AIG Israel Insurance Company Ltd

Interim Financial Report

(Unaudited)

As of March 31, 2019

Contents

Directors' report on the State of Affairs of
AIG Israel Insurance Company Ltd. ("the Company")
for the period ended March 31, 2019

The directors' report on the state of the Company's affairs as of March 31, 2019 ("**the directors' report**"), reviews the Company and developments in its business in the first quarter of 2019 ("**the reported period**"). The information in this report are as at March 31, 2019 ("**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 2018 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:

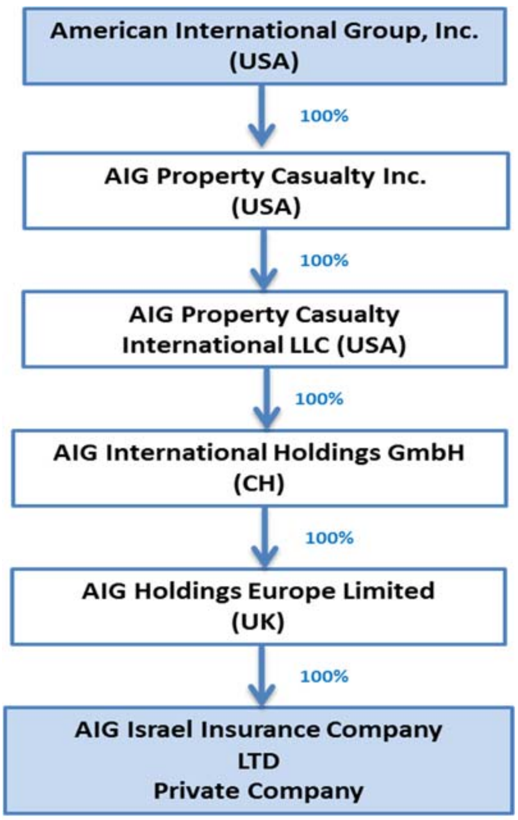
1.1 Organizational structure

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**", "**AIG**"). 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 private customers division.

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 September 30, 2018, insurance fees from the general insurance business amounted to NIS 18,134 million. The share of the 5 largest insurance companies – Harel, Clal, Phoenix, Migdal and Menorah – was NIS 10,301 million, or 57% 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 2018 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 2019	Jan-Mar 2018	2018
Government bonds indexes			
General government bonds	2.8%	0.2%	(1.3%)
Linked government bonds	3.5%	0.3%	(1.4%)
NIS government bonds	2.3%	0.2%	(1.2%)
Corporate bonds indexes			
Tel Bond 60	3.8%	(0.4%)	(0.8%)
Tel Bond NIS	3.7%	(1.1%)	(4.3%)
Shares indexes			
Tel-Aviv 125	6.4%	(3.9%)	(2.3%)

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 2018 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:

Circulars

- In February 2019, the Commissioner published an amendment to the consolidated circular concerning actuarial valuation. The aforesaid amendment assimilates and introduces into the provisions of the consolidated circular a series of provisions concerning the actuarial report that the appointed actuary is required to prepare.

- In February 2019, the Commissioner published an amendment to Brokers and Consultants Circular 2019-10-1, Involvement of an Unlicensed Entity in the Marketing and Sales of an Insurance Product other than Collective Insurance. The aforesaid amendment determines, inter alia, that commencing on May 1, 2019, only license holders may engage in the brokering of overseas travel insurance, thereby prohibiting travel agents from selling such insurance policies to their customers.

- In March 2019, the Commissioner published Public Institutions Circular 2019-9-3 concerning the collection of statistical data - public inquiries. The objective of the circular is to allow the Authority access to extensive and reliable information on public inquiries to facilitate the identification of matters requiring regularization and the review of the standard of service provided in handling public inquiries in the public institutions. The circular stipulates specific provisions for the collection of data on public inquiries.

  Concurrently and on the same date, an amendment was published to the consolidated circular on the same matter (Public Institutions Circular 2019-9-4). The update establishes consolidated circular provisions concerning the information that public institutions are required to report to the Commissioner in relation to the public inquiries addressed by them.

- In April 2019, the Commissioner published Insurance Circular 2019-1-4 concerning Special Reporting in General Insurance. The circular provides guidelines to the insurance companies as to the manner of reporting such matters to the Authority, so as to provide the Authority a real-time, reliable and accurate status report, as shall be defined by the Authority, concerning the volume of policyholders involved and allow it to effectively monitor the handling of their matter, including follow-up on claims that are filed.

