AIG Israel Insurance Company Ltd

Interim Financial Report

(Unaudited)

As of June 30, 2018

Contents

Directors' report
AIG Israel Insurance Company Ltd ("the Company")
for the period ended June 30, 2018

The directors' report on the business of the Company as of June 30, 2018 ("**the directors' report**"), reviews the Company and developments in its business in the first half of 2018 ("**the reported period**"). The information in this report are as of June 30, 2018 ("**the date of report**") unless otherwise is indicated explicitly.

The Company is an "insurer" as this term is defined in the Supervision of Financial Services Law (Insurance), 1981. Therefore, this report is prepared in accordance with the provisions of the Reports to the Public chapter of the Regulation Codex published published by the Commissioner of the Capital Markets, Insurance and Savings Authority ("**+**
-Commissioner of Insurance" or "**the Commissioner**"). This directors' report was prepared assuming that the user is also holding the Company's 2017 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:

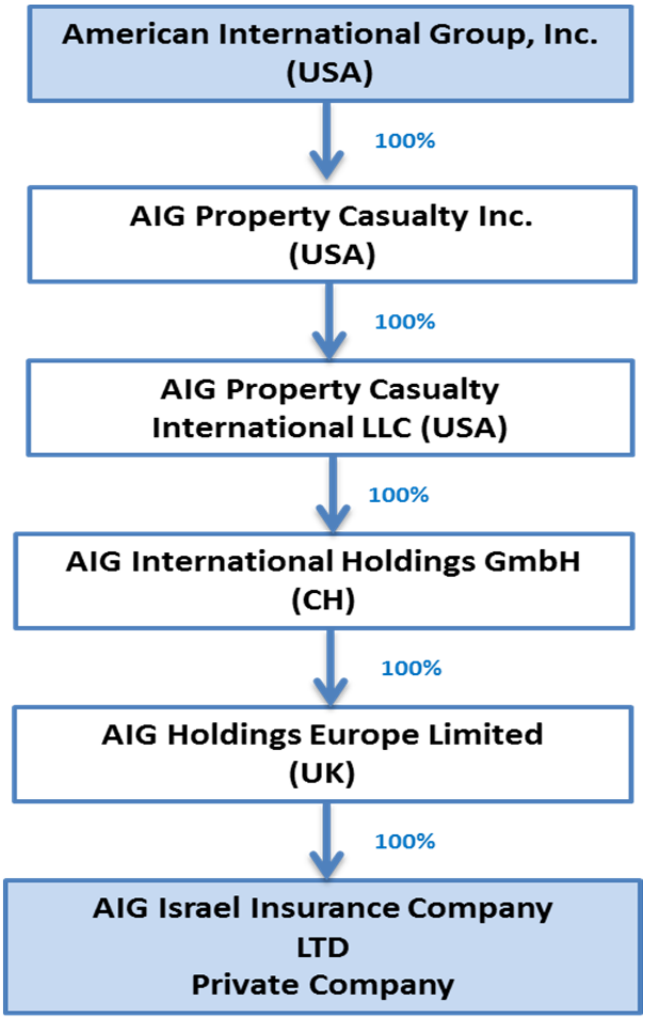
1.1 Organizational structure

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 Commissioner of the Capital Markets, Insurance and Savings Authority ("**the Commissioner**" 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 Material events since last financial statements

No exceptional events took place since the last financial statements.

2. Description of business environment:

General

In accordance with data published by the Capital Markets, Insurance and Savings Authority, there are more than 15 Israeli insurance companies currently active in Israel; most of these companies are engaged in general insurance. In accordance with these data, as of December 31, 2017, insurance fees from the general insurance business amounted to NIS 22,112 million (excluding Karnit); the share of the 5 largest insurance companies – Harel, Clal, Phoenix, Migdal and Menorah – was NIS 12,651 million, or 57.2% 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 2017 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 2018	Jan-June 2017	April-June 2018	April-June 2017	2017
Government bonds indexes					
General government bonds	(0.6%)	0.9%	(0.9%)	0.8%	3.6%
Linked government bonds	(0.2%)	0.2%	(0.5%)	0.9%	3.4%
NIS government bonds	(1.1%)	1.3%	(1.3%)	0.7%	3.7%
Corporate bonds indexes					
Tel Bond 60	0.3%	2.8%	0.7%	1.6%	5.8%
Tel Bond NIS	(2.2%)	3.4%	(1.1%)	1.4%	7.5%
Shares indexes					
Tel-Aviv 125	(0.1%)	0.5%	4.0%	3.0%	6.4%
S&P 500	1.67%		2.93%		

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

For information on general trends in the insurance sector and their effect on company's business, see Section 4.3 in Chapter A (description of company's business) in the Company's 2017 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 legislation changes and the key issues that are relevant to the activity of the Company, as published by the Commissioner in circulars and drafts during the reported period until shortly before the date of issuing this report:

Regulations

- In April 2018, the Supervision of Financial Services Regulations (Insurance) (Minimum Capital Requirement for Insurer License), 2018 were published in the Official Gazette, which provide for the minimum capital that is required for obtaining an insurer's license in Israel.

Regulation Codex

Reporting to the Commissioner

- In February 2018, the Commissioner published an amendment to the provisions of the consolidated circular regarding reinsurance reports to the Commissioner. The purpose of the amendment is to update the structure of the information reported to the Commissioner regarding reinsurance agreements, on three levels of reference: periodic reporting, immediate reporting and the manner in which reports are submitted to the Commissioner.
- In May 2018, the Commissioner published an amendment to the provisions of the consolidated circular in the "Reporting to the Commissioner" chapter. The purpose of said amendment is to update the provisions of the consolidated circular to include two additional reports: "Solvency Report" and "Supplementary Solvency Report". These reports contain designated files for reporting the solvency ratio results in relation to the data of the economic balance sheet, the composition of equity, the capital requirement for the scenarios, compliance with the required capital ratio and tables for the public disclosure of the "Economic Solvency Ratio Report".

- In May 2018, the Commissioner published an additional amendment to the provisions of the consolidated circular in the "Reporting to the Commissioner" chapter. This amendment obligates public institutions to submit quarterly reports to the Commissioner on the exposure to groups of entities.
- In June 2018, the Commissioner published an amendment to the directives of the consolidated circular concerning reports to the Commissioner. The purpose of the circular is to update the provisions of Chapter 3 in Part 4 of Cover 5 of the consolidated circular titled "Reporting to the Commissioner of the Capital Markets", with an eye to improving and updating the content of the reports. The amendment included, inter alia, the assimilation into the chapter on reports to the Commissioner of reporting directives concerning outsourcing in public institutions, exposure to groups of entities, and officers and position holders in public institutions.
- On August 7, 2018, the Commissioner published a letter to the insurance companies concerning the postponing of the reporting and publication of the economic solvency ratio results. Among others, the letter postpones the date of publication of the economic solvency ratio report in relation to the data for December 31, 2017 on the websites of the insurance companies, so as to allow them to better prepare for such report and to complete the audit.

Investment Asset Management

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

Approval of Officers and Reporting on Position Holders

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

Health insurance

- In February 2018, a circular was published concerning the amendment of the provisions of the consolidated circular concerning the disclosure and reporting to policyholders in health insurance. The purpose of the circular is to determine the format in which information reports will be sent to insurance candidates and to policyholders, as well as the conditions for transferring information to the insured by digital means. The provisions of the said amendment will come into effect in September 2018 and will apply to the annual report for 2018.
- In March 2018, the Commissioner published an amendment to the provisions of the consolidated circular concerning individual health insurance. The purpose of the circular is to enable policyholders to receive notices from the insurance companies in an accessible and convenient manner, both by e-mail and by text messages to the mobile phone. This is part of the Authority's policy to encourage the use of digital means in the interfaces between the insurance company and the policyholder.
- In May 2018, the Commissioner published an amendment to the consolidated circular concerning the deductible in surgical insurance. The amendment defines the manner in which insurance companies may offer policyholders surgical insurance coverage that includes a deductible, so that policyholders who wish to do so can purchase a more limited coverage and reduce the monthly premiums.

Measurement

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

Reports to the Public

- In March 2018, the Commissioner published a new chapter of the Regulation Codex – Consolidated Circular – Reports to the Public. This chapter compiles, among others, all the directives of the Commissioner concerning the periodic reports of public institutions that are issued to the public. The provisions of the new chapter supersede the Supervision of Financial Services Regulations (Insurance) (Financial Reports), 2007, which will therefore will no longer apply commencing in the periodic report for the first quarter of 2018.

Misappropriation and Fraud

- In May 2018, the Commissioner published an amendment to the provisions of the consolidated circular concerning misappropriation and fraud by parties within and outside the organization. The purpose of the circular is to assimilate the provisions of Public Institutions Circular 2006-9-3, "Misappropriation and Fraud by Parties within and Outside the Organization", into the provisions of the consolidated circular, including the updating of elapsed provisions.

Circulars

- In March 2018, the Commissioner published a circular regarding directives on an insurer's solvency ("Equity Circular"). The Equity Circular supersedes the Supervision of Insurance Regulations (Minimum Capital Requirement for Insurers), 1998, concerning the capital required for the solvency of an insurance company and accompanies the Minimum Capital Regulations. The Equity Circular provisions apply to insurance companies that are not within the scope of the circular concerning the implementation of a Solvency II-based economic solvency regime in insurance companies ("the Solvency Circular"), as well as to companies that are within the scope of the Solvency Circular, this pending the Commissioner's confirmation of the audit of the implementation of the Solvency Circular's provisions by an auditor. Concurrently with the publication of the Equity Circular, the Commissioner published its position on the definition of "required capital" and "recognized capital" in relation to compound equity instruments.

  In this context it should be noted that, in June 2018, the Commissioner published her position in a Q&A file answers concerning the implementation of a Solvency-II based economic solvency regime in insurance companies. This publication reflects the position and binding interpretation of the Commissioner, inter alia, of the provisions of the equity circular and the solvency circular.

