AIG Israel Insurance Company Ltd

Interim Financial Report

(Unaudited)

As of September 30, 2018

Contents

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

The directors' report on the business of the Company as of September 30, 2018 ("**the directors' report**"), reviews the Company and developments in its business in the first three quarters of 2018 ("**the reported period**"). The information in this report are as of September 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 according to the guidance issued by the Commissioner of Capital Markets, Insurance and Savings in the Israel Ministry of Finance ("the **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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AIG

1. Condensed description of the Company:

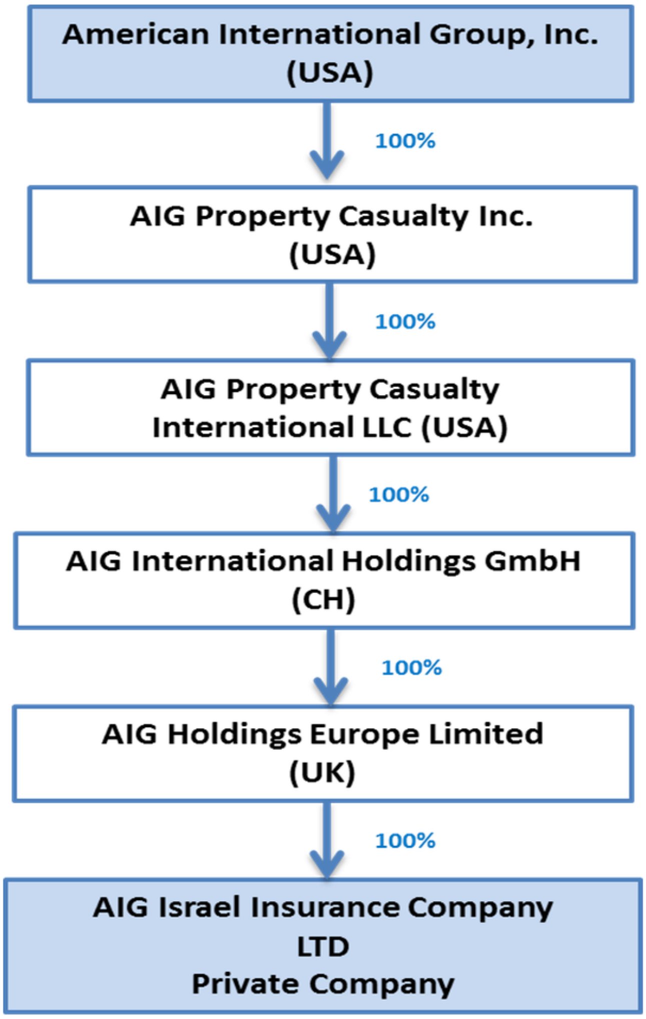
1.1 Organizational structure

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 BBB+ 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 to practice as an insurer in general insurance and life insurance as follows: motor vehicle insurance, compulsory motor vehicle insurance, comprehensive home insurance, health insurance (personal injury, serious illness, 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 digitally. 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 Exceptional events since the last financial statements

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

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, Phoenix, Menorah, Migdal and Clal – 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-September 2018	Jan-September 2017	Jul-September 2018	Jul-September 2017	2017
Government bonds indexes					
General government bonds	(0.4%)	2.5%	0.3%	1.6%	3.6%
Linked government bonds	0.3%	1.9%	0.4%	1.7%	3.4%
NIS government bonds	(0.8%)	2.9%	0.2%	1.5%	3.7%
Corporate bonds indexes					
Tel Bond 60	1.4%	4.2%	1.1%	1.4%	5.8%
Tel Bond NIS	(1.4%)	5.9%	0.9%	2.4%	7.5%
Share indexes					
Tel-Aviv 125	8.8%	0.8%	9.0%	0.3%	6.4%
S&P 500	9.0%	12.5%	7.2%	4.0%	91.42%

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

For information on general trends in the insurance sector and their effect on company's business, see Section 4.3 in Chapter A (description of company's business) in the Company's 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 regulatory 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 ("Minimum Capital Regulations") 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.
- In August 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.

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.
- In August 2018, the Commissioner published a draft amendment of the provisions of the consolidated circular concerning reports to the public. The draft proposes, inter alia, the addition of paragraphs to the quarterly report that describe the purpose of the quarterly directors' report, similarly to those provided in the appendix to the annual directors' report, and the addition of a directive not to include in the report provisions of the law described in prior periodic reports of the insurer.

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 August 2018, the Commissioner published a draft amendment in this matter, including clarifications concerning outsourcing agreements signed between the publication date and the effective date of the circular, as well as concerning the reporting of outsourcing agreements to the Commissioner.
- 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 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.
- In July 2018, the Commissioner published an amendment to the Joining of an Insurance Policy Circular (2016-1-7). 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.
- In August 2018, the Commissioner published a statement of position concerning carpooling. According to the statement of position, carpooling that meets the cumulative conditions that are specified in Regulation 84B of the Transportation Regulations is covered by compulsory vehicle insurance and vehicle property insurance policies, in their standard format, and that the obtaining of designated policies is not required.
- In August 2018, the Commissioner published a public consultation paper concerning periodic payments under the Law for the Compensation of Road Accident Victims, 1975 ("**the CORAV Law**"). In said document, the Commissioner seeks to examine the implications of a new regulation that will prescribe directives pursuant to which compensations for loss of earning capability and ongoing expenses to victims with a handicap of at least 20% to their future earning capability will be generally paid in CPI-linked periodic payments.
- In August 2018, the Commissioner published Circular 2018-9-29 concerning the institution of insurance plans and the code of a provident fund, which supersedes Circular 2015-9-5 and prescribes, inter alia, a procedure for submission of notice on an insurance plan or changes therein.
- In August 2018, the Commissioner published an amendment to the provisions of the Consolidated Circular, "Roles of a Supervising Actuary and a Risk Manager of an Insurer and their Interaction with Other Functions" (Circular 2018-9-28), which aims to incorporate the provisions of Sections 3 and 14 of Circular 2006-1-14 into the consolidated circular. The amendment determines, inter alia, that the actuary's appendix and statement that are provided as part of the institution of insurance plans are to be signed by the supervising actuary, who will possess appropriate experience and qualifications, this in view of the impact of the pricing of the products on the necessary provisions in the public institution.
- In August 2018, the Commissioner published an update to the provisions of the consolidated circular concerning the Board of Directors of a public institution. This circular prescribes provisions for the qualification of the members of the Board of Directors, its composition, responsibilities and conduct, including provisions relating to the Board committees, this on the basis of international standards. The update cancels, inter alia, Circular 2006-9-7, "Procedure for the Work of a Board of Directors and its Committees", and Circular 2008-1-5, "Preparation for Solvency II".
- In August 2018, the Commissioner published an update to Circular 2016-1-17, "Online Interface for the Location of Insurance Products", which aims to enhance the transparency and availability of the information to the public of policy holders. The amendment contains, inter alia, additional provisions and requirements concerning the transfer of information to the Commissioner for the operation of the interface.

Drafts

- 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 June 2018, the Commissioner published draft directives for the amendment of the consolidated circular concerning the management of information technology in public institutions, for the purpose of assimilating the provisions of Circular 2010-9-4, "Information Technology Management in Public Institutions" into the provisions of the consolidated circular.
- In June 2018, the Commissioner published draft directives for the amendment of the consolidated circular concerning the management of business continuity in public institutions. The purpose of the aforesaid draft is to assimilate the provisions of Circular 2013-9-11, "Management of Business Continuity in Public Institutions", into the provisions of the consolidated circular.
- In July 2018, the Commissioner published draft directives for the amendment of the consolidated circular concerning 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 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.
- In August 2018, the Commissioner published a draft amendment to the consolidated circular (Part 4 of Cover 5, Chapter 4, "Special Reports"). The amendment provides guidance to insurance companies as to the manner of reporting widespread property damages, such as in the event of an earthquake, large fire etc.
- In August 2018, the Commissioner published a draft circular, "Collection of Statistical Data – Public Applications". The draft provides guidance to the insurance companies on the collection of statistical data concerning the overall applications of the public to public institutions, in order to enable the Authority access to extensive and well-founded information on applications by the public for the purpose of identifying issues that require regulation and examining the quality of service provided in relation to such applications.
- In August 2018, the Commissioner published a draft amendment to the Directives for the Supervision of Financial Services (Insurance) (Contractual Terms of Motor Vehicle Compulsory Insurance), 2018. The draft amendment contains, inter alia, adjustments to the provisions of the Law for the Amendment of the Motor Vehicle Insurance Ordinance (No. 22), 2017, and updates and adjustments to a standard policy for trade – compulsory vehicle insurance.

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

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

	September 30, 2018	September 30, 2017	December 31, 2017
Other assets	318,908	* 298,221	275,307
Deferred acquisition expenses	162,218	149,997	149,357
Financial investments and cash	1,903,197	* 1,783,261	1,817,713
Reinsurance assets	736,834	706,985	669,428
Total assets	**3,121,157**	**2,938,464**	**2,911,805**
Shareholders' equity	800,427	778,742	800,965
Liabilities in respect of insurance	1,951,945	1,796,422	1,755,007
Other liabilities	368,785	363,300	355,833
Total equity and liabilities	**3,121,157**	**2,938,46**	**2,911,805**

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

	Jan-September 2018	Jan-September 2017	Jul-September 2018	Jul-September 2017	2017
Gross earned premiums	856,177	819,567	298,192	281,858	1,092,070
Premiums earned by reinsurers	(128,126)	(127,749)	(47,133)	(42,574)	(170,454)
Premiums earned in retention	**728,051**	**691,818**	**251,059**	**239,284**	**921,616**
Net investment revenue and financing revenue	12,139	44,970	12,915	16,980	65,483
Fee revenue	32,903	30,987	11,469	10,628	41,736
Total revenue	**773,093**	**767,775**	**275,443**	**266,892**	**1,028,835**
Payments and change in liability for insurance contracts, in retention	(463,952)	(420,596)	(148,330)	(146,200)	(563,539)
Total other expenses	(230,979)	(230,383)	(77,919)	(78,901)	(312,308)
Income before income taxes	**78,162**	**116,796**	**49,194**	**41,791**	**152,988**
Taxes on income	(28,700)	(41,914)	(17,360)	(15,516)	(55,883)
Income for the period and total comprehensive income for the period	**49,462**	**74,882**	**31,834**	**26,275**	**97,105**

Capital and capital requirement

As of September 30, 2018, the Company's capital exceeds the level required as of that date under the Supervision of Financial Services Regulations (Insurance) (Minimum Capital Required of an Insurer), 1998 by NIS 155.6 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 to AHEL, see Note 5b to the financial statements.