Drafts

- In January 2019, the Commissioner published a draft amendment to the consolidated circular concerning the transfer of funds to reinsurers outside Israel. The draft prescribes the conditions for the transfer of such funds and for the obtaining of collateral from a reinsurer outside Israel for its share in the insurance obligations of the Israeli insurance companies.
- In February 2019, the Commissioner published a draft amendment to the consolidated circular concerning directives for an insurer's SCR. The amendment corrects the error in the figures specified in Section 2, "Calculation of SCR", linking them to the Consumer Price Index based on the linkage mechanism that is set out in the Supervision of Financial Services Regulations (Insurance) (Minimum Capital Required of an Insurer), 1988.
- In March 2019, the Commissioner published a draft amendment to the consolidated circular concerning compensation. The aforesaid draft proposes to update and adjust the directives of the Commissioner concerning compensation and to integrate the provisions of Public Institutions Circular 2009-9-4, "Remuneration of Outside Directors in Public Institutions", into the consolidated circular.
- In March 2019, the Commissioner published a draft amendment to the provisions of the consolidated circular concerning the economic solvency ratio report. The aforesaid draft proposes an update to the structure of the required disclosure in the economic solvency ratio report, for the purpose of adding a layer of qualitative disclosure to said report and expanding its existing quantitative disclosure.
- In April 2019, the Commissioner published a draft position concerning the findings of a cross-sector business continuity audit. In the aforesaid draft position, the Commissioner mentions judicious applications that are lacking in public institutions, as suggested by an analysis of the drill briefings carried out.
- In April 2019, the Commissioner published a draft concerning the agenda of joint meetings. The draft sets out the list of topics with respect to which a public institution may hold joint meetings of the board members of the public institution and of the board members of the parent company of a public institution or of a public institution controlled by the parent company or by the public institution.
- In May 2019, the Commissioner published a draft consultation paper concerning exemptions for investments in insuretech ventures. In the aforesaid draft, the Commissioner requests the public's assistance in establishing incentives to encourage insurance companies to invest in insuretech ventures.
- In May 2019, the Commissioner published a draft amendment to the provisions of the consolidated circular concerning guidelines for the documentation requirements pertaining to models, assumptions and studies. The aforesaid draft aims to define principles for documentation by the actuary of the actuarial models that he uses in his work and the work processes that he implements in determining the models' underlying assumptions and parameters.
- In May 2019, the Commissioner published a second draft concerning service to customers of public institutions. The draft prescribes specific provisions regarding the quality of the service that is provided by the public institutions, stressing, inter alia, the direct channels of service to customers.

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

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

	March 31, 2019	March 31, 2018	December 31, 2018
Other assets	332,327	305,036	281,073
Deferred acquisition expenses	167,178	157,277	157,629
Financial investments and cash	2,012,518	1,836,924	1,973,436
Reinsurance assets	731,176	695,169	718,971
Total assets	**3,243,199**	**2,994,406**	**3,131,109**
Equity	877,938	814,110	825,207
Liabilities in respect of insurance contracts	1,940,816	1,833,242	1,885,307
Other liabilities	424,445	347,054	420,595
Total equity and liabilities	**3,243,199**	**2,994,406**	**3,131,109**

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

	Jan-Mar 2019	Jan-Mar 2018	2018
Gross premiums earned	287,807	273,259	1,145,519
Premiums earned by reinsurers	(49,567)	(39,440)	(170,467)
Premiums earned in retention	**238,240**	**233,819**	**975,052**
Net investment gains (losses) and financing income	45,671	(6,754)	(18,568)
Income from commissions	12,730	10,734	44,842
Total revenue	**296,641**	**237,799**	**1,001,326**
Payments and change in liability for insurance contracts, in retention	(138,710)	(144,015)	(572,758)
Total other expenses	(77,249)	(72,420)	(313,747)
Income before income taxes	**80,682**	**21,364**	**114,821**
Taxes on income	(27,951)	(8,219)	(40,579)
Income for the period and total comprehensive income for the period	**52,731**	**13,145**	**74,242**

Equity and capital requirements

As at March 31, 2019, 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 188.0 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.