- In May 2018, the Commissioner published Circular 2018-10-3 concerning agent and advisory services to customers. The Circular prescribes the standard of services that a license holder provides to its customers. The provisions of the Circular supplement the provisions of Circular 2011-9-7, "Services to Customers of Public Institutions", assure the provision of adequate services by a license holder and set out the rules and conditions for the collection of fees and reimbursement of expenses paid directly by the customer.

- In May 2018, the Commissioner published an amendment to Circular 2017-10-4, "Involvement of an Unlicensed Entity in the Marketing and Sale of an Insurance Product other than Collective Insurance". The purpose of the amendment is to adjust the circular in light of the bill approved by the Ministerial Legislation Committee, which permits travel agents to market overseas travel insurance, such that the travel agencies and the insurance companies will be, jointly and severally, accountable to the customers with regard to the process of acceptance to an insurance plan.

- In June 2018, the Commissioner published a circular concerning outsourcing by public institutions. The purpose of the circular is to prescribe principles for the use of outsourcing in public institutions, including the outsourcing of activities and their current management.

- In June 2018, the Commissioner published a circular concerning the management of compliance risks in public institutions, which amends the provisions of the consolidated circular. The purpose of the circular is to assimilate the provisions of Public Institutions Circular 2013-9-20, "Management of Compliance Risks in Public Institutions" into the provisions of the consolidated circular.

- In June 2018, the Commissioner published a circular concerning the launch of a new insurance program or code of a provident fund or entering a new area of activity. The purpose of the circular is to assimilate the provisions of Public Institutions Circular 2006-9-5 into the provisions of the consolidated circular.
- In July 2018, the Commissioner published a circular for the amendment of the provisions of Insurance Circular 2015-1-27, "Introduction of Service Letters and the Manner of their Marketing". The purpose of the draft is to prevent situations that make it difficult for the policyholder to compare a service letter sold by the insurance company to a service letter sold by another entity, thereby reducing insurance costs.
- In July 2018, the Commissioner published a draft amendment to the Joining of an Insurance Policy Circular. The draft proposes, among others, that the first step in the procedure for adjustment to the needs of the insurance candidate include review of a list of the insurance products that he holds, this by way of inquiry in the Har-Habituach website (insurance products database), this in order to avoid the redundant offering of products to the policyholder that are similar to those that he holds. However, a marketer will not execute such inquiry without receiving the insurance candidate's consent for the specific inquiry.
- In July 2018, the Commissioner published an amendment to the "Annual and Quarterly Report to Associates and Policyholders in Public Institutions" circular. The amendment amends, inter alia, several clauses pertaining to the provision of tax confirmations for the insurance policies in the name of the policy holder and to documents sign by policy holders that the company is required to present in the summary details of his existing policies in the company.

<u>Drafts</u>

- In January 2018, a draft memorandum of the Supervision of Financial Services Law (Insurance) (Amendment No.) (Dispute Resolution Institution), 2017 was published. The purpose of the draft is to streamline the procedures for settling disputes in the insurance sector in Israel, to facilitate the exhaustion of rights in these fields, taking into account the differences in power between those seeking to exercise their rights and the insurance company, and reduce the burden placed on the courts. The draft proposes, among other things, to establish within the Authority a dispute resolution institution that will enable exhaustion of the rights of applicants.
- In February 2018, the Commissioner published a draft circular regarding the Non-Yield Dependent Investments Committee. The purpose of the draft is to set provisions for the Non-Yield Dependent Investment Committee, which will replace the Investment Regulations after their cancellation, and to regulate various aspects of the Committee's work and composition, so that they will be adapted to the Committee's functions and the current framework of corporate governance in the public institutions. The draft prescribes, inter alia, provisions regarding the composition of the Committee and the qualifications of its members, restrictions regarding the appointment of a Committee member, the appointment of a chairman, the duties of the Committee and its methods of work.
- In February 2018, the Commissioner published a draft amendment to the circular regarding the service to customers of public institutions. The draft proposes to amend Circular 2011-9-7, "Service to Customers of Public Institutions", to include provisions intended to improve the quality of service provided to customers of public institutions. The circular prescribes general principles for the provision of services to customers of public institutions and obligates public institutions to establish a service charter.
- In February 2018, the Commissioner published a draft circular regarding confirmation of the existence of insurance. The purpose of the draft is to prescribe provisions to govern the issue of existence of insurance confirmations by insurance companies and insurance agents.
- In February 2018, the Commissioner published a draft circular regarding an Internet interface for locating insurance products. The purpose of the draft is to amend Circular 2016-1-17 and to determine additional types of information that must be reported to the Commissioner in order to improve the services provided to policyholders through Har-Habituach website and to introduce new services to be offered to policyholders.
- In June 2018, the Commissioner published draft directives for the amendment of the consolidated circular concerning the management of information technology in public institutions, for the purpose of assimilating the provisions of Circular 2010-9-4, "Information Technology Management in Public Institutions" into the provisions of the consolidated circular.

- In June 2018, the Commissioner published draft directives for the amendment of the consolidated circular concerning a supervising actuary. The purpose of the aforesaid draft is to assimilate the provisions of Sections 3 and 4, duties of supervising actuary and the risk manager of an insurer, and the structure of their relationship with other officers into the provisions of the consolidated circular. Additionally, a directive is introduced requiring the actuary's appendix and statement that are submitted within the framework of the institution of insurance plans and a provident fund code to be signed by the supervising actuary.
- In June 2018, the Commissioner published draft directives for the amendment of the consolidated circular concerning the management of business continuity in public institutions. The purpose of the aforesaid draft is to assimilate the provisions of Circular 2013-9-11, "Management of Business Continuity in Public Institutions", into the provisions of the consolidated circular.
- In July 2018, the Commissioner published draft directives for the amendment of the consolidated circular concerning the updating of Form 3. The purpose of the draft is to introduce additional information requirements into Form 3, which the Authority requires to perform its duties.
- In July 2018, the Commissioner published a draft statement of position concerning carpooling. The position of the Authority is that carpooling that meets that cumulative conditions set out in Regulation 84B of the Transportation Regulations is covered by vehicle compulsory and property insurance policies and do not require the acquisition of designated insurance policies.
- In July 2018, the Commissioner published her position on the summary findings of cyber audits, which describes the principal findings of the penetration testing and provides recommendations for the reduction of risks. According to said position, although public institutions are working to strengthen the cyber network, the findings in most institutions indicated that further improvement in this network is necessary, taking into consideration the changes, across the board, in the fields of information security and cyber and the ever-growing threats. It further clarifies that the solutions that are proposed in the statement of position do not preclude the implementation by the public institutions of other solutions that address the alongside the assessment of the risks to which the institution is exposed and the provision of solutions for the reduction of risk levels.
- In July 2018, the Commissioner published a second draft of the "Board of Directors of a Public Institution" circular. The draft circular prescribes, inter alia, provisions concerning the qualification of the members of the Board of Directors, the composition of the Board of Directors, its duties, powers and conduct. The aforesaid draft proposes that its provisions supersede the Board of Directors Regulations and Public Institutions Circular 2006-9-7, "Procedure for the Activities and Committees of the Board of Directors".
- In July 2018, the Commissioner published draft directives for the amendment of the consolidated circular concerning information requirements for websites of public institutions. The aforesaid draft amends the website circular ("Information Requirements for Websites of Public Institutions": 2015-9-11), aiming to enhance the competition in surgical policies and overseas travel insurance policies by removing the barriers that encumber the establishment of comparison mechanisms for consumers.
- In July 2018, the Commissioner published draft directives for the amendment of the consolidated circular, Cover 6, Part 3, concerning a uniform underwriting questionnaire for medical expenses insurance. The aforesaid draft proposes that insurers be required to use a uniform preliminary underwriting questionnaire for medical expenses insurance, such as surgical insurance policies, transplants and medication insurance policies and critical illness insurance policies.
- In July 2018, the Commissioner published draft directives for the circular concerning benchmarks for a supervising actuary in accordance with the Equal Rights for People with Disabilities Law. The aforesaid draft determines that a public institution that grants housing loans will not refuse a housing loan to a person with a life-shortening disability, subject to compliance with the conditions that are set out in the Equal Rights for People with Disabilities Law, 1998. The draft further determines that an insurer selling life insurance under a mortgage will not refuse to sell such policy to a disabled person, by reason of his disability, unless, among others, the decision of the insurer in the matter was based on the decision of a supervising actuary appointed for this purpose.

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

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

	June 30, 2018	June 30, 2017	December 31, 2017
Other assets	298,780	275,936	275,307
Deferred acquisition expenses	159,916	147,631	149,357
Financial investments and cash	1,889,385	1,719,105	1,817,713
Reinsurance assets	740,330	666,075	669,428
Total assets	**3,088,411**	**2,808,747**	**2,911,805**
Shareholders' equity	818,593	752,467	800,965
Liabilities for insurance contracts	1,914,407	1,708,652	1,755,007
Other liabilities	355,411	347,628	355,833
Total equity and liabilities	**3,088,411**	**2,808,747**	**2,911,805**

Following are principal comprehensive income data (NIS thousands)

	Jan-June 2018	Jan-June 2017	April-June 2018	April-June 2017	2017
Gross premiums earned	557,985	537,709	284,726	264,016	1,092,070
Premiums earned by reinsurers	(80,993)	(85,175)	(41,553)	(34,877)	(170,454)
Premiums earned in retention	**476,992**	**452,534**	**243,173**	**229,139**	**921,616**
Net investment gains (losses) and financing income	(776)	27,990	5,978	17,061	65,483
Income from commissions	21,434	20,359	10,700	10,298	41,736
Total revenue	**497,650**	**500,883**	**259,851**	**256,498**	**1,028,835**
Payments and change in liability for insurance contracts, in retention	(315,622)	(274,396)	(171,607)	(140,409)	(563,539)
Total other expenses	(153,060)	(151,482)	(80,640)	(76,806)	(312,308)
Income before income taxes	**28,968**	**75,005**	**7,604**	**39,283**	**152,988**
Taxes on income	(11,340)	(26,398)	(3,121)	(13,568)	(55,883)
Income for the period and total comprehensive income for the period	**17,628**	**48,607**	**4,483**	**25,715**	**97,105**

Capital and capital requirements

As of June 30, 2018, the Company's capital exceeds the level required as of that date under the Supervision of Insurance Regulations (Insurance) (Minimum Capital Requirement for Insurers), 1998 by NIS 211 million.

