AIG Israel Insurance Company Ltd

Interim Financial Report

(Unaudited)

As of March 31, 2018

Contents

Directors' report on the State of Affairs of
AIG Israel Insurance Company Ltd. ("the Company")
for the period ended March 31, 2018

The directors' report on the state of the Company's affairs as of March 31, 2018 ("**the directors' report**"), reviews the Company and developments in its business in the first quarter of 2018 ("**the reported period**"). The information in this report are as at March 31, 2018 ("**the date of report**") unless explicitly stated otherwise.

The Company is an "insurer" as this term is defined in the Supervision of Financial Services Law (Insurance), 1981. Accordingly, this report was prepared in accordance with the provisions of the Reports to the Public chapter of the Regulation Codex published by the Commissioner of the Capital Markets, Insurance and Savings Authority ("**the Supervisor of Insurance**", "**the Supervisor**", "**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 NIS thousands, unless stated otherwise.

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 directors' 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. Forward-looking information is uncertain information about the future, which is based on the information available to the Company on report date and that 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 differ from those presented in the forward-looking information included 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 as forward-looking information.

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1. Summary description of the Company:

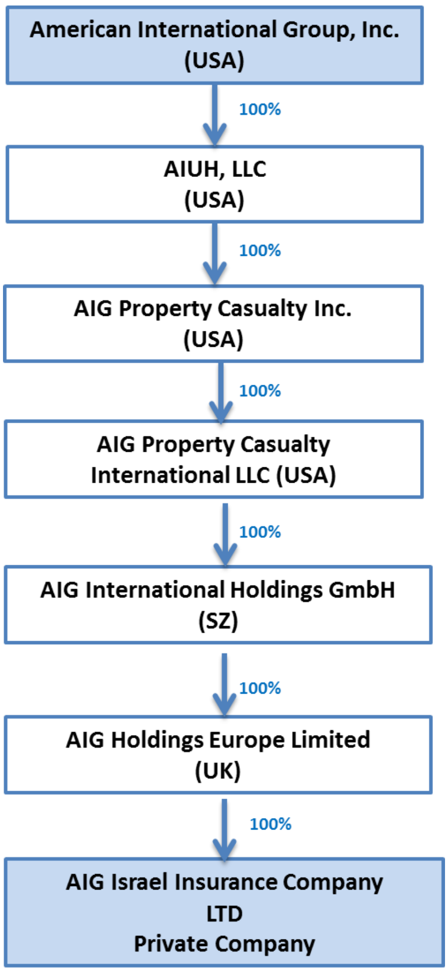
1.1 Organizational structure

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 investees.

The ultimate controlling shareholder in the Company is American International Group Inc. ("**the global AIG corporation**"). The global AIG Corporation is a leading global insurance and financial services corporation, rated BBB+ by Standard & Poor's (S&P) as at the report date.

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

Presented below is the holding structure of the Company:



The Company was granted licenses by the Commissioner to practice as an insurer in general insurance and life insurance as follows: motor vehicle insurance, compulsory motor vehicle insurance, comprehensive home insurance, health insurance (personal accidents insurance, serious illness insurance, and overseas 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 certain insurance types.

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

The Company markets and sells individual insurance policies directly to customers (without insurance agents) through call centers and online. Customers are being serviced mainly through a central service call center. Most business of the Company in commercial insurance, and some of the individual 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: vehicle property 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 Extraordinary events since the last financial statements

No extraordinary events took place since the last financial statements.

2. Description of the business environment:

General

According to data published by the Israel Capital Markets, Insurance and Savings Authority, there are more than 15 Israeli insurance companies currently active in Israel, most of which are engaged in general insurance. According to said data, as at December 31, 2017, insurance fees from the general insurance business amounted to NIS 17,332 million (excluding Karnit). The share of the 5 largest insurance companies – Harel, Clal, Phoenix, Migdal and Menorah – was NIS 9,841 million, or 56.8% 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 maintain its position in this competitive market, see Sections 2.1.2. 2.2.2, 2.3.2, 2.4.2, 2.5.2 and 2.6.2 in Chapter A (Description of the Company's Business) in the 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 channels of investment in the capital market have a material effect on the Company's profit.

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

	Jan-Mar 2018	Jan-Mar 2017	2017
Government bonds indexes			
General government bonds	0.2%	0.1%	3.6%
Linked government bonds	0.3%	(0.6%)	3.4%
NIS government bonds	0.2%	0.6%	3.7%
Corporate bonds indexes			
Tel Bond 60	(0.4%)	1.2%	5.8%
Tel Bond NIS	(1.1%)	2.0%	7.5%
Shares indexes			
Tel-Aviv 125	(3.9%)	(2.4%)	6.4%

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

For information on general trends in the insurance sector and their effect on the Company's business, see Section 4.3 in Chapter A (Description of the Company's Business) in the 2017 periodic report.

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

Following is a summary of principal statutory changes and the key issues that are relevant to the activity of the Company, as prescribed by the Supervisor in circulars and drafts during the reported period until shortly before the date of issuing this report:

Regulations

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

Regulatory 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 unified 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.

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 not longer apply commencing in the periodic report for the first quarter of 2018.

Misappropriation and Fraud

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

Circulars

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

- 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.

Drafts

- In January 2018, the Commissioner published a draft amendment to the provisions of 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. Among other things, the provisions include a prohibition on the effect of the sale of service letters on commissions of insurance agents in respect of the sale of an insurance policy, and a prohibition on conditioning the purchase of a written service insurance policy.

- In January 2018, the Commissioner published a draft amendment to the Joining of an Insurance Policy Circular. The draft proposes, among others, that the first step in the procedure for adjustment to the needs of the insurance candidate include review of a list of the insurance products that he holds, this by way of inquiry in the Har-Habituach website (insurance products database), this in order to avoid the redundant offering of products to the policyholder that are similar to those that he holds. However, a marketer will not execute such inquiry without receiving the insurance candidate's consent for the specific inquiry.

- In January 2018, a draft memorandum of the Supervision of Financial Services Law (Insurance) (Amendment No.) (Dispute Resolution Institution), 2017. The purpose of the draft is to streamline the procedures for settling disputes in the insurance sector in Israel, to facilitate the exhaustion of rights in these fields, taking into account the differences in power between those seeking to exercise their rights and the insurance company, and reduce the burden placed on the courts. The draft proposes, among other things, to establish within the Authority a dispute resolution institution that will enable exhaustion of the rights of applicants.

- In February 2018, the Commissioner published a draft circular regarding the Non-Yield Dependent Investments Committee. The purpose of the draft is to set provisions for the Non-Yield Dependent Investment Committee, which will replace the Investment Regulations after their cancellation, and to regulate various aspects of the Committee's work and composition, so that they will be adapted to the Committee's functions and the current framework of corporate governance in the public institutions. The draft prescribes, inter alia, provisions regarding the composition of the Committee and the qualifications of its members, restrictions regarding the appointment of a Committee member, the appointment of a chairman, the duties of the Committee and its methods of work.

- In February 2018, the Commissioner published a draft amendment to the circular regarding the service to customers of public institutions. The draft proposes to amend Circular 2011-9- 7, "Service to Customers of Public Institutions", to include provisions intended to improve the quality of service provided to customers of public institutions. The circular prescribes general principles for the provision of services to customers of public institutions and obligates public institutions to establish a service charter.

- In February 2018, the Commissioner published a draft circular regarding confirmation of the existence of insurance. The purpose of the draft is to prescribe provisions to govern the issue of existence of insurance confirmations by insurance companies and insurance agents.

- In February 2018, the Commissioner published a draft circular regarding an Internet interface for locating insurance products. The purpose of the draft is to amend Circular 2016-1-17 and to determine additional types of information that must be reported to the Commissioner in order to improve the services provided to policyholders through Har-Habituach website (insurance products database) and to introduce new services to be offered to policyholders.

- In March 2018, the Commissioner a new draft that amends the provisions of the Consolidated Circular. The purpose of the draft is to assimilate into the provisions of the Consolidated Circular the provisions of the "Management of Compliance Risks in Public Institutions" circular.

