended June 30, 2017				48,607	48,607
Dividend				(50,000)	(50,000)
BALANCE AS OF JUNE 30, 2017 (unaudited)	<u>6</u>	<u>250,601</u>	<u>11,084</u>	<u>490,776</u>	<u>752,467</u>
BALANCE AS OF JANUARY 1, 2016 (audited)	6	250,601	11,084	565,995	827,686
Total income and comprehensive income in the six months ended June 30, 2016				10,053	10,053
Dividend				(105,000)	(105,000)
BALANCE AS OF JUNE 30, 2016 (unaudited)	<u>6</u>	<u>250,601</u>	<u>11,084</u>	<u>471,048</u>	<u>732,739</u>
BALANCE AS OF APRIL 1, 2017 (unaudited)	6	250,601	11,084	465,061	726,752
Total income and comprehensive income in the three months ended June 30, 2017				25,715	25,715
BALANCE AS OF JUNE 30, 2017 (unaudited)	<u>6</u>	<u>250,601</u>	<u>11,084</u>	<u>490,776</u>	<u>752,467</u>
BALANCE AS OF APRIL 1, 2016 (unaudited)	6	250,601	11,084	567,865	829,556
Total income and comprehensive income in the three months ended June 30, 2016				8,183	8,183
Shareholders' transactions recognized directly in equity - dividend				(105,000)	(105,000)
BALANCE AS OF JUNE 30, 2016 (unaudited)	<u>6</u>	<u>250,601</u>	<u>11,084</u>	<u>471,048</u>	<u>732,739</u>
BALANCE AS OF JANUARY 1, 2016 (audited)	6	250,601	11,084	565,995	827,686
Total comprehensive income for the period				31,174	31,174
Dividend				(105,000)	(105,000)
BALANCE AS OF December 31, 2016 (audited)	<u>6</u>	<u>250,601</u>	<u>11,084</u>	<u>492,169</u>	<u>753,860</u>

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

AIG ISRAEL INSURANCE COMPANY LTD.
CONDENSED STATEMENT OF CASH FLOWS
FOR THE SIX AND THREE-MONTH PERIOD ENDED JUNE 30, 2017

	Six months ended		Three months ended		Year ended
	June 30		June 30		December 31,
	2017	2016	2017	2016	2016
	(Unaudited)		(Unaudited)		(Audited)
	NIS in thousands				
CASH FLOWS FROM					
OPERATING ACTIVITIES:					
Net cash provided by (used in) operations (Appendix A)	(50,532)	113,566	(52,498)	76,766	184,682
Interest received	37,127	24,641	12,357	12,572	41,449
Dividend received	63	178	23	41	259
Income taxes received (paid), net	(4,329)	8,297	8,252	(18,250)	(21,759)
Net cash provided by operating activities	(17,671)	146,682	(31,866)	71,129	204,631
CASH FLOWS FROM INVESTING ACTIVITIES:					
Changes in assets covering equity and non-insurance liabilities:					
Investment in property and equipment	(4,030)	(3,524)	(1,069)	(1,827)	(6,396)
Investment in intangible assets	(10,363)	(6,355)	(3,832)	(3,578)	(16,716)
Net cash used in investing activities	(14,393)	(9,879)	(4,901)	(5,405)	(23,112)
CASH FLOWS FROM FINANCING ACTIVITIES -					
dividend paid to shareholders	(50,000)	(105,000)	-	(105,000)	(105,000)
Net cash used in financing activities	(50,000)	(105,000)	-	(105,000)	(105,000)
IMPACT OF EXCHANGE RATE FLUCTUATIONS ON CASH AND CASH EQUIVALENT BALANCES					
	(39)	(2,696)	(24)	(2,810)	(2,528)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(82,103)	29,107	(36,791)	(42,086)	73,991
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	136,234	62,243	90,922	133,436	62,243
CASH AND CASH EQUIVALENTS AT END OF PERIOD	54,131	91,350	54,131	91,350	136,234

AIG ISRAEL INSURANCE COMPANY LTD.

CONDENSED STATEMENT OF CASH FLOWS

FOR THE SIX AND THREE-MONTH PERIOD ENDED JUNE 30, 2017

	Six months ended		Three months ended		Year ended
	June 30		June 30		December 31,
	2017	2016	2017	2016	2016
	(Unaudited)		(Unaudited)		(Audited)
	NIS in thousands				
APPENDIX A - CASH FLOWS FROM OPERATING ACTIVITY:					
Income before taxes on income	75,005	14,641	39,283	12,890	47,007
Adjustments for- Items not involving cash flows:					
Change in liabilities for insurance contracts that are not yield dependent	61,887	148,911	26,700	77,486	228,776
Change in reinsurance assets	(7,516)	(67,614)	(6,617)	(38,909)	(110,409)
Change in deferred acquisition costs	(5,804)	260	3,160	1,716	7,848
Change in retirement benefits obligation, net	(101)	(694)	(50)	(346)	(68)
Depreciation of property and equipment	2,656	2,797	1,337	1,441	6,430
Amortization of intangible asset	5,834	4,124	3,042	2,065	9,297
Losses (gains), net, on financial investments:					
Marketable debt instruments	6,346	1,946	(5,823)	(1,366)	17,594
Non-marketable debt instruments	6,905	* 6,508	2,392	* 3,067	3,094
Marketable shares	-	4,162	-	-	4,162
Marketable index fund certificates	(684)	4,126	(1,393)	2,719	(3,456)
Impact of fluctuation in exchange rate on cash and cash equivalents	39	2,696	24	2,810	2,528
	<u>69,562</u>	<u>107,222</u>	<u>22,772</u>	<u>50,683</u>	<u>165,796</u>
Changes in operating assets and liabilities:					
Liabilities to reinsurers	579	(43,458)	972	(59,429)	(22,182)
Investments in financial assets, net	(117,004)	91,838	(86,723)	73,226	47,446
Premiums collectible	(19,408)	* (10,457)	(776)	* 16,659	(4,836)
Receivables	650	(8,517)	804	(128)	(9,019)
Payables	(9,490)	(12,851)	(3,754)	(4,496)	2,228
Current tax assets	(13,236)	(33)	(12,696)	(26)	(50)
	<u>(157,909)</u>	<u>16,522</u>	<u>(102,173)</u>	<u>25,806</u>	<u>13,587</u>
Adjustments for interest and dividend:					
Interest received	(37,127)	(24,641)	(12,357)	(12,572)	(41,449)
Dividend received	(63)	(178)	(23)	(41)	(259)
	<u>(37,190)</u>	<u>(24,819)</u>	<u>(12,380)</u>	<u>(12,613)</u>	<u>(41,708)</u>
Net cash provided by (used in) operations	<u>(50,532)</u>	<u>113,566</u>	<u>(52,498)</u>	<u>76,766</u>	<u>184,682</u>

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

* After reclassification – See note 2(u) to the 2016 annual financial statements of the Company.

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

AIG ISRAEL INSURANCE COMPANY LTD.
NOTES TO CONDENSED FINANCIAL STATEMENTS

NOTE 1 - GENERAL:

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

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

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

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

Definitions:

- 1) The Company – AIG Israel Insurance Company Ltd.
- 2) The parent company – AHEL
- 3) Supervisor - Supervisor of Capital Market, Insurance and Savings Authority.
- 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 reinsurer's 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 (Financial Statements) Regulations, 2010.
- 11) Life insurance fund - Actuarial fund calculated in accordance with the principles generally accepted for this purpose in Israel.
- 12) Unexpired risks fund - Funds calculated in accordance with the Regulations for Calculation of General Insurance Funds.

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 1 - GENERAL (continued):

- 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).
- 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 and amendments as amended.
- 17) Account Segregation Regulations in Life Insurance - The Supervision of Insurance Regulations (Method of Segregation of Accounts and Assets of Insurer in Life Insurance), 1984.
- 18) Regulations for Calculation of General Insurance Funds - The Supervision of Insurance Businesses Regulations (Method of Calculation of Provisions for Future Claims in General Insurance) 1984, and amendments 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 fund, all being net of the reinsurer's deposits with the company and the amount of documentary credits granted against the debt of the reinsurer.
- 20) Insurance contract - A contract under which one party (the insurer) takes a significant insurance risk from another party (policyholder), by agreement to indemnify the policyholder if an uncertain a defined future event (insurance event) negatively affects the policyholder.
- 21) Liability for insurance contracts - Insurance reserves and outstanding claims.
- 22) Premiums - Premiums including fees and proceeds for related services
- 23) Premiums earned - premiums that relate to the reporting period.