Solvency-II-based economic solvency regime in insurance companies

Presented below are data concerning solvency ratio and MCR. The data were not audited or reviewed as part of an audit or review of the financial statements.

a. Solvency ratio (NIS thousands):

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

b. MCR (NIS thousands):

	December 31, 2017	December 31, 2016
MCR	178,982	167,919
Equity for MCR purposes	1,063,774	753,860

The Company believes (taking into consideration the provisions for the deployment period, as set out in Circular 2017-1-9, “Implementation of a Solvency-II-based Economic Solvency Regime by Insurance Companies”) that in the coming year it would not be required to raise sources for compliance with the statutory solvency ratio and with the solvency ratio target set by the Board of Directors of the Company.

The information that is provided in this section above constitutes forward-looking information, which is based, inter alia, on the current state of the Company’s operations. Actual results may differ from the estimated results, including materially, as a result of various factors, most prominently regulatory changes applicable to the Company.

For the Company’s economic solvency ratio report as at December 31, 2017 - see the Company’s interim report as at September 30, 2018.

4. Results of operations

In Q1 2019, the Company's gross premiums continued to rise, increasing by 6.3% as compared to gross premiums in Q1 2018. Total gross premiums in the reported period amounted to NIS 334.2 million, as compared to NIS 314.5 million in the corresponding period in 2018. The increase in gross premium in the reported period derives primarily from commercial insurance.

In the reported period, total premiums earned in retention amounted to NIS 271.1 million, as compared to NIS 267.0 million in the corresponding period in 2018, a 1.5% increase.

Premiums by principal operating segments (NIS thousands):

Jan-Mar 2019	Life insurance	Health insurance	General insurance	Total
Gross	33,684	49,442	251,121	334,247
In retention	26,650	48,707	195,731	271,088
% of total gross	10.1	14.8	75.1	100.0
% of retention	9.8	18.0	72.2	100.0

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-December 2018	Life insurance	Health insurance	General insurance	Total
Gross	129,869	226,973	816,818	1,173,660
In retention	104,682	223,896	663,474	992,052
% of total gross	11.1	19.3	69.6	100.0
% of retention	10.6	22.6	66.8	100.0

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

	Jan-Mar 2019	Jan-Mar 2018	Jan-Dec 2018
Income from compulsory vehicle insurance	11,484	3,530	(4,277)
Income from vehicle property insurance	19,207	11,785	61,172
Income from home insurance	6,565	1,131	1,612
Income (loss) from commercial insurance	11,728	1,676	(8,851)
Income from health insurance	9,930	1,574	45,535
Income from life insurance	4,074	5,811	27,583
Other - income (loss) not allocated to any segment	17,694	(4,143)	(7,953)
Income before tax	**80,682**	**21,364**	**114,821**
Taxes on income	(27,951)	(8,219)	(40,579)
Income for the period and total comprehensive income for the period	**52,731**	**13,145**	**74,242**

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. Pre-tax profit in the reporting period amounted to approximately NIS 80.7 million, as compared to approximately 21.4 million in the corresponding period in 2018. The increase in profit was due mainly to the material increase in gains on investments in the reporting period, as compared to losses on investments in the corresponding period in 2018 (see section b. below). Additionally, the underwriting profit of the Company increased from NIS 27.9 million in the corresponding period to approximately NIS 33.0 million in the reporting period. This increase was due mainly to the improved claims' ratio.

b. Net investment gains amounted to NIS 45.7 million in the reporting period, as compared to investment losses of NIS 6.8 million in the corresponding period in 2018. The transition from losses on investments in the corresponding period in 2018 to gains in the reporting period was due mainly to the increase in the prices of corporate bonds, government bonds and share indexes in the reporting period, as compared to reductions in the prices of corporate bonds and in share indexes in the corresponding period in 2018 (see section 2 below).

c. The profit of the Company from compulsory vehicle insurance amounted to NIS 11.5 million in the reporting period, as compared to profit of NIS 3.5 million in the corresponding period in 2018. The increase in profit was due to the increase in gains on investments in the reporting period as compared to the corresponding period in 2018. The Company's underwriting profit from compulsory vehicle insurance amounted to approximately NIS 0.7 million in the reporting period, as compared to approximately 4.6 million in the corresponding period in 2018. The decrease in the underwriting profit was due mainly to the increase in provisions for the "Discount Regulations" and the higher losses on pooling.