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

For information regarding a dividend distribution of NIS 50 million after balance-sheet date, see Note 5b to the financial statements.

Data regarding solvency ratio and minimum capital requirement (MCR)

Presented below are data regarding the solvency ratio and the minimum capital requirement (MCR) (the data has not been audited or reviewed as part of an audit or review of the financial statements):

a. Solvency ratio (NIS in thousands):

	December 31, 2016*
Regardless of the provisions in the deployment period:	
Equity for purposes of solvency capital requirement (SCR)	1,009,522
Solvency capital requirement (SCR)	618,223
Surplus as of reporting date	**391,298**
Solvency ratio as of reporting date (%)	163%
Milestones achieved during the deployment period:	
Equity for purposes of solvency capital requirement in deployment period	1,009,522
Solvency capital requirement in deployment period	373,153
Surplus in the deployment period	**636,369**

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

	December 31, 2016*
Minimum capital requirement (MCR)	167,919
Equity for purposes of MCR	753,860

* The amount has been restated, following a technical error which resulted in an increase in equity for the purpose of Solvency ratio and a decrease in the Required Solvency Margin (SCR). The change from the error resulted in a decrease in the Solvency Ratio from 175% to163%.

4. Results of operations

In the reported period, the Company's gross premiums continued to rise, increasing by 5.1% as compared to gross premiums in the corresponding period last year. Total gross premiums in the reported period amounted to NIS 594.6 million, as compared to NIS 565.6 million in the corresponding period in 2017.

In the reported period, total premiums earned in retention amounted to NIS 502.6 million, as compared to NIS 474.8 million in the corresponding period in 2017, a 5.9% increase.

Premiums by principal operating segments (NIS in thousands):

Jan-June 2018	Life insurance	Health insurance	General insurance	Total
Gross	63,976	109,974	420,605	594,555
In retention	51,583	108,464	342,574	502,621
% of total gross	10.8	18.5	70.7	100.0
% of retention	10.3	21.5	68.1	100.0

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	65.3	100.0

Jan-December 2017	Life insurance	Health insurance	General insurance	Total
Gross	127,053	235,244	761,904	1,124,201
In retention	104,261	231,967	617,530	953,758
% of total gross	11.3	20.9	67.8	100.0
% of retention	10.9	24.3	64.8	100.0

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

	Jan-June 2018	Jan-June 2017	April-June 2018	April-June 2017	Jan-Dec 2017
Income (loss) from compulsory vehicle insurance	(5,758)	7,707	(9,288)	(3,151)	6,810
Income from property vehicle insurance	17,836	17,791	6,051	8,763	35,451
Income from home insurance	1,610	8,615	479	4,618	22,562
Income (loss) from commercial insurance	(7,813)	1,201	(9,489)	4,851	4,380
Income from health insurance	9,965	23,468	8,391	13,581	44,295
Income from life insurance	10,932	7,118	5,121	4,108	15,375
Other - Income not allocated to any segment	2,196	9,105	6,339	6,513	24,115
Income before taxes	**28,968**	**75,005**	**7,604**	**39,283**	**152,988**
Taxes on income	(11,340)	(26,398)	(3,121)	(13,568)	(55,883)
Income for the period and total comprehensive income for the period	**17,628**	**48,607**	**4,483**	**25,715**	**97,105**

For additional information on key segments – see note 4 to the condensed financial statements.

Following are the explanations on developments in some of the data presented above:

a. Net investment losses and financing income amounted to NIS 0.8 million in the reporting period, as compared to gains of NIS 28.0 million in the corresponding period in 2017. The transition from gains on investments in the corresponding period in 2017 to losses in the reporting period was due mainly to the decrease in the prices of corporate bonds and share indexes in the reporting period, as compared to profits in the corresponding period in 2017 (see section 2 below).

b. The loss of the Company from compulsory vehicle insurance amounted to NIS 5.8 million in the reporting period, as compared to profit of NIS 7.7 million in the corresponding period in 2017. The reduction in profit was due mainly to the reduction in gains on investments in the reporting period as compared to the corresponding period in 2017 and to a significant increase in claims ratio, mainly as a result of the higher losses on pooling and the increase in the consumer price index in the second quarter of the year.

c. The profit of the Company from vehicle property insurance in the reporting period was NIS 17.8 million, as compared to profit of NIS 17.8 million in the corresponding period in 2017. The underwriting profit of the Company from vehicle property insurance amounted to NIS 17.7 million in the reporting period, as compared to profit of NIS 14.0 million in the corresponding period in 2017. The increase in profit was due mainly to the greater volume of the Company's business (premiums earned) and the good combined ratio of the Company (95%).

d. The profit of the Company from home insurance in the reporting period was NIS 1.6 million, as compared to profit of NIS 8.6 million in the corresponding period in 2017. The underwriting profit of the Company from home insurance amounted to NIS 1.2 million in the reporting period, as compared to profit of NIS 7.3 million in the corresponding period in 2017. The decrease in profit resulted mainly from the effect of weather damage in the reporting period, particularly in the second quarter of 2018.

e. The profit of the Company from professional liability insurance in the reporting period was NIS 6.7 million, as compared to loss of NIS 6.1 million in the corresponding period in 2017. The loss in the period and in the corresponding period in 2017 resulted from the adverse development of a few claims in directors' and officers' insurance, as well as from a reduction in gains on investments.

f. The profit of the Company from other property insurance in the reported period was NIS 1.2 million, as compared to profit of NIS 1.6 million in the corresponding period in 2017.

g. The loss of the Company from other liability insurance amounted to NIS 2.3 million in the reported period, as compared to profit of NIS 5.7 million in the corresponding period in 2017. The transition from profits in the corresponding period in 2017 to losses in the reported period was due to the increase in the claims ratio and the decrease in the gain on investments.

h. The profit of the Company from health insurance in the reported period was NIS 10.0 million, as compared to profit NIS 23.5 million in the corresponding period in 2017. The decrease in profit was due to an increase in the claims ratio, primarily in relation to overseas travel, and to the lower gain on investments in the reported period as compared to the corresponding period in 2017.

i. The income of the Company from life insurance in the reported period was NIS 10.9 million, as compared to profit of NIS 7.1 million in the corresponding period in 2017. The increase in profit was due to the decrease in expense and claims ratios.

5. Cash flows and liquidity

Net cash provided by operating activities in the reported period was NIS 65.7 million, compared with net cash of NIS 17.7 million used in operating activities in the corresponding period in 2017.

Net cash used in investing activities in the reported period amounted to NIS 8.4 million, as compared to NIS 14.4 million in the corresponding period in 2017.

In the six-month period ended June 30, 2017, a dividend of NIS 50 million was paid.

As a result of the above, the balance of cash and cash equivalents in the reported period increased by NIS 57.0 million, amounting to NIS 115.0 million as of June 30, 2018.

6. Sources of funding

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

7. Material subsequent events

As to a dividend distribution – see Note 5b to the condensed financial statements.

As to the renewal of a collective agreement in the Company – see Note 8 to the condensed financial statements.

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

Controls and procedures applied to disclosure

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

Internal controls over financial reporting

In the course of the quarter ending on June 30, 2018, 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	Shay Feldman
Chairman of the Board of Directors	CEO

August 28, 2018

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

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, 2018 (hereafter – "the report").

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

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

4. The Company's other certifying officers and I are responsible for establishing and maintaining controls and procedures relating to disclosure[1] and internal controls over financial reporting of the insurance company; and -

   (a) Accordingly, we have designed such disclosure controls and procedures, or have had such disclosure controls and procedures established under our charge, designed to ensure that material information relating to the insurance company is made known to us by others in the insurance company particularly during the period in which the reports were prepared;

   (b) We designed internal controls over financial reporting, or supervised the design of such internal controls designed to provide a reasonable assurance regarding the reliability of the financial reporting and assurance to the effect that the financial statements are drawn up in accordance with International Financial Reporting Standards (IFRS) and in accordance with the directives of the Supervisor of Insurance.

   (c) We assessed the effectiveness of controls and procedures regarding the disclosure of the insurance company and presented our conclusions regarding the effectiveness of disclosure controls and procedures as of the end of the period covered in the report, based on our estimate; and

   (d) We disclosed in the report any change in the insurance company's internal controls over financial reporting which took place in this quarter and had a material effect or is expected to have a material effect on the insurance company's internal controls over financial reporting; and

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

5. The insurance company's other certifying officers and I have disclosed to the insurance company's auditors, the insurance company's board of directors and its audit committee, based on our most recent evaluation of internal controls over financial reporting, the following:

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the insurance company's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether material or not, that involves management or other employees who have a significant role in the insurance company's internal controls over financial reporting.

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

____

Shay Feldman - CEO

August 28, 2018

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, 2018 (hereafter – "the report").

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

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

4. The Company's other certifying officers and I are responsible for establishing and maintaining controls and procedures relating to disclosure[1] and internal controls over financial reporting of the insurance company; and -

   (a) Accordingly, we have designed such disclosure controls and procedures, or have had such disclosure controls and procedures established under our charge, designed to ensure that material information relating to the insurance company is made known to us by others in the insurance company particularly during the period in which the reports were prepared;

   (b) We designed internal controls over financial reporting, or supervised the design of such internal controls designed to provide a reasonable assurance regarding the reliability of the financial reporting and assurance to the effect that the financial statements are drawn up in accordance with International Financial Reporting Standards (IFRS) and in accordance with the directives of the Supervisor of Insurance.

   (c) We assessed the effectiveness of controls and procedures regarding the disclosure of the insurance company and presented our conclusions regarding the effectiveness of disclosure controls and procedures as of the end of the period covered in the report, based on our estimate; and

   (d) We disclosed in the report any change in the insurance company's internal controls over financial reporting which took place in this quarter and had a material effect or is expected to have a material effect on the insurance company's internal controls over financial reporting; and

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

5. The insurance company's other certifying officers and I have disclosed to the insurance company's auditors, the insurance company's board of directors and its audit committee, based on our most recent evaluation of internal controls over financial reporting, the following:

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the insurance company's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether material or not, that involves management or other employees who have a significant role in the insurance company's internal controls over financial reporting.