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS:

- a. The Company's condensed financial information as of June 30, 2017 and for the three- and six-month interim period ended on that date ("the interim financial information") has been prepared in accordance with the provisions of IAS 34 "Interim Financial Reporting" (hereafter - "IAS 34") and is in compliance with the disclosure requirements of the Supervision of Financial Services (Insurance) Law, 1981 ("the supervision law") and the regulations promulgated there under. The interim financial information should be read in conjunction with the Company's annual financial statements of the Company as of December 31, 2016 and for the year ended thereon including the accompanying notes (hereinafter - the 2016 annual financial statements), which are in compliance with International Financial Reporting Standards, which are standards and interpretations published by the International Accounting Standards Board (hereafter – "IFRS").

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (continued):

The interim financial information has been subject to review only and has not been audited.

b. Estimates

The preparation of interim financial statements requires management to exercise its judgment and also requires use of accounting estimates and assumptions that affect the application of the Company's accounting policy and the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Significant judgments exercised by management in preparation of these condensed interim financial statements as well as the uncertainty involved in the key sources of those estimates were identical to the ones used in the Company's annual financial statements for the year ended December 31, 2016.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES:

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

- a) Taxes on income for the reported interim period are accounted for on the basis on management's best estimate of the average tax rate applicable to the projected annual profits.
- b) New accounting standards:
 - 1) The 2016 annual financial statements of the Company presented new IFRSs and amendments to existing standards that have not yet become effective and have not been early adopted by the Company, as well as amendments to an IFRS that become applicable for accounting periods beginning on or after January 1, 2017.

In this context, note that as to IFRS 9 "Financial Instruments", in relation to which the Company has yet to complete an assessment of its expected impact on the financial statements, management also tests whether the Company meets certain criteria as defined in an amendment to IFRS 4 "Insurance Contracts" (hereinafter - "IFRS 4 Amendment"), as detailed below, for a temporary exemption from applying of IFRS 9 until January 1, 2021.

Among other things, IFRS 4 Amendment allows companies with activities predominantly connected with insurance (a criteria determined using certain quantitative tests) and that has not adopted an earlier version of IFRS 9 to defer the first-time application of IFRS 9 to January 1, 2021 and continue to apply IAS 39 over the temporary exemption, with providing certain disclosures.

Since the date of issuance of the Company's 2016 annual financial statements, except as discussed below about the issue of IFRS 17 "Insurance Contract", no new standards of amendments to existing standards were issued that may have material impact on the Company's financial statements.

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (continued):

2) IFRS 17 "Insurance Contracts"

On May 18, 2017, the IASB published IFRS 17 "Insurance Contracts" to replace IFRS 4 "Insurance Contracts", which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will apply to insurance contracts (including reinsurance contracts) and investment contracts with discretionary participation feature.

IFRS 17 applies to annual periods beginning on or after January 1, 2021. Earlier application is permitted if IFRS 15 "Revenue from Contracts with Customers" and IFRS 9 "Financial Instruments" are also applied.

IFRS 17 requires a current measurement model (hereinafter - "the general model"), which requires to recognize insurance revenue over the reporting periods according to expected value of insurance coverage and the various services that an insurance company provides over those periods, and claims are presented when incurred. According to that model, estimates are remeasured in each reporting period

The measurement is based on:

- the building blocks of discounted, probability-weighted cash flows;
- a risk adjustment
- and a contractual service margin ("CSM") representing the unearned profit of the contract.

Interest is accreted on the CSM at rates locked in at initial recognition of a contract. The CSM is released to profit or loss in each period on the basis of passage of time. If a group of contracts is or becomes loss-making, an entity recognizes the loss immediately.

Under IFRS 17, entities have an accounting policy choice to recognize the impact of changes in discount rates and other assumptions that relate to financial risks either in profit or loss or in other comprehensive income. The general model includes specific guidance for some asset-based insurance contracts.

A simplified premium allocation approach is permitted for the liability for the remaining coverage if it provides a measurement that is not materially different from the general model or if the coverage period is one year or less. However, claims incurred will need to be measured based on the building blocks of discounted, risk-adjusted, probability weighted cash flows.

The disclosure requirements are more detailed than currently required under IFRS 4 regarding amounts, discretion and risks arising from insurance contracts.

IFRS 17 will apply retrospectively (except for certain issues indicated in the standard), unless it is impractical. In such case, IFRS 17, includes two alternative approaches for retrospective implementation.

The Company is studying the provisions of IFRS 17, and will examine the expected impact on its financial statements.

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 4 - SEGMENT INFORMATION:

The Company's chief operational decision-makers review the Company's internal reports for the purposes of evaluating performance and deciding upon the allocation of resources. Management has established operating segments on the basis of these reports. Segment performance is assessed by measuring pre-tax profit and the profit before investment income and tax and by considering particular ratios, such as the claims ratio and the expenses ratio.

The Company operates in the general insurance segment, the health insurance segment and the life insurance segment, as follows:

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 Supervisor of Insurance, the segment is divided into the following sectors: the compulsory motor vehicle sector, the motor vehicle property sector, the apartment's insurance sector, property and others sectors, the professional liability sector and other liability sectors

• Compulsory motor vehicle sector

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

• Motor vehicle property sector

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

• Home insurance sector

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

• Professional liability sector

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

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 4 - SEGMENT INFORMATION (continued):

- **Property and others sectors**

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

- **Other liability sectors**

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

	For 6-month period ended June 30, 2017 (unaudited)				
	Life insurance	Health insurance	General insurance	Not attributed to operating segments	Total
	NIS in thousands				
Gross earned premiums	63,382	112,956	361,371		537,709
Premiums earned by reinsurers	(11,361)	(1,619)	(72,195)		(85,175)
Premiums earned in retention	52,021	111,337	289,176		452,534
Investment income, net and financial income	1	2,013	15,891	10,085	27,990
Commission income	1,926	189	18,244		20,359
Total income	53,948	113,539	323,311	10,085	500,883
Payments and change in liabilities with respect to insurance contracts (gross)	(26,932)	(49,938)	(247,477)		(324,347)
Share of reinsurers in increase of insurance liabilities and payments for insurance contracts and change in liabilities in respect of insurance contracts, in retention	5,641	1,427	42,883		49,951
Payments and change in liabilities with respect to insurance contracts, in retention	(21,291)	(48,511)	(204,594)		(274,396)
Commissions, marketing expenses and other acquisition costs	(20,182)	(27,421)	(67,312)		(114,915)
General and administrative expenses	(5,357)	(14,139)	(16,794)		(36,290)
Financing income (expenses), net	-	-	703	(980)	(277)
Total comprehensive income before taxes on income	7,118	23,468	35,314	9,105	75,005
Liabilities for insurance contracts, gross, as of June 30, 2017	64,111	122,986	1,521,555		1,708,652

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 4 - SEGMENT INFORMATION (continued):

	For 6-month period ended June 30, 2016 (unaudited)				
	Life	Health	General	Not	Total
	insurance	insurance	insurance	attributed	
	NIS in thousands				
Gross earned premiums	62,658	106,346	337,852		506,856
Premiums earned by reinsurers	(11,273)	(1,473)	(70,369)		(83,115)
Premiums earned in retention	51,385	104,873	267,483		423,741
Investment income (loss), net and financial income	1	1,472	11,045	(2,315)	10,203
Commission income	1,804	227	20,980		23,011
Total income	53,190	106,572	299,508	(2,315)	456,955
Payments and change in liabilities with respect to insurance contracts (gross)	(23,801)	(50,138)	(316,449)		(390,388)
Payments and change in liabilities with respect to insurance contracts, in retention	4,987	2,128	95,894		103,009
	(18,814)	(48,010)	(220,555)		(287,379)
Commissions, marketing expenses and other acquisition costs	(24,218)	(25,987)	(66,658)		(116,863)
General and administrative expenses	(5,940)	(14,023)	(20,722)		(40,685)
Financing income	-	-	874	1,739	2,613
Total comprehensive income (loss) before taxes on income	4,218	18,552	(7,553)	(576)	14,641
Liabilities with respect to insurance contracts, gross, as of June 30, 2016	<u>58,344</u>	<u>117,032</u>	<u>1,391,524</u>		<u>1,566,900</u>