- In March 2018, the Commissioner published a draft amendment to the circular concerning an annual report and a quarterly report to associates and policyholders in public institutions. The purpose of the draft is to amend a number of sections of the circular regarding tax confirmations and documents signed by a policyholder that the company must present in the summary of the policyholder's existing policies in the company. The draft also extends the ad hoc order regarding the delivery of a detailed annual report of insurance coverage in the event of death in connection with a mortgage purchased through a mortgage bank prior to January 1, 2006.

- In March 2018, the Commissioner published another draft concerning reports to the Commissioner. The draft determines that the "Reporting of Yield Components" and "List of Assets at the Single Asset Level" reports, which are currently posted on the websites of the public institutions, will also be reported to the Commissioner through the reporting system (Signals Portal).

- In March 2018, the Commissioner published a draft concerning the board of directors of a public institution. The draft circular prescribes, inter alia, provisions regarding the qualifications of members of the board of directors, the composition of the board of directors, its duties, powers and manner of conduct. The draft proposes that its provisions replace the Board of Directors' Regulations and Public Institutions Circular 2006-9-7 regarding the "Procedure for the Work of the Board of Directors and its Committees".

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

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

	March 31, 2018	March 31, 2017	December 31, 2017
Other assets	305,036	279,915	275,307
Deferred acquisition expenses	157,277	150,791	149,357
Financial investments and cash	1,836,924	1,664,349	1,817,713
Reinsurance assets	695,169	659,458	669,428
Total assets	**2,994,406**	**2,754,513**	**2,911,805**
Equity	814,110	726,752	800,965
Liabilities in respect of insurance contracts	1,833,242	1,681,952	1,755,007
Other liabilities	347,054	345,809	355,833
Total equity and liabilities	**2,994,406**	**2,754,513**	**2,911,805**

Following is principal is comprehensive income data (NIS thousands):

	Jan-Mar 2018	Jan-Mar 2017	2017
Gross premiums earned	273,259	273,693	1,092,070
Premiums earned by reinsurers	(39,440)	(50,298)	(170,454)
Premiums earned in retention	**233,819**	**223,395**	**921,616**
Net investment gains (losses) and financing income	(6,754)	10,929	65,483
Income from commissions	10,734	10,061	41,736
Total revenue	**237,799**	**244,385**	**1,028,835**
Payments and change in liability for insurance contracts, in retention	(144,015)	(133,987)	(563,539)
Total other expenses	(72,420)	(74,676)	(312,308)
Income before income taxes	**21,364**	**35,722**	**152,988**
Taxes on income	(8,219)	(12,830)	(55,883)
Income for the period and total comprehensive income for the period	**13,145**	**22,892**	**97,105**

Equity and capital requirements

As at March 31, 2018, the Company's equity exceeds the capital required as at that date under the Supervision of Insurance Regulations (Insurance) (Minimum Capital Requirement for Insurers), 1998 by NIS 113.4 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.

4. Results of operations

In Q1 2018, the Company's gross premiums continued to rise, increasing by 4.9% as compared to gross premiums in Q1 2017. Total gross premiums in the reported period amounted to NIS 314.5 million, as compared to NIS 299.8 million in the corresponding period in 2017.

In the reported period, total premiums earned in retention amounted to NIS 267.0 million, as compared to NIS 250.3 million in the corresponding period in 2017, a 6.7% increase.

Premiums by principal operating segments (NIS thousands):

Jan-Mar 2018	Life insurance	Health insurance	General insurance	Total
Gross	31,643	54,450	228,399	314,492
In retention	25,329	53,701	188,003	267,033
% of total gross	10.1	17.3	72.6	100.0
% of retention	9.5	20.1	70.4	100.0

Jan-Mar 2017	Life insurance	Health insurance	General insurance	Total
Gross	31,849	55,445	212,516	299,810
In retention	26,372	54,653	169,273	250,298
% of total gross	10.6	18.5	70.9	100.0
% of retention	10.5	21.8	67.7	100.0

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

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

	Jan-Mar 2018	Jan-Mar 2017	Jan-Dec 2017
Income from compulsory vehicle insurance	3,530	10,858	35,451
Income from vehicle property insurance	11,785	9,028	6,810
Income from home insurance	1,131	3,996	22,562
Income (loss) from commercial insurance	1,676	(3,649)	4,380
Income from health insurance	1,574	9,887	44,295
Income from life insurance	5,811	3,010	15,375
Other - income (loss) not allocated to any segment	(4,143)	2,592	24,115
Income before tax	**21,364**	**35,722**	**152,988**
Taxes on income	(8,219)	(12,830)	(55,883)
Income for the period and total comprehensive income for the period	**13,145**	**22,892**	**97,105**

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

Following are the explanations of the Company's Board of Directors on developments in some of the data presented above:

a. Net investment losses amounted to NIS 6.8 million in the reporting period, as compared to gains of NIS 10.9 million in the corresponding period in 2017. The transition from gains on investments in the corresponding period in 2017 to losses in the reporting period was sue mainly to the decrease in the prices of corporate bonds and share indexes in the reporting period, as compared to profits in the corresponding period in 2017 (see section 2 below).

b. The profit of the Company from compulsory vehicle insurance amounted to NIS 3.5 million in the reporting period, as compared to profit of NIS 10.9 million in the corresponding period in 2017. The reduction in profit was due mainly to the increase in claims ratio and the decrease in gains on investments in the reporting period as compared to the corresponding period in 2017. The reduction in profit also stemmed from the higher losses on pooling.

c. The profit of the Company from vehicle property insurance in the reporting period was NIS 11.8 million, as compared to profit of NIS 9.0 million in the corresponding period in 2017. The underwriting profit of the Company from vehicle property insurance amounted to NIS 12.1 million in the reporting period, as compared to profit of NIS 7.4 million in the corresponding period in 2017. The increase in profit was due mainly to the reduction in the expense ratio.

d. The profit of the Company from home insurance in the reporting period was NIS 1.1 million, as compared to profit of NIS 4.0 million in the corresponding period in 2017. The underwriting profit of the Company from home insurance amounted to NIS 1.0 million in the reporting period, as compared to profit of NIS 3.3 million in the corresponding period in 2017. The decrease in profit resulted from an increase in the claims ratio, primarily in relation to water damage and the effect of weather damage.

e. The profit of the Company from professional liability insurance in the reporting period was NIS 0.8 million, as compared to loss of NIS 9.5 million in the corresponding period in 2017. The substantial loss in the corresponding period in 2017 resulted from the development of several claims in directors' and officers' insurance, and particularly one claim at NIS 8 million in retention.

f. The profit of the Company from other property insurance in the reported period was NIS 1.3 million, as compared to profit of NIS 1.4 million in the corresponding period in 2017.

g. The loss of the Company from other liability insurance amounted to NIS 0.4 million in the reported period, as compared to profit of NIS 4.4 million in the corresponding period in 2017. The reduction in profit was due to the increase in the claims ratio and the decrease in the gain on investment in the reported period as compared to the corresponding period in 2017.

h. The profit of the Company from health insurance in the reported period was NIS 1.6 million, as compared to profit NIS 9.9 million in the corresponding period in 2017. The decrease in profit was mainly due to a sharp increase in the claims ratio, primarily in relation to overseas travel, and to the lower gain on investments in the reported period as compared to the corresponding period in 2017.

i. The income of the Company from life insurance in the reported period was NIS 5.8 million, as compared to profit of NIS 3.0 million in the corresponding period in 2017. The increase in profit was due mainly 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 22.8 million, as compared to NIS 14.2 million in the corresponding period in 2017.

Net cash used in investing activities in the reported period amounted to NIS 4.6 million, as compared to NIS 9.5 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 18.2 million, amounting to NIS 76.1 million as at March 31, 2018.

6. Sources of funding

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

7. Material subsequent events

As to petitions for the certification of class actions that were filed against the Company after March 31, 2018, see Note 7a 9-10 to the financial statements.

8. CEO and CFO Disclosure regarding the effectiveness of controls and procedures applied to the 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 at 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 at 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 said provisions.

Internal controls over financial reporting

In the course of the quarter ending on March 31, 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 over financial reporting.

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

Management representations 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 dedication and contribution to its business achievements.

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Ralph Mucerino	Shay Feldman
Chairman of the Board of Directors	CEO

May 29, 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 March 31, 2018 (hereafter – "the report").