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

David Rothstein - CFO

August 28, 2018

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, 2018, based on criteria set in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation management believes that as at June 30, 2017 the internal control of the Insurance Company over financial reporting is effective.

________________	_______________	_______________
Mr. Ralph Mucerino	Mr. Shay Feldman	Mr. David Rothstein
Chairman of the Board	CEO	CFO

Date of approval of financial statements: August 28, 2018

AIG ISRAEL INSURANCE COMPANY LTD.

CONDENSED INTERIM FINANCIAL STATEMENTS
(Unaudited)

JUNE 30, 2018

AIG ISRAEL INSURANCE COMPANY LTD.

CONDENSED INTERIM FINANCIAL STATEMENTS
(Unaudited)

JUNE 30, 2018

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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, 2018 and the condensed statements of profit or loss and other 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 prescribed by the Supervisor of the Capital Market, Insurance and Savings Authority in accordance with the Supervision of Financial Services (Insurance) Law, 1981. Our responsibility is to express a conclusion with respect to the financial information for this interim period, based on our review.

The interim financial information as of June 30, 2017 and for the six- and three-month periods ended on those dates has been reviewed by other auditors, whose report thereon, dated August 29, 2017, included an unqualified conclusion.

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 prescribed by the Supervisor of the Capital Market, Insurance and Savings Authority in accordance with the Supervision of Financial Services (Insurance) Law, 1981.

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

Somekh Chaikin
Certified Public Accountants (Isr.)

August 28, 2018

AIG ISRAEL INSURANCE COMPANY LTD.

CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION AS OF

	June 30		December 31,
	2018	**2017**	**2017**
	(Unaudited)		**(Audited)**
	NIS in thousands		
Assets			
Intangible assets	35,866	38,345	38,448
Deferred acquisition costs	159,916	147,631	149,357
Property and equipment	11,964	12,809	11,054
Reinsurance assets	740,330	666,075	669,428
Premiums collectible	196,242	172,942	173,828
Current tax assets	8,840	-	3,428
Other receivables	45,868	51,840	48,549
	1,199,026	1,089,642	1,094,092
Financial investments:			
Marketable debt instruments	1,679,855	1,470,735	1,588,676
Non-marketable debt instruments	62,252	114,594	85,174
Other	26,316	79,645	85,943
TOTAL FINANCIAL INVESTMENTS	1,774,423	1,664,974	1,759,793
CASH AND CASH EQUIVALENTS	114,962	54,131	57,920
TOTAL ASSETS	3,088,411	2,808,747	2,911,805

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 28, 2018

AIG ISRAEL INSURANCE COMPANY LTD.

CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION AS OF

	June 30		December 31,
	2018	2017	2017
	(Unaudited)		(Audited)
	NIS in thousands		
Equity and liabilities			
EQUITY:			
Share capital	**6**	6	6
Share premium	**250,601**	250,601	250,601
Capital reserve	**11,084**	11,084	11,084
Retained earning	**556,902**	490,776	539,274
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	**818,593**	752,467	800,965
LIABILITIES:			
Liabilities in respect of insurance contracts and investment contracts that are not yield dependent	**1,914,407**	1,708,652	1,755,007
Liabilities in respect of deferred taxes, net	**-**	3,892	9,281
Retirement benefit obligation, net	**3,293**	2,612	3,489
Liabilities to reinsurers	**264,775**	257,744	247,287
Liabilities for current taxes	**-**	3,856	-
Other payables	**87,343**	79,524	95,776
TOTAL LIABILITIES	**2,269,818**	2,056,280	2,110,840
TOTAL EQUITY AND LIABILITIES	**3,088,411**	2,808,747	2,911,805

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

AIG ISRAEL INSURANCE COMPANY LTD.

CONDENSED INTERIM STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Six months ended June 30		Three months ended June 30		Year ended December 31,
	2018	2017	2018	2017	2017
	(Unaudited)		(Unaudited)		(Audited)
	NIS in thousands				
Gross earned premiums	557,985	537,709	284,726	264,016	1,092,070
Premiums earned by reinsurers	(80,993)	(85,175)	(41,553)	(34,877)	(170,454)
Premiums earned in retention	476,992	452,534	243,173	229,139	921,616
Gains (losses) on investments, net, and financing income	(776)	27,990	5,978	17,061	65,483
Commission income	21,434	20,359	10,700	10,298	41,736
TOTAL INCOME	497,650	500,883	259,851	256,498	1,028,835
Payments and change in liabilities with respect to insurance contracts, gross	(412,613)	(324,347)	(235,881)	(165,565)	(693,418)
Share of reinsurers in increase of insurance liability and payments for insurance contracts	96,991	49,951	64,274	25,156	129,879
Payments and change in liabilities with respect to insurance contracts, in retention	(315,622)	(274,396)	(171,607)	(140,409)	(563,539)
Commissions, marketing expenses and other acquisition costs	(117,637)	(114,915)	(63,051)	(58,948)	(236,780)
General and administrative expenses	(38,161)	(36,290)	(20,059)	(17,912)	(72,747)
Financing income (expenses), net	2,738	(277)	2,470	54	(2,781)
TOTAL EXPENSES	(468,682)	(425,878)	(252,247)	(217,215)	(875,847)
INCOME BEFORE TAXES ON INCOME	28,968	75,005	7,604	39,283	152,988
Taxes on income	(11,340)	(26,398)	(3,121)	(13,568)	55,883
INCOME FOR THE PERIOD AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	17,628	48,607	4,483	25,715	97,105
BASIC EARNINGS PER SHARE:					
Basic earnings per share	3.08	8.48	0.78	4.49	16.95
Number of shares used in calculating basic earnings per share	5,730	5,730	5,730	5,730	5,730

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

AIG ISRAEL INSURANCE COMPANY LTD.

CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY

	Share Capital	Share premium	Other reserves	Retained earnings	Total
	NIS in thousands				
SIX-MONTH PERIOD ENDED JUNE 30, 2018					
BALANCE AS OF JANUARY 1, 2018 (audited)	6	250,601	11,084	539,274	800,965
Total comprehensive income for the period				17,628	17,628
BALANCE AS OF JUNE 30, 2018 (unaudited)	6	250,601	11,084	556,902	818,593
SIX-MONTH PERIOD ENDED JUNE 30, 2017					
BALANCE AS OF JANUARY 1, 2017 (audited)	6	250,601	11,084	492,169	753,860
Total comprehensive income for the period				48,607	48,607
Dividend				(50,000)	(50,000)
BALANCE AS OF JUNE 30, 2017 (unaudited)	6	250,601	11,084	490,776	752,467
THREE-MONTH PERIOD ENDED JUNE 30, 2018					
BALANCE AS OF APRIL 1, 2018 (unaudited)	6	250,601	11,084	2,419	814,110
Total comprehensive income for the period				4,483	4,483
BALANCE AS OF JUNE 30, 2018 (unaudited)	6	250,601	11,084	556,902	818,593

AIG ISRAEL INSURANCE COMPANY LTD.

CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY

	Share Capital	Share premium	Other reserves	Retained earnings	Total
			NIS in thousands		
THREE-MONTH PERIOD ENDED JUNE 30, 2017					
BALANCE AS OF APRIL 1, 2017 (unaudited)	6	250,601	11,084	465,061	726,752
Total comprehensive income for the period				25,715	25,715
BALANCE AS OF JUNE 30, 2017 (unaudited)	6	250,601	11,084	490,776	752,467
YEAR ENDED DECEMBER 31, 2017					
BALANCE AS OF JANUARY 1, 2017 (audited)	6	250,601	11,084	492,169	753,860
Total comprehensive income for the year				97,105	97,105
Dividend				(50,000)	(50,000)
BALANCE AS OF DECEMBER 31, 2017 (audited)	6	250,601	11,084	539,274	800,965

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

AIG ISRAEL INSURANCE COMPANY LTD.

CONDENSED INTERIM STATEMENTS OF CASH FLOWS

	Six-month period ended June 30		Three-month period ended June 30		Year ended December 31,
	2018	2017	2018	2017	2017
	(Unaudited)		(Unaudited)		(Audited)
	NIS in thousands				
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net cash provided by (used in) operations (Appendix A)	60,980	(50,532)	39,778	(52,498)	(17,402)
Interest received	32,553	37,127	10,806	12,357	12,357
Dividend received	7	63	7	23	63
Income taxes received (paid), net	(27,825)	(4,329)	(7,643)	8,252	(47,966)
Net cash provided by (used in) operating activities	65,715	(17,671)	42,948	(31,866)	(5,980)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Investment in property and equipment	(3,314)	(4,030)	(1,242)	(1,069)	(5,132)
Investment in intangible assets	(5,124)	(10,363)	(2,619)	(3,832)	(17,199)
Net cash used in investing activities	(8,438)	(14,393)	(3,861)	(4,901)	(22,331)
CASH FLOWS FROM FINANCING ACTIVITIES -					
Dividend paid to equity holders of the Company	-	(50,000)	-	-	(50,000)
Net cash used in financing activities	-	(50,000)	-	-	(50,000)
IMPACT OF EXCHANGE RATE FLUCTUATIONS ON CASH AND CASH EQUIVALENT BALANCES	(235)	(39)	(235)	(24)	(3)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	57,042	(82,103)	38,852	(36,791)	(78,314)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	57,920	136,234	76,110	90,922	136,234
CASH AND CASH EQUIVALENTS AT END OF PERIOD	114,962	54,131	114,962	54,131	57,920

AIG ISRAEL INSURANCE COMPANY LTD.