	For 3-month period ended June 30, 2017 (unaudited)				
	Life	Health	General	Not	Total
	insurance	insurance	insurance	attributed	
	NIS in thousands				
Gross earned premiums	31,554	57,640	174,822		264,016
Premiums earned by reinsurers	(5,885)	(825)	(28,167)		(34,877)
Premiums earned in retention	25,669	56,815	146,655		229,139
Investment income (loss), net and financing income	-	1,203	9,170	6,688	17,061
Commission income	986	101	9,211		10,298
Total income	26,655	58,119	165,036	6,688	256,498
Payments and change in liabilities with respect to insurance contracts (gross)	(12,243)	(25,031)	(128,291)		(165,565)
Payments and change in liabilities with respect to insurance contracts, in retention	2,049	133	22,974		25,156
	(10,194)	(24,898)	(105,317)		(140,409)
Commissions, marketing expenses and other acquisition costs	(9,577)	(13,306)	(36,065)		(58,948)
General and administrative expenses	(2,776)	(6,334)	(8,802)		(17,912)
Financing income (expenses)	-	-	229	(175)	54
Total comprehensive income before taxes on income	4,108	13,581	15,081	6,513	39,283

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 4 - SEGMENT INFORMATION (continued):

	For 3-month period ended June 30, 2016 (unaudited)				
	Life insurance	Health insurance	General insurance	Not attributed to operating segments	Total
	NIS in thousands				
Gross earned premiums	31,050	53,318	171,269		255,637
Premiums earned by reinsurers	(5,400)	(739)	(34,689)		(40,828)
Premiums earned in retention	25,650	52,579	136,580		214,809
Investment income (loss), net and financing income	-	943	6,922	665	8,530
Commission income	875	98	9,999		10,972
Total income	26,525	53,620	153,501	665	234,311
Payments and change in liabilities with respect to insurance contracts (gross)	(12,307)	(27,429)	(179,386)		(219,122)
Share of reinsurers in increase in insurance liabilities and payments with respect to insurance contracts	2,842	1,104	68,704		72,650
Payments and change in liabilities with respect to insurance contracts, in retention	(9,465)	(26,325)	(110,682)		(146,472)
Commissions, marketing expenses and other acquisition costs	(12,337)	(12,425)	(33,426)		(58,188)
General and administrative expenses	(1,539)	(7,406)	(11,193)		(20,138)
Financing income, net	-	-	400	2,977	3,377
Total comprehensive income (loss) before taxes on income	3,184	7,464	(1,400)	3,642	12,890

	For the year ended December 31, 2016 (audited)				
	Life insurance	Health insurance	General insurance	Not attributed to operating segments	Total
	NIS in thousands				
Gross earned premiums	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
Investment income, 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 of insurance liabilities and payments for insurance contracts					
Payments and change in liabilities with respect to insurance contracts in retention	10,960	3,137	178,699		192,796
	(33,145)	(93,863)	(437,100)		(564,108)
Commission, marketing expenses 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 taxes on income	14,086	42,041	(17,373)	8,253	47,007
Liabilities with respect to insurance contracts, gross, as of December 31, 2016	57,065	119,988	1,469,712		1,646,765

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 4 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment:

	For 6-month period ended June 30, 2017 (unaudited)						
	Compulsory motor vehicle	Motor vehicle property	Home	Professional liability	Other property Sectors*	Other liability Sectors*	Total
	NIS in thousands						
Gross premiums	80,084	178,393	52,407	33,669	22,870	20,761	388,184
Reinsurance premiums	(1,113)	(55)	(6,018)	(30,721)	(21,952)	(18,011)	(77,870)
Premiums in retention	78,971	178,338	46,389	2,948	918	2,750	310,314
Change in balance of unearned premiums, in retention	(5,866)	(15,028)	(967)	838	(197)	82	(21,138)
Premiums earned in retention	73,105	163,310	45,422	3,786	721	2,832	289,176
Investment income, net and financing income	6,930	3,430	972	2,014	372	2,173	15,891
Commission income	-	-	738	8,775	4,809	3,922	18,244
Total income	80,035	166,740	47,132	14,575	5,902	8,927	323,311
Payments and changes in liabilities for insurance contracts	(64,109)	(114,747)	(20,342)	(24,166)	(14,182)	(9,931)	(247,477)
Share of reinsurers in increase of insurance liabilities and payments for insurance contracts	6,134	-	133	12,668	13,210	10,738	42,883
Payments and change in liabilities for insurance contracts in retention	(57,975)	(114,747)	(20,209)	(11,498)	(972)	807	(204,594)
Commission, marketing expenses and other acquisition costs	(11,957)	(27,753)	(12,698)	(8,296)	(2,813)	(3,795)	(67,312)
General and administrative expenses	(2,396)	(6,829)	(5,930)	(882)	(508)	(249)	(16,794)
Financing income, net	-	380	320	3	-	-	703
Total expenses	(72,328)	(148,949)	(38,517)	(20,673)	(4,293)	(3,237)	(287,997)
Total comprehensive income (loss) before taxes on income	7,707	17,791	8,615	(6,098)	1,609	5,690	35,314
Liabilities with respect to insurance contracts, gross, as of June 30, 2017	586,690	251,820	71,600	233,534	95,981	281,930	1,521,555
Net liabilities with respect to insurance contracts, retention as of June 30, 2017	466,642	251,820	66,383	48,067	3,647	36,968	873,527

* Property and others sectors reflect mainly the results of property loss insurance sectors with 96% of the total premiums attributable to these sectors. Other liability sectors reflect mainly the results of the third party liability insurance sector, with 41% of the total premiums attributable to these sectors.

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 4 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment (continued):

	For 6-month period ended June 30, 2016 (unaudited)						
	Compulsory motor vehicle	Motor vehicle property	Home	Professional liability	Other property Sectors*	Other liability Sectors*	Total
	NIS in thousands						
Gross premiums	75,106	161,290	51,880	34,098	18,701	20,636	361,711
Reinsurance premiums	(1,050)	(58)	(8,553)	(29,700)	(17,811)	(16,914)	(74,086)
Premiums in retention	74,056	161,232	43,327	4,398	890	3,722	287,625
Change in balance of unearned premiums, in retention	(3,487)	(14,432)	(2,161)	87	(11)	(138)	(20,142)
Premiums earned in retention	70,569	146,800	41,166	4,485	879	3,584	267,483
Investment income, net and financing income	4,652	2,289	764	1,376	268	1,696	11,045
Commission income	-	-	2,482	8,675	5,253	4,570	20,980
Total income	75,221	149,089	44,412	14,536	6,400	9,850	299,508
Payment and change in insurance liabilities for insurance contracts, gross	(85,698)	(116,861)	(19,856)	(68,547)	(17,694)	(7,793)	(316,449)
Share of reinsurers in increase of insurance liabilities for insurance contracts	18,564	-	2,303	52,746	16,651	5,630	95,894
Payments and changes in liabilities for insurance contracts in retention	(67,134)	(116,861)	(17,553)	(15,801)	(1,043)	(2,163)	(220,555)
Commission, marketing expenses and other acquisition costs	(12,315)	(27,321)	(11,183)	(8,229)	(3,413)	(4,197)	(66,658)
General and administrative expenses	(3,186)	(8,658)	(7,009)	(1,090)	(305)	(474)	(20,722)
Financing income, net	-	330	541	3	-	-	874
Total expenses	(82,635)	(152,510)	(35,204)	(25,117)	(4,761)	(6,834)	(307,061)
Total comprehensive income (loss) before taxes on income	(7,414)	(3,421)	9,208	(10,581)	1,639	3,016	(7,553)
Liabilities with respect to insurance contracts, gross, as of June 30, 2016	522,134	231,216	70,015	215,522	84,723	267,914	1,391,524
Net liabilities with respect to insurance contracts, retention as of June 30, 2016	416,635	231,216	62,254	40,498	3,664	37,614	791,881

* Property and others sectors reflect mainly the results of property loss insurance sectors with 76% of the total premiums attributable to these sectors.
Other liability sectors reflect mainly the results of the third party liability insurance sector, with 36% of the total premiums attributable to these sectors.