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

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

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

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

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

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

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

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

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

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

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

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

Shay Feldman - CEO

May 29, 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 March 31, 2018 (hereafter – "the report").

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

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

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

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

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

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

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

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

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

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

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

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

____

David Rothstein - CFO

May 28, 2018

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

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

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

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

The Insurance Company's management with the supervision of its Board of Directors evaluates the effectiveness of the internal control of the Insurance Company over financial reporting as at March 31, 2018, based on criteria set in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation management believes that as at March 31, 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: May 29, 2018

AIG Israel Insurance Company Ltd.

Condensed Interim Financial Statements (Unaudited) As at March 31, 2018

Condensed Interim Financial Statements as at March 31, 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 at March 31, 2018 and the condensed statements of profit or loss and other comprehensive income, changes in equity and cash flows for the three-month period 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, and are also responsible for the preparation of the financial information for this interim period in accordance with the disclosure requirements of the Commissioner of Capital Markets, Insurance and Savings under the Control 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 condensed interim financial information as at March 31, 2017 and for the three-month period ended on that date has been reviewed by other auditors, whose report thereon, dated May 25, 2017, contained 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 Interim Financial Information by the Entity's Auditor. A review of interim financial information 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 to the stated in the preceding paragraph, based on our review, no matter has come to our attention that causes us to believe that the above financial information does not comply, in all material respects, with the disclosure provisions of the Commissioner of Capital Markets, Insurance and Savings under the Control of Financial Services (Insurance) Law, 1981.

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

Somekh Chaikin
Certified Public Accountants (Isr.)

May 29, 2018

Condensed Interim Statements of Financial Position

	March 31 2018	March 31 2017	December 31 2017
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Assets			
Intangible assets	**37,716**	37,555	38,448
Deferred acquisition costs	**157,277**	150,791	149,357
Property and equipment	**11,942**	13,077	11,054
Reinsurance assets	**695,169**	659,458	669,428
Premiums collectible	**199,914**	172,166	173,828
Current tax assets	**6,489**	4,473	3,428
Accounts receivable and debit balances	**48,975**	52,644	48,549
	1,157,482	1,090,164	1,094,092
Financial investments:			
Marketable debt instruments	**1,594,401**	1,348,764	1,588,676
Non-marketable debt instruments	**82,971**	146,295	85,174
Other	**83,442**	78,368	85,943
Total financial investments	**1,760,814**	1,573,427	1,759,793
Cash and cash equivalents	**76,110**	90,922	57,920
Total assets	**2,994,406**	2,754,513	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 statements: May 29, 2018

Condensed Interim Statements of Financial Position

	March 31 2018	March 31 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
Other reserves	**11,084**	11,084	11,084
Retained earning	**552,419**	465,061	539,274
Total equity attributable to equity holders of the Company	**814,110**	726,752	800,965
Liabilities:			
Liabilities in respect of insurance contracts that are not yield dependent	**1,833,242**	1,681,952	1,755,007
Liabilities in respect of deferred taxes, net	**389**	3,097	9,281
Retirement benefit obligation, net	**3,385**	2,662	3,489
Liabilities to reinsurers	**258,713**	256,772	247,287
Accounts payable and credit balances	**84,567**	83,278	95,776
Total liabilities	**2,180,296**	2,027,761	2,110,840
Total equity and liabilities	**2,994,406**	2,754,513	2,911,805

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

Condensed Interim Statements of Profit or Loss and Other Comprehensive Income

	Three months ended		Year ended
	March 31 2018	**March 31 2017**	**December 31 2017**
	(Unaudited)	**(Unaudited)**	**(Audited)**
	NIS thousands	**NIS thousands**	**NIS thousands**
Gross earned premiums	**273,259**	273,693	1,092,070
Premiums earned by reinsurers	**(39,440)**	(50,298)	(170,454)
Premiums earned in retention	**233,819**	223,395	921,616
Gains (losses) on investments, net and financing income	**(6,754)**	10,929	65,483
Commission income	**10,734**	10,061	41,736
Total income	**237,799**	244,385	1,028,835
Payments and change in liabilities with respect to insurance contracts, gross	**(176,732)**	(158,782)	(693,418)
Share of reinsurers in increase of insurance liabilities and payments for insurance contracts	**32,717**	24,795	129,879
Payments and change in liabilities with respect to insurance contracts, retention	**(144,015)**	(133,987)	(563,539)
Commission, marketing expenses and other acquisition costs	**(54,586)**	(55,967)	(236,780)
General and administrative expenses	**(18,102)**	(18,378)	(72,747)
Financing income (expenses), net	**268**	(331)	(2,781)
Total expenses	**(216,435)**	(208,663)	(875,847)
Income before taxes on income	**21,364**	35,722	152,988
Taxes on income	**(8,219)**	(12,830)	(55,883)
Income for the period and total comprehensive income for the period	**13,145**	22,892	97,105
Basic earnings per share:			
Basic earnings per share	**2.29**	4.00	16.95
Number of shares used in calculating basic earnings per share	**5,730**	5,730	5,730

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

Condensed Interim Statements of Changes in Equity

	Share capital	Share premium	Other reserves	Retained earnings	Total
			NIS thousands		
Three-month period ended March 31, 2018					
Balance as at January 1, 2018 (audited)	**6**	**250,601**	**11,084**	**539,274**	**800,965**
Total comprehensive income for the period	**-**	**-**	**-**	**13,145**	**13,145**
Balance as at March 31, 2018 (unaudited)	**6**	**250,601**	**11,084**	**552,419**	**814,110**
Three-month period ended March 31, 2017					
Balance as at January 1, 2017 (audited)	6	250,601	11,084	492,169	753,860
Total comprehensive income for the period				22,892	22,892
Dividend	-	-	-	(50,000)	(50,000)
Balance as at March 31, 2017 (unaudited)	6	250,601	11,084	465,061	726,752
Balance as at January 1, 2017 (audited)	6	250,601	11,084	492,169	753,860
Total comprehensive income for the period				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 the condensed interim financial statements.

Condensed Interim Statements of Cash Flows

	Three months ended March 31 2018	Three months ended March 31 2017	Year ended December 31 2017
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Cash flows from operating activities:			
Net cash provided by (used in) operating activities (Appendix A)	**21,202**	1,966	(17,402)
Interest received	**21,747**	24,770	59,325
Dividend received	**-**	40	63
Income taxes paid, net	**(20,182)**	(12,581)	(47,966)
Net cash provided by (used in) operating activities	**22,767**	14,195	(5,980)
Cash flows from investing activities:			
Changes in assets covering equity and non-insurance liabilities:			
Investment in property and equipment	**(2,072)**	(2,961)	(5,132)
Investment in intangible assets	**(2,505)**	(6,531)	(17,199)
Net cash used in investing activities	**(4,577)**	(9,492)	(22,331)
Cash flows from financing activities:			
Dividend paid to the equity holders of the Company	**-**	(50,000)	(50,000)
Net cash used in financing activities	**-**	(50,000)	(50,000)
Impact of exchange rate fluctuations on balances of cash and cash equivalents	**-**	(15)	(3)
Increase (decrease) in cash and cash equivalents	**18,190**	(45,312)	(78,314)
Cash and cash equivalents at beginning of period	**57,920**	136,234	136,234
Cash and cash equivalents at end of period	**76,110**	90,922	57,920

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

Condensed Interim Statements of Cash Flows

	Three months ended March 31 2018	Three months ended March 31 2017	Year ended December 31 2017
	(Unaudited)	**(Unaudited)**	**(Audited)**
	NIS thousands	**NIS thousands**	**NIS thousands**
Appendix A - Cash flows from operating activities			
Income for the period	**13,145**	*22,892	*97,105
Adjustments for-			
Items not involving cash flows:			
Change in liabilities with respect to insurance contracts that are not yield dependent	**78,235**	35,187	108,242
Change in reinsurance assets	**(25,741)**	(899)	(10,869)
Change in deferred acquisition costs	**(7,920)**	(8,964)	(7,530)
Taxes on income	**8,219**	*12,830	*55,883
Change in retirement benefit obligation, net	**(104)**	(51)	776
Depreciation of property and equipment	**1,184**	1,319	5,513
Amortization of intangible assets	**3,237**	2,792	12,567
Losses (gains), net, on financial investments:			
Marketable debt instruments	**25,653**	12,169	(3,935)
Non-marketable debt instruments	**1,506**	4,513	(1,896)
Other	**2,501**	709	(6,982)
Impact of fluctuation in exchange rate on cash and cash equivalents	**-**	15	3
	86,770	59,620	151,772
Changes in operating assets and liabilities:			
Liabilities to reinsurers	**11,426**	(393)	(9,878)
Investments in financial assets, net	**(30,681)**	(30,281)	(186,443)
Premiums collectible	**(26,086)**	(18,632)	(20,294)
Receivables and debit balances	**(426)**	(154)	3,941
Payables and credit balances	**(11,209)**	(5,736)	6,762
Current tax assets	**10**	(540)	(979)
	(56,966)	(55,736)	(206,891)
Adjustments for interest and dividend:			
Interest received	**(21,747)**	(24,770)	(59,325)
Dividend received	**-**	(40)	(63)
	(21,747)	(24,810)	(59,388)
Net cash provided by (used in) operating activities	**21,202**	1,966	(17,402)

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

* Restated.