Solvency II-based economic solvency regime of an insurer:

Presented below are data regarding solvency ratio and capital requirement (MCR). The information is unaudited and were not reviewed by the independent auditors:

a. Solvency ratio (NIS in thousands):

	December 31, 2017	December 31, 2016*
Regardless of the provisions in deployment period:		
Equity for purposes of solvency capital requirement (SCR)	1,063,774	1,009,522
Solvency capital requirement (SCR)	655,304	618,223
Surplus as of reporting date	**408,471**	**391,299**
Solvency ratio as of reporting date (%)	162%	163%
Milestones during deployment period:		
Equity for purposes of solvency capital requirement in deployment period	1,063,774	1,009,522
Solvency capital requirement in deployment period	417,230	373,153
Surplus in deployment period	**646,544**	**636,369**

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

	December 31, 2017	December 31, 2016*
Minimum capital requirement (MCR)	178,982	167,919
Equity for purposes of MCR	1,063,774	753,860

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

4. Results of operations

In the reported period, the Company's gross premiums continued to rise, increasing by 4.0% as compared to gross premiums in the corresponding period last year. Total gross premiums in the reported period amounted to NIS 897.2 million, as compared to NIS 862.7 million in the corresponding period in 2017.

In the reported period, total premiums earned in retention amounted to NIS 764.1 million compared with NIS 731.2 million in the corresponding period in 2017, a 4.5% increase.

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

Jan-September 2018	Life insurance	Health insurance	General insurance	Total
Gross	96,971	175,080	625,156	897,207
In retention	78,249	172,786	513,116	764,151
% of total gross	10.8	19.5	69.7	100.0
% of retention	10.2	22.6	67.2	100.0

Jan-September 2017	Life insurance	Health insurance	General insurance	Total
Gross	95,165	178,720	588,796	862,681
In retention	78,136	176,275	476,833	731,244
% of total gross	11.0	20.7	68.3	100.0
% of retention	10.7	24.1	65.2	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	17,530	953,758
% of total gross	11.3	20.9	67.8	100.0
% of retention	10.9	24.3	64.8	100.0

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

	Jan-September 2018	Jan-September 2017	Jul-September 2018	Jul - September 2017	2017
Income (loss) from compulsory vehicle activity	(3,792)	11,836	1,966	4,129	6,810
Income from property vehicle activity	36,278	26,211	18,442	8,420	35,451
Income from home insurance activity	5,605	16,019	3,995	7,404	22,562
Income from commercial insurance activity	(6,055)	2,515	1,758	1,314	4,380
Income from health insurance activity	21,630	35,348	11,665	11,880	44,295
Income from life insurance activity	17,498	11,536	6,566	4,418	15,375
Other - Income not attributed to any line of business	6,998	13,331	4,802	4,226	24,115
Income before tax	**78,162**	**116,796**	**49,194**	**41,791**	**152,988**
Taxes on income	(28,700)	(41,914)	(17,360)	(15,516)	(55,883)
Income for the year and total comprehensive income for the year	**49,462**	**74,882**	**31,834**	**26,275**	**97,105**

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

The following is explanation on the development in some items:

a. Net investment income and financing income was NIS 12.1 million, compared with NIS 45.0 million in the corresponding period of 2017. The decrease in investment income in the reported period resulted mainly from reduced yields of corporate bonds and shares (see 2. above).

b. The loss of the Company from compulsory vehicle insurance in the reported period was NIS 3.8 million, compared with income of NIS 11.8 million in the corresponding period in 2017. The decrease in income is due mainly to the reduction in investment income in the reported 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, which amounted to NIS 10.7 million in the reporting period, as compared to NIS 7.2 million in the corresponding period in 2017.

c. The income of the Company from property vehicle insurance in the reported period was NIS 36.3 million compared to a loss of NIS 26.2 million in the corresponding period in 2017. The underwriting income of the Company from vehicle property insurance amounted to NIS 34.2 million in the reporting period, as compared to income of NIS 20.4 million in the corresponding period in 2017. The increase in income was due mainly to the greater volume of the Company's business (premiums earned) and the good combined ratio of the Company, which amounted to 87.5% in the reported period, as compared to 91.8% in the first nine months of 2017.

d. The income of the Company from home insurance in the reporting period was NIS 5.6 million, as compared to income of NIS 16.0 million in the corresponding period in 2017. The underwriting income of the Company from home insurance amounted to NIS 4.6 million in the reporting period, as compared to income of NIS 13.9 million in the corresponding period in 2017. The decrease in income resulted mainly from the effect of weather damage in the first half of 2018.

e. The loss of the Company from professional liability insurance in the reporting period was NIS 7.2 million, as compared to loss of NIS 7.5 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.

f. The income of the Company from other property insurance in the reported period was NIS 2.2 million, compared with income of NIS 2.4 million in the corresponding period in 2017.

g. The loss of the Company from other liability insurance amounted to NIS 1.0 million in the reported period, as compared to profit of NIS 7.7 million in the corresponding period in 2017. The transition from income in the corresponding period in 2017 to loss in the reported period was due to the increase in the claims' ratio and the decrease in investment income.

h. The income of the Company from health insurance in the reported period was NIS 21.6million, as compared to income of NIS 35.3 million in the corresponding period in 2017. The decrease in income was due to an increase in the claims' ratio in personal injury and overseas travel, and to the lower investment income 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 17.4 million, as compared to income of NIS 11.5 million in the corresponding period in 2017. The increase in income 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 67.6 million, compared with NIS 8.6 million in the corresponding period in 2017.

Net cash used in investing activities in the reported period amounted to NIS 12.5 million, compared with NIS 18.7 million in the corresponding period in 2017.

Dividend paid amounted to NIS 50 million, compared with NIS 50 million in the corresponding period in 2017.

As a result of the above, the balance of cash and cash equivalents in the reported period increased by NIS 5.4 million and amounted NIS 63.4 million as of September 30, 2018.

6. Sources of funding

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

7. Material subsequent events

No material events occurred after the date of the 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 September 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

November 27, 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 September 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

November 27, 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 September 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

November 27, 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 September 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 September 30, 2018 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: November 27, 2018

AIG Israel Insurance Company Ltd.

Financial Statements As at September 30, 2018 (Unaudited)

Financial Statements as at September 30, 2018 (Unaudited)

Contents

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 September 30, 2018 and the condensed statements of profit or loss and other comprehensive income, changes in equity and cash flows for the nine- 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 September 30, 2017 and for the nine- and three-month periods ended on those dates has been reviewed by other auditors, whose report thereon, dated November 28, 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.

Emphasis of a matter

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.)

November 27, 2018

Condensed Interim Statements of Financial Position as at

	September 30, 2018	September 30, 2017	December 31, 2017
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Assets			
Intangible assets	34,874	39,103	38,448
Deferred acquisition costs	162,218	149,997	149,357
Property and equipment	11,988	11,730	11,054
Reinsurance assets	736,834	706,985	669,428
Premiums collectible	219,403	182,442	173,828
Current tax assets	1,849	3,482	3,428
Other receivables	50,794	61,464	48,549
	1,217,960	1,155,203	1,094,092
Financial investments			
Marketable debt instruments	1,684,941	1,535,527	1,588,676
Non-marketable debt instruments	67,498	90,149	85,174
Other	87,398	81,372	85,943
Total financial investments	1,839,837	1,707,048	1,759,793
Cash and cash equivalents	63,360	76,213	57,920
Total assets	3,121,157	2,938,464	2,911,805

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

Date of approval of the interim financial information by the Board of Directors of the Company: November 27, 2018

Condensed Interim Statements of Financial Position as at

	September 30, 2018	September 30, 2017	December 31, 2017
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Equity and liabilities			
Equity			
Share capital	6	6	6
Share premium	250,601	250,601	250,601
Capital reserves	11,084	11,084	11,084
Retained earning	538,736	517,051	539,274
Total equity attributable to equity holders of the Company	800,427	778,742	800,965
Liabilities			
Liabilities in respect of insurance contracts and investment contracts that are not yield dependent	1,951,945	1,796,422	1,755,007
Liabilities in respect of deferred taxes, net	93	7,944	9,281
Retirement benefit obligation, net	3,293	2,612	3,489
Liabilities to reinsurers	279,447	274,465	247,287
Other payables	85,108	78,279	95,776
Total liabilities	2,320,730	2,159,722	2,110,840
Total equity and liabilities	3,121,157	2,938,464	2,911,805

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

Condensed Interim Statements of Profit or Loss and Other Comprehensive Income

	For the nine-month period ended September 30		For the three-month period ended September 30		For the year ended December 31
	2018	2017	2018	2017	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Gross earned premiums	856,177	819,567	298,192	281,858	1,092,070
Premiums earned by reinsurers	(128,126)	(127,749)	(447,133)	(42,574)	(170,454)
Premiums earned in retention	728,051	691,818	251,059	239,284	921,616
Gains on investments, net and financing income	12,139	44,970	12,915	16,980	65,483
Commission income	32,903	30,987	11,469	10,628	41,736
Total income	773,093	767,775	275,443	266,892	1,028,835
Payments and change in liabilities with respect to insurance contracts, gross	(577,970)	(527,586)	(165,357)	(203,239)	(693,418)
Share of reinsurers in change of insurance liability and payments for insurance contracts	114,018	106,990	17,027	57,039	129,879
Payments and change in liabilities with respect to insurance contracts, retention	(463,952)	(420,596)	(148,330)	(146,200)	(563,539)
Commissions, marketing expenses and other acquisition costs	(177,396)	(171,861)	(59,759)	(56,946)	(236,780)
General and administrative expenses	(56,642)	(55,477)	(18,481)	(19,187)	(72,747)
Financing income (expenses)	3,059	(3,045)	321	(2,768)	(2,781)
Total expenses	(694,931)	(650,979)	(226,249)	(225,101)	(875,847)
Income before taxes on income	78,162	116,796	49,194	41,791	152,988
Taxes on income	(28,700)	(41,914)	(17,360)	(15,516)	(55,883)
Income for the period and total comprehensive income for the period	49,462	74,882	31,834	26,275	97,105
Basic earnings per share:					
Basic earnings per share (NIS thousands)	8.63	13.07	5.56	4.59	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 financial statements.