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 4 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment (continued):

	For 3-month period ended June 30, 2017 (unaudited)						
	Compulsory motor vehicle	Motor vehicle property	Home	Professional liability	Other property Sectors*	Other liability Sectors*	Total
	NIS in thousands						
Gross premiums	36,952	81,046	24,168	15,009	12,012	6,481	175,668
Reinsurance premiums	(511)	(27)	(3,134)	(13,789)	(11,561)	(5,605)	(34,627)
Premiums in retention	36,441	81,019	21,034	1,220	451	876	141,041
Change in balance of unearned premiums, in retention	805	1,914	2,081	528	(40)	326	5,614
Premiums earned in retention	37,246	82,933	23,115	1,748	411	1,202	146,655
Investment income, net and financing income	3,987	2,022	565	1,129	215	1,252	9,170
Commission income	-	-	351	4,454	2,445	1,961	9,211
Total income	41,233	84,955	24,031	7,331	3,071	4,415	165,036
Payments and change in insurance liabilities for insurance contracts	(38,492)	(58,743)	(10,258)	(6,416)	(7,241)	(7,141)	(128,291)
Share of reinsurers in increase of insurance liabilities for insurance contracts	1,345	-	538	8,168	6,472	6,451	22,974
Increase in payments and change of liabilities for insurance contracts	(37,147)	(58,743)	(9,720)	1,752	(769)	(690)	(105,317)
Commission, marketing expenses and other acquisition costs	(5,846)	(14,250)	(6,513)	(5,093)	(2,017)	(2,346)	(36,065)
General and administrative expenses	(1,391)	(3,402)	(3,206)	(591)	(81)	(131)	(8,802)
Financing income, net	-	203	26	-	-	-	229
Total expenses	(44,384)	(76,192)	(19,413)	(3,932)	(2,867)	(3,167)	(149,955)
Total comprehensive income (loss) before taxes on income	(3,151)	8,763	4,618	3,399	204	1,248	15,081

* Other property sectors mainly include the results of property loss insurance. Other liability sectors reflect mainly the results of the third party liability insurance sector, with 43% of the total premiums attributable to these sectors.

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 4 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment (continued):

	For 3-month period ended June 30, 2016 (unaudited)						Total
	Compulsory motor vehicle	Motor vehicle property	Home	Professional liability	Other property Sectors*	Other liability Sectors*	
	NIS in thousands						
Gross premiums	34,462	74,886	23,786	13,295	(376)	6,842	152,895
Reinsurance premiums	(482)	(29)	(2,605)	(11,434)	615	(5,525)	(19,460)
Premiums in retention	33,980	74,857	21,181	1,861	239	1,317	133,435
Change in balance of unearned premiums, in retention	1,516	593	177	508	82	269	3,145
Premiums earned in retention	35,496	75,450	21,358	2,369	321	1,586	136,580
Investment income, net and financing income	2,914	1,442	485	857	166	1,058	6,922
Commission income	-	-	677	4,381	2,626	2,315	9,999
Total income	38,410	76,892	22,520	7,607	3,113	4,959	153,501
Payments and changes in liabilities for insurance contracts	(40,177)	(50,925)	(9,003)	(63,267)	(9,905)	(6,109)	(179,386)
Share of reinsurers in increase of insurance liabilities for insurance contracts	5,329	-	585	48,962	8,922	4,906	68,704
Increase in liabilities for insurance contracts in retention	(34,848)	(50,925)	(8,418)	(14,305)	(983)	(1,203)	(110,682)
Commission, marketing expenses and other acquisition costs	(6,329)	(14,223)	(5,984)	(3,524)	(1,606)	(1,760)	(33,426)
General and administrative expenses	(1,694)	(4,814)	(3,675)	(674)	(86)	(250)	(11,193)
Financing income, net	-	153	247	-	-	-	400
Total expenses	(42,871)	(69,809)	(17,830)	(18,503)	(2,675)	(3,213)	(154,901)
Total comprehensive income (loss) before taxes on income	(4,461)	7,083	4,690	(10,896)	438	1,746	(1,400)

* Others property sectors reflect mainly the results of the property insurance sector.
Other liability sectors reflect mainly the results of the third party liability insurance sector, with 39% of the total premiums attributable to these sectors.

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 4 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment (continued):

	For the year ended December 31, 2016 (audited)						Total
	Compulsory motor vehicle	Motor vehicle property	Home	Professional liability	Other property sectors *	Other liability sectors *	
	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 retention	143,782	302,579	84,884	8,855	1,828	6,674	548,602
Investment income, 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 for 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 taxes on income	(18,448)	(4,958)	15,457	(12,033)	2,318	291	(17,373)
Gross liabilities for insurance contracts as of December 31, 2016	563,257	229,188	72,443	230,229	87,024	287,571	1,469,712
Net liabilities with respect to insurance contracts as of December 31, 2016	447,320	229,188	65,787	41,732	3,492	40,268	827,787

* Property and others sectors reflect mainly the results of the property loss insurance sector, with 90% of the total premiums attributable to these sectors. Other liability sectors reflect mainly the results of the product liability insurance sector, with 35% of the total premiums attributable to these sectors.

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 4 - SEGMENT INFORMATION (continued):

4.1 Additional information relating to life insurance segment:

For the 6-month period ended June 30, 2017 (unaudited) (NIS in thousands):

	Policies not containing savings element		Total
	Risk sold as single policy		
	Private	Group	
Gross risk premiums	63,386	-	63,386
Payments and change in liabilities for gross insurance contracts	26,932	-	26,932

For the 6-month period ended June 30, 2016 (unaudited) (NIS in thousands):

	Policies not containing savings element		Total
	Risk sold as single policy		
	Private	Group	
Gross risk premiums	62,565	-	62,565
Payments and change in liabilities for gross insurance contracts	23,801	-	23,801

For the 3-month period ended June 30, 2017 (unaudited) (NIS in thousands):

	Policies not containing savings element		Total
	Risk sold as single policy		
	Private	Group	
Gross risk premiums	31,537	-	31,537
Payments and change in liabilities for gross insurance contracts	12,243	-	12,243

For the 3-month period ended June 30, 2016 (unaudited) (NIS in thousands):

	Policies not containing savings element		Total
	Risk sold as single policy		
	Private	Group	
Gross risk premiums	31,052	-	31,052
Payments and change in liabilities for gross insurance contracts	12,307	-	12,307

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 4 - SEGMENT INFORMATION (continued):

For the year ended December 31, 2016 (audited) (NIS in thousands):

	Policies not containing savings element		Total
	Risk sold as single policy		
	Private	Group	
Gross risk premiums	126,151	-	126,151
Payments and change in liabilities for gross insurance contracts	44,105	-	44,105

4.2 Additional information relating to healthcare segment:

For the 6-month period ended June 30, 2017 (unaudited) (NIS in thousands):

	Long-term	Short-term	Total
Gross premiums	98,701	15,362	* 114,063
Payments and change in liabilities for gross insurance contracts	42,674	7,264	49,938

* Includes mainly policies issued to individuals

For the 6-month period ended June 30, 2016 (unaudited) (NIS in thousands):

	Long-term **	Short-term **	Total
Gross premiums	99,244	7,391	* 106,635
Payments and change in liabilities for gross insurance contracts	45,156	4,982	50,138

* Includes mainly policies issued to individuals

** Reclassified

For the 3-month period ended June 30, 2017 (unaudited) (NIS in thousands):

	Long-term	Short-term	Total
Gross premiums	49,248	9,370	* 58,618
Payments and change in liabilities for gross insurance contracts	20,277	4,754	25,031

* Includes mainly policies issued to individuals

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 4 - SEGMENT INFORMATION (continued):

For the 3-month period ended June 30, 2016 (unaudited) (NIS in thousands):

	Long- term **	Short- term **	Total
Gross premiums	49,220	4,412	* 53,632
Payments and change in liabilities for gross insurance contracts	25,504	1,925	27,429

* Includes mainly policies issued to individuals

** Reclassified

For the year ended December 31, 2016 (audited) (NIS in thousands):

	Long- term	Short- term	Total
Gross premiums	198,297	21,034	* 219,331
Payments and change in liabilities for gross insurance contracts	87,383	9,617	97,000

* Includes mainly policies issued to individuals

NOTE 5 - SHAREHOLDERS' EQUITY AND CAPITAL REQUIREMENTS:

a. Capital management and requirements

As of June 30, 2017, the Company is subject to two different compliance regimes (see 1 and 2 below), and that until approval by the Supervisor to perform an audit of the Solvency II-based regime.