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

Note 1 - General

AIG Israel Insurance Company Ltd. ("the Company") was incorporated in Israel on March 27, 1996 as a private company in which the shareholders have limited responsibility. The Company commenced its insurance operations in May 1997. The Company does not hold any subsidiaries or related companies.

The ultimate controlling shareholder in the Company is American International Group Inc. ("AIG Global Corporation" or "AIG"), which is a leading international insurance and finance concern.

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

Definitions:

1) The Company – AIG Israel Insurance Company Ltd.

2) Commissioner - Commissioner of Capital Markets, Insurance and Savings at the Israel Ministry of Finance.

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 reinsurers' share in the insurance reserves and the outstanding claims.

6) Outstanding claims - Known outstanding claims, with the addition of the expected development in claims for which partial reporting was received (I.B.N.E.R.) plus claims not yet reported (I.B.N.R).

7) Capital Regulations - The Supervision of Insurance Business Regulations (Minimum Capital Required from an Insurer), 1998, and amendments thereto.

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

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

10) Premiums - Premiums including fees and receipts for related services.

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

Note 2 - Basis of Preparation of the Financial Statements

A. Statement of Compliance

The condensed interim financial statements ("the Interim Financial Information) has been prepared in accordance with the provisions of IAS 34, Interim Financial Reporting ("IAS 34") and do not include all of the information required for complete annual financial statements. They have also been prepared 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 Company's annual financial statements as at December 31, 2017 and for the year then ended ("the Company's 2017 Annual Financial Statements").

B. Use of Estimates and Judgment

The preparation of the condensed interim financial statements in accordance with IFRS requires management of the Company to exercise its judgment in making assessments, estimates and assumptions that affect the implementation of the accounting policy and the amounts of assets and liabilities, revenues and expenses. It is hereby clarified that actual results could differ from such estimates.

The judgment exercised by management in implementing the accounting policy of the Company and the principal assumptions used in assessments involving uncertainty are consistent with those used 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 those applied in the preparation of the Company's Annual Financial Statements, except as follows:

A. Taxes on income for the interim period are accounted for on the basis on management's best estimate of the average tax rate that will apply to the projected annual profits.

B. New accounting standards and interpretations not yet adopted:

1. The Company's 2017 Annual Financial Statements presented new IFRSs and amendments to existing standards that have not yet become effective and have not been early adopted by the Company, as well as an amendment to an International Accounting Standard that became effective and binding for accounting periods commencing on or after January 1, 2018.

   Since the publication of the Company's 2017 Annual Financial Statements, except as discussed below, no new standards or amendments to existing standards were issued that may have material impact on the Company's financial statements.

Note 3 - Significant Accounting Policies (cont'd)

B. New accounting standards and interpretations not yet adopted (cont'd):

2. IFRS 9

With regard to IFRS 9, Financial Instruments ("IFRS 9"), in respect of which the Company has not yet completed examining its anticipated impact on its financial statements, the Company's management is also examining whether the Company meets certain criteria defined in the amendment to IFRS 4 ("the Amendment to IFRS 4"), as detailed below, for postponing the effective date of implementation of IFRS 9 to January 1, 2021.

The Amendment to IFRS 4 allows, inter alia, companies that are predominantly engaged in insurance-related activities (a criterion that is based on certain quantitative parameters) and that had not adopted a previous version of IFRS 9, to postpone the effective date of IFRS 9 to January 1, 2021 and continue applying the provisions of IAS 39 throughout said deferral period, while providing certain disclosures.

In accordance with the Commissioner's instructions, it has been decided that the Company will postpone the date of implementation of IFRS 9 until the coming into effect in Israel of IFRS No. 17, Insurance Contracts ("IFRS 17").

Since the publication of the Company's 2017 Annual Financial Statements and except as stated below regarding the issue of IFRS 17, no new IFRSs or amendments to existing standards have been issued that are expected to have a material impact on the financial statements of the Company.

3. IFRS 17, Insurance Contracts

On May 18, 2017, the IASB published IFRS 17, which supersedes, commencing on the date of its first-time implementation, IFRS 4, Insurance Contracts ("IFRS 4"). At present, IFRS 4 permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will apply to insurance contracts (including reinsurance contracts) and investment contracts with a discretionary participation feature.

IFRS 17 will be applicable to annual periods commencing on or after January 1, 2021. Earlier adoption is permitted, provided that IFRS 15, Revenue from Contracts with Customers, and IFRS 9, Financial Instruments, are also applied.

IFRS 17 prescribes a current measurement model for insurance contracts ("the General Model"), which aims, inter alia, to bring about a transition to measurement of revenue from insurance contracts over the reporting periods based on the expected value of the insurance coverage and the various services that are provided by the insurance company in such periods, and to the presentation of outstanding claims are presented as incurred. According to that model, the various estimates are remeasured every reporting period. The measurement is based on:

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

Interest is accreted on the CSM at rates locked in at initial recognition of an insurance contract. The CSM is released to profit or loss in each period on the basis of passage of

Note 3 - Significant Accounting Policies (cont'd)

B. New accounting standards and interpretations not yet adopted (cont'd):

3. IFRS 17, Insurance Contracts (cont'd)

time. If a group of insurance contracts is or becomes loss-making, the loss will be recognized in profit or loss immediately.

Under IFRS 17, entities have an accounting policy choice to recognize the impact of changes in discount rates and changes in assumptions that relate to other financial risks either in profit or loss or in other comprehensive income. The General Model includes specific guidance for insurance contracts relating to participating insurance policies.

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

IFRS 17 expands the current disclosure requirements under IFRS 4, particularly in relation to amounts, discretion and risks arising from insurance contracts.

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

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

4. IFRS 16, Leases

The standard replaces IAS 17, Leases, 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 an asset and liability in respect of the lease in its financial statements. Nevertheless, the standard contains two exceptions to the general model, whereunder a lessee may choose not to implement the requirements to recognize a right-of-use asset and a lease liability in respect of short-term leases of up to one year and/or leases with a low-value underlying asset.

Additionally, the standard allows the lessee to consistently apply the definition of the term "lease" to all leases using one of the two following alternatives: retrospective application to all leases, i.e. reassessment of the existence of a lease for each contract separately or, alternatively, implementation of a practical exemption that permits to maintain the assessment of existence of a lease in accordance with the provisions of IAS 17, Leases, and IFRIC 4, Determining whether an Arrangement contains a Lease, in relation to agreements that are in place as at the date of first-time implementation of the standard. The standard also prescribes new and broader disclosure requirements.

The standard is applicable to annual periods commencing on January 1, 2019. Early adoption is permitted.

The Company is studying the provisions of IFRS 16 and will examine the expected impact on its financial statements.