d. The profit of the Company from vehicle property insurance in the reporting period was NIS 19.2 million, as compared to profit of NIS 11.8 million in the corresponding period in 2018. The increased profit was due to higher gains on investments in the reporting period as compared to the corresponding period in 2018. The underwriting profit of the Company from vehicle property insurance amounted to NIS 13.8 million in the reporting period, as compared to profit of NIS 12.1 million in the corresponding period in 2018. The increase in profit was due mainly to the reduction in the claims' ratio in the trail of the ongoing reduction in the frequency of accidents and theft since 2018.

e. The profit of the Company from home insurance in the reporting period was NIS 6.6 million, as compared to profit of NIS 1.1 million in the corresponding period in 2018. The increase in profit was due to the increase in gains on investments in the reporting period as compared to the corresponding period in 2018. The underwriting profit of the Company from home insurance amounted to NIS 4.6 million in the reporting period, as compared to profit of NIS 1.0 million in the corresponding period in 2018. The increase in profit resulted from a reduction in claim in relation to the effect of weather damage and plumbing damage.

f. The profit of the Company from professional liability insurance in the reporting period was NIS 6.6 million, as compared to profit of NIS 0.7 million in the corresponding period in 2018. The increase in profit was due to the increase in gains on investments in the reporting period as compared to the corresponding period in 2018 and the reduced claims' ratio.

g. The profit of the Company from other property insurance in the reported period was NIS 1.7 million, as compared to profit of NIS 1.3 million in the corresponding period in 2018.

h. The profit of the Company from other liability insurance amounted to NIS 3.4 million in the reported period, as compared to profit of NIS 0.4 million in the corresponding period in 2018. The increase in profit was due to the increase in gains on investments in the reporting period as compared to the corresponding period in 2018.

i. The profit of the Company from health insurance in the reported period was NIS 9.9 million, as compared to profit NIS 1.6 million in the corresponding period in 2018. The increase in profit was due to the increase in gains on investments and the reduction in the claims' ratio in relation to overseas travel in the reported period as compared to the corresponding period in 2018.

j. The profit of the Company from life insurance in the reported period was NIS 4.1 million, as compared to profit of NIS 5.8 million in the corresponding period in 2018. The decrease in profit was due to the higher claims' ratios.

Presented below is an analysis of operating results in property insurance sectors:

a. **Underwriting profit (loss) (NIS thousands):**

	1-3.2019	1-3.2018	1-12.2018
Vehicle property	13,844	12,144	61,827
Home	4,577	1,044	1,206
Property and others sectors	1,130	1,388	3,160

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

	1-3.2019		1-3.2018		1-12.2018	
	LR%	CR%	LR%	CR%	LR%	CR%
Vehicle property:						
Gross	66%	85%	69%	86%	62%	83%
In retention	66%	85%	69%	86%	62%	83%
Home:						
Gross	38%	74%	57%	93%	55%	93%
In retention	44%	83%	56%	96%	58%	99%
Property and others sectors:						
Gross	75%	91%	75%	90%	30%	48%
In retention *	99%	(311%)	72%	(270%)	123%	(116%)

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

5. Cash flows and liquidity

Net cash provided by operating activities in the reported period was NIS 35.7 million, as compared to NIS 22.8 million in the corresponding period in 2018.

Net cash used in investing activities in the reported period amounted to NIS 37.6 million, as compared to NIS 4.6 million in the corresponding period in 2018.

Net cash used in financing activities in the reported period amounted to NIS 1.3 million, as compared to NIS 0.0 million in the corresponding period in 2018.

As a result of the above, the balance of cash and cash equivalents in the reported period decreased by NIS 1.7 million, amounting to NIS 85.7 million as at March 31, 2019.

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.

[1] For the gross data, the claims' ratio and the expenses' ratio are calculated for gross earned premiums. For the data in retention, the claims' ratio and the expenses' ratio are calculated for premiums earned in retention.

7. **Material subsequent events**

On April 28, 2019, the CEO of the Company, Mr. Shay Feldman, announced his intention to end his office. The final day of office of Mr. Shay Feldman will be October 31, 2019. The Company has initiated steps for the recruitment of a new CEO.

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, 2019, 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 28, 2019

AIG Israel Insurance Company Ltd

Declarations relating to the Financial Statements

Declaration

I, Shay Feldman hereby declare that:

1. I reviewed the interim report of AIG Israel Insurance Company Ltd. (hereafter – "the insurance company") for the quarter ended March 31, 2019 (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 28, 2019

Declaration

I, David Rothstein hereby declare that:

1. I reviewed the interim report of AIG Israel Insurance Company Ltd. (hereafter – "the insurance company") for the quarter ended March 31, 2019 (hereafter – "the report").