1. Regime under Capital Regulations

The table below provides information with respect to the capital requirements in the Supervision of Financial Services Regulations (Insurance) (Minimum Required Capital of Insurers), 1998 (hereinafter - capital regulations), and guidance of the Supervisor.

	June 30		December 31,
	2017	2016	2016
	(Unaudited)		(Audited)
The amount required under Capital Regulations and supervisor guidelines (a)	610,090	462,268	584,790
Existing amount calculated under Capital Regulations:			
Basic primary capital	752,467	732,739	753,860
Total existing capital calculated under Capital Regulations	752,467	732,739	753,860
Surplus as of date of report:	142,377	270,471	169,070
Subsequent events:			
Dividend declared	-	-	(50,000)
Surplus after consideration of subsequent events	142,377	270,471	119,070

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 5 - SHAREHOLDERS' EQUITY AND CAPITAL REQUIREMENTS (continued):

	June 30		December 31,
	2017	2016	2016
	(Unaudited)		(Audited)
(a) The amount required including capital requirements for:			
Operations in general insurance	121,391	112,473	117,976
Exceptional life insurance risks	43,934	39,169	41,588
Deferred acquisition costs related to life insurance	79,411	82,216	79,687
Investment and other assets	67,854	50,811	58,507
Catastrophe risks in general insurance	266,631	149,359	257,227
Operating risks	30,869	28,240	29,805
Total full amount required under capital regulations	610,090	462,268	584,790

2. Solvency II-based regimen

According to the Company calculations regarding to Solvency II-based regimen, as of December 31, 2016, the Company has excess capital in deployment period (see also c(1) below). For more information, see section 3 to the directors' report of the Company. Note that that information was neither audited nor reviewed as part of an audit or review, respectively, of the Company's financial statements.

b. Dividend paid

On March 21, 2017, the Company's board approved a NIS 50 million dividend, or NIS 8,726 per share. The dividend was paid on March 27, 2017.

c. Solvency II

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

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

The circular states that an insurance company has to maintain economic solvency according to the provisions of the circular and its appendices, without detracting from the duty to comply with the minimum capital regulations and the Supervisor guidance issued thereunder, and that the Capital Markets, Insurance and Savings Authority will concurrently act to amend the regulations, such that their provisions in relation to minimum required capital will not apply to insurance companies covered by the provisions of the circular, and that after an insurance company obtains certification of the Supervisor for performing an audit of circular compliance in its annual financial statements.

The provisions of the circular will come into effect beginning on June 30, 2017, but insurance companies will be permitted to calculate, until the end of 2018, required solvency capital as of the date of the annual statements only.

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 5 - SHAREHOLDERS' EQUITY AND CAPITAL REQUIREMENTS (continued):

In this respect, it is important to note that the provisions of the circular determine, among other things, that the period from June 30, 2017 to December 31, 2024 ("the deployment period"), the following provisions will apply in relation to solvency capital requirement (SCR) in the deployment period:

- 1) The solvency capital requirement in the deployment period as of June 30, 2017 may not be less than 60% of the solvency required capital as per the guidance in the appendix to the circular ("SCR");
 - 2) The solvency required capital in the deployment period as calculated using data as of December 31, 2017 may not be less than 65% of the SCR;
 - 3) The solvency required capital in the deployment period as calculated using data as of December 31, 2018 and data as of June 30, 2019, may not be less than 70% of the SCR;
 - 4) The solvency required capital in the deployment period as calculated using data as of December 31, 2019 and data as of June 30, 2020, may not be less than 75% of the SCR;
 - 5) The solvency required capital of an insurance company in the deployment period as calculated using data as of December 31, 2020 and data as of June 30, 2021, may not be less than 80% of the SCR.
 - 6) The solvency required capital of an insurance company as calculated using data as of December 31, 2021 and data as of June 30, 2022, may not be less than 85% of the SCR.
 - 7) The solvency required capital of an insurance company in the deployment period as calculated using data as of December 31, 2022 and data as of June 30, 2023, may not be less than 90% of the SCR.
 - 8) The solvency required capital of an insurance company in the deployment period as calculated using data as of December 31, 2023 and data as of June 30, 2024, may not be less than 95% of the SCR.
 - 9) The solvency required capital of an insurance company in the deployment period as calculated using data as of December 31, 2024 and thereafter, will not be less than SCR.
2. In August 2016, the Supervisor issued a letter about dividend distributions by insurance companies (hereinafter - "the letter"), which replaces an earlier letter from December 2011. According to the letter, an insurance company may not pay dividends unless it has, after the distribution, a solvency ratio of at least 115% according to existing capital regulations, and solvency ratio at the rates indicated below according to the updated quantitative assessment for the implementation of the new solvency regime (IQIS 5), or according to the guidance for implementing the first tier of the new solvency regime, calculated without factoring in transitional provisions. The required solvency ratios post-distribution will be at least:
- Financial statements as of December 31, 2017 – 115%
 - Through the financial statements as of December 31, 2018 – 120%
 - From the financial statements as of March 31, 2019 – 130%

Insurance companies are required to provide the Supervisor within ten business days from the date of distribution an income forecast of the company for the subsequent two years from the date of dividend distribution, an updated debt service plan for holding company of the Company as approved by the Board of Directors of the holding company, a capital management plan as approved by the Board of Directors of the Company, minutes of the discussion in the Board of Directors that approved the dividend distribution and background information for the discussion.

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 6 - FINANCIAL INSTRUMENTS AND FINANCIAL RISKS:

a. Fair value disclosure

Following the discussion in note 10(g) to the Company's 2016 annual financial statements, during the 6-month period ended June 30, 2017, no transfers were made between level 1 and level 2.

b. The fair value of financial assets and financial liabilities

- 1) The financial statements balances of cash and cash equivalents, premiums collectible, accounts receivables, and accounts payable are equal to or approximate their fair value.
- 2) For details on the fair value of financial investments, see d. below.

c. In the six-month period ended June 30, 2017, no material changes have occurred in the financial risk management policy of the Company, compared to the policy it reported in its 2016 annual financial statements.

d. Composition of financial investments

	As of June 30, 2017 (unaudited)		
	Measured at fair value through profit or loss	Loans and receivables	Total
	NIS in thousands		
Marketable debt instruments (1)	1,470,735	-	1,470,735
Non-marketable debt instruments (2)	-	114,594	114,594
Other (3)	79,645	-	79,645
Total	1,550,380	114,594	1,664,974

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 6 - FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued):

d. Composition of financial investments (continued):

	As of June 30, 2016 (unaudited)		
	Measured at fair value through profit or loss	Loans and Receivables *	Total
	NIS in thousands		
Marketable debt instruments(1)	1,188,120	-	1,188,120
Non-marketable debt instruments (2)	-	220,986	220,986
Other (3)	111,691	-	111,691
Total	1,299,811	220,986	1,520,797

* After reclassification – See note 2(u) to the 2016 annual financial statements of the Company.

	As of December 31, 2016 (audited)		
	Measured at fair value through profit or loss	Loans and receivables	Total
	NIS in thousands		
Marketable debt instruments (1)	1,310,175	-	1,310,175
Non-marketable debt instruments (2)	-	171,285	171,285
Other (3)	79,077	-	79,077
Total	1,389,252	171,285	1,560,537

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

	As of June 30, 2017 (unaudited)	
	Carrying amount	Amortized cost
	NIS in thousands	
Government bonds	520,466	518,917
<u>Other debt assets:</u>		
Other non-convertible debt assets	950,269	932,102
Total marketable debt assets	1,470,735	1,451,019

	As of June 30, 2016 (unaudited)	
	Carrying amount	Amortized cost
	NIS in thousands	
Government bonds	553,471	549,229
<u>Other debt assets:</u>		
Other non-convertible debt assets	634,649	631,631
Total marketable debt assets	1,188,120	1,180,860

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued):

NOTE 6 - FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued):

d. Composition of financial investments (continued):

	As of December 31, 2016 (audited)	
	Carrying amount	Amortized cost
	NIS in thousands	
Government bonds	559,286	561,571
<u>Other debt assets:</u>		
Other non-convertible debt assets	750,889	742,539
Total marketable debt assets	1,310,175	1,304,110

2) Composition of non-marketable debt instruments:

	As of June 30, 2017 (unaudited)	
	Carrying amount	Fair value
	NIS in thousands	
Bank deposits	36,758	37,380
Presented at amortized cost, except for bank deposits	77,836	80,717
Total non-marketable debt assets	114,594	118,097

	As of June 30, 2016 (unaudited) *	
	Carrying amount	Fair value
	NIS in thousands	
Bank deposits	97,575	98,178
Presented at amortized cost, except for bank deposits	123,411	126,650
Total non-marketable debt assets	220,986	224,828

* After reclassification – See note 2(u) to the 2016 annual financial statements of the Company.