Note 3 - Significant Accounting Policies

B. New accounting standards (cont'd)

5. IFRIC 23, Uncertainty over Income Tax Treatments

The interpretation clarifies the implementation of the recognition and measurement requirements of IAS 12 when there is uncertainty over tax treatments. According to the Interpretation, in determining taxable profit (tax loss) for tax purposes, the tax bases, unused tax losses, unused tax credits and the tax rates in the event of uncertainty, the entity is required to assess whether it is probable that the tax authority will accept the tax treatment applied by the entity. If it is probable that the tax authority will accept the tax treatment applied by the entity, the entity will recognize the tax implications on the financial statements consistently with such tax treatment. In opposition, if it is not probable that the tax treatment applied will be accepted by the tax authority, the entity has to reflect the uncertainty in its accounts using one of the two following methods: the most likely amount or the expected value. The Interpretation clarifies that in considering the probability of the acceptance or non-acceptance by the tax authority of the tax treatment applied by the entity, the entity is to assume that a taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so. The interpretation further states that the entity has to take into account changes in facts and circumstances that could alter said assessment. Additionally, the Interpretation stresses the need to provide disclosures as to the judgments made by the entity and the assumptions used in relation to uncertain tax treatments.

The Interpretation is applicable to annual periods commencing on January 1, 2019. Early adoption is permitted. The Interpretation offers two alternatives for implementing the transitional provisions: retrospective application or prospective application commencing in the first reporting period in which the entity first applies the Interpretation.

The Company is considering the effects of the Interpretation on the financial statements and has not opted for early adoption.

Note 4 - Segment Information

Operating segments are reported based on the information that is reviewed by the chief operating 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 described below. Operations that are not attributed to the segments include equity, liabilities outside the insurance business and the assets held against them.

A. Life insurance segment

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

B. Health insurance segment

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

C. General insurance segment

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

- <u>Compulsory motor vehicle sector</u>

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

- <u>Motor vehicle property sector</u>

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

- <u>Home insurance sector</u>

  The home insurance sector focuses on providing coverage for damages caused to homes and includes coverage in respect of damages caused by earthquake.

- <u>Professional liability sector</u>

  The professional liability sector provides cover to practitioners of the various liberal professions for any claims that may be made against them in relation to 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, cover for funds misappropriation damages and cover for cyber events.

- Other property sectors

  Include property sectors other than motor vehicle or liability sectors. Cover is principally provided with respect to property insurance, subcontractors and mechanical breakdown insurance.

- Other liability sectors

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

Note 4 - Segment Information (cont'd)

	3-month period ended March 31, 2018 (unaudited)				
	Life insurance	**Health Insurance***	**General insurance**	**Not attributed to operating segments**	**Total**
			NIS thousands		
Gross earned premiums	**31,664**	**54,041**	**187,554**		**273,259**
Premiums earned by reinsurers	**(6,315)**	**(749)**	**(32,376)**		**(39,440)**
Premiums earned in retention	**25,349**	**53,292**	**155,178**		**233,819**
Investment losses, net	**-**	**(298)**	**(2,493)**	**(3,963)**	**(6,754)**
Commission income	**1,191**	**72**	**9,471**		**10,734**
Total income	**26,540**	**53,066**	**162,156**	**(3,963)**	**237,799**
Payments and change in liabilities with respect to insurance contracts (gross)	**(11,260)**	**(30,865)**	**(134,607)**		**(176,732)**
Share of reinsurers in increase of insurance liabilities and payments for insurance contracts	**2,601**	**633**	**29,483**		**32,717**
Payments and change in liabilities in respect of Insurance contracts, in retention	**(8,659)**	**(30,232)**	**(105,124)**		**(144,015)**
Commissions and other acquisition costs	**(10,422)**	**(12,179)**	**(31,985)**		**(54,586)**
General and administrative expenses	**(1,648)**	**(9,081)**	**(7,373)**		**(18,102)**
Financing income (expenses), net	**-**	**-**	**448**	**(180)**	**268**
Total comprehensive income (loss) before taxes on income	**5,811**	**1,574**	**18,122**	**(4,143)**	**21,364**
Liabilities for insurance contracts, gross, as at March 31, 2018	**67,467**	**134,904**	**1,630,871**		**1,833,242**

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

Note 4 - Segment Information (cont'd)

	3-month period ended March 31, 2017 (unaudited)				
	Life insurance	Health Insurance*	General insurance	Not attributed to operating segments	Total
			NIS thousands		
Gross earned premiums	31,828	55,316	186,549		273,693
Premiums earned by reinsurers	(5,476)	(794)	(44,028)		(50,298)
Premiums earned in Retention	26,352	54,522	142,521		223,395
Investment gains, net	1	810	6,721	3,397	10,929
Commission income	940	88	9,033		10,061
Total income	27,293	55,420	158,275	3,397	244,385
Payments and change in liabilities with respect to insurance contracts (gross)	(14,689)	(24,907)	(119,186)		(158,782)
Share of reinsurers in increase of insurance liabilities and payments for insurance contracts	3,592	1,294	19,909		24,795
Payments and change in liabilities with respect to insurance contracts, in retention	(11,097)	(23,613)	(99,277)		(133,987)
Commissions and other acquisition costs	(10,605)	(14,115)	(31,247)		(55,967)
General and administrative expenses	(2,581)	(7,805)	(7,992)		(18,378)
Financing income (expenses), net	-	-	474	(805)	(331)
Total comprehensive income before taxes on income	3,010	9,887	20,233	2,592	35,722
Liabilities for insurance contracts, gross, as at March 31, 2017	62,835	120,402	1,498,715		1,681,952

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

Note 4 - Segment Information (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 gains, net	2	4,533	33,341	27,607	65,483
Commission income	4,066	367	37,303		41,736
Total income	108,325	236,849	656,054	27,607	1,028,835
Payments and change in liabilities with respect to insurance contracts (gross)	(52,426)	(110,908)	(530,084)		(693,418)
Share of reinsurers in increase of insurance liabilities and payments for insurance contracts	9,261	3,614	117,004		129,879
Payments and change in liabilities with respect to insurance contracts, in retention	(43,165)	(107,294)	(413,080)		(563,539)
Commissions and other acquisition costs	(39,957)	(56,594)	(140,229)		(236,780)
General and administrative expenses	(9,828)	(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	69,203	24,115	152,988
Liabilities for insurance contracts, gross, as at December 31, 2017	67,282	129,918	1,557,807		1,755,007

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

Note 4 - Segment Information (cont'd)

Additional information relating to the general insurance segment:

	Compulsory motor vehicle	Motor vehicle property	Home	Professional liability	Other property sectors*	Other liability sectors*	Total
	3-month period ended March 31, 2018 (unaudited)						
	NIS thousands						
Gross premiums	48,558	108,542	31,044	16,465	12,851	10,939	228,399
Reinsurance premiums	(674)	(26)	(3,221)	(14,721)	(12,256)	(9,498)	(40,396)
Premiums in retention	47,884	108,516	27,823	1,744	595	1,441	188,003
Change in balance of unearned premiums, in retention	(8,245)	(19,807)	(3,934)	(232)	(220)	(387)	(32,825)
Premiums earned in retention	39,639	88,709	23,889	1,512	375	1,054	155,178
Investment losses, net	(1,112)	(576)	(137)	(300)	(54)	(314)	(2,493)
Commission income	-	-	416	4,571	2,608	1,876	9,471
Total income	38,527	88,133	24,168	5,783	2,929	2,616	162,156
Increase in insurance liabilities and payments for insurance contracts	(32,528)	(61,496)	(15,325)	(9,503)	(6,538)	(9,217)	(134,607)
Share of reinsurers in increase of insurance liabilities and payments for insurance contracts	4,999	-	1,939	8,477	6,268	7,800	29,483
Increase in liabilities and payments for insurance contracts in retention	(27,529)	(61,496)	(13,386)	(1,026)	(270)	(1,417)	(105,124)
Commissions, marketing expenses and other acquisition costs	(5,973)	(12,544)	(7,313)	(3,644)	(1,062)	(1,449)	(31,985)
General and administrative expenses	(1,495)	(2,525)	(2,562)	(379)	(263)	(149)	(7,373)
Financing income, net	-	217	224	6	-	1	448
Total expenses	(34,997)	(76,348)	(23,037)	(5,043)	(1,595)	(3,014)	(144,034)
Total comprehensive income (loss) before taxes on income	3,530	11,785	1,131	740	1,334	(398)	18,122
Liabilities with respect to insurance contracts, gross, as at March 31, 2018	642,516	289,539	82,429	225,608	99,206	291,573	1,630,871
Liabilities with respect to insurance contracts in retention as at March 31, 2018	505,168	289,539	74,846	42,275	3,801	38,453	954,082

(*) Other property sectors reflect mainly the results of property loss insurance, which accounts for 99% of total premiums in these sectors.
Other liability sectors reflect mainly the results of third-party liability insurance, which accounts for 41% of total premiums in these sectors.