Condensed Interim Statements of Changes in Equity

	Share capital	Share premium	Other reserves	Retained earnings	Total
			NIS thousands		
Balance as at January 1, 2018 (audited)	6	250,601	11,084	539,274	800,965
Total comprehensive income for the period				49,462	49,462
Dividend				(50,000)	(50,000)
Balance as at September 30, 2018 (unaudited)	6	250,601	11,084	538,736	800,427
Balance as at January 1, 2017 (audited)	6	250,601	11,084	492,169	753,860
Total comprehensive income for the period				74,882	74,882
Dividend				(50,000)	(50,000)
Balance as at September 30, 2017 (unaudited)	6	250,601	11,084	517,051	778,742
Balance as at July 1, 2018 (unaudited)	6	250,601	11,084	556,902	818,593
Total comprehensive income for the period				31,834	31,834
Dividend				(50,000)	(50,000)
Balance as at September 30, 2018 (unaudited)	6	250,601	11,084	538,736	800,427

Condensed Interim Statements of Changes in Equity

	Share capital	Share premium	Other reserves	Retained earnings	Total
			NIS thousands		
Balance as at July 1, 2017 (unaudited)	6	250,601	11,084	490,776	752,467
Total comprehensive income for the period				26,275	26,275
Balance as at September 30, 2017 (unaudited)	6	250,601	11,084	517,051	778,742
Balance as at 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 at December 31, 2017 (audited)	6	250,601	11,084	539,274	800,965

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

Condensed Interim Statements of Cash Flows

	Nine-month period ended September 30		Three-month period ended September 30		Year ended December 31,
	2018	2017	2018	2017	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Cash flows from operating activities:					
Net cash provided by (used in) operations (Appendix A)	**55,031**	(17,898)	**(5,949)**	32,634	(17,402)
Interest received	**48,053**	45,166	**15,500**	8,039	59,325
Dividend received	**7**	63	**-**	-	63
Income taxes paid, net	**(35,467)**	(18,712)	**(7,642)**	(14,383)	(47,966)
Net cash provided by operating activities	**67,624**	8,619	**1,909**	26,290	(5,980)
Cash flows from investing activities:					
Investment in property and equipment	**(4,542)**	(4,338)	**(1,228)**	(308)	(5,132)
Investment in intangible assets	**(7,905)**	(14,313)	**(2,781)**	(3,950)	(17,199)
Net cash used in investing activities	**(12,447)**	(18,651)	**(4,009)**	(4,258)	(22,331)
Cash flows from financing activities -					
Dividend paid to equity Holders of the Company	**(50,000)**	(50,000)	**(50,000)**	-	(50,000)
Net cash used in financing activities	**(50,000)**	(50,000)	**(50,000)**	-	(50,000)
Impact of exchange rate fluctuations on cash and cash equivalent balances	**263**	11	**498**	50	(3)
Increase (decrease) in cash and cash equivalents	**5,440**	(60,021)	**(51,602)**	22,082	(78,314)
Cash and cash equivalents at beginning of period	**57,920**	136,234	**114,962**	54,131	136,234
Cash and cash equivalents at end of period	**63,360**	76,213	**63,360**	76,213	457,920

Condensed Interim Statements of Cash Flows

	Nine-month period ended September 30		Three-month period ended September 30		Year ended December 31,
	2018	2017	2018	2017	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Appendix A - cash flows from operating activity:					
Income for the period	**49,462**	* 74,882	**31,834**	* 26,275	* 97,105
Adjustments for -					
Income and expenses not involving cash flows:					
Change in liabilities for insurance contracts that are not yield dependent	**196,938**	149,657	**37,538**	87,770	108,242
Change in reinsurance assets	**(67,406)**	(48,426)	**3,496**	(40,910)	(10,869)
Change in deferred acquisition costs	**(12,861)**	(8,170)	**(2,302)**	(2,366)	(7,530)
Taxes on income	**28,700**	*41,914	**17,360**	*15,516	* 55,883
Change in retirement benefit obligations, net	**(197)**	(101)	**0**	-	776
Depreciation of property and equipment	**3,609**	4,043	**1,205**	1,387	5,513
Amortization of intangible Assets	**11,479**	9,026	**3,773**	3,192	12,567
Losses (gains), net, on financial investments:					
Marketable debt instruments	**36,286**	(1,457)	**2,919**	(7,803)	(3,935)
Non-marketable debt instruments	**1,462**	5,282	**609**	(1,623)	(1,896)
Marketable exchange traded notes	**(1,608)**	(2,409)	**(901)**	(1,725)	(6,982)
Impact of fluctuation in exchange rate on cash and cash equivalents	**(63)**	(11)	**(498)**	(50)	3
	196,138	49,348	**63,201**	53,388	151,772
Changes in assets and liabilities:					
Liabilities to reinsurers	**32,160**	17,300	**14,672**	16,721	(9,878)
Investments in financial assets, net	**(16,184)**	(147,925)	**(68,041)**	(30,921)	(186,443)
Premiums collectible	**(45,575)**	(28,908)	**(23,161)**	(9,500)	20,294
Other receivables	**(2,240)**	(8,976)	**(6,722)**	(9,626)	3,941
Other payables	**(10,674)**	(10,735)	**(2,234)**	(1,245)	6,762
Current tax assets	**4**	(17,655)	**2**	(4,419)	(979)
	(42,509)	(196,899)	**(85,484)**	(38,990)	(206,891)
Adjustments for interest and dividend:					
Interest received	**(48,053)**	(45,166)	**(15,500)**	(8,039)	(59,325)
Dividend received	**(7)**	(63)	**-**	-	(63)
	(48,060)	(45,229)	**(15,500)**	(8,039)	(59,388)
Net cash provided by (used in) operations	**55,031**	(17,898)	**(5,949)**	32,634	(17,402)

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

*** Reclassified**

Note 1 - General

AIG Israel Insurance Company Ltd. (hereinafter - "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. (hereinafter - "AIG Global Corporation" or "AIG"), which is a leading international insurance and financial concern.

The Company's sole shareholder is AIG Holdings Europe Limited (hereinafter - "AHEL"), which holds all the issued share capital of the Company. AHEL is a member of the 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 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 at 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 condensed interim 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 applied in the preparation of the annual financial statements.

Note 3 - Significant Accounting Policies

The significant accounting policies and the computational methods applied in the preparation of the interim financial information are consistent with 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 September 30, 2018 increased by NIS 3.2 million, the pre-tax comprehensive income from life insurance for the same period decreased by NIS 0.3 million, and the pre-tax comprehensive income from general insurance for the same period decreased by NIS 2.5 million.
As well as the pre-tax comprehensive income from health insurance for the nine-month period ended September 30, 2018 increased by NIS 7.9 million, the pre-tax comprehensive income from life insurance for the same period decreased by NIS 1.2 million, and the pre-tax comprehensive income from general insurance for the same period decreased by NIS 5.5 million.
The effect of the aforesaid change on the pre-tax comprehensive income of the Company is immaterial.

Note 3 - Significant Accounting Policies (cont'd)

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.
   According to the stated above, details for new accounting standards and interpretations not yet adopted, see Note 2, W in December 31,2017 financial statements.

   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 materially affect the financial statements of the Company.

2. 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, due to the examination performed by the company no material effect to the financial statements is anticipated.

3. 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.

Note 3 - Significant Accounting Policies (cont’d)

B. New accounting standards (cont’d)

IFRIC 23, "Uncertainty Over Income Tax Treatments" (cont’d)

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

Note 4 - Segment Information (cont'd)

B. Health insurance segment

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

C. General insurance segment

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

- **Compulsory motor vehicle sector**

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

- **Motor vehicle property sector**

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

- **Home insurance sector**

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

- **Professional liability sector**

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

- **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.

Note 4 - Segment Information (cont'd)

C. General insurance segment (cont'd)

- **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.