CONDENSED INTERIM STATEMENTS OF CASH FLOWS

	Six-month period ended June 30		Three-month period ended June 30		Year ended December 31,
	2018	**2017**	**2018**	**2017**	**2017**
	(Unaudited)		**(Unaudited)**		**(Audited)**
	NIS in thousands				
APPENDIX A - CASH FLOWS FROM OPERATING ACTIVITIES:					
Income for the period	17,628	*48,607	4,483	* 25,715	* 97,105
Adjustments for:					
Income and expenses not involving cash flows:					
Change in liabilities for insurance contracts that are not yield dependent	159,400	61,887	81,165	26,700	108,242
Change in reinsurance assets	(70,902)	(7,516)	(45,161)	(6,617)	(10,869)
Change in deferred acquisition costs	(10,559)	(5,804)	(2,639)	3,160	(7,530S)
Taxes on income	11,336	* 26,398	3,117	* 13,568	* 55,883
Change in retirement benefits obligation, net	(196)	(101)	(92)	(50)	776
Depreciation of property and equipment	2,404	2,656	1,220	1,337	5,513
Amortization of intangible assets	7,706	5,834	4,469	3,042	12,567
Losses (gains), net, on financial investments:					
Marketable debt instruments	33,367	6,346	7,714	(5,823)	(3,935)
Non-marketable debt instruments	853	6,905	(653)	2,392	(1,896)
Other	(707)	(684)	(3,208)	(1,393)	(6,982)
Impact of fluctuation in exchange rate on cash and cash equivalents	235	39	235	24	3
	132,937	95,960	46,167	36,340	151,772
Changes in assets and liabilities:					
Liabilities to reinsurers	17,488	579	6,062	972	(9,878)
Investments in financial assets, net	(48,143)	(117,004)	(17,462)	(86,723)	(186,443)
Premiums collectible	(22,414)	(19,408)	3,672	(776)	(20,294)
Other receivables	4,482	650	4,908	804	3,941
Other payables	(8,440)	(9,490)	2,769	(3,754)	6,762
Current tax assets	2	(13,236)	(8)	(12,696)	(979)
	(57,025)	(157,909)	(59)	(102,173)	(206,891)
Adjustments for interest and dividend:					
Interest received	(32,553)	(37,127)	(10,806)	(12,357)	(59,325)
Dividend received	(7)	(63)	(7)	(23)	(63)
	(32,560)	(37,190)	(10,813)	(12,380)	(59,388)
Net cash provided by (used in) operations	60,980	(50,532)	39,778	(52,498)	(17,402)

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

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

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO THE CONDENSED INTERIM 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 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) Supervisor - Supervisor of the Capital Market, Insurance and Savings Authority.

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

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

5) Reinsurance assets – the reinsurer's share in the reserves for insurance contracts and in the contingent claims.

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

7) Shareholders' Equity Regulations - The Supervision of Insurance Business Regulations (minimum shareholders' equity required from an insurer), 1998 and amendments as amended.

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

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

10) Premiums - Premiums including fees and proceeds for related services

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

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS:

a. Statement of compliance

The condensed interim financial statements (hereinafter - “the interim financial information”) has been prepared in accordance with the provisions of International Accounting Standard No. 34 - "Interim Financial Reporting" (hereinafter - "IAS 34") and do not include all of the information required fur full annual financial statements, and in accordance with the disclosure requirements of the Supervision Law and the regulations promulgated thereunder. The interim financial information should be read in conjunction with the annual financial statements as of December 31, 2017 and for the year ended on that date (hereinafter – "the 2017 annual financial statements of the Company").

b. Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management of the Company to make judgments, estimates and assumptions that affect the application of policies and the amounts of assets, liabilities, income and expenses. It is hereby clarified that actual results may differ from these estimates.

The significant judgments made by management in applying the Group’s accounting policies and the principal assumptions used in the estimation of uncertainty were the same as those that applied to the annual financial statements.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES:

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

a. Commencing on April 1, 2018, the Company has updated the manner of allocation of expenses in the financial statements, such that it is based on new estimates that are derived from the current volumes of activity and allocation of inputs of the Company. The changes were accounted for as a change in estimate and therefore did not involve the reclassification of the comparative figures. Consequently, the pre-tax comprehensive income from health insurance for the three-month period ended June 30, 2018 increased by NIS 4.7 million, the pre-tax comprehensive income from life insurance for the same period decreased by NIS 0.9 million, and the pre-tax comprehensive income from general insurance for the same period decreased by NIS 3 million. The effect of the aforesaid change on the pre-tax comprehensive income of the Company is immaterial.

b. New accounting standards and interpretations not yet adopted:

1) The 2017 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.

   Since the publication of the 2017 annual financial statements of the Company and except as stated below, no new IFRSs or amendments to existing standards have been published that could material affect the financial statements of the Company.

2) IFRS 9

   In relation to IFRS 9, "Financial Instruments", the Company believes that it 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.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (continued):

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

2) IFRS 9 (continued)

In accordance with the directives of the Supervisor, it has been decided that the Company will postpone the adoption of IFRS 9 until the coming into effect in Israel of International Financial Reporting Standard No. 17 "Insurance Contract" (hereinafter – "IFRS 17").

3) 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.

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.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (continued):

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

4) IFRS 16 - "Leases"

The standard replaces International Accounting Standard No. 17, "Leases" (hereinafter – "IAS 17") and its related interpretations. The standard's instructions annul the existing requirement from lessees to classify leases as operating or finance leases. Instead of this, for lessees, the new standard presents a unified model for the accounting treatment of all leases according to which the lessee has to recognize a right-of-use asset and a lease liability in its financial statements. Nonetheless, the standard includes two exceptions to the general model whereby a lessee may elect to not apply the requirements for recognizing a right-of-use asset and a liability with respect to short-term leases of up to one year and/or leases where the underlying asset has a low value.

In addition, the standard permits the lessee to apply the definition of the term lease according to one of the following two alternatives consistently for all leases: retrospective application for all the lease agreements, which means reassessing the existence of a lease for each separate contract, or alternatively to apply a practical expedient that permits continuing with the assessment made regarding existence of a lease based on the guidance in IAS 17 and IFRIC 4," Determining whether an Arrangement Contains a Lease", with respect to leases entered into before the date of initial application of the standard. Furthermore, the standard determines new and expanded disclosure requirements from those required at present.

The standard is applicable for annual periods as of January 1, 2019. The Company does not expect its adoption to have a material effect on the financial statements.

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

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

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

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

NOTE 4 - SEGMENT INFORMATION:

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

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

a. Life insurance segment

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

b. Health insurance segment

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

c. General insurance segment

The general insurance segment encompasses the property and liability sectors. In accordance with the directives of the Supervisor, 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, for funds misappropriation damages and for cyber events.

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.

	6-month period ended June 30, 2018 (unaudited)				
	Life insurance	Health Insurance *	General insurance	Not attributed to operating segments	Total
	NIS in thousands				
Gross earned premiums	64,007	108,949	385,029		557,985
Premiums earned by reinsurers	(12,101)	1,510	(67,382)		(80,993)
Premiums earned in retention	51,906	107,439	317,647		476,992
Gains (losses) on investments, net, and financing income	1	(112)	(915)	250	(776)
Commission income	2,297	142	18,995		21,434
Total income	54,204	107,469	335,727	250	497,650
Payments and change in liabilities with respect to insurance contracts, gross	(24,443)	(60,082)	(328,088)		(412,613)
Share of reinsurers in increase of insurance liabilities and payments for insurance contracts	5,396	1,545	90,050		96,991
Payments and change in liabilities with respect to insurance contracts, in retention	(19,047)	(58,537)	(238,038)		(315,622)
Commissions, marketing expenses and other acquisition costs	(18,909)	(26,218)	(72,510)		(117,637)
General and administrative expenses	(5,316)	(12,749)	(20,096)		(38,161)
Financing income	-	-	792	1,946	2,738
Total comprehensive income before taxes on income	10,932	9,965	5,875	2,196	28,968
Liabilities for insurance contracts, gross, as of June 30, 2018	64,037	137,641	1,712,729		1,914,407

NOTE 4 - SEGMENT INFORMATION (continued):

	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	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)	-	-	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

	3-month period ended June 30, 2018 (unaudited)				
	Life insurance	**Health Insurance ***	**General insurance**	**Not attributed to operating segments**	**Total**
			NIS in thousands		
Gross earned premiums	32,343	54,908	197,475		284,726
Premiums earned by reinsurers	(5,786)	(761)	(35,006)		(41,553)
Premiums earned in retention	26,557	54,147	162,469		243,173
Gains on investments, net, and financing income	1	186	1,578	4,213	5,978
Commission income	1,106	70	9,524		10,700
Total income	27,664	54,403	173,571	4,213	259,851
Payments and change in liabilities with respect to insurance contracts, gross	(13,183)	(29,217)	(193,481)		(235,881)
Share of reinsurers in increase of insurance liabilities and payments for insurance contracts	2,795	912	60,567		64,274
Payments and change in liabilities with respect to insurance contracts, in retention	(10,388)	(28,305)	(132,914)		(171,607)
Commissions, marketing expenses and other acquisition costs	(8,487)	(14,039)	(40,525)		(63,051)
General and administrative expenses	(3,668)	(3,668)	(12,723)		(20,059)
Financing income	-	-	344	2,126	2,470
Total comprehensive income (loss) before taxes on income	5,121	8,391	(12,247)	6,339	7,604

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

NOTE 4 - SEGMENT INFORMATION (continued):

	3-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	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)
Share of reinsurers in increase of insurance liabilities and payments for insurance contracts	2,049	133	22,974		25,156
Payments and change in liabilities with respect to insurance contracts, in retention	(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

	Year ended December 31, 2017 (audited)				
	Life insurance	**Health Insurance ***	**General insurance**	**Not attributed to operating segments**	**Total**
			NIS in thousands		
Gross earned premiums	127,051	235,232	729,787		1,092,070
Premiums earned by reinsurers	(22,794)	(3,283)	(144,377)		(170,454)
Premiums earned in retention	104,257	231,949	585,410		921,616
Gains on investments, net, and financing income	2	4,533	33,341	27,607	65,483
Commission income	4,066	367	3		41,736
Total income	108,325	236,849	656,054	27,607	1,028,835
Payments and change in liabilities with respect to insurance contracts, gross	(52,426)	(110,908)	(530,084)		(693,418)
Share of reinsurers in increase of insurance liabilities and payments for insurance contracts	9,261	3,614	117,004		129,879
Payments and change in liabilities with respect to insurance contracts, in retention	(43,165)	(107,294)	(413,080)		(563,539)
Commissions and other acquisition costs	(39,957)	(56,594)	(140,229)		(236,780)
General and administrative expenses	(9,822)	(28,666)	(34,253)		(72,747)
Financing income (expenses)	-	-	711	(3,492)	(2,781)
Total comprehensive income before taxes on income	15,375	44,295	69,203	24,151	152,988
Liabilities with respect to insurance contracts, gross, as of December 31, 2017	67,282	129,918	557,807		1,755,007