Note 4 - Segment Information (cont’d)

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

	3-month period ended March 31, 2017 (unaudited)						
	Compulsory motor vehicle	Motor vehicle property	Home	Professional liability	Other property sectors*	Other liability sectors*	Total
	NIS thousands						
Gross premiums	43,132	97,347	28,239	18,660	10,858	14,280	212,516
Reinsurance premiums	(602)	(28)	(2,884)	(16,932)	(10,391)	(12,406)	(43,243)
Premiums in retention	42,530	97,319	25,355	1,728	467	1,874	169,273
Change in balance of unearned premiums, in retention	(6,671)	(16,942)	(3,048)	310	(157)	(244)	(26,752)
Premiums earned in retention	35,859	80,377	22,307	2,038	310	1,630	142,521
Investment gains, net	2,943	1,408	407	885	157	921	6,721
Commission income	-	-	387	4,321	2,364	1,961	9,033
Total income	38,802	81,785	23,101	7,244	2,831	4,512	158,275
Increase in insurance liabilities and payments for insurance contracts	(25,617)	(56,004)	(10,084)	(17,750)	(6,941)	(2,790)	(119,186)
Share of reinsurers in increase of insurance liabilities and payments for insurance contracts	4,789	-	(405)	4,500	6,738	4,287	19,909
Increase in liabilities and payments for insurance contracts in retention	(20,828)	(56,004)	(10,489)	(13,250)	(203)	1,497	(99,277)
Commissions, marketing expenses and other acquisition costs	(6,111)	(13,503)	(6,185)	(3,203)	(796)	(1,449)	(31,247)
General and administrative expenses	(1,005)	(3,427)	(2,725)	(290)	(426)	(119)	(7,992)
Financing income, net	-	177	294	3	-	-	474
Total expenses	(27,944)	(72,757)	(19,105)	(16,740)	(1,425)	(71)	(138,042)
Total comprehensive income (loss) before taxes on income	10,858	9,028	3,996	(9,496)	1,406	4,441	20,233
Liabilities with respect to insurance contracts, gross, as at March 31, 2017	573,398	241,986	72,730	243,862	84,579	282,160	1,498,715
Liabilities with respect to insurance contracts in retention as at March 31, 2017	453,485	241,986	67,646	53,661	3,472	37,291	857,541

(*) Other property sectors reflect mainly the results of property loss insurance, which accounts for 86% of total premiums in these sectors.
Other liability sectors reflect mainly the results of product liability insurance, which accounts for 41% of total premiums in these sectors.

Note 4 - Segment Information (cont'd)

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

	Compulsory motor vehicle	Motor vehicle property	Home	Professional liability	Other property sectors*	Other liability sectors*	Total
	Year ended December 31, 2017 (audited)						
	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 in retention	149,882	329,155	92,503	6,967	1,669	5,234	585,410
Investment gains, net and financing income	14,486	7,435	2,168	4,011	760	4,481	33,341
Commission income	-	-	1,546	17,897	10,011	7,849	37,303
Total income	164,368	336,590	96,217	28,875	12,440	17,564	656,054
Payments and change in insurance liabilities for insurance contracts, gross	(149,788)	(228,667)	(37,637)	(69,975)	(20,704)	(23,313)	(530,084)
Share of reinsurers in increase of insurance liabilities and payments for insurance contracts	21,846	-	1,579	52,658	18,903	22,018	117,004
Payments and change in insurance liabilities for insurance contracts, in retention	(127,942)	(228,667)	(36,058)	(17,317)	(1,801)	(1,295)	(413,080)
Commissions, marketing expenses and other acquisition costs	(22,698)	(59,411)	(27,320)	(16,511)	(6,758)	(7,531)	(140,229)
General and administrative expenses	(6,918)	(13,061)	(10,984)	(1,570)	(1,023)	(697)	(34,253)
Financing income	-	-	707	4	-	-	711
Total expenses	(157,558)	(301,139)	(73,655)	(35,394)	(9,582)	(9,523)	(586,851)
Total comprehensive income (loss) before taxes on income	6,810	35,451	22,562	(6,519)	2,858	8,041	69,203
Liabilities with respect to insurance contracts, gross, as at December 31, 2017	625,446	261,904	74,596	220,250	92,857	282,754	1,557,807
Liabilities with respect to insurance contracts, in retention as at Dec. 31, 2017	492,800	261,904	68,176	42,133	3,632	37,442	906,087

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

Note 4 - Segment Information (cont'd)

Additional information relating to the life insurance segment:

	3-month period ended March 31, 2018 (unaudited)		
	Policies not containing savings element		Total
	Risk sold as single policy		
	Private	Group	
	NIS thousands		
Gross risk premiums	**31,643**	**-**	**31,643**
Payments and change in liabilities in respect of insurance contracts, gross	**11,260**	**-**	**11,260**

	3-month period ended March 31, 2017 (unaudited)		
	Policies not containing savings element		Total
	Risk sold as single policy		
	Private	Group	
	NIS thousands		
Gross risk premiums	31,849	-	31,849
Payments and change in liabilities in respect of insurance contracts, gross	14,689	-	14,689

	Year ended December 31, 2017 (audited)		
	Policies not containing savings element		Total
	Risk sold as single policy		
	Private	Group	
	NIS thousands		
Gross risk premiums	**127,053**	**-**	**127,053**
Payments and change in liabilities in respect of insurance contracts, gross	**54,426**	**-**	**52,426**

Note 4 - Segment Information (cont'd)

Additional information relating to the health insurance segment:

	3-month period ended March 31, 2018 (unaudited)		
	Long-term	Short-term	Total
		NIS thousands	
Gross premiums	**47,934**	**6,516**	***54,450**
Payments and change in liabilities in respect of insurance contracts, gross	**23,085**	**7,780**	**30,865**

* Consists primarily of policies issued to individuals.

	3-month period ended March 31, 2017 (unaudited)		
	Long-term	Short-term	Total
		NIS thousands	
Gross premiums	49,453	5,992	* 55,445
Payments and change in liabilities in respect of insurance contracts, gross	22,397	2,510	24,907

* Consists primarily of policies issued to individuals.

	Year ended December 31, 2017 (audited)		
	Long-term	Short-term	Total
		NIS thousands	
Gross premiums	197,179	38,065	*235,244
Payments and change in liabilities in respect of insurance contracts, gross	84,150	26,758	110,908

* Consists primarily of policies issued to individuals.

Note 5 - Equity and Capital Requirements

A. Capital management and requirements

The table below provides information with respect to the capital required and maintained by the Company in accordance with the Supervision of Financial Services Regulations (Insurance) (Minimum Required Capital of Insurers), 1998 ("the Capital Regulations"), and the directives of the Commissioner.

Company's capital in accordance with the Capital Regulations:

	Three months ended		Year ended
	March 31, 2018	**March 31, 2017**	**December 31, 2017**
	(Unaudited)	**(Unaudited)**	**(Audited)**
	NIS thousands	**NIS thousands**	**NIS thousands**
The amount required under the Capital Regulations and the Commissioner's directives (a)	**700,746**	649,613	672,592
Existing amount calculated under the Capital Regulations:			
Original capital	**814,110**	726,752	800,965
Total existing capital calculated under The Capital Regulations	**814,110**	726,752	800,965
Surplus	**113,364**	77,139	128,373

(a) The amount required including capital requirements for:

Operations in general insurance	**127,041**	118,243	124,754
Exceptional life insurance risks	**47,138**	42,781	46,122
Deferred acquisition costs related to life insurance	**82,756**	79,497	82,133
Investment assets and other assets	**77,953**	71,484	73,326
Catastrophe risks related to general insurance	**332,768**	307,205	314,639
Operating risks	**33,090**	30,403	31,618
Total full amount required under the Capital Regulations	**700,746**	649,613	672,592

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

B. Solvency II

1. On June 1, 2017, the Commissioner issued a circular on the provisions for implementing a Solvency II-based regimen. The directive includes a comprehensive examination of risks that insurance companies are exposed to and standards for their 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 regimen to be recognized as compatible with that in Europe.