	Nine-month period ended September 30, 2018 (unaudited)				
	Life insurance	Health insurance	General insurance	Not attributed to operating segments	Total
			NIS thousands		
Gross earned premiums	**97,010**	**171,962**	**587,205**		**856,177**
Premiums earned by reinsurers	**(18,720)**	**(2,294)**	**(107,112)**		**(128,126)**
Premiums earned in retention	**78,290**	**169,668**	**480,093**		**728,051**
Investment income, net and financial income	**1**	**788**	**6,130**	**5,220**	**12,139**
Commission income	**4,146**	**215**	**28,542**		**32,903**
Total income	**82,437**	**170,671**	**514,765**	**5,220**	**773,093**
Payments and change in liabilities with respect to insurance contracts (gross)	**(36,645)**	**(91,886)**	**(449,439)**		**(577,970)**
Share of reinsurers in change of insurance liabilities and payments with respect to insurance contracts	**7,500**	**1,743**	**104,775**		**114,018**
Payments and change in liabilities with respect to insurance contracts, in retention	**(29,145)**	**(90,143)**	**(344,664)**		**(463,952)**
Commissions, marketing expenses and other acquisition costs	**(28,539)**	**(40,228)**	**(108,629)**		**(177,396)**
General and administrative expenses	**(7,255)**	**(18,670)**	**(30,717)**		**(56,642)**
Financing income	**-**	**-**	**1,281**	**1,778**	**3,059**
Total comprehensive income before taxes on income	**-**	**-**	**1,281**	**1,778**	**3,059**
Liabilities for insurance contracts, gross, as of September 30, 2018	**63,924**	**147,743**	**1,740,278**		**1,951,945**

Note 4 - Segment Information (cont'd)

C. General insurance segment (cont'd)

	Nine-month period ended September 30, 2017 (unaudited)				
	Life insurance	Health Insurance	General insurance	Not attributed to operating segments	Total
			NIS thousands		
Gross earned premiums	95,165	176,853	547,549		819,567
Premiums earned by reinsurers	(17,029)	(2,451)	(108,269)		(127,749)
Premiums earned in retention	78,136	174,402	439,280		691,818
Investment income, net and financial income	2	3,214	24,441	17,313	44,970
Commission income	2,963	282	27,742		30,987
Total income	81,101	177,898	491,463	17,313	767,775
Payments and change in liabilities with respect to insurance contracts (gross)	(40,460)	(82,847)	(404,279)		(527,586)
Share of reinsurers in change of insurance liabilities and payments with respect to insurance contracts	8,349	2,490	96,151		106,990
Payments and change in liabilities with respect to insurance contracts, in retention	(32,111)	(80,357)	(308,128)		(420,596)
Commissions and other acquisition costs	(29,678)	(41,527)	(100,656)		(171,861)
General and administrative expenses	(7,776)	(20,666)	(27,035)		(55,477)
Financing income (expenses)	-	-	937	(3,982)	(3,045)
Total comprehensive income before taxes on income	11,536	35,348	56,581	13,331	116,796
Liabilities for insurance contracts, gross, as of September 30, 2017	70,534	131,867	1,594,021		1,796,422

Note 4 - Segment Information (cont'd)

C. General insurance segment (cont'd)

	Three-month period ended September 30, 2018 (unaudited)				
	Life insurance	**Health insurance**	**General insurance**	**Not attributed to operating segments**	**Total**
			NIS thousands		
Gross earned premiums	**33,003**	**63,013**	**202,176**		**298,192**
Premiums earned by reinsurers	**(6,619)**	**(784)**	**(39,730)**		**(47,133)**
Premiums earned in retention	**26,384**	**62,229**	**162,446**		**251,059**
Investment income, net and financing income	**-**	**900**	**7,045**	**4,970**	**12,915**
Commission income	**1,849**	**73**	**9,547**		**11,469**
Total income	**28,233**	**63,202**	**179,038**	**4,970**	**275,443**
Payments and change in liabilities with respect to insurance contracts (gross)	**(12,202)**	**(31,804)**	**(121,351)**		**(165,357)**
Share of reinsurers in change in insurance liabilities and payments with respect to insurance contracts	**2,104**	**198**	**14,725**		**17,027**
Payments and change in liabilities with respect to insurance contracts, in retention	**(10,098)**	**(31,606)**	**(106,626)**		**(148,330)**
Commissions, marketing expenses and other acquisition costs	**(9,630)**	**(14,010)**	**(36,119)**		**(59,759)**
General and administrative expenses	**(1,939)**	**(5,921)**	**(10,621)**		**(18,481)**
Financing income (expenses)	**-**	**-**	**489**	**(168)**	**321**
Total comprehensive income before taxes on income	**6,566**	**11,665**	**26,161**	**4,802**	**49,194**

Note 4 - Segment Information (cont'd)

C. General insurance segment (cont'd)

	Three-month period ended September 30, 2017 (unaudited)				
	Life insurance	Health insurance	General insurance	Not attributed to operating segments	Total
			NIS thousands		
Gross earned premiums	31,783	63,897	186,178		281,858
Premiums earned by reinsurers	(5,668)	(832)	(36,074)		(42,574)
Premiums earned in retention	26,115	63,065	150,104		239,284
Investment income, net and financing income	1	1,201	8,550	7,228	16,980
Commission income	1,037	93	9,498		10,628
Total income	27,153	64,359	168,152	7,228	266,892
Payments and change in liabilities with respect to insurance contracts (gross)	(13,528)	(32,909)	(156,802)		(203,239)
Share of reinsurers in change in insurance liabilities and payments with respect to insurance contracts	2,708	1,063	53,268		57,039
Payments and change in liabilities with respect to insurance contracts, in retention	(10,820)	(31,846)	(103,534)		(146,200)
Commissions and other acquisition costs	(9,496)	(14,106)	(33,344)		(56,946)
General and administrative expenses	(2,419)	(6,527)	(10,241)		(19,187)
Financing income (expenses)	-	-	234	(3,002)	(2,768)
Total comprehensive income before taxes on income	4,418	11,880	21,267	4,226	41,791

Note 4 - Segment Information (cont'd)

C. General insurance segment (cont'd)

	Year ended December 31, 2017 (audited)				
	Life insurance	**Health insurance**	**General insurance**	**Not attributed to operating segments**	**Total**
			NIS 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
Investment income, net, and financing income	2	4,533	33,341	27,607	65,483
Commission income	4,066	367	37,303		41,736
Total income	108,325	236,849	656,054	27,607	1,028,835
Payments and change in liabilities with respect to insurance contracts (gross)	(52,426)	(110,908)	(30,084)		(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, marketing expenses and other acquisition costs	(39,957)	(56,594)	(140,229)		(236,780)
General and administrative expenses	(9,828)	(28,666)	(34,253)		(72,747)
Financing income (expenses)	-	-	711	(3,492)	(2,781)
Total comprehensive income before taxes on income	15,375	44,295	62,203	24,151	152,988
Liabilities with respect to insurance contracts, gross, as at December 31, 2017	67,282	129,918	1,557,807		1,755,007

Note 4 - Segment Information (cont'd)

Additional information relating to general insurance segment:

	Nine-month period ended September 30, 2018 (unaudited)						
	Compulsory motor vehicle	Motor vehicle property	Home	Professional liability	Other property sectors*	Other liability sectors*	Total
	NIS thousands						
Gross premiums	**134,127**	**290,248**	**91,458**	**50,695**	**33,736**	**24,892**	**625,156**
Reinsurance premiums	**(1,845)**	**(17)**	**(9,775)**	**(46,166)**	**(32,916)**	**(21,321)**	**(112,040)**
Premiums in retention	**132,282**	**290,231**	**81,683**	**4,529**	**820**	**3,571**	**513,116**
Change in balance of unearned premiums, in retention	**(8,440)**	**(16,738)**	**(7,782)**	**(131)**	**372**	**(304)**	**(33,023)**
Premiums earned in retention	**123,842**	**273,493**	**73,901**	**4,398**	**1,192**	**3,267**	**480,093**
Investment income, net and financing income	**2,692**	**1,440**	**368**	**730**	**138**	**762**	**6,130**
Commission income	**-**	**-**	**1,186**	**13,786**	**7,956**	**5,614**	**28,542**
Total income	**126,534**	**274,933**	**75,455**	**18,914**	**9,286**	**9,643**	**514,765**
Payments and changes in liabilities with respect to insurance contracts, gross	**(119,621)**	**(180,373)**	**(44,664)**	**(64,505)**	**(13,297)**	**(26,979)**	**(449,439)**
Share of reinsurers in change of insurance liabilities and payments with respect to insurance contracts	**15,157**	**-**	**3,550**	**52,071**	**11,944**	**22,053**	**104,775**
Payments and change in liabilities with respect to insurance contracts, in retention	**(104,464)**	**(180,373)**	**(41,114)**	**(12,434)**	**(1,353)**	**(4,926)**	**(344,664)**
Commissions, marketing expenses and other acquisition costs	**(19,611)**	**(45,135)**	**(20,701)**	**(12,752)**	**(5,139)**	**(5,291)**	**(108,629)**
General and administrative expenses	**(6,251)**	**(13,786)**	**(8,651)**	**(959)**	**(612)**	**(458)**	**(30,717)**
Financing income, net	**-**	**639**	**616**	**20**	**-**	**6**	**1,281**
Total expenses	**(130,326)**	**(238,655)**	**(69,850)**	**(26,125)**	**(7,104)**	**(10,669)**	**(482,729)**
Total comprehensive income (loss) before taxes on income	**(3,792)**	**36,278**	**5,605**	**(7,211)**	**2,182**	**(1,026)**	**32,036**
Liabilities with respect to insurance contracts, gross, as at September 30,2018	**638,087**	**298,338**	**94,811**	**272,672**	**98,099**	**293,271**	**1,740,278**
Net liabilities with respect to insurance contracts, retention as at September 30, 2018	**537,670**	**298,338**	**87,931**	**52,118**	**4,016**	**41,104**	**1,012,177**

* 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 40% of the total premiums attributable to these sectors.