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

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

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

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

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

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

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

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

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

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

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

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

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David Rothstein - CFO

May 28, 2019

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

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

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

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

The Insurance Company’s management with the supervision of its Board of Directors evaluates the effectiveness of the internal control of the Insurance Company over financial reporting as at March 31, 2019, 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, 2019 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 28, 2019

AIG Israel Insurance Company Ltd.

Condensed Interim Financial Statements (Unaudited) As at March 31, 2019

Condensed Interim Financial Statements as at March 31, 2019 (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, 2019 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.

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 28, 2019

Condensed Interim Statements of Financial Position

	March 31, 2019	March 31, 2018*	December 31, 2018
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Assets			
Intangible assets	34,024	37,716	35,047
Deferred acquisition costs	167,178	157,277	157,629
Property and equipment	44,116	11,942	11,617
Reinsurance assets	731,176	695,169	718,971
Premiums collectible	208,600	199,914	180,029
Current tax assets	849	6,489	-
Deferred tax assets, net	851	-	12,406
Accounts receivable and debit balances	43,887	48,975	41,974
	1,230,681	1,157,482	1,157,673
Financial investments:			
Marketable debt instruments	1,772,259	1,594,401	1,731,531
Non-marketable debt instruments	72,204	82,971	76,861
Other	82,402	83,442	77,738
Total financial investments	1,926,865	1,760,814	1,886,130
Cash and cash equivalents	85,653	76,110	87,306
Total assets	3,243,199	2,994,406	3,131,109

* See Note 3b(2) as to the first-time implementation of IFRS 16, Leases. In accordance with the elected method of transition, comparative figures have not been restated.

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

Date of approval of the interim financial statements: May 28, 2019

Condensed Interim Statements of Financial Position

	March 31, 2019	March 31, 2018*	December 31, 2018
	(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	**616,247**	552,419	563,516
Total equity attributable to equity holders of the Company	**877,938**	814,110	825,207
Liabilities:			
Liabilities in respect of insurance contracts that are not yield dependent	**1,940,816**	1,833,242	1,885,307
Liabilities in respect of current taxes	**-**	-	17,223
Liabilities in respect of deferred taxes, net	**-**	389	-
Retirement benefit obligation, net	**3,157**	3,385	3,057
Liabilities to reinsurers	**299,660**	258,713	297,928
Accounts payable and credit balances	**121,628**	84,567	102,387
Total liabilities	**2,365,261**	2,180,296	2,305,902
Total equity and liabilities	**3,243,199**	2,994,406	3,131,109

* See Note 3b(2) as to the first-time implementation of IFRS 16, Leases. In accordance with the elected method of transition, comparative figures have not been restated.

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, 2019	March 31, 2018*	December 31, 2018
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Gross earned premiums	**287,807**	273,259	1,145,519
Premiums earned by reinsurers	**(49,567)**	(39,440)	(170,467)
Premiums earned in retention	**238,240**	233,819	975,052
Gains (losses) on investments, net and financing income	**45,671**	(6,754)	(18,568)
Commission income	**12,730**	10,734	44,842
Total income	**296,641**	237,799	1,001,326
Payments and change in liabilities with respect to insurance contracts, gross	**(165,111)**	(176,732)	(680,353)
Share of reinsurers in increase of insurance liabilities and payments for insurance contracts	**26,401**	32,717	107,595
Payments and change in liabilities with respect to insurance contracts, retention	**(138,710)**	(144,015)	(572,758)
Commissions, marketing expenses and other acquisition costs	**(57,595)**	(54,586)	(243,934)
General and administrative expenses	**(18,970)**	(18,102)	(74,819)
Financing income (expenses), net	**(684)**	268	5,006
Total expenses	**(215,959)**	(216,435)	(886,505)
Income before taxes on income	**80,682**	21,364	114,821
Taxes on income	**(27,951)**	(8,219)	(40,579)
Income for the period and total comprehensive income for the period	**52,731**	13,145	74,242
Basic earnings per share:			
Basic earnings per share	**9.20**	2.29	12.96
Number of shares used in calculating basic earnings per share	**5,730**	5,730	5,730

* See Note 3b(2) as to the first-time implementation of IFRS 16, Leases. In accordance with the elected method of transition, comparative figures have not been restated.