   The provisions of the circular determine, among other things, that in the period from June 30, 2017 to December 31, 2024 ("the Deployment Period"), the provisions of the Solvency Capital Requirements ("SCR") will be implemented at a gradual increment of 5% a year, such that the Deployment Period as at June 30, 2017 will not be less than 60% of the SCR set out in the appendix to the circular and the SCR for an insurance company, calculated on the basis of the data for December in relation to solvency capital requirement (SCR) in the 31, 2024 and thereafter will not be less than the SCR.

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

   On April 16, 2018, the Commissioner issued a circular, Amendment of the Provisions of the Consolidated Circular on Reports to the Commissioner – Solvency Reporting File, concerning the files to be used in reporting Solvency II-based solvency ratio results to the Commissioner, similarly to the QRT reporting files in the Solvency II Directive.

2. On October 1, 2017, the Commissioner issued a letter to managements of insurance companies concerning dividend distributions by insurance companies ("the Letter"). Pursuant to the Letter:

   a) Pending the receipt of the Commissioner's confirmation of the audit of the implementation of the solvency circular by an auditor, an insurance company may distribute a dividend subject to the fulfillment of the following conditions:

      - After the distribution, the Company has a ratio of recognized capital to required capital ("the Solvency Ratio") of at least 115% according to the existing Capital Regulations or directives that supersede them.
      - After the distribution, the Company has a solvency ratio of at least 100% according to the solvency circular, calculated without the provisions during the Deployment Period and without a period of adjustment of the share scenario and subject to the solvency ratio target determined by the Company's Board of Directors.

   b) After the date of receipt of the Commissioner's confirmation of the audit of the implementation of the solvency circular by an auditor, an insurance company may distribute a dividend if it meets the conditions stated at the end of section (a) above.

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

B. Solvency II

2. (cont'd)

c) An insurance company that distributes a dividend as above shall deliver to the Commissioner, within 20 business days of the date of distribution, all of the following:
   1. An annual profit forecast for the two years following the dividend distribution date;
   2. An updated debt service plan of the insurance company, approved by the company's board of directors, as well as an updated debt service plan of the holding company that holds the insurance company, as approved by the board of directors of the holding company;
   3. An updated capital management plan approved by the Board of Directors of the insurance company, which also includes extensive reference to meeting the solvency ratio target set by the board of directors over time, without regard to the Deployment Period and the period of adjustment of the share scenario;
   4. A copy of the minutes of the discussion of the insurance company's board of directors' in which of the distribution of the dividend was approved, together with the background material for the discussion.

Note 6 - Financial Instruments and Financial Risks

A. Fair value hierarchy

The various levels of fair value are defined as follows:

- Level 1 – Fair value measured using quoted prices (unadjusted) in an active market for identical instruments.
- Level 2 – Fair value measured using direct or indirect observable inputs that are not included in Level above.
- Level 3 – Fair value measured using data that are not based on observable market inputs.

The fair value measurement of all marketable financial investments of the Company (excluding non-marketable debt assets) that are designated at fair value through profit or loss represent Level 1. The fair value measurement of non-marketable debt assets of the Company that are measured at amortized cost and for which fair value is presented for disclosure purposes only (see d(2) below) represent Level 2.

Pursuant to the stated above, during the 3-month period ended March 31, 2018, no transfers were made between the various levels of the fair value hierarchy.

B. The fair value of financial assets and financial liabilities:

1. The carrying amount of cash and cash equivalents, premiums collectible, accounts receivable, and accounts payable are equal to or approximate their fair value.
2. For details on the fair value of financial investments, see d. below.

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

C. In the three-month period ended March 31, 2018, no material changes have occurred in the financial risk management policy of the Company, compared to the policy it reported in its 2017 Annual Financial Statements.

D. **Composition of financial investments:**

	March 31, 2018 (unaudited)		
	Measured at fair value through profit or loss	Loans and receivables	Total
		NIS thousands	
Marketable debt instruments (1)	**1,594,401**	**-**	**1,594,401**
Non-marketable debt instruments (2)	**-**	**82,971**	**82,971**
Other (3)	**83,442**	**-**	**83,442**
Total	**1,677,843**	**82,971**	**1,760,814**

	March 31, 2017 (unaudited)		
	Measured at fair value through profit or loss	Loans and receivables	Total
		NIS thousands	
Marketable debt instruments (1)	1,348,764	-	1,348,764
Non-marketable debt instruments (2)	-	146,295	146,295
Other (3)	78,368	-	78,368
Total	1,427,132	146,295	1,573,427

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

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

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

	March 31, 2018 (unaudited)	
	Carrying amount	Amortized cost
	NIS thousands	
Government bonds	**551,100**	**545,474**
Other debt assets:		
Other non-convertible debt assets	**1,043,301**	**1,018,206**
Total marketable debt assets	**1,594,401**	**1,563,680**

	March 31, 2017 (unaudited)	
	Carrying amount	Amortized Cost
	NIS thousands	
Government bonds	490,022	489,607
Other debt assets:		
Other non-convertible debt assets	858,742	842,861
Total marketable debt assets	1,348,764	1,332,468

	December 31, 2017 (audited)	
	Carrying Amount	Amortized Cost
	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)

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

2. **Composition of non-marketable debt instruments**

	March 31, 2018 (unaudited)	
	Carrying amount	Fair value
	NIS thousands	
Bank deposits	**1,101**	**1,437**
Presented at amortized cost, except bank deposits	**81,870**	**85,361**
Total non-marketable debt assets	**82,971**	**86,798**

	March 31, 2017 (unaudited)	
	Carrying amount	Fair value
	NIS thousands	
Bank deposits	36,687	37,508
Presented at amortized cost, except bank deposits	109,608	111,977
Total non-marketable debt assets	146,295	149,485

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

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

D. 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):

	March 31, 2018 (unaudited)	
	Carrying amount	Fair value
	NIS thousands	
Marketable financial investments	**83,442**	**78,657**

	March 31, 2017 (unaudited)	
	Carrying amount	Fair value
	NIS thousands	
Marketable financial investments	78,368	74,684

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

Note 7 – Contingent Liabilities:

There is general exposure, which cannot be estimated or quantified, stemming, inter alia, from the complexity of the services provided by the Company to its policyholders and the frequent regulatory changes. These arrangements are complex and include, among other things, the potential for claims relating to a long list of commercial and regulatory conditions. It is not possible to anticipate the types of claims and interpretations raised in this area and the exposure deriving from these and other claims. In addition, there is general exposure, arising from the fact that complaints are filed against the Company from time to time to various authorities, such as Supervision, regarding the rights of policyholders under insurance and/or the law. These complaints are handled regularly by those responsible for public inquiries at the Company. The decisions of the authorities in these complaints, if and when they are decided, are sometimes given as cross-sector decisions. Occasionally, the plaintiffs even threaten to take legal action with respect to their complaint, including in the framework of a petition to certify them as a class action. In these preliminary stages, it is not possible to assess how these procedures will develop and therefore it is not possible to assess the potential exposure to them or the very initiation of such proceedings. Therefore, no provision was included in respect of the aforesaid exposure.

Management believes, based on the opinion of its legal counsel as to the chances of such proceedings, that the financial statements include adequate provisions, where necessary, to cover damages from such claims. The total provision included in the financial statements is immaterial.

Note 7 – Contingent Liabilities (cont'd):

A. Contingent liabilities – petitions to certify claims as class actions:

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

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

   On February 12, 2018, a pretrial hearing was held. An additional pretrial hearing was scheduled for July 16, 2018.

   Management of the Company believes that the chances of the Company being required to increase its provisions for employee-related obligations as a result of said proceedings do not exceed 50%.

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

   On December 8, 2016, a mutually-agreed motion to amend the certification petition was filed, in which the Court was requested to permit the petitioners to amend to certification petition by removing arguments regarding the respondents' compulsory insurance, and limiting the proceedings to comprehensive insurance only, this in view of the ruling in Class Action 26351-09-13, Meyuhas et al. v. Menorah et. al.