Note 4 - Segment Information (cont'd)

Additional information relating to general insurance segment (continued):

	Compulsory motor vehicle	Motor vehicle property	Home	Professional liability	Other property sectors*	Other liability sectors*	Total
	Nine-month period ended September 30, 2017 (unaudited)						
	NIS thousands						
Gross premiums	123,278	273,446	82,264	48,522	32,015	29,271	588,796
Reinsurance premiums	(1,704)	(81)	(9,764)	(44,460)	(30,660)	(25,294)	(111,963)
Premiums in retention	121,574	273,365	72,500	4,062	1,355	3,977	476,833
Change in balance of unearned premiums, in retention	(10,549)	(24,489)	(3,863)	1,268	(166)	246	(37,553)
Premiums earned in retention	111,025	248,876	68,637	5,330	1,189	4,223	439,280
Investment income, net and financing income	10,439	5,388	1,533	3,112	533	3,436	24,441
Commission income	-	-	1,124	13,318	7,422	5,878	27,742
Total income	121,464	254,264	71,294	21,760	9,144	13,537	491,463
Payments and changes in liabilities with respect to insurance contracts, gross	(107,546)	(175,662)	(28,328)	(51,152)	(21,031)	(20,560)	(404,279)
Share of reinsurers in change of insurance liabilities and payments with respect to insurance contracts	19,003	-	895	35,769	19,591	20,893	96,151
Payments and change in liabilities with respect to insurance contracts, in retention	(88,543)	(175,662)	(27,433)	(15,383)	(1,440)	333	(308,128)
Commission, marketing expenses and other acquisition costs	(17,360)	(41,873)	(18,597)	(12,691)	(4,437)	(5,698)	(100,656)
General and administrative expenses	(3,725)	(10,915)	(9,782)	(1,203)	(911)	(499)	(27,035)
Financing income, net	-	397	537	3	-	-	937
Total expenses	(109,628)	(228,053)	(55,275)	(29,274)	(6,788)	(5,864)	(434,882)
Total comprehensive income (loss) before taxes on income	11,836	26,211	16,019	(7,514)	2,356	7,673	56,581
Liabilities with respect to insurance contracts, gross, as at September 30,2017	608,508	270,232	75,488	251,763	99,527	288,503	1,594,021
Net liabilities with respect to insurance contracts, retention as at September 30, 2017	477,661	270,332	69,202	49,285	3,811	36,796	906,987

* 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 42% of the total premiums attributable to these sectors.

Note 4 - Segment Information (cont'd)

Additional information relating to general insurance segment (continued):

	Three-month period ended September 30, 2018 (unaudited)						
	Compulsory motor vehicle	Motor vehicle property	Home	Professional liability	Other property sectors*	Other liability sectors*	Total
				NIS thousands			
Gross premiums	44,774	94,609	32,526	17,434	9,072	6,136	204,551
Reinsurance premiums	(615)	-	(3,092)	(16,096)	(8,982)	(5,224)	(34,009)
Premiums in retention	44,159	94,609	29,434	1,338	90	912	170,542
Change in balance of unearned premiums, in retention	(2,261)	(2,190)	(4,299)	228	255	171	(8,096)
Premiums earned in retention	41,898	92,419	25,135	1,566	345	1,083	162,446
Investment income, net and financing income	3,097	1,670	400	841	159	878	7,045
Commission income	-	-	310	4,713	2,658	1,866	9,547
Total income	44,995	94,089	25,845	7,120	3,162	3,827	179,038
Payment and change in insurance liabilities with respect to insurance contracts, gross	(38,406)	(56,673)	(12,969)	(12,220)	3,716	(4,799)	(121,351)
Share of reinsurers in change of insurance liabilities and payments with respect to insurance contracts	3,602	-	556	9,787	(3,609)	4,389	14,725
Payments and changes in liabilities with respect to insurance contracts, in retention	()34,804	(56,673)	(12,413)	(2,433)	107	(410)	(106,626)
Commissions, marketing expenses and other acquisition costs	(6,194)	(14,740)	(6,373)	(4,796)	(2,059)	(1,957)	(36,119)
General and administrative expenses	(2,031)	(4,498)	(3,280)	(384)	(245)	(183)	(10,621)
Financing income, net	-	264	216	7	-	2	489
Total expenses	(43,029)	(75,647)	(21,850)	(7,606)	(2,197)	(2,548)	(152,877)
Total comprehensive income (loss) before taxes on income	1,966	18,442	3,995	(486)	965	1,279	26,161

* Other property sectors reflect mainly the results of the property insurance sector, which accounts for 91% 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 39% of the total premiums attributable to these sectors.

Note 4 - Segment Information (cont'd)

Additional information relating to general insurance segment (continued):

	Three-month period ended September 30, 2017 (unaudited)						
	Compulsory motor vehicle	Motor vehicle property	Home	Professional liability	Other property sectors*	Other liability sectors*	Total
	NIS thousands						
Gross premiums	43,194	95,053	29,857	14,853	9,145	8,510	200,612
Reinsurance premiums	(591)	(26)	(3,746)	(13,739)	(8,708)	(7,283)	(34,093)
Premiums in retention	42,603	95,027	26,111	1,114	437	1,227	166,519
Change in balance of unearned premiums, in retention	(4,683)	(9,461)	(2,896)	430	31	164	(16,415)
Premiums earned in retention	37,920	85,566	23,215	1,544	468	1,391	150,104
Investment income, net and financing income	3,509	1,958	561	1,098	163	1,261	8,550
Commission income	-	-	386	4,543	2,613	1,956	9,498
Total income	41,429	87,524	24,162	7,185	3,244	4,608	168,152
Payment and change in insurance liabilities with respect to insurance contracts, gross	(43,437)	(60,915)	(7,986)	(26,986)	(6,849)	(10,629)	(156,802)
Share of reinsurers in change of insurance liabilities and payments with respect to insurance contracts	12,869	-	762	23,101	6,381	10,155	53,268
Payments and changes in liabilities with respect to insurance contracts, in retention	(30,568)	(60,915)	(7,224)	(3,885)	(468)	(474)	(103,534)
Commission, marketing expenses and other acquisition costs	(5,403)	(14,120)	(5,899)	(4,395)	(1,624)	(1,903)	(33,344)
General and administrative expenses	(1,329)	(4,086)	(3,852)	(321)	(403)	(250)	(10,241)
Financing income, net	-	17	217	-	-	-	234
Total expenses	(37,300)	(79,104)	(16,758)	(8,601)	(2,495)	(2,627)	(146,885)
Total comprehensive income (loss) before taxes on income	4,129	8,420	7,404	(1,416)	749	1,981	21,267

* Other property sectors reflect mainly the results of the property insurance sector, which accounts for 95% 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 47% of the total premiums attributable to these sectors.

Note 4 - Segment Information (cont'd)

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 thousands						
Gross premiums	160,274	352,489	108,187	65,312	40,769	34,873	761,904
Reinsurance premiums	(2,214)	(108)	(12,915)	(59,932)	(39,038)	(30,167)	(144,374)
Premiums in retention	158,060	352,381	95,272	5,380	1,731	4,706	617,530
Change in balance of unearned premiums, in retention	(8,178)	(23,226)	(2,769)	1,587	(62)	528	(32,120)
Premiums earned retention	149,882	329,155	92,503	6,967	1,669	5,234	585,410
Investment income, 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
Payment and change in insurance 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 change of insurance liabilities and payments with respect to insurance contracts	21,846	-	1,579	52,658	18,903	22,018	117,004
Payments and changes 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, net	-	-	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 at December 31, 2017	625,446	261,904	74,596	220,250	92,857	282,754	1,557,807
Net liabilities with respect to insurance contracts as at 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 (cont'd)

4.1 Additional information relating to life insurance segment:

Nine-month period ended September 30, 2018 (unaudited):

	Policies not containing savings element		Total
	Risk sold as single policy		
	Private	Group	
	NIS thousands	NIS thousands	NIS thousands
Gross risk premiums	**96,971**	**-**	**96,971**
Payments and change in liabilities for gross insurance contracts	**36,645**	**-**	**36,645**

Nine-month period ended September 30, 2017 (unaudited):

	Policies not containing savings element		Total
	Risk sold as single policy		
	Private	Group	
	NIS thousands	NIS thousands	NIS thousands
Gross risk premiums	95,165	-	95,165
Payments and change in liabilities for gross insurance contracts	40,460	-	40,460

Three-month period ended September 30, 2018 (unaudited):

	Policies not containing savings element		Total
	Risk sold as single policy		
	Private	Group	
	NIS thousands	NIS thousands	NIS thousands
Gross risk premiums	**32,995**	**-**	**32,995**
Payments and change in liabilities for gross insurance contracts	**12,202**	**-**	**12,202**

Note 4 - Segment Information (cont'd)

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

Three-month period ended September 30, 2017 (unaudited):

	Policies not containing savings element		Total
	Risk sold as single policy		
	Private	Group	
	NIS thousands	NIS thousands	NIS thousands
Gross risk premiums	31,779	-	31,779
Payments and change in liabilities for gross insurance contracts	13,528	-	13,528

Year ended December 31, 2017 (audited):

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

4.2 Additional information relating to healthcare segment:

Nine-month period ended September 30, 2018 (unaudited):

	Long-term	Short-term	Total
	NIS thousands	NIS thousands	NIS thousands
Gross premiums	**141,981**	**33,099**	*** 175,080**
Payments and change in liabilities for gross insurance contracts	**66,631**	**25,255**	**91,886**

* Consists primarily of policies issued to individuals.

Nine-month period ended September 30, 2017 (unaudited):

	Long-term	Short-term	Total
	NIS thousands	NIS thousands	NIS thousands
Gross premiums	148,084	30,636	* 178,720
Payments and change in liabilities for gross insurance contracts	65,831	17,016	82,847

* Consists primarily of policies issued to individuals.

Note 4 - Segment Information (cont'd)

4.2 Additional information relating to healthcare segment (cont'd):

Three-month period ended September 30, 2018 (unaudited):

	Long-term	Short-term	Total
	NIS thousands	NIS thousands	NIS thousands
Gross premiums	**46,905**	**18,201**	*** 65,106**
Payments and change in liabilities for gross insurance contracts	**20,950**	**10,854**	**31,804**

* Consists primarily of policies issued to individuals.