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, 2019					
Balance as at January 1, 2019 (audited)	**6**	**250,601**	**11,084**	**563,516**	**825,207**
Total comprehensive income for the period				**52,731**	**52,731**
Balance as at March 31, 2019 (unaudited)	**6**	**250,601**	**11,084**	**616,247**	**877,938**
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
Year ended December31, 2018					
Balance as at January 1, 2018 (audited)	6	250,601	11,084	539,274	800,965
Total comprehensive income for the year				74,242	74,242
Dividend				(50,000)	(50,000)
Balance as at December 31, 2018 (audited)	6	250,601	11,084	563,516	825,207

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

Condensed Interim Statements of Cash Flows

	Three months ended March 31, 2019	Three months ended March 31, 2018*	Year ended December 31, 2018
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Cash flows from operating activities:			
Net cash provided by operating activities (Appendix A)	**20,195**	21,202	76,844
Interest received	**22,377**	21,747	59,494
Dividend received	**-**	-	428
Income taxes paid	**(75,403)**	(20,182)	(75,394)
Income taxes received	**35,718**	-	35,701
Net cash provided by operating activities	**2,890**	22,767	97,073
Cash flows from investing activities:			
Changes in assets covering equity and non-insurance liabilities:			
Investment in property and equipment	**(815)**	(2,072)	(5,900)
Investment in intangible assets	**(2,599)**	(2,505)	(11,656)
Net cash used in investing activities	**(3,414)**	(4,577)	(17,556)
Cash flows from financing activities:			
Dividend paid to the equity holders of the Company	**-**	-	(50,000)
Repayment of principal of lease liabilities	**(1,286)**	-	-
Net cash used in financing activities	**(1,286)**	-	(50,000)
Impact of exchange rate fluctuations on balances of cash and cash equivalents	**157**	-	(131)
Increase (decrease) in cash and cash equivalents	**(1,653)**	18,190	29,386
Cash and cash equivalents at beginning of period	**87,306**	57,920	57,920
Cash and cash equivalents at end of period	**85,653**	76,110	87,306

* See Note 3b(2) as to the first-time implementation of IFRS 16, Leases. In accordance with the elected method of transition, comparative figures have not been restated.

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

Condensed Interim Statements of Cash Flows

	Three months ended		Year ended
	March 31, 2019	March 31, 2018*	December 31, 2018
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Appendix A - Cash flows from operating activities			
Income for the period	**52,731**	13,145	* 74,242
Adjustments for-			
Items not involving cash flows:			
Change in liabilities with respect to insurance contracts that are not yield dependent	**55,509**	78,235	130,300
Change in reinsurance assets	**(12,205)**	(25,741)	(49,543)
Change in deferred acquisition costs	**(9,549)**	(7,920)	(8,272)
Taxes on income	**27,951**	8,219	40,579
Change in retirement benefit obligation, net	**100**	(104)	(432)
Depreciation of property and equipment	**2,455**	1,184	5,337
Amortization of intangible assets	**3,622**	3,237	15,057
Losses (gains), net, on financial investments:			
Marketable debt instruments	**(19,123)**	25,653	68,575
Non-marketable debt instruments	**4,352**	1,506	(7,927)
Other	**(4,664)**	2,501	8,052
Impact of fluctuation in exchange rate on cash and cash equivalents	**(157)**	-	131
	48,291	86,770	201,857
Changes in operating assets and liabilities:			
Liabilities to reinsurers	**1,732**	11,426	50,641
Investments in financial assets, net	**(21,300)**	(30,681)	(195,027)
Premiums collectible	**(28,571)**	(26,086)	(6,201)
Receivables and debit balances	**(1,909)**	(426)	6,575
Payables and credit balances	**(13,615)**	(11,209)	6,611
Current tax assets (liabilities), net	**5,213**	10	(1,932)
	(58,450)	(56,966)	(139,333)
Adjustments for interest and dividend:			
Interest received	**(22,377)**	(21,747)	(59,494)
Dividend received	**-**	-	(428)
	(22,377)	(21,747)	(59,922)
Net cash provided by operating activities	**20,195**	21,202	76,844

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

* See Note 3b(2) as to the first-time implementation of IFRS 16, Leases. In accordance with the elected method of transition, comparative figures have not been 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 Company has no foreign operations through branches or investee 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, 2018 and for the year then ended ("the Company's 2018 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. On April 1, 2018, the Company updated the manner of allocation of expenses in the financial statements, such that it is based on new estimates that are derived from the current volumes of activity and allocation of inputs of the Company. The changes were accounted for as a change in estimate and therefore did not involve the reclassification of the comparative figures. Consequently, the pre-tax comprehensive income from health insurance for the three-month period ended March 31, 2019 increased by NIS 1.3 million, the pre-tax comprehensive income from life insurance for the same period decreased by NIS 0.1 million, and the pre-tax comprehensive income from general insurance for the same period decreased by NIS 0.9 million. The total effect of the aforesaid change on the pre-tax comprehensive income of the Company is immaterial.