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

NOTE 4 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment:

	6-month period ended June 30, 2018 (unaudited)						
	Compulsory motor vehicle	**Motor vehicle property**	**Home**	**Professional liability**	**Other property sectors***	**Other liability sectors***	**Total**
	NIS in thousands						
Gross premiums	89,353	195,639	58,932	33,261	24,664	18,756	420,605
Reinsurance premiums	(1,230)	(17)	(6,683)	(30,070)	(23,934)	(16,097)	(78,031)
Premiums in retention	88,123	195,622	52,249	3,191	730	2,659	342,574
Change in balance of unearned premiums, in retention	(6,179)	(14,548)	(3,483)	(359)	117	(475)	(24,927)
Premiums earned in retention	81,944	181,074	48,766	2,832	847	2,184	317,647
Losses on investments, net, and financing income	(405)	(230)	(32)	(111)	(21)	(116)	(915)
Commission income	-	-	876	9,073	5,298	3,748	18,995
Total income	81,539	180,844	49,610	11,794	6,124	5,816	335,727
Payments and changes in liabilities for insurance contracts, gross	(81,215)	(123,700)	(31,695)	(52,285)	(17,013)	(22,180)	(328,088)
Share of reinsurers in increase of insurance liabilities and payments for insurance contracts	11,555	-	2,944	42,284	15,553	17,664	90,050
Payments and change in liabilities for insurance contracts, in retention	(69,660)	(123,700)	(28,701)	(10,001)	(1,460)	(4,516)	(238,038)
Commissions, marketing expenses and other acquisition costs	(13,417)	(30,395)	(14,328)	(7,956)	(3,080)	(3,334)	(72,510)
General and administrative expenses	(4,220)	(9,288)	(5,371)	(575)	(367)	(275)	(20,096)
Financing income, net	-	375	400	13	-	4	792
Total expenses	(87,297)	(163,008)	(48,000)	(18,519)	(4,907)	(8,121)	(329,852)
Total comprehensive income (loss) before taxes on income	(5,758)	(17,836)	1,610	(6,725)	1,217	(2,305)	5,875
Liabilities with respect to insurance contracts, gross, as of June 30, 2018	666,197	290,028	88,009	265,611	107,598	295,286	1,712,729
Net liabilities with respect to insurance contracts as of June 30, 2018	524,010	290,028	80,220	50,646	4,533	41,286	990,723

* Other property sectors reflect mainly the results of the property insurance sector, which accounts for 98% of the total premiums attributable to these sectors.
Other liability sectors reflect mainly the results of the third-party liability insurance sector, which accounts for 41% of the total premiums attributable to these sectors.

NOTE 4 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment (continued):

	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
Gains on investments, 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, gross	(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)
Commissions, 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 as of June 30, 2017	466,642	251,820	66,383	48,067	3,647	36,968	873,527

* Other property sectors reflect mainly the results of the property insurance sector, which accounts for 96% of the total premiums attributable to these sectors.
Other liability sectors reflect mainly the results of the third-party liability insurance sector, which accounts for 41% of the total premiums attributable to these sectors.

NOTE 4 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment (continued):

	3-month period ended June 30, 2018 (unaudited)						
	Compulsory motor vehicle	**Motor vehicle property**	**Home**	**Professional liability**	**Other property sectors***	**Other liability sectors***	**Total**
				NIS in thousands			
Gross premiums	40,795	87,097	27,888	16,796	11,813	7,817	192,206
Reinsurance premiums	(556)	9	(3,462)	(15,349)	(11,678)	(6,599)	(37,635)
Premiums in retention	40,239	87,106	24,426	1,447	135	1,218	154,571
Change in balance of unearned premiums, in retention	2,066	5,259	451	(127)	337	(88)	7,898
Premiums earned in retention	42,305	92,364	24,877	1,320	472	1,130	162,469
Gains on investments, net, and financing income	707	346	105	189	33	198	1,578
Commission income	-	-	460	4,502	2,690	1,872	9,524
Total income	43,012	92,711	25,442	6,011	3,195	3,200	173,571
Payments and change in insurance liabilities for insurance contracts, gross	(48,687)	(62,204)	(16,370)	(42,782)	(10,475)	(12,963)	(193,481)
Share of reinsurers in payments and change in insurance liabilities for insurance contracts	6,556	-	1,055	33,807	9,285	9,864	60,567
Payments and change in liabilities for insurance contracts, in retention	(42,131)	(62,204)	(15,315)	(8,975)	(1,190)	(3,099)	(132,914)
Commissions, marketing expenses and other acquisition costs	(7,444)	(17,851)	(7,015)	(4,312)	(2,018)	(1,885)	(40,525)
General and administrative expenses	(2,725)	(6,763)	(2,809)	(196)	(104)	(126)	(12,723)
Financing income, net	-	158	176	7	-	3	344
Total expenses	(52,300)	(86,660)	(24,963)	(13,476)	(3,312)	(5,107)	(185,818)
Total comprehensive income (loss) before taxes on income	(9,288)	6,051	479	(7,465)	(117)	(1,907)	(12,247)

* Other property sectors reflect mainly the results of the property insurance sector, which accounts for 97% of the total premiums attributable to these sectors.
Other liability sectors reflect mainly the results of the third-party liability insurance sector, which accounts for 42% of the total premiums attributable to these sectors.

NOTE 4 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment (continued):

	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
Gains on investments, 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, gross	(38,492)	(58,743)	(10,258)	(6,416)	(7,241)	(7,141)	(128,291)
Share of reinsurers in payments and increase in insurance liabilities for insurance contracts	1,345	-	538	8,168	6,472	6,451	22,974
Payments and change of liabilities for insurance contracts, in retention	(37,147)	(58,743)	(9,720)	1,752	(769)	(690)	(105,317)
Commissions, 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 the property insurance sector.
Other liability sectors reflect mainly the results of the third-party liability insurance sector, which accounts for 43% of the total premiums attributable to these sectors.

NOTE 4 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment (continued):

	Year ended December 31, 2017 (audited)						
	Compulsory motor vehicle	Motor vehicle property	Home	Professional liability	Other property sectors *	Other liability sectors *	Total
	NIS in thousands						
Gross premiums	160,274	352,489	108,187	65,312	40,769	34,873	761,904
Reinsurance premiums	(2,214)	(108)	(12,915)	(59,932)	(39,038)	(30,167)	(144,374)
Premiums in retention	158,060	352,381	95,272	5,380	731	4,706	617,530
Change in balance of unearned premiums, in retention	(8,178)	(23,226)	(2,769)	41,587	(62)	528	(32,120)
Premiums earned in retention	149,882	329,155	92,503	6,967	1,669	5,234	585,410
Gains on investments, net, and financing income	14,486	7,435	2,168	4,011	760	4,481	33,341
Commission income	-	-	1,546	17,897	10,011	7,849	37,303
Total income	164,368	336,590	6,217	28,875	12,440	17,564	656,054
Payments and change in liabilities with respect to insurance contracts, gross	(149,788)	(228,667)	(37,637)	(69,975)	(20,704)	(23,313)	(530,084)
Share of reinsurers in increase of insurance liabilities and payments for insurance contracts	21,846	-	1,579	52,658	18,903	22,018	117,004
Payments and change in liabilities with respect to insurance contracts, in retention	(127,942)	(228,667)	(36,058)	(17,317)	(1,801)	(1,295)	(413,080)
Commissions, marketing expenses and other acquisition costs	(22,698)	(59,411)	(27,320)	(16,511)	(6,758)	(7,531)	(140,229)
General and administrative expenses	(6,918)	(13,061)	(10,984)	(1,570)	(1,023)	(697)	(34,253)
Financing income	-	-	707	4	-	-	711
Total expenses	(157,558)	(301,139)	(73,655)	(35,394)	(9,582)	(9,523)	(586,851)
Total comprehensive income (loss) before taxes on income	6,810	35,451	22,562	(6,519)	2,858	8,041	69,203
Gross liabilities for insurance contracts as of December 31, 2017	625,446	261,904	74,596	220,250	92,857	282,754	1,557,807
Liabilities with respect to insurance contracts, in retention, as of December 31, 2017	492,800	261,904	68,176	42,133	3,632	37,442	906,087

* Other property sectors reflect mainly the results of the property insurance sector, which accounts for 96% of the total premiums attributable to these sectors.
Other liability sectors reflect mainly the results of the third-party liability insurance sector, which accounts for 44% of the total premiums attributable to these sectors.