Three-month period ended September 30, 2017 (unaudited):

	Long-term	Short-term	Total
	NIS thousands	NIS thousands	NIS thousands
Gross premiums	49,383	15,274	* 64,657
Payments and change in liabilities for gross insurance contracts	23,157	9,752	32,909

* Consists primarily of policies issued to individuals.

Year ended December 31, 2017 (audited):

	Long-term	Short-term	Total
	NIS thousands	NIS thousands	NIS thousands
Gross premiums	197,179	38,065	* 235,244
Payments and change in liabilities for gross insurance contracts	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 table below provides information with respect to the capital requirements in the Supervision of Financial Services Regulations (Insurance) (Minimum Required Capital of Insurers), 1998 (hereinafter – "Capital Regulations"), and guidance of the Supervisor.

The amounts of capital held by the Company according to the Capital Regulations:

	September 30 2018	September 30 2017	December 31 2017
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
The amount required under Capital Regulations and supervisor guidelines (a)	**644,804**	642,025	672,592
Existing amount calculated under Capital Regulations:			
Basic primary capital	**800,427**	778,742	800,965
Total existing capital calculated under Capital Regulations	**800,427**	778,742	800,965
Surplus as of date of report	**155,623**	136,717	128,373

	September 30 2018	September 30 2017	December 31 2017
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
(a) The amount required including capital requirements for:			
Operations in general insurance/ initial capital requirement	**136,758**	124,198	124,754
Exceptional life insurance risks	**48,977**	45,033	46,122
Deferred acquisition costs related to life insurance	**83,062**	80,066	82,133
Investment and other assets	**71,458**	73,425	73,326
Catastrophe risks in general insurance	**269,256**	286,947	314,639
Operating risks	**35,293**	32,356	31,618
Total full amount required under Capital Regulations	**644,804**	**642,025**	**672,592**

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

B. Dividend paid

On August 28, 2018, the Company's board approved a NIS 50 million dividend, or NIS 8,726 per share. The dividend was paid on August 29, 2018.

C. Solvency II

1. In June 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.

Note 5 - Shareholders’ Equity and Capital Requirements (cont’d)

C. Solvency II (cont’d)

2. On October 1, 2017, a Supervisor letter was issued to CEOs of insurance companies on dividend payouts by insurance companies (hereinafter - "the letter"). According to the letter:

a) Through the date of obtaining the Supervisor's approval on performing an independent audit of implementation of the Solvency Circular, an insurance company is permitted to distribute dividend if the following conditions are satisfied:

- After such distribution, the company has a recognized a recognized to required capital ratio (hereinafter - "solvency ratio") of at least 115% under existing capital requirements or provisions that may replace them.
- After the distribution, the company has a solvency ratio of at least 100% under the Solvency Circular, calculated without considering the deployment period provisions and excluding adjustment of share scenario period, and subject to the solvency ratio target as set by the company's board of directors.

b) After the date of obtaining approval from the Supervisor on performing an independent audit of Solvency Circular implementation, an insurance company is permitted to distribute dividend if it meets the conditions in (a)(2) above.

c) An insurance company distributing dividend as above, is required to report all the following to the Supervisor within 20 days from the date of distribution:

- Biannual income forecast for the two subsequent years after the date of distribution;
- An updated debt servicing plan of the insurance company, after being approved by the Company's board, and an updated debt servicing plan of the holding company that is holding the insurance company as approved by the board of the holding company;
- An updated capital management plan, as approved by the board of the insurance company, including broad discussion on long-term meeting the solvency ratio target as determined by the board, excluding the deployment period and excluding adjustment of share scenario period;
- A copy of the minutes of discussion by the board of the insurance company in which a dividend distribution is approved, plus background material for 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 9 months ended September 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 c. below.

C. Composition of financial investments:

	September 30, 2018 (unaudited)		
	Measured at fair value through profit or loss	Loans and receivables	Total
	NIS thousands	NIS thousands	NIS thousands
Marketable debt instruments (1)	**1,684,941**	**-**	**1,684,941**
Non-marketable debt instruments (2)	**-**	**67,498**	**67,498**
Other (3)	**87,398**	**-**	**87,398**
Total	**1,772,339**	**67,948**	**1,839,837**

	September 30, 2017 (unaudited)		
	Measured at fair value through profit or loss	Loans and receivables	Total
	NIS thousands	NIS thousands	NIS thousands
Marketable debt instruments (1)	1,535,527	-	1,535,527
Non-marketable debt instruments (2)	-	90,149	90,149
Other (3)	81,372	-	81,372
Total	1,616,899	90,149	1,707,048

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

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

	December 31, 2017 (audited)		
	Measured at fair value through profit or loss	Loans and receivables	Total
	NIS thousands	NIS thousands	NIS thousands
Marketable debt instruments (1)	1,588,676	-	1,588,676
Non-marketable debt instruments (2)	-	85,174	85,174
Other (3)	84,943	-	85,943
Total	1,674,619	85,174	1,759,793

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

	September 30, 2018 (Unaudited)	
	Carrying amount	Amortized cost
	NIS thousands	NIS thousands
Government bonds	**612,382**	**610,686**
Other debt assets:		
other non-convertible debt assets	**1,072,559**	**1,052,364**
Total marketable debt assets	**1,684,941**	**1,663,050**

	September 30, 2017 (Unaudited)	
	Carrying amount	Amortized Cost
	NIS thousands	NIS thousands
Government bonds	530,794	525,600
Other debt assets:		
other non-convertible debt assets	1,004,733	977,937
Total marketable debt assets	1,535,527	1,503,537

	December 31, 2017 (Audited)	
	Carrying amount	Amortized cost
	NIS thousands	NIS 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

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

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

2. Composition of non-marketable debt instruments:

	September 30, 2018 (Unaudited)	
	Carrying amount	Fair value
	NIS thousands	NIS thousands
Bank deposits	**1,153**	**1,460**
Other non-convertible debt assets	**66,345**	**67,408**
Total non-marketable debt assets	**67,498**	**68,868**

	September 30, 2017 (Unaudited)	
	Carrying amount	Fair value
	NIS thousands	NIS thousands
Bank deposits	11,496	11,977
Other non-convertible debt assets	78,653	82,197
Total non-marketable debt assets	90,149	94,174

	December 31, 2017 (Audited)	
	Carrying amount	Fair value
	NIS thousands	NIS thousands
Bank deposits	1,288	1,638
Other non-convertible debt assets	83,886	87,718
Total non-marketable debt assets	85,174	89,356

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

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

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

	September 30, 2018 (Unaudited)	
	Carrying amount	Cost
	NIS thousands	NIS thousands
Marketable financial investments	**87,398**	**83,648**

	September 30, 2017 (Unaudited)	
	Carrying amount	Cost
	NIS thousands	NIS thousands
Marketable financial investments	81,372	78,657

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

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, as to the chances of such proceedings, which is based on the opinion of its legal counsel, 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.

Note 7 - Contingent Liabilities - Class Action (cont'd)

A. Motions to certify class actions

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

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

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

The plaintiffs have recently filed a motion, at the consent of the Company, to stay the proceedings pending a ruling in an appeal that had been submitted to the High Court of Justice in relation to the ruling of the National Court in another case concerning overtime. On July 15, 2018, the proceedings have been suspended pending the ruling of the High Court of Justice.

According to the assessment of the Company, at present, in view of the ruling of the High Court of Justice, as above, the chances of the petition being accepted are low.

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

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

On December 11, 2016, a ruling was handed down which approved the motion to amend the motion to certify . On June 21, 2017, the Company filed its response to the motion to certify. On June 23, 2017, the response of the plaintiffs to the response to the motion to certify was filed. On August 18, 2017, the defendants filed a motion to reject the plaintiffs' response to the defendants' response to the motion to certify, and alternatively, to reject certain paragraphs.

On September 13, 2017, a pretrial was held, in which the court ruled that in light of this declaration by the plaintiff's attorney, the motion to certify does not include the practice cause.

The court further determined that the plaintiffs are required to present their position as to continuation of the proceedings by November 1, 2017.

Note 7 - Contingent Liabilities - Class Action (cont’d)

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

b. (cont'd)

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.

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.

Note 7 - Contingent Liabilities - Class Action (cont'd)

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

b. (cont'd)

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

On July 19, 2018, the parties notified the Court that all cross-examination questionnaire affidavits have by submitted by all of the respondents, and requested the Court to approve the hearing arrangement motion that had been submitted by them. On July 26, 2018, the Court approved the hearing arrangement submitted by the parties and determined that supplementary arguments will be presented verbally on February 3, 2019..

The petitioners are required to submit their summations by November 13, 2018. The respondents are required to submit their summations by January 13, 2019. Supplementary arguments will be presented on February 3, 2019. On October 26, 2018, the petitioners have submitted their summations.

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.

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

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

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

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

On September 7, 2017, the plaintiffs filed their response to the defendant's response to the motion to certify. On September 13, 2017, a pretrial was held.

On December 26, 2017, the defendants submitted their response to the response of the plaintiffs to the motion to certify.

Note 7 - Contingent Liabilities - Class Action (cont'd)

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

c. (cont'd)

On January 16, 2018, the defendants responded to the plaintiffs' motion of discovery, rejecting it on the grounds that the documents in question constitute a trade secret and are therefore confidential.

Another pretrial hearing was held on February 22, 2018, where it was decided that inquiries will be made in the case.

On May 21, 2018, the Court announced the replacement of the panel of judges in the case.

On June 19, 2018, the court scheduled a pretrial hearing of the case for December 19, 2018.