Note 3 - Significant Accounting Policies (cont'd)

B. New accounting standards implemented for the first time in the reporting period:

1. The Company's 2018 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.

   In relation to the aforesaid, see Note 2w, New Standards and Interpretations not yet Adopted, in the financial statements as at December 31, 2018.

   Since the publication of the Company's 2018 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.

2. IFRS 16 - Leases:

   Commencing on January 1, 2019 (hereinafter: “date of first-time implementation”), the Company implements IFRS 16, Leases (in this section: “IFRS 16” or “the Standard”), which supersedes IAS 17, Leases (in this section: “IAS 17” or “the Previous Standard”).

   For all leases, the Company has opted to implement the transitional provisions. Accordingly, on the date of first-time implementation, the Company recognized a liability at the present value of the balance of the future lease fees, discounted at its incremental interest rate as at such date, calculated based on the average duration of the lease commencing on the date of first-time implementation, commensurate with the recognition of a lease usage-right asset in the amount of the liability, adjusted for lease fees paid in advance or accrued that were recognized as an asset or a liability prior to the date of first-time implementation. Therefore, the implementation of the Standard did not affect the equity of the Company on the date of first-time implementation.

   Effect of implementation of the Standard in the reporting period:

   As a result of the implementation of IFRS 16, as at January 1, 2019, the Company recognized usage-right assets and lease liabilities of NIS 34,139 thousand in respect of leases that were classified as operating leases under IAS 17. The depreciated balance of the usage-right assets and lease liabilities as at March 31, 2019 is NIS 32,776 thousand and NIS 32,853 thousand, respectively. Usage-right assets and lease liabilities are presented under property and equipment and under accounts payable, respectively, in the statement of financial position. Additionally, the classification of lease payments in the statement of cash flows was prospectively modified, such that the principal component is included in financing activities and the interest component is presented in accordance with the Company’s policy concerning interest paid.

   The Company has determined the nominal interest rate for discounting the lease contracts based on the financing risk of the Company and the average duration of the lease contracts. The weighted average incremental interest rate used in discounting the future lease payments for the calculation of the balance of lease liabilities on the date of first-time implementation of the Standard is approximately 2.0%.

Note 3 - Significant Accounting Policies (cont'd)

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

2. IFRS 16 – Leases (cont'd):

Additionally, in lieu of the recognition of lease expenses in respect of said leases, the Company recognized additional depreciation and financing expenses. In the reporting period, the implementation of IFRS 16 in connection with leases classified as operating leases under IAS 17 did not have a material effect on the Company's profit or loss.

Presented below are the principal changes in accounting policies following the implementation of the Standard commencing on January 1, 2019:

(1) Determining whether an arrangement contains a lease:

On the date of entering a lease, the Company determines whether the arrangement is a lease or contains a lease and examines whether the arrangement confers a right to control the use of an identified asset over a specific period for consideration. In assessing whether an arrangement confers a right to control the use of an identified asset, the Company examines whether, over the lease period, it has the two following rights:

The right to obtain substantially all of the economic rewards from the use of the identified asset and the right to direct the use of the identified asset. For lease contracts that contain non-lease components, such as services or maintenance relating to a lease component, the Company has elected to account for the contract as a single lease component without separating the components.

(2) Leased assets and lease liabilities

Contracts that confer upon the Company control of the use of an asset under a lease over a period for consideration are accounted for as leases. Upon initial recognition, the Company recognizes a liability in the amount of the present value of the future lease payments (these payments do not include certain variable lease payments), commensurate with the recognition of a lease usage-right asset in the amount of the liability, adjusted for lease fees paid in advance or accrued, plus direct costs incurred on the lease.

Since the interest rate that is implicit in the leases of the Company cannot be readily determined, the Company uses the lessor's incremental interest rate.

Subsequent to initial recognition, the usage-right asset is accounted for based on the cost model and depreciated over the lease period or over the useful life of the asset, whichever is shorter.