	As of December 31, 2016 (audited)	
	Carrying amount	Fair value
	NIS in thousands	
Bank deposits	57,042	57,084
Presented at amortized cost, except for bank deposits	114,243	116,602
Total non-marketable debt assets	171,285	173,686

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 6 - FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued):

d. Composition of financial investments (continued):

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

	As of June 30, 2017 (unaudited)	
	Carrying amount	Cost
	NIS in thousands	
Marketable financial investments	79,645	78,657

	As of June 30, 2016 (unaudited)	
	Carrying amount	Cost
	NIS in thousands	
Marketable financial investments	111,691	114,270

	As December 31, 2016 (audited)	
	Carrying amount	Cost
	NIS in thousands	
Marketable financial investments	79,077	74,684

NOTE 7 - TAXES ON INCOME:

- a.** Calculating the income tax for the interim period is based on the best estimate of the weighted income tax rate expected for the full fiscal year. The expected weighted average annual tax rate, as above, for the year ending December 31, 2017 is 35.04%, see also b below (2016 - 35.9%).
- b.** Changes in corporate tax rate that came into effect on January 1, 2017

In January 2016, the Law for the Amendment of the Income Tax Ordinance (No. 216), 2016 was published in the official gazette, enacting a reduction of corporate tax in 2016 and thereafter from 26.5% to 25%.

In December 2016, the Economic Efficiency Law (Legislative Amendments for Implementing the Economic Policy for the 2017 and 2018 Budget Year), 2016 was published, introducing a gradual reduction in corporate tax rate from 25% to 23%. However, the law also included a temporary provision setting the corporate tax rate in 2017 at 24%. As a result, the corporate tax rate will be 24% in 2017 and 23% in 2018 and thereafter.

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 7 - TAXES ON INCOME (continued):

- c. Insurance industry specific tax arrangements – agreement with tax authorities

As to insurance industry specific tax arrangements, which also apply to the Company – see note 19a to the 2016 annual financial statements of the Company.

Current and deferred taxes in these financial statements are determined according to the principles in those agreements.

NOTE 8 - CONTINGENT LIABILITIES - CLASS ACTION:

- a. In December 2012, a lawsuit and a motion for certification as a class action were filed against the Company and 7 other insurance companies. According to the plaintiffs, in 2007 the Transportation Ordinance was changed to the effect that the classification of the plaintiffs' vehicle was changed from a commercial vehicle to a private vehicle. Despite the change in classification as above, the insurance companies allegedly continued to classify the plaintiffs' vehicles as commercial vehicles for purposes of collection of comprehensive insurance/third party insurance and compulsory vehicle insurance, thereby collecting a higher premium. The premium was only collected in respect of vehicles through 2007, whereas for vehicles from 2008 and thereafter a lower premium was collected.

According to the legal claim, the insurance companies are required to price the premium in accordance with the classification set in the Transportation Ordinance and since they have not done so they should refund the insured persons and entities with the amounts collected in excess of the lawful premiums. The class includes individual and entities the classification of the vehicles of which was changed in the last seven years.

Total damages claimed from the Company in respect of property insurance amount to NIS 22,296,660. The legal claim does not provide an estimate of the amount collected in excess of the amount legally due for compulsory vehicle insurance.

The Company filed its reply to the motion to certify the claim as a class action on June 2, 2013; the claimant filed its reply to the said application on July 7, 2013.

On July 10, 2013, a pretrial hearing was held, resulting in a court decision that the Company and all other defendants may file complementary responses to the motion for class action certification through October 6, 2013. The complementary response was filed on November 3, 2013. The court also ruled that the plaintiffs were allowed to file a specific discovery.

The plaintiffs filed a motion for discovery and a motion to respond to a questionnaire. A decision was handed down requiring limited disclosure of documents.

On February 23, 2014, a deposition was filed on behalf of the Company that after examination, the requested documents in your company were not found.

On February 24, 2014, an examination hearing was held in which the plaintiffs were examined. On March 6, 2014, an examination hearing was held in which defendants' representatives were examined.

On March 25, 2014, another examination hearing was held in which Mr. Shai Zohar, from the Oren Mizrach insurance agency and Mr. Meir Shavit were examined, and filed a deposition and opinion on behalf of the Company. At the end of the examinations, the court recommended the claimant to consider whether to continue pursuing the case.

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 8 - CONTINGENT LIABILITIES - CLASS ACTION (continued):

On June 8, 2014, the plaintiffs filed a notice to the effect that they maintain their position that the motion to certify the claim as a class action shall be heard by the court. In accordance with the plaintiffs' notice, closing arguments were filed on behalf of the plaintiffs and the insurance companies, and response closing arguments on behalf of the plaintiffs.

On April 23, 2017, a court decision was handed down, rejecting the motion to certify a class action, including against the Company. The court ruled legal expenses NIS 10 thousand payable to the Company. The deadline for filing the appeal has passed.

- b.** A legal claim and a motion to certify a class action were filed on June 23, 2014 against the Company and 6 other insurance companies (hereafter – "the respondents") to the Jerusalem District Court (hereafter – "the court") by eight persons insured by the respondents (hereafter – "the applicants"). In the motion to certify the claim as a class action, it was claimed that the amount from which the mortgage life insurance premium has been derived by the respondents exceeded the actual balance of the loan with the lending bank and, as a result, the premiums paid the applicants were higher than the premiums they should have paid.

According to the applicants, the group of claimants in the class action includes all persons insured by the respondents under a life insurance policy for the purpose of securing a mortgage loan in the course of the seven year-period prior to filing the application and who paid to any of the respondents premiums which were higher than the premiums they should have paid since the amount from which the mortgage life insurance premium has been derived by the respondents exceeded the actual balance of the loan with the lending bank.

The causes of the claim according to the applicants are contravention of Sections 55 and 58 to the Supervision of Financial Services (Insurance) Law, 1981, breach of statutory duty, and breach of duty of good faith, negligence and unjust enrichment.

The applicants seek to repay the persons included in the group the amount of difference between the insurance premiums that they were supposed to pay and the insurance premium they paid in practice with the addition of compensation for mental anguish. The applicants request that the court orders the respondents to update the amount of the insurance premium on a monthly or semi-annual basis based on exact mortgage loan data; they also request that the court orders the respondents to provide persons they insure an explanation regarding the option to provide the respondents with an updated balance of the loans with the lending banks (where no exact mortgage loan data is available).

The amount of the individual claim filed by the applicants against the Company is NIS 272 and the amount claimed by the group of persons insured by the Company amounts to NIS 5,784 thousand.

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 8 - CONTINGENT LIABILITIES - CLASS ACTIONS (continued):

On January 6, 2015, the respondents filed their reply to the motion to certify the claim as a class action. In their reply, the respondents claimed, among other things, that neither the law nor the insurance policy requires them to reduce the insured amount on their own accord and to adjust it to the updated balance of the loan. On the contrary, the insurance policy informs the insured individuals of the potential difference between the balance of the loan and the insured amount and in any case the updated insured amount is presented in the annual statements posted to all insured individuals; the respondents claim that without a specific request of the insured individual (to which an approval of the lending bank should be attached) they cannot reduce the insured amount since this will be considered breach of the provisions of the insurance policy; the respondents claim that they are unable to reduce the insured amount so that it corresponds to the balance of the loan since this information is subject to the bank secrecy duty; the respondents claim that the insured amount covers not only the repayment of the principal of the loan but also the repayment of other related amounts, the existence and scope of which are not known to the insurance company in the course of the insurance period (such as payment arrears). Also, the balance of the loan is subject to changes taking place in the course of the loan period as a result of changes or revaluations carried out by the borrower or the lending bank; the respondents claim that upon the occurrence of an insurance event, the respondents repay the mortgage loan and the related amounts to the lending bank and the remainder of the insured amount is paid to the other beneficiaries whose identity is determined by the insured individual; thus, according to the respondents the premiums paid by the applicants are not higher than the premiums they should have paid. The respondents also claim that the underlying assumptions on which the applicants relied in their application are not shared by all applicants and that the applicants themselves acted in contradiction to those assumptions. The respondents claim that the non-disclosure claims that underlie the motion to certify the claim as a class action are specific and individual claims, which should not be debated as part of a class action.