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

   On September 13, 2017, a pretrial hearing was held. The Court ruled that the certification petition does not contain a cause of practice. The Court further ruled that the petitioners are required to inform of their position regarding the continuation of the proceedings by November 1, 2017.

   On November 14, 2017, the petitioners notified the Court that they intend to continue conducting the proceeding. On November 18, 2017, the Court ruled that in light of the petitioners' position to continue the proceeding, the parties were given the right summary supplementary arguments concerning the pending request for a security deposit. On December 6, 2017, the respondents filed their supplementary arguments concerning the request for a security deposit.

Note 7 – Contingent Liabilities (cont'd):

A. Contingent liabilities – petitions to certify claims as class actions (cont'd):

2. (cont'd)

On December 13, 2017, the petitioners applied to the Court to delay the ruling in the motion for a security deposit by seven days, claiming that the respondents added new documents to their supplementary arguments that were not previously provided by the petitioners, to which the petitioners object.

The Court granted the request and on December 17, 2017 the petitioners filed a motion to delete the supplementary arguments on the part of the respondents in the motion for a security deposit. The Court ruled that the respondents have the right of respond by January 7, 2018 and the right to respond to the response to the petitioners' response by January 17, 2018.

On January 7, 2018, the respondents submitted their response to the request of the petitioners to delete the supplementary arguments and on January 17, 2018, the petitioners filed their response to the respondents' response.

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

On February 22, 2018, a pretrial hearing was held, in which the parties requested the Court to approve a procedural arrangement according to which the parties would pass questions instead of investigations to the declarants, and that the summations stage would be held orally.

The Court approved the procedural arrangement and held that the questions should be completed by March 25, 2018 and that the questions must be answered by May 17, 2018.

On May 15, 2018, the Court granted the Company's request to extend the date for answering the questions by July 7, 2018. On May 21, 2018, the Court announced that the handling of the case was transferred to another judge.

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

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

The plaintiffs allege overcharging of the policyholders and breach the enhanced obligations of the insurance companies towards their policyholders, with regard to the possibility of updating the age and/or driving seniority when crossing the age and/or driving seniority level, entitling them to a reduction in the insurance premium.

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

On June 18, 2017, the Company submitted its response to the certification petition. On June 22, 2017, a pre-trial hearing was held, together with other claims filed against other insurance companies that deal with similar questions of fact and law. The Court ordered that, at this stage of the proceeding, all claims dealing with the age transition practice will be discussed in a consolidated manner, and it was decided that they will participate in the scheduled hearing on September 13, 2017 in order to examine the continuation of the proceedings.

Note 7 – Contingent Liabilities (cont'd):

A. Contingent liabilities – petitions to certify claims as class actions (cont'd):

3. (cont'd)

On September 7, 2017, the petitioners filed their response to the respondent's response to the certification petition. On September 13, 2017 a pre-trial hearing was held on December 26, 2017, the respondent submitted its response to the response of the petitioner to the response to the petition for the certification of the claim as a class action.

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

A pre-trial hearing was held on February 22, 2018. In the hearing, it was decided that inquiries should be conducted in the case. The first evidentiary hearing was set for October 22, 2018, and another evidentiary hearing was scheduled for October 29, 2018.

In the opinion of the Company's management, 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.

4. On April 27, 2017, a petition to certify a claim as a class action was filed against the Company and two additional insurance companies. The claimants claim that the insurance companies overcharged credit fees of policyholders who had paid the premium in installments, using interest rates that exceed the interest rates permitted by law and/or presented in the policies. Allegedly, the Company caused estimated damage in the amount of NIS 20,879 thousand over 7 years.

The final date for the submission of the response to the certification petition was extended until July 12, 2018. Within the framework of the understandings reached, an accountant was appointed on behalf of the claimants to review the levels of exposure reported by the Company.

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

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

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

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

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

At the hearing held on April 26, 2018, the Court recommended that the petitioner withdraw the petition. The petitioner is expected to submit its position shortly.

In the opinion of the Company's management, 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.

Note 7 – Contingent Liabilities (cont'd):

A. Contingent liabilities – petitions to certify claims as class actions (cont'd):

6. On September 14, 2017, a petition to certify a claim as 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 determined by a judicial authority, thereby violating Section 5(b) of the Adjudication of Interest and Linkage Law, 1961 ("the Law"). To their position, the Law determines that, where a debtor is in arrears, the linkage differentials, the ordinary interest rate and the interest on arrears should be added to the amount of the debt, starting from the date on which the amount was payable by the debtor to the date of actual payment.

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

   On March 29, 2018, the Respondents submitted their response to the certification petition.

   The petitioners are required to submit their response to the Respondents' response by June 20, 2018.

   A pre-trial hearing has been scheduled for November 5, 2018 .

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

7. On December 26, 2017, a claim and a petition to certify it as a class action were filed against the Company. The plaintiff alleges that the Company adds to the amounts that it collects from policyholders who were late on their payments, "collection expenses" for attorney fees, contrary to the law. It should be noted that similar petitions have been filed against other entities, including other insurance companies.

   The amount of damage estimated by the plaintiff in respect of the Company is NIS 25,000 thousand.

   The Company is required to submit its response to the certification petition by June 7, 2018. A hearing of the certification petition was scheduled for July 10, 2018.

   In the opinion of the Company's management, 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.

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

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

   The Company, together with the other insurance companies named in the claim, filed a petition for the dismissal in limine of the certification petition, on the grounds that the filing of such claim by an organization is not appropriate. A decision has yet to be issued.

Note 7 – Contingent Liabilities (cont'd):

A. Contingent liabilities – petitions to certify claims as class actions (cont'd):

8. (cont'd)

The Company is required to submit its response to the certification petition by June 4, 2018.

At this early stage of the claim, the Company's management and legal counsel are still studying the matter. In the opinion of the Company's management, which is based on the opinion of its legal counsel, at this preliminary stage the chances of approval of the certification petition cannot be estimated.

9. On May 2, 2018, a claim and a petition to certify it as a class action in the amount of NIS 2.5 million were filed against the Company. The petitioners allege that the Company automatically renews home insurance policies under mortgages, while raising the insurance premiums for the renewal period, without obtaining the consent of the policyholders to the renewal and the raising of the insurance premiums and without notifying them of the new price.

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

10. On May 8, 2018, a claim and a petition to certify it as a class action were filed against the Company and another insurance company, in the aggregate amount of NIS 262 million (of which NIS 157 million relates to the Company). The petitioners allege that while the Company does not take into consideration the value of the vehicle in calculating the insurance premiums, it does weigh it into the payment of insurance benefits. Consequently, the Company allegedly overcharges premiums in non-compliance with related circulars issued by the Commissioner.

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

Pending petitions to certify claims as class actions:	**Number of claims**	**Amount claimed (NIS thousands)**
Amount relating to the Company	10	* 247,643

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

Note 7 – Contingent Liabilities (cont'd):

B. Contingent liabilities – petitions to certify claims as class actions that have been concluded:

On November 2, 2016, a petition for the certification of a claim as a class action was filed against a number of insurance companies, including the Company, regarding a mortgage life insurance policy.

The petition concerns insurance coverage to homeowners who take mortgage loans where the loan principal is only repaid at the end of the loan period ("balloon loans"). The claimant estimates the total damage to the class group at NIS 75 million.

Of the amount claimed, the Company's alleged share is NIS 15 million.

On May 29, 2017, the Company submitted its response to the certification petition. On July 17, 2017, a pre-trial hearing was held in the case. The Court accepted the Company's arguments that there is no merit for a class action against the Company. However, the Court held that it was more appropriate to clarify the fact that in occurrence of an insurance event, the insurer will bear the full amount of the loan as recorded in the books of the bank or the policy (the higher of the two), especially in light of the fact that at the underwriting stage, no explicit clarification was made with the insurance candidate whether he was taking a balloon or Spitzer loan.

At the recommendation of the Court, negotiations were conducted by the parties, at the conclusion of which a mutually agreed motion was submitted for the withdrawal of the class action by the petitioners. The Court has recently approved the withdrawal.

Note 8 - Subsequent Events

As to petitions for the certification of class actions that were filed against the Company after March 31, 2018, see Note 7a 9-10 above.