NOTE 4 - SEGMENT INFORMATION (continued):

4.1 Additional information relating to life insurance segment:

6-month period ended June 30, 2018 (unaudited) (NIS in thousands):

	Policies not containing savings element – Risk sold as single policy		Total
	Private	Group	
Gross risk premiums	63,976	-	63,976
Payments and change in liabilities for insurance contracts, gross	24,443	-	24,443

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

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

3-month period ended June 30, 2018 (unaudited) (NIS in thousands):

	Policies not containing savings element – Risk sold as single policy		Total
	Private	Group	
Gross risk premiums	32,333	-	32,333
Payments and change in liabilities for insurance contracts, gross	13,183	-	13,183

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

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

NOTE 4 - SEGMENT INFORMATION (continued):

Year ended December 31, 2017 (audited) (NIS in thousands):

	Policies not containing savings element		Total
	Risk sold as single policy		
	Private	Group	
Gross risk premiums	127,053	-	127,053
Payments and change in liabilities for insurance contracts, gross	52,426	-	52,426

4.2 Additional information relating to healthcare segment:

6-month period ended June 30, 2018 (unaudited) (NIS in thousands):

	Long-term	Short-term	Total
Gross premiums	95,076	14,898	** 109,974
Payments and change in liabilities for insurance contracts, gross	45,681	14,401	60,082

** Consists primarily of policies issued to individuals.

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 insurance contracts, gross	42,674	7,264	49,938

** Consists primarily of policies issued to individuals.

3-month period ended June 30, 2018 (unaudited) (NIS in thousands):

	Long-term	Short-term	Total
Gross premiums	47,142	8,382	** 55,524
Payments and change in liabilities for insurance contracts, gross	22,596	6,621	29,217

** Consists primarily of policies issued to individuals.

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 insurance contracts, gross	20,277	4,754	25,031

** Consists primarily of policies issued to individuals.

NOTE 4 - SEGMENT INFORMATION (continued):

Year ended December 31, 2017 (audited) (NIS in thousands):

	Long-term	Short-term	Total
Gross premiums	197,179	38,065	** 235,244
Payments and change in liabilities for insurance contracts, gross	84,150	26,758	110,908

** Consists primarily of policies issued to individuals.

NOTE 5 - SHAREHOLDERS' EQUITY AND CAPITAL REQUIREMENTS:

a. **Capital management and requirements**

The following is information about the required and existing capital of the Company under the Supervision of Financial Services Regulations (Insurance) (Minimum Capital Required of an Insurer), 1998 (hereinafter – "the Capital Regulations") and the directives of the Supervisor.

The amounts of capital held by the Company according to the capital regulations:

	June 30		December 31,
	2018	2017	2017
	(Unaudited)		(Audited)
The amount required under Capital Regulations and the Supervisor's directives (a)	607,599	610,090	672,592
Existing amount calculated under the Capital Regulations:			
Initial basic capital	818,593	752,467	800,965
Total existing capital calculated under the Capital Regulations	818,593	752,467	800,965
Surplus	**210,994**	**142,337**	**128,373**
Subsequent events:			
Dividend declared	(50,000)	-	-
Surplus after consideration of subsequent events	**160,994**	**142,377**	**128,373**

(a) The amount required including capital requirements for:

Operations in general insurance/ initial capital requirement	133,036	121,391	124,754
Exceptional life insurance risks	48,054	43,934	46,122
Deferred acquisition costs related to life insurance	83,283	79,411	82,133
Investment and other assets	68,832	67,854	73,326
Catastrophe risks in general insurance	239,680	266,631	314,639
Operating risks	34,714	30,869	31,618
Total amount required under the Capital Regulations	607,599	610,090	672,592

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

b. Dividend paid

On August 28, 2018, the date of signing of the financial statements, management of the Company approved the distribution of a dividend in the amount of NIS 50 million, representing approximately NIS 8,726 per share. The amount of said dividend was included as a "subsequent event".

c. Solvency II

1. 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 provisions of the circular determine, among other things, that the period from June 30, 2017 to December 31, 2024 ("the deployment period"), the provisions will apply in relation to solvency capital requirement (SCR) in the deployment period at gradual upward intervals of 5% a year, such that 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") and the solvency capital requirement for an insurance company calculated on the basis of the data for December 31, 2024 and thereafter will not be less than the SCR.

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

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

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

2. On October 1, 2017, the Supervisor issued a letter to the managers of the insurance companies concerning the distribution of dividends by an insurance company (hereinafter – "the letter"). Pursuant to the letter:

   a) Until the date of receipt of the Supervisor's approval regarding the audit by an Audit Firm for the implementation of the Solvency Circular, an insurance company may distribute dividends if the following conditions are met:

      - After the distribution, the Company has an equity ratio to the required equity capital (hereinafter - the "Repayment Ratio") at a rate of at least 115% according to existing capital regulations or directives that replace them.

      - After the distribution, the Company has a solvency ratio of at least 100% according to the Solvency Agreement, calculated without the provisions during the deployment period and without a period of adjustment of the share scenario and subject to the solvency ratio determined by the Company's Board of Directors.

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

c. Solvency II (continued)

1. (continued)

b) After the date of receipt of the Supervisor's approval regarding the audit by an Audit Firm on the implementation of the provisions of the Solvency Circular - an insurance company may distribute a dividend if it meets the conditions stated at the end of section (a) above.

c) An insurance company that distributed a dividend shall deliver to the Supervisor, within 20 business days from the date of distribution, the following:

1. An annual profit forecast for the two years following the dividend distribution date;
2. An updated debt service plan of the insurance company approved by the Company's Board of Directors, as well as an updated debt service plan of the holding company that holds the insurance company that was approved by the board of directors of the holding company;
3. An updated capital management plan approved by the Board of Directors of the insurance company, which also includes extensive reference to meeting the repayment ratio target set by the Board of Directors over time, without regard to the period of deployment and without the period of adjustment of the share scenario;
4. A copy of the minutes of the Board of Directors of the insurance company in which the distribution of the dividend was approved, together with the background material for the discussion.

NOTE 6 - FINANCIAL INSTRUMENTS AND FINANCIAL RISKS:

a. Fair value hierarchy

The various levels of fair value are determined as follows:

- Level 1 – fair value measured by use of quoted prices (unadjusted) on an active market for identical instruments.
- Level 2 – fair value measured by using observable inputs, direct and indirect, which are not included in Level 1 above.
- Level 3 – fair value measured by using inputs that are not based on observable market data.

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

Pursuant to the aforesaid, during the 6 months ended June 30, 2018, no fair value amounts in respect of financial assets were transferred into or out of the various levels of the hierarchy.

b. The fair value of financial assets and financial liabilities

1) The carrying amounts of cash and cash equivalents, premiums collectible, accounts receivable, and accounts payable are identical or close to their fair values.

2) For details on the fair value of financial investments, see d. below.

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

c. Composition of financial investments

	June 30, 2018 (unaudited)		
	Measured at fair value through profit or loss	Loans and receivables	Total
	NIS in thousands		
Marketable debt instruments (1)	1,679,855	-	1,679,855
Non-marketable debt instruments (2)	-	68,252	68,252
Other (3)	26,316	-	26,316
Total	1,706,171	68,252	1,774,423

	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

	December 31, 2017 (audited)		
	Measured at fair value through profit or Loss	Loans and receivables	Total
	NIS in thousands		
Marketable debt instruments (1)	1,588,676	-	1,588,676
Non-marketable debt instruments (2)	-	85,174	85,174
Other (3)	85,943	-	85,943
Total	674,619	85,174	759,793

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

d. Composition of financial investments (continued):

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

	June 30, 2018 (unaudited)	
	Carrying amount	Amortized cost
	NIS in thousands	
Government bonds	580,773	578,848
Other debt assets:		
Other non-convertible debt assets	1,099,082	1,083,186
Total marketable debt assets	1,679,855	1,662,034

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

	December 31, 2017 (audited)	
	Carrying amount	Amortized cost
	NIS in thousands	
Government bonds	557,539	550,528
Other debt assets:		
Other non-convertible debt assets	1,031,137	998,326
Total marketable debt assets	1,588,676	1,548,854

2) **Composition of non-marketable debt instruments:**

	June 30, 2018 (unaudited)	
	Carrying amount	Fair value
	NIS in thousands	
Bank deposits	1,133	1,447
Presented at amortized cost, except bank deposits	67,119	68,161
Total non-marketable debt assets	68,252	69,608

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

d. Composition of financial investments (continued):

2) **Composition of non-marketable debt instruments** (continued):

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

	December 31, 2017 (audited)	
	Carrying amount	Fair value
	NIS in thousands	
Bank deposits	1,288	1,638
Presented at amortized cost, except bank deposits	83,886	87,718
Total non-marketable debt assets	85,174	89,356

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

	June 30, 2018 (unaudited)	
	Carrying amount	Cost
	NIS in thousands	
Marketable financial investments	26,316	23,466

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

	December 31, 2017 (audited)	
	Carrying amount	Cost
	NIS in thousands	
Marketable financial investments	85,943	78,657

NOTE 7 - CONTINGENT LIABILITIES:

There is a general exposure which cannot be evaluated or quantified resulting, inter alia, from the complexity of the services provided by the Company to its policy holders and the frequent changes in regulation. The complexity of these arrangements embodies, inter alia, the potential for arguments pertaining to a long series of commercial and regulatory conditions. It is impossible to anticipate in advance the types of arguments that might be raised in this field, and the exposure resulting from these and other contentions.

In addition, there is a general exposure due to complaints that are filed from time to time with various authorities, such as Supervision, concerning the rights of policy holders under insurance policies and/or the law. These complaints are handled on a current basis by those functions in the Company that oversee customer concerns. The rulings of the authorities on such complaints, to the extent that any ruling is made, are often given across the board. Additionally, in some cases the complaining parties even threaten to initiate legal proceedings in relation to their complaints, including in the form of a petition for certification a class action. At this preliminary stage, the development of such proceedings cannot be assessed and at any rate the potential exposure in their regard or the very initiation of such proceedings cannot be estimated. Accordingly, no provision was created for said exposure.

In the opinion of management of the Company, which is based on the opinion of its legal counsel as to the chances of such proceedings, the provisions included in the financial statements, where necessary, are sufficient to cover damages from such claims. The provision included in the financial statements is in an immaterial amount.

a. Contingent liabilities – petitions for certification of class actions:

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

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

   A pretrial hearing in the case was held on February 12, 2018.

   Recently, the petitioners, with the consent of the Company, submitted a motion for the stay of proceedings pending a ruling in the appeal that had been filed with the High Court of Justice in relation to the National Labor Court's ruling in another case concerning overtime. On July 15, 2018, the court approved the stay of proceedings pending the ruling of the High Court of Justice.

   In the opinion of management of the Company, at present, in view of the aforesaid ruling of the National Labor Court, the chances of the petition being accepted are low.

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

NOTE 7 - CONTINGENT LIABILITIES (continued):

a. Contingent liabilities – petitions for certification of class actions (continued):

2. (continued)

On December 8, 2016, a consent motion to amend the certification petition was filed, requesting the court to permit the petitioners to amend the certification petition by removing arguments concerning the respondents' compulsory insurance and pursuing solely the matters relating to comprehensive insurance, this in view of the ruling in the class action of Meyuhas et al. v. Menorah et. al.