Management of the Company believes, based on the opinion of its legal counsel, that it is more likely than not that the motion to certify the claim as a class action will be rejected.

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

The date for the submission of a response to the motion to certify was delayed, to explore an option of settling the case. As part of the understandings, an auditor was appointed on behalf of the plaintiffs, which has examined and confirmed the amounts of exposure that had been declared by the Company. The parties are currently negotiating a settlement on the basis of the declared amounts of exposure.

A pre-trial hearing was scheduled for February 17, 2019.

In the opinion of management of the Company, which is based on the opinion of its legal counsel, this claim will not have a material effect on the Company's financial statements.

Note 7 - Contingent Liabilities - Class Action (cont'd)

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

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

The plaintiff argued that the Company did not refund employers that paid injury premiums to the National Insurance Institute amounts that were paid in respect to employees injured in road accidents and recognized as workplace accident victims.

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

The Company has submitted its response to the motion to certify the claim as a class action and the plaintiff has submitted its response to that of the Company.

On April 26, 2018, a hearing was held in the case, in which the court recommended to the plaintiff not to further pursue the case. The plaintiff has recently announced that it wishes to withdraw the claim that was filed against the Company, while the deliberation of the motion against the remaining insurance companies persists. On October 7, 2018, a ruling was issued, approving the withdrawal without ruling expenses.

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

The petitioners allege that the Respondents refrain from adding linkage differentials and/or interest to amounts 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 petitioners are required to submit their response to that of the Respondents by May 6, 2018. On May 2, 2018, the petitioners filed a motion to delay the submission of their response. In the motion, they note that the parties plan to file a motion to postpone the hearing scheduled for the case. The court ruled that its decision regarding the extension will be given after the motion to postpone the hearing is submitted. On May 7, 2018, a motion was submitted to postpone the hearing of the case. The court accepted the motion and postponed the hearing to November 5, 2018.

On July 4, 2018, the court accepted the petitioners' motion to delay the submission of their response to that of the Respondents until September 6, 2018. On August 26, 2018, the petitioners filed an additional motion to delay the submission of their response to that of the Respondents until September 24, 2018. The court accepted the motion. On March 29, 2018, the Respondents submitted their response to the motion to certify.

Note 7 - Contingent Liabilities - Class Action (cont'd)

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

f. (cont'd)

A pretrial hearing has been scheduled for November 15, 2018 .

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

g. 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.

h. On May 1, 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.

Note 7 - Contingent Liabilities - Class Action (cont'd)

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

i. 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, and according to their estimation, due to the preliminary stage of the claim, the chances of the petition to certify the claim as a class action cannot be estimated.

Pending applications for approval of legal claims as class actions	**Number of claims**	**The amount claimed NIS in thousands**
Amount relating to the Company	9	* 222,643

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

Solvency Capital Report

of AIG Israel Insurance Co. Ltd.

As at December 31, 2017

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<u>Background and Scope of Disclosure</u>

Pursuant to the Circular of the Commissioner of the Capital Market, Insurance and Savings ("the Commissioner") from December 3, 2017 (Insurance Circular 2017-1-20, hereinafter: "the Disclosure Circular"), insurance companies are required to publish, twice a year, as part of the periodic report and on their websites, information concerning their economic solvency regime. On August 7, 2018, directives were published for the postponing of the reporting and publication of economic solvency ratio results, as provided for in the Disclosure Circular. The directives determine that the annual reporting of the data for December 31, 2017 by insurance companies that have not yet been issued confirmation of the performance of an initial audit will be postponed until November 29, 2018. All other insurance companies will publish an economic solvency ratio report as prescribed in the Disclosure Circular. The directives further stipulate that the economic solvency ratio report for the December 31, 2018 data will be published by July 15, 2019 and the report for the June 30, 2019 data will be published by December 31, 2019. Commencing in the annual report as at December 31, 2019, an economic solvency ratio report will be published on the date of publication of the financial statements for the first subsequent quarter, while the semi-annual report will be published with the financial statements for the third quarter.

The Company hereby presents its economic solvency ratio report as at December 31, 2017. This report has been drawn up in accordance with the rules and principles prescribed by the Commissioner in the circular dated June 1, 2017 (Insurance Circular 2017-1-9) (hereinafter: "the Solvency Circular" or "the Directive"), which sets out provisions for the application by insurance companies of an economic solvency regime on the basis of the European Solvency II Directive.

It should be stressed that this report has not been reviewed or audited.

The Circular requires the existence of capital to absorb losses arising from the realization of unanticipated risks to which the company is exposed. The solvency regime that examines the risks and the standards for their management and measurement consists of three tiers: the first tier is quantitative, and addresses risk-based solvency ratio; the second tier is qualitative, and addresses internal control processes, risk management, corporate governance and own risk and solvency assessment (ORSA); and the third tier addresses the advancement of market discipline, disclosure and reporting.

It should be noted that, in accordance with the provisions of the Solvency Circular, the economic balance sheet is calculated by evaluating the assets and liabilities of an insurance company, subject to the provisions of Part A of the appendix to the Solvency Circular. SCR is calculated on the basis of the items of the economic balance sheet, calculated as above, under scenarios with probabilities of 1 to 200 years, taking into consideration the degree of correlation of the various risk factors, subject to the provisions of Part C of the appendix to the Solvency Circular. Recognized capital is calculated pursuant to the provisions of Part B of the appendix to the Solvency Circular.

Clarification concerning forward-looking information in this report

The Best Estimate (as defined below) was determined on the basis of projections, assessments and estimates of future events the realization of which is uncertain and that are not in the control of the Company, and should be deemed as "forward-looking information", **as defined in Section 32A of the Securities Law, 1968**. It is not improbable that all or part of the aforesaid projections, assessments and estimates will not be realized or will be realized other than as presented in this report. Accordingly, actual results could differ from the forecast.

The Best Estimate was calculated on the basis of the methodology, the rules and the principles that are set out in the Solvency Circular. The assumptions of the model are "best estimate assumptions", i.e. assumptions that are derived by projecting existing experience onto the future in the environment in which the insurance company operates, with no prudential margins.
Naturally, as aforesaid, as these are long-term future projections, actual results could differ from those estimated at the time of calculation of the embedded value.

Deviation from the following parameters could materially affect the outcome:

1. Economic factors (e.g. discount interest rate, yields)
2. Demographic factors (e.g. changes in mortality and morbidity).
3. Legislation and legislation arrangements relating to relevant topics.
4. Contingent liabilities.
5. Taxation.
6. Changes in the business environment.

Future results that vary from the assessments made based on the basis of "best estimate assumptions" are normal and expected even if no change occurs in the above factors. Therefore, it is anticipated that actual results in each year will be different than those projected in the embedded value model, and even due to normal random fluctuations.

In recent years, many reforms have been enacted in insurance and healthcare, which had affected, and continue to affect, the assessment of the Best Estimate and its calculation. There is uncertainty around the expected impact of the legislation reforms, inter alia, as the implementation of some of the reforms is still in progress or has not yet commenced, while the actual implementation of other reforms could differ from the original plan, depending on various factors that are uncertain, including conditions of competition, preferences of policy and plan holders, and the behavior of competitors and distributors. Accordingly, the calculation of embedded value does not consider potential future implications of such reforms. For details of the reforms, see Part 2 of the Directors' Report.

<u>Definitions</u>

"Best Estimate" (BE) - Probability-weighted average (expectancy) of future cash flows required to settle the insurance liabilities over their duration, discounted at an adjusted risk-free interest rate. All this, taking into account all positive and negative cash flows.

"Similar to life techniques health insurance" (SLT Health) - Life insurance that is maintained similarly to life insurance, which offers the types of coverage that are specified in Table 3 to Part A of the health insurance appendix.

"Non-SLT health insurance" (NSLT Health) - Life insurance that is maintained similarly to general insurance, which offers the types of coverage that are specified in operating segments 1 and 2 in Table 2 to Part A of the appendix.

"Solvency Capital Requirement" (SCR) - The capital required of an insurance company to maintain solvency, which is calculated according to the provisions of Chapter 2 to Part C of the appendix.

"Capital" - Total Tier 1 and Tier 2 Capital of an insurance company, in accordance with the provisions of Part B of the appendix.

“Basic Tier 1 Capital” - The total of the components listed in paragraph (1) below, less the components listed in paragraph (2) below:

1) Excess of assets over liabilities, estimated based on the provisions of Part A of the appendix, comprising the following components:

a. Issued and paid-up ordinary share capital.

b. Premium paid upon the issue of shares.

c. Retained earnings.

d. The change in the excess of assets over liabilities arising from differences in the method of valuation of the assets and liabilities pursuant to the provisions of Part A and the method of valuation of the assets and liabilities under Chapter 1 to Part 2 of Cover 5 of the consolidated circular (Reconciliation Reserve).

2) Amounts for deduction from Basic Tier 1 Capital

a. Unrecognized assets.

b. Repurchase of ordinary shares.

c. Dividend declared after reporting date.

“Solvency Ratio” - The ratio of the Capital of an insurance company to the SCR.

“Economic Balance Sheet” - The balance sheet of an insurance company in accordance with the provisions of Part A.

“Risk Margin” - An amount in excess of the Best Estimate that reflects the overall cost of capital that another insurance company or a reinsurer would be expected to demand for assuming the insurance liabilities of an insurance company, which is calculated under the provisions of Part A of the appendix.

“Minimum Capital Requirement” (MCR) - The minimum capital required of an insurance company, which is calculated according to the provisions of Chapter 4 to Part C of the appendix.