On April 19, 2015, the applicants filed their reply to the motion to certify the claim as a class action. The applicants reject the claims raised in the reply to the application.

A preliminary hearing to discuss the application was held on June 14, 2015. In the course of this hearing, the Court informed the parties that it intends to address questions arising from the motion to certify the claim as a class action to the Supervisor of Insurance; the Court asked the parties to provide it, by July 16, 2015, with questions that will be addressed to the Supervisor of Insurance.

On July 16, 2015, the parties filed the Court some questions they wish to refer to the Supervisor of Insurance as above.

A further preliminary hearing was held on July 20, 2015, in which the Court ordered to refer questions to the Supervisor of Insurance.

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 8 - CONTINGENT LIABILITIES - CLASS ACTIONS (continued):

On December 21, 2015, the Supervisor of Insurance notified the court that it sent the questions of the court to the Supervisor of Banks.

On March 23, 2016, the Supervisor of Insurance submitted its position, after reviewing the issues, with the help of the Supervisor of Banks. The regulatory position allegedly supports in principle the arguments that the respondents raised in their arguments to the motion to certify ("the Supervisor's position").

On April 7, 2016, the respondents filed their comments to the Supervisor's position, in which they argued, among other things, that the Supervisor's position supports their own arguments to the motions to certify, and that given the Supervisor's position, the plaintiffs should withdraw their motion to certify and the claim against the Company. The plaintiffs also filed their comments to the Supervisor's position, arguing that it has no impact on their arguments regarding the certification.

On April 10, 2016, an additional pretrial hearing was held, in which the court ordered to plaintiffs' attorney, following the Supervisor's opinion, to notify the court whether he agrees to focus the claim and the motion to certify on the issue of the scope of informing customers on the method of insurance amount revaluation (interest rates) on the date of preparing the insurance contract. In this regard, the plaintiffs' attorney will also notify whether he withdraw his claims in relation to policy lifespan. The plaintiffs' attorney is required to file his position to the court by May 11, 2016.

On May 11, 2016, the plaintiffs notified the court that they decided at that stage not to give up their arguments in the motions to certify ("the plaintiffs' notice").

On May 19, 2016, the Company filed a motion to reject the plaintiff's notice. On May 24, 2016, another pretrial hearing was held in which the plaintiffs accepted a suggestion by the court to focus the class action on the information that was known at the pre-contract and contract preparation stages (and not the life of the policy). The court recommended the parties to pursue mediation on the disputed points. The plaintiffs accepted the recommendation.

On June 5, 2016, the Company notified the court that it agreed to refer the limited issues that remained disputed to an arbitration proceeding, but provided that the arbitration is set to examine possible additional focusing or clarifying of arguments of the parties to the arbitration. On June 13, 2016, the plaintiffs notified that they do not agree with limiting the arguments of the parties in the mediation procedure. On June 29, 2016, the Company notified the court that in the circumstances of the matter, given the plaintiffs notice, it does see any benefit in arbitration, and asked the court to decide on the motion to certify a class action based on the arguments filed and the position of the Supervisor.

On July 12, 2016, another pretrial hearing was held, in which the parties gave their agreement to the courts proposal to refer the open disputed issues to arbitration. On August 4, 2016, the parties notified the court that they agreed on an attorney to serve as arbitrator.

An arbitration hearing was held on November 23, 2016. Following the arbitration procedure, in a pretrial hearing dated July 3, 2017, the parties notified the court on reaching in-principle agreements on an outline for withdrawal of the motion to certify. The date for filing the withdrawal request is July 16, 2017.

As the parties were unable to reach an agreed-upon request for withdrawal, in a pretrial hearing on July 17, 2017, the court ordered the parties to notify by July 27, 2017 whether they reached an agreed-upon withdrawal arrangement. The parties are negotiating in an attempt to reach such arrangement.

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 8 - CONTINGENT LIABILITIES - CLASS ACTIONS (continued):

Based on information and data that was received, at this preliminary stage, the Company's management believes, based on the opinion of its legal advisors, the court is not likely to accept the motion to certify a class action.

- c. A legal claim and a motion to certify a class action were filed in May 2015 against the Company and 5 other insurance companies. The plaintiffs claim that the insurers do not pay to insured people/entities and/or third parties the VAT component applicable to the cost of damages in cases where the alleged damages were not repaired in practice.

The plaintiffs rely in their legal claim on the Supreme Court's ruling in the Zlutzin vs. Diur La-Olle case (civil appeal 17229/99) according to which even where repairs were not carried out in practice, the defendant (who caused the damage in the said case) should bear the VAT component. The plaintiffs also rely on In-Principle Ruling 2014-46025 titled "In-Principle Ruling on Payment of VAT and Depreciation of Unrepaired Vehicle". This in-principle ruling states that even if the customer did not repair the vehicle in practice the insurer must pay the customer insurance benefits including, among other things, VAT applicable in this matter.

The total amount of damages claimed from the Company is NIS 40,211 thousands.

Concurrently with filing the motion for certifying a class action, the plaintiffs asked the Herzeliya Magistrate Court, which hears individual claims on the Ikea fire damages, to allow them to withdraw the VAT component from individual claims and to file instead a motion for certifying a class action.

On January 2, 2016, a ruling was handed down that rejects the motion of the plaintiffs. The plaintiffs filed a motion to appeal the ruling. On September 4, 2016, their motion was rejected.

Given the court decision, the plaintiffs filed a motion to be replaced by Public Trust. On October 5, 2016, the Company filed a response to the motion, in which it was claimed that it would not be appropriate to allow an organization to represent the class. The plaintiffs responded to that response.

On February 20, 2017, a decision was handed down rejecting the motion to replace the plaintiffs by Public Trust, and accordingly, the motion to certify a class action was rejected.

On March 28, 2017, the plaintiffs filed an appeal on the decision of the Supreme Court. A hearing is scheduled for March 28, 2018.

Management believes, based on the opinion of its legal counsel, that it is more likely than not that the claim will be rejected.

- d. On December 17, 2015, the Reserve Forces Association filed an application to certify a class action against the Company and another insurance Company.

The applicants claim that the defendants charge reservists for full insurance premiums but only provide them with a partial and deficient insurance coverage, whose value is lower than the value of the premiums collected from reservists. According to the applicants, this situation is caused since the defendants do not insure the reservists during reserve-service periods but still charge the reservists for premiums in respect of those periods.

The class includes anyone who had an insurance policy which included an exclusion regarding reserve-service periods and who paid the defendants insurance premiums in respect of reserve-service periods in the seven years prior to the filing the class action application.

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 8 - CONTINGENT LIABILITIES - CLASS ACTIONS (continued):

A similar class action is heard in the District Court (Center District) against other insurance companies, in which a motion for consolidation of cases was filed between the motion to certify and the other proceeding.

On January 27, 2016, the Central District Court approved the consolidation of cases. On June 23, 2016, the plaintiffs filed to the District Court an agreed-upon motion to extend the deadline for filing responses to the motion to certify by additional 10 days.

On the same date, the district court approved the motion of the defendants such that the date for filing the responses to the motion was set to July 11, 2016.

On July 11, 2016, the Company's response to the motion to certify was file, in which it argued, among other things, that at the factual level, the Company did not engage in unjust enrichment and that its customers serving in reserve suffered no damage, since they receive full and continuous insurance coverage under the provisions of the policy, in which premiums were priced based on the risk that the company bears. At the legal level, the motion to certify has no normative standing. The Company acted lawfully, in compliance with the position of the regulator, and in adherence to the provisions in the relevant policy, including exclusions that explicitly appear in them and known to all customers, and which served as basis for pricing the premiums to begin with.