On December 11, 2016, a ruling was handed down, which approved the motion to amend the certification petition. On June 21, 2017, the Company submitted its response to the certification petition. On July 23, 2017, the petitioners responded to the response to the certification petition. On August 18, 2017, the petitioners submitted a motion for the striking of the respondents' response to the certification petition and alternatively for the removal of items from the response.

A pretrial hearing was held on September 13, 2017. The Court ruled that the certification petition does not contain the cause of practice. The Court further required the petitioners, during the hearing, to present their position concerning the continuation of the proceedings, this by November 1, 2017.

On November 14, 2017, the petitioners notified the Court that they intend to continue pursuing the proceedings. On November 18, 2017, the Court ruled that, in view of the petitioners' intention to continue the proceedings, the parties are given an opportunity to submit summary complementary arguments concerning the pending motion to deposit a security. On December 6, 2017, the respondents submitted their summary complementary arguments concerning the motion to deposit a security.

On December 13, 2017, the petitioners requested the Court for a seven-day stay of ruling in the motion to deposit a security, arguing that the respondents have attached new documents to their complementary arguments, which had not been included previously, and that the petitioners object to.

The Court accepted the request and, on December 17, 2017, the petitioners filed a motion to strike the respondents' complementary arguments in the motion to deposit a security. The Court determined that the respondents are entitled to submit their response by January 8, 2018 and the petitioners are entitled to respond to such response by January 17, 2018.

On January 7, 2018, the respondents submitted their response to the petitioners' request to strike the complementary arguments and on January 17, 2018, the petitioners submitted their response to the respondents' response.

On January 23, 2018, the Court rejected the petitioners' motion to order the respondents to deposit a security.

On February 22, 2018, a pre-trial hearing was held, in which the parties requested the Court to approve a hearing arrangement whereby the parties will deliver questions instead of cross-examining the makers of affidavits and the summations will be verbal.

The Court approved the hearing arrangement and determined that questions will be delivered by March 25, 2018 and answered by May 17, 2018.

NOTE 7 - CONTINGENT LIABILITIES (continued):

a. Contingent liabilities – petitions for certification of class actions (continued):

2. (continued)

On May 15, 2018, the Court accepted the Company's request to extend the final date for the answering of questions until July 7, 2018. On May 21, 2018, the Court issued notice of the transfer of the case to a different judge.

On June 24, 2018, the parties filed a motion for the approval of a hearing arrangement whereby the petitioners will submit written summary arguments within 60 days of the full submission of affidavits by the respondents, and the respondents will submit their arguments 60 days thereafter. Additionally, once the written summaries have been submitted, verbal summations will be presented.

The Court has determined that the motion for a hearing arrangement will only be considered by the Court once appropriate notice is given of the full submission of affidavits by all of the respondents.

On July 9, 2018, the Company submitted its questionnaire affidavit.

On July 19, 2018, the parties notified the court that all response affidavits have been submitted and that a ruling may be given in their motion for the approval of a hearing arrangement.

On July 26, 2018, the Court approved the parties' proposed hearing arrangement and determined the verbal complementary arguments will be heard on February 3,2019.

The petitioners are required to submit their summary arguments by November, 13, 2018 and the respondents are required to submit their summary arguments by January 13, 2019.

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

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

The plaintiffs allege the overcharging of policy holders the breach of the enhanced duties of the insurance companies to their policy holders 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 them 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 personal damage claimed from the Company is negligible.

On June 18, 2017, the Company submitted its response to the certification petition. 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 they will be participate in the hearing scheduled for September 13, 2017, in which the continuation of the proceedings will be considered.

On September 7, 2017, the petitioners submitted their response to the respondent's response to the certification petition.

On December 26, 2018, the respondent submitted its response to the petitioner's demand to disclose documents, rejecting it on the grounds that the documents constitute a trade secret and are therefore confidential.

NOTE 7 - CONTINGENT LIABILITIES (continued):

a. Contingent liabilities – petitions for certification of class actions (continued):

3. (continued)

   In a pretrial hearing held on February 22, 2018 it has been decided that cross-examinations will be conducted in the case.

   On May 21, 2018, the Court notified the parties of the substitution of beneficiary in the case.

   On June 19, 2018, the Court scheduled a pretrial hearing in the case for December 19, 2018.

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

4. On April 27, 2017, a petition to certify a class action was filed against the Company and two other insurance companies. The plaintiffs argue that insurance companies overcharged credit fees of policy holders who paid premiums in installments, in excess of the rates permitted by law and/or the interest rates presented in the policies. It was alleged that the Company has caused an estimated damage of NIS 20,879 thousand over seven years.

   The deadline for the response to the certification petition was extended for the purpose of attempting to reach a compromise in the case. As part of the understandings, an auditor was appointed on behalf of the plaintiff, which has reviewed and confirmed extent of exposure that had been declared by the Company. The parties are currently negotiating a compromise on the basis of the declared extent of exposure.

   A pretrial hearing has been scheduled for February 17, 2019 .

   In the opinion of management of the Company, which is based on the opinion of its legal counsel, the Company will be able to reach an arrangement in this claim.

5. On June 22, 2017, a petition to certify a class action was filed against the Company.

   The plaintiff alleges that the Company did not reimburse employers who paid the National Insurance Institute for injury allowance amounts paid for workers injured in road accidents that were defined as work accidents.

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

   The Company submitted a response to the certification petition, to which the petitioner has responded.

   On April 26, 2018, a hearing was held in the case, in which the Court recommended the petitioner not to further pursue the matter. Recently, the petitioner announced that it wishes to withdraw the claim that had been filed against the Company. However, to date, consent has yet to be reached as to the content of the motion to withdraw. A motion to withdraw without consent is likely to be filed in the near term.

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

NOTE 7 - CONTINGENT LIABILITIES (continued):

a. Contingent liabilities – petitions for certification of class actions (continued):

6. On September 14, 2017, a petition to certify a class action against was filed against 13 insurance companies, including the Company (the "Respondents").

   The petitioners' allege that the Respondents refrain from adding linkage differentials and/or interest to amounts ruled by a judicial authority, thereby violating Section 5(b) of the Adjudication of Interest and Linkage Law, 5721-1961 (hereinafter: "the Law"). They argue that according to the Law, in cases where the debtor does not pay his debt on time, the linkage differentials, the ordinary interest rate and the interest on arrears should be added to this amount, starting from the date on which the debtor must pay the debt to the date of actual payment.

   The personal damage of the plaintiff against the Company is negligible. The petitioners, in the absence of precise data regarding the total damage of the class, estimate the damage at tens of millions of shekels.

   The respondent submitted its response to the certification petition on March 29, 2018.

   A pretrial hearing has been scheduled for November 5, 2018 .

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

7. On December 26, 2017, a claim and a petition to certify it as a class action were filed against the Company. The plaintiff alleges that the Company adds to the amounts it collects from policy holders who did not pay on time, "collection expenses" for lawyers' fees contrary to the law. It should be noted that similar petitions have also been filed against other entities, including other insurance companies.

   Pursuant to a recommendation by the Court in a similar claim against another insurance company, the Company has reached the following understandings with the plaintiff: the Company will add a note to the first letter of demand that it issues to debtors prior to referral to a lawyer for execution procedures, that if the amount is not paid the case will be transferred to the lawyers and reasonable collection expenses and lawyers' fees will be added to the amount of debt. Added fees will not exceed the minim rate prescribed by the Bar Association. The Court has approved the withdrawal arrangement and the Company is pursuing its execution.

8. On January 16, 2018, a claim and a petition to certify it as a class action were filed against the Company in the matter of refraining from paying the VAT component that applies to the cost of the damages in cases in which the alleged damages were not actually repaired to their policy holders and/or to third parties.

   The petitioner estimates the compensation due to members of the class for each year in respect of the Company in the amount of NIS 5,744 thousand.

   The motion of the Company, together with the other insurance companies included in the claim, for the striking in limine of the certification petition, on the grounds that the matter is not appropriate for the filing of claim by an organization – was rejected by the Court.

   The Company has submitted its response to the certification petition. A hearing in the case has been scheduled for November 13, 2018.

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

NOTE 7 - CONTINGENT LIABILITIES (continued):

a. Contingent liabilities – petitions for certification of class actions (continued):

9. On May 2, 2018, a claim and a petition to certify it as a class action in the amount of NIS 2.5 million was filed against the Company. The petition alleges that the Company automatically renews home insurance policies under a mortgage, at higher insurance rates in the renewal period, without obtaining the policy holders' consent for the renewal and raising of the insurance fees and without informing them of the new price.

   The Company is required to submit its response to the certification petition in October 2018. A pretrial hearing has been scheduled for March 3, 2019.

   At this preliminary stage of the claim, the Company's management and its legal counsel are still studying the matter.

   In the opinion of management of the Company, which is based on the opinion of its legal counsel, at this preliminary stage the chances of the petition to certify the claim as a class action cannot be estimated.

10. On May 8, 2018, a claim and a petition to certify it as a class action in the amount of NIS 262 million (Company's share – NIS 157 million) was filed against the Company and another insurance company. According to the petition, the Company allegedly disregards the value of the vehicle in calculating the insurance fees, yet takes such value into account upon the payment of such fees. It is therefore argued that the Company allegedly overcharges premium, contrary to related Supervision circulars.

    At this preliminary stage of the claim, the Company's management and its legal counsel are still studying the matter. In the opinion of management of the Company, which is based on the opinion of its legal counsel, at this preliminary stage the chances of the petition to certify the claim as a class action cannot be estimated.

	Number of claims	The amount claimed NIS in thousands
Pending petitions for certification of class actions:		
Amount relating to the Company	10	*222,643

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

NOTE 8 – SUBSEQUENT EVENTS

a. On July 31, 2018, management of the Company, the employees' representation and the Labor Federation signed a renewal of a collective agreement in the Company. The agreement updates the work relations, terms of employment and related benefits for the employees of the Company that are included in the agreement. The agreement does not have a material effect on the business results of the Company in the reporting period.

b. As to the dividend distribution after balance-sheet date – see Note 5b above.