Table 1 - Solvency Ratio and MCR

The data have not been audited as part of the audit of the financial statements

a. Solvency ratio

	December 31, 2017	December 31, 2016
	NIS thousands	NIS thousands
Without accounting for the deployment period provisions and the adjustment of the share scenario:		
Capital for SCR purposes - see Table 5	1,063,774	1,009,522
SCR - see Table 6	655,304	618,223
Surplus	408,470	391,299
Solvency ratio %	162%	163%
Compliance with milestones, accounting for the deployment period provisions and the adjustment of the share scenario:		
Capital for SCR purposes - see Table 5	1,063,774	1,053,228
SCR - see Table 6	417,230	388,075
Surplus	646,544	665,153

b. MCR

	December 31, 2017	December 31, 2017
	NIS thousands	NIS thousands
MCR - see Table 7.a	178,982	174,634
Capital for MCR purposes - see Table 7.b	1,063,774	1,009,522

Changes in capital since the date of calculation that have been included in the results

On August 28, 2018, the Company declared the distribution of a dividend of NIS 50 million to the shareholders. This amount was deducted from the recognized capital as calculated and presented as at December 31, 2017.

After the date of publication of the 2017 annual report, the Company has updated the expense survey, which resulted in an immaterial increase in the Company's solvency ratio.

Olivia Zohar	**David Rothstein**	**Shay Feldman**	**Ralph Mucerino**
VP Risk Management	**CFO**	**CEO**	**Chairman of the Board of Directors**

November 27, 2018

Table 2 - Economic Balance Sheet

The basis of measurement of the economic balance sheet is fair value, subject to the provisions of Part A of the appendix to the Solvency Circular.

		December 31, 2017		December 31, 2016	
	Notes	GAAP balance sheet	Economic balance sheet	GAAP balance sheet	Economic balance sheet
		NIS thousands		NIS thousands	
Assets:					
Intangible assets	(1)	38,448	-	33,816	
Deferred acquisition expenses	(2)	149,357	-	141,827	
Fixed assets		11,054	11,054	11,435	11,435
Reinsurance assets	(3)	669,428	554,390	658,559	530,012
Other accounts receivable		225,805	208,312	207,888	190,802
Other financial investments:					
Marketable debt assets	(4)	1,588,676	1,588,674	1,310,175	1,310,174
Non-marketable debt assets	(5)	85,174	89,357	171,285	173,686
Other		85,943	85,943	79,077	79,077
Total other financial investments		1,759,793	1,763,974	1,560,537	1,562,937
Other cash and cash equivalents		57,920	57,920	136,234	136,234
Total assets		2,911,805	2,595,650	2,750,296	2,431,420
Equity					
Basic Tier 1 Capital		800,965	1,113,774	753,860	1,059,522
Total equity		800,965	1,113,774	753,860	1,059,522
Liabilities:					
Liabilities for non-yield-dependent insurance contracts and investment contracts	(3)	1,755,007	685,642	1,646,765	570,833
Risk margin	(6)	-	298,156		309,434
Liabilities for deferred taxes, net	(7)	9,281	169,112	779	158,980
Other accounts payable and accruals	(8)	346,552	328,966	348,892	332,651
Total liabilities		2,110,840	1,481,876	1,996,436	1,371,898
Total equity and liabilities		2,911,805	2,595,650	2,750,296	2,431,420

Notes:

1) According to the principles set out in the Solvency Circular - an insurance company will valuate intangible assets (including goodwill) at zero.
2) According to the principles set out in the Solvency Circular - acquisition expenses are taken into account in calculating the Best Estimate.
3) This item was calculated in accordance with the principles set out in the Solvency Circular concerning Best Estimate.
4) The fair value of marketable debt assets that are not presented at fair value in the financial statements is calculated on the basis of current data that available in financial markets.
5) The fair value of non-marketable debt assets is calculated using a model that is based on the discounting of cash flows, at a discount interest rate that is determined by a firm that supplies quoted prices and interest rates to public institutions.
6) An amount in excess of the Best Estimate that reflects the overall cost of capital that another insurance company or a reinsurer would be expected to demand for assuming the insurance liabilities of an insurance company, which is calculated under the provisions.
7) According to the principles that are set out in the Solvency Circular - the calculation is based on the difference between the value attributed to the assets and liabilities in the economic balance sheet and the value attributed to them for tax purposes under the recognition, measurement and presentation provisions of International Accounting Standard No. 12 (IAS 12).
8) According to the principles that are set out in the Solvency Circular - the calculation of the balances in this item was based on the principles and rules that apply to the economic balance sheet, including the acquisition expenses of reinsurers and the Company's employee benefit obligations.

Table 3 - Composition of Liabilities for Insurance Contracts and Investment Contracts

	December 31, 2017		
	Best Estimate of liabilities		
	Gross	Reinsurance	Retention
	NIS thousands		
Liabilities for non-yield-dependent insurance contracts and investment contracts:			
Life insurance contracts and long-term health insurance (SLT) *	(702,702)	(26,650)	(676,052)
General insurance contracts and short-term health insurance (NSLT) *	1,388,344	581,040	807,304
Total liabilities for non-yield-dependent insurance contracts and investment contracts	685,642	554,390	131,252
Total liabilities for insurance contracts and investment contracts	685,642	554,390	131,252

	December 31, 2016		
	Best Estimate of liabilities		
	Gross	Reinsurance	Retention
	NIS thousands		
Liabilities for non-yield-dependent insurance contracts and investment contracts:			
Life insurance contracts and long-term health insurance (SLT) *	(776,027)	(35,111)	(740,916)
General insurance contracts and short-term health insurance (NSLT) *	1,346,860	565,123	781,737
Total liabilities for non-yield-dependent insurance contracts and investment contracts	570,833	530,012	40,821
Total liabilities for insurance contracts and investment contracts	570,833	530,012	40,821

Table 5 - Capital for SCR Purposes

	December 31, 2017				
	Tier 1 Capital				
	Basic Tier 1 Capital	Additional Tier 1 Capital	Tier 2 Capital	Total	Accounting for the deployment period provisions and adjustment of share scenario
	NIS thousands				
Capital	1,113,774			1,113,774	1,113,774
Deductions from Tier 1 Capital (a)	(50,000)			(50,000)	(50,000)
Exceeding of quantitative restrictions (b)					
Capital for SCR purposes (c)	1,063,774			1,063,774	1,063,774
Of which - expected profits included in future premiums (EPIFP) after tax	536,957			536,957	

	December 31, 2016				
	Tier 1 Capital				
	Basic Tier 1 Capital	Additional Tier 1 Capital	Tier 2 Capital	Total	Accounting for the deployment period provisions and adjustment of share scenario
	NIS thousands				
Capital	1,059,522			1,059,522	1,103,228
Deductions from Tier 1 Capital (a)	(50,000)			(50,000)	(50,000)
Exceeding of quantitative restrictions (b)					
Capital for SCR purposes (c)	1,009,522			1,009,522	1,053,228
Of which - expected profits included in future premiums (EPIFP) after tax	588,920			588,920	

a) Deductions from Tier 1 Capital - According to the definition of “Basic Tier 1 Capital” in the appendix to the Solvency Circular, these deductions include the amount of the assets that are held against liabilities for non-yield-dependent insurance contracts and investment contracts contrary to the Investment Rules Regulations, the amount of repurchase of ordinary shares and the amount of a dividend declared after the reporting date until the date of the first-time publication of the report.

b) Exceeding of quantitative restrictions - According to the provisions of Chapter 2 to Part B, “Provisions concerning the Capital of an Insurer”, of the Solvency Circular.

c) Composition of capital for SCR purposes:

	December 31, 2017	December 31, 2016
	NIS thousands	NIS thousands
Tier 1 Capital:		
Basic Tier 1 Capital	1,063,774	1,009,522
Total capital for SCR purposes	1,063,774	1,009,522

see Table 6 - **Solvency Capital Requirement (SCR)**

	December 31, 2017	December 31, 2016
	NIS thousands	NIS thousands
Basic Solvency Capital Requirement (BSCR):		
Capital required for market risk component	126,835	108,673
Capital required for counterparty risk component	71,185	61,287
Capital required for life insurance underwriting risk component	192,845	202,073
Capital required for health insurance (SLT + NSLT) underwriting risk component	354,885	364,871
Capital required for general insurance underwriting risk component	515,794	460,172
Total	1,261,544	1,197,076
Effect of distribution among risk components	(478,779)	(460,279)
Total BSCR	782,765	736,797
Capital required for operational risk	41,651	40,406
Adjustment for absorption of losses due to deferred tax asset	(169,112)	(158,980)
Total SCR	655,304	618,223
Total SCR accounting for adjustment of share scenario	641,893	597,038
Total SCR accounting for deployment period provisions (65% of total SCR) and adjustment of share scenario	417,230	388,075

* For death by accident coverage, the Company applied a mortality scenario rather than a morbidity scenario.

Table 7 - MCR

a) **MCR**

	December 31, 2017	December 31, 2016
	NIS thousands	NIS thousands
Based on MCR formula	178,982	179,370
Lower threshold (25% of SCR in deployment period)	104,308	97,019
Upper threshold (45% of SCR in deployment period)	187,754	174,634
MCR	178,982	174,634

b) Capital for MCR purposes:

	December 31, 2017		
	Tier 1 Capital	Tier 2 Capital	Total
	NIS thousands		
Capital for SCR purposes as per Table 5	1,063,774	-	1,063,774
Exceeding of quantitative restrictions due to MCR (*)		-	-
Capital for MCR purposes	1,063,774	-	1,063,774

	December 31, 2016		
	Tier 1 Capital	Tier 2 Capital	Total
	NIS thousands		
Capital for SCR purposes as per Table 5	1,009,522	-	1,009,522
Exceeding of quantitative restrictions due to MCR (*)		-	-
Capital for MCR purposes	1,009,522	-	1,009,522

(*) According to the provisions of Chapter 3 to Part B, “Provisions concerning the Capital of an Insurer”, of the Solvency Circular, Tier 2 Capital will not exceed 20% of the MCR.