On September 7, 2016 the applicant filed its response to the Company's response to the motion to certify the claim. The applicant claimed, among other things, that the respondents implement a cross subsidy strategy that disadvantages those clients, who are reservists; the applicant also claimed that the respondents have the ability to price the premium in respect of risks relating to damages that may arise from reserve service.

A preliminary hearing was held on September 18, 2016. At the conclusion of this hearing, the Court explained to the applicant that it may face some obstacles if it still wishes to certify the claim as a class action; the Court advised the applicant to consider whether it insists on the pursuing the application any further.

On March 5, 2017, the parties notified the court that they reached in-principle understandings as to the settlement of the dispute that is the object of the motion to certify. For filing a formal request in relation to settling the dispute, the parties motioned for a short stay, and that the date for filing the motion to withdraw will be extended until May 28, 2017.

Management estimates, based on the opinion of its legal counsel, that it is more likely than not that the claim will be rejected.

- e. On February 10, 2016, a lawsuit and a motion to certify a class action was filed against the Company. The claim argues that the Company calculates compulsory vehicle premiums based on incorrect vehicle data, which leads to higher premiums than those approved by the Supervisor and that presented on the Supervisor's website that compares prices of different insurance companies.

The amount of personal damages claimed from the Company is negligible. The plaintiff did not specify the amount of damages of the class, but it estimated it at several million NIS.

After negotiations between the parties, a motions was filed for approval of a settlement agreement.

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NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 8 - CONTINGENT LIABILITIES - CLASS ACTIONS (continued):

In a hearing on November 20, 2016, the court ordered to provide a number of clarifications as to the settlement agreement.

Clarifications were provided and the court ordered to publish the fact that a settlement agreement has been reached and to send a copy to the attorney so that he could consider whether to object it.

No objections were received from class members, and the Attorney General notified that he did not object.

Management believes, based on the opinion of its legal counsel, that it is more likely than not that the settlement agreement will be approved.

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

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

A pretrial hearing on the case is scheduled to February 12, 2018.

According to the assessment of the Company, based on its legal counsel, at this preliminary stage of the case, it is not possible to assess the likelihood of certifying this claim as class action.

- g.** On August 9, 2016, a motion for class action certification was filed against a number of insurance companies, including the Company. The motion concerns the impact of customer age on pricing premiums in vehicle compulsory and property insurance. The overall amount of damages sought is NIS 100 million. The amount of personal damages sought is negligible.

On December 8, 2016, a mutually-agreed motion to amend the motion to certify was filed, in which, the court was asked to permit the plaintiffs to amend to motion to certify by removing arguments by the defendants regarding compulsory insurance, and continue the proceedings regarding comprehensive insurance only, and that in view of the *Meyuhas et al. v. Menorah et al.* case.

On December 11, 2016, a ruling was handed down which approved the motion to amend the motion to certify such that it will be filed until January 10, 2017. On January 10, 2017, an extension was granted to the plaintiffs to file the amended motion to certify until January 16, 2017. On January 17, 2017, an amendment motion to certify a class action was filed.

The Company is required to file its response to the motion to certify by June 6, 2017. The plaintiff must file a response by August 30, 2017.

A pretrial hearing was scheduled to September 13, 2017.

At this preliminary stage of the claim, management and its legal counsel are still studying the matter. Management believes, based on its legal counsel, and it is not possible to assess the likelihood of the motion being accepted at this preliminary stage.

- h.** On November 2, 2016, a lawsuit and a motion to certify a class action was filed against a number of insurance companies, including the Company concerning mortgage loan life insurance.

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 8 - CONTINGENT LIABILITIES - CLASS ACTIONS (continued):

The motion concerns insurance coverage to homeowners who take mortgage loans where the loan capital is only returned at the end of the loan period ("balloon loans").

The plaintiff estimates the overall damage to the class at NIS 75 million. The alleged share of the Company in the claimed amount is NIS 15 million.

On May 29, 2017 a motion to certify the lawsuit as a class action was filed. On July 17, 2017, a first pretrial hearing was held on the case. The court adopted the arguments raised by the Company that no class plaintiff with viable cause is present in the action against the Company. However, the court believed that there is a place to better clarify the fact that in the occurrence of an insurance event, the insurer will bear the full amount of loan as recorded on the books of the bank or in the policy (whichever is the greater), especially given the fact that no explicit inquiry was made with customers when creating new policies whether they take balloon loans or ones based on Spitzer amortization. The court ordered both parties to discuss this matter, and advise the court on developments by September 15, 2017.

Management believes, based on its legal counsel that it is more likely than not that the claim will be rejected.

- i.** On January 3, 2017, a claim and a motion to certify a class action was filed against the Company.

The plaintiffs claim prohibited discrimination based on marital status in assessing the risk and determining premiums to divorced customers.

The plaintiffs estimate the damage due to excessive premiums at NIS 63,791 thousands and the non-monetary damage at NIS 6,368 thousands, totaling at NIS 70,159 thousands.

Recently, a motion to amend the action was filed and the Company filed a response. The court ordered to clarify the list of points of dispute/agreement between the parties.

A hearing on the case was scheduled to October 22, 2017.

Management believes, based on its legal counsel, that it is more likely than not that the motion will be rejected.

- j.** On January 8, 2017, a claim and motion to certify a class action was filed against the Company and another insurance company.

The plaintiffs claim for overcharging from insurance customers and violation of enhanced duties of insurance companies against their customers in relation to the ability to update age and/or years of driving experience when moving into another age and/or driving experience bracket, which entitle to discounted insurance rates.

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

The Company was required to file its response to the motion to certify by June 8, 2017. The plaintiff is required to file his response by July 9, 2017. On June 18, 2017, the Company filed its response to the motion to certify. On June 22, 2017, a pretrial hearing was held together with additional claims that were filed against other insurance companies and deal with similar issues. The court ordered that at this stage of the proceedings, all age-related claims should be heard as a consolidated case, and it was determined that all plaintiffs will participate in a hearing on September 13, 2017 to determine the proceedings going forward.

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NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 8 - CONTINGENT LIABILITIES - CLASS ACTIONS (continued):

The plaintiff is required to file his response for the Company's response to the motion to certify by September 7, 2017.

At this preliminary stage of the lawsuit, the Company's management and its legal counsel are still reviewing the matter. Management believes, based on its legal counsel, that, at this preliminary stage, it is not possible to assess the likelihood that a class action will be certified.

- k.** On April 27, 2017, a lawsuit and a motion to certify a class action were filed against the Company and two other insurance companies. The plaintiffs argue that insurance companies charged customer who pay premiums in installments credit fees in excess of the rates permitted by law and/or the interest rates presented in policies. It was argued that the Company caused a damage of NIS 20,879,250 over seven years.

The Company is required to file its response to the motion to certify by September 17, 2017. An additional hearing was scheduled to October 15, 2017. The attorney of the plaintiffs agreed to extend the deadline for filing a response by 60 days and the hearing was deferred accordingly, in order to allow settling the case.

The Company is still assessing the risk in this case.

At this preliminary stage of the lawsuit, the Company's management and its legal counsel are still reviewing the matter. Management believes, based on its legal counsel, that, at this preliminary stage, it is not possible to assess the likelihood that a class action will be certified.

- l.** On June 22, 2017, a lawsuit and a motion to certify a class action were filed against the Company arguing for alleged unjust enrichment by the Company relating to employers' claims in road accidents that are covered by compulsory insurance policies.

The plaintiffs argued that the Israel National Insurance Institute discontinued in 2005 charging from insurance companies the cost of the first 12 days of absence by employees who are injured in accidents while performing their work duties. Thus, the plaintiffs alleged that the Company was enriched unlawfully as a result of those claims.

The amount of the claim against the Company is NIS 14,500 thousand.

At this preliminary stage of the lawsuit, the Company's management and its legal counsel are still reviewing the matter. Management believes, based on its legal counsel, that, at this preliminary stage, it is not possible to assess the likelihood that a class action will be certified.

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NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 8 - CONTINGENT LIABILITIES - CLASS ACTIONS (continued):

The following is information about pending motions to certify class action suits:

	<u>Number of claims</u>	<u>The amount claimed NIS in thousands</u>
Pending applications for approval of legal claims as class actions - an amount relating to the Company was specified	<u>12</u>	<u>*188,552</u>

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

Management believes, based on the opinion of its legal counsel, that given the likelihood of these procedures, the financial statements include adequate provisions, where necessary, to cover damages from such claims.