The Company has opted for the adoption of the practical expedient pursuant to which, for short-term leases of up to one year or leases in which the base asset has a low value, the lease fees are carried to profit or loss by the straight-line method, over the lease period, and no asset and/or liability is recognized in the statement of financial position.

Note 3 - Significant Accounting Policies (cont'd)

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

2. IFRS 16 – Leases (cont'd):

(3) Lease period:

The lease period is defined as the period in which the lease may not be cancelled, together with periods that are covered by an option to extend or to cancel the lease, if it is probable that the lessee will or will not exercise this option, respectively.

(4) Variable lease payments:

Variable lease payments that depend on an index or a rate are initially measured using the index or rate as at the lease commencement date and included in the initial measurement of the lease liability. In the event of a change in the cash flow of future lease fees as a result of a change in the index or the rate, the balance of the liability is updated against the usage-right asset.

Other variable lease payments that are not included in the measurement of the liability are recognized in profit or loss on the date that the conditions for such payments are fulfilled.

(5) Depreciation of a usage-right asset:

After the inception of a lease, the usage-right asset is measured at cost, less accumulated depreciation and less accrued impairment losses, and is adjusted for remeasurements of the lease liability. The depreciation is performed on a straight-line basis over the useful life or the contractual period of the lease, whichever is shorter, as follows:

- Buildings: 6 years
- Vehicles: 3 years

(6) Reassessment of a lease liability:

Upon the occurrence of a significant event or a significant change in circumstances that are in the control of the Company and that affects the decision of whether it is probable that the Company will exercise an option not previously included in determining the lease period, or will not exercise an option previously included in determining the lease period, the Company remeasures the lease liability based on the updated lease payments using an updated discount interest rate. The change in the carrying amount of the liability is carried against the usage-right asset, or recognized in profit or loss if the carrying amount of the usage-right asset has been fully depreciated.

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.

Note 4 - Segment Information (cont'd)

- <u>Other property sectors</u>

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

- <u>Other liability sectors</u>

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

	3-month period ended March 31, 2019 (unaudited)				
	Life insurance	Health Insurance*	General insurance	Not attributed to operating segments	Total
			NIS thousands		
Gross earned premiums	31,768	49,598	206,441		287,807
Premiums earned by reinsurers	(7,035)	(735)	(41,797)		(49,567)
Premiums earned in retention	24,733	48,863	164,644		238,240
Investment gains, net	1	2,522	24,352	18,796	45,671
Commission income	2,153	69	10,508		12,730
Total income	26,887	51,454	199,504	18,796	296,641
Payments and change in liabilities with respect to insurance contracts (gross)	(13,389)	(23,051)	(128,671)		(165,111)
Share of reinsurers in increase of insurance liabilities and payments for insurance contracts	3,070	567	22,764		26,401
Payments and change in liabilities in respect of Insurance contracts, in retention	(10,319)	(22,484)	(105,907)		(138,710)
Commissions and other acquisition costs	(9,616)	(12,443)	(35,536)		(57,595)
General and administrative expenses	(2,878)	(6,597)	(9,495)		(18,970)
Financing income (expenses), net	-	-	418	(1,102)	(684)
Total comprehensive income before taxes on income	4,074	9,930	48,984	17,694	80,682
Liabilities for insurance contracts, gross, as at March 31, 2019	60,689	123,403	1,756,724		1,940,816

* 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, 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)

	Year ended December 31, 2018 (audited)				
	Life insurance	Health insurance	General insurance	Not attributed to operating segments	Total
			NIS thousands		
Gross earned premiums	129,951	226,983	788,585		1,145,519
Premiums earned by reinsurers	(425,188)	(3,077)	(142,202)		(170,467)
Premiums earned in Retention	104,763	223,906	646,383		975,052
Investment gains/ (losses), net	2	(827)	(6,463)	(11,280)	(18,568)
Commission income	6,159	289	38,394		44,842
Total income	110,924	223,368	678,314	(11,280)	1,001,326
Payments and change in liabilities with respect to insurance contracts (gross)	(41,280)	(98,611)	(540,462)		(680,353)
Share of reinsurers in increase of insurance liabilities and payments for insurance contracts	8,365	2,237	96,993		107,595
Payments and change in liabilities with respect to insurance contracts, in retention	(32,915)	(96,374)	(443,469)		(572,758)
Commissions and other acquisition costs	(38,784)	(55,311)	(149,839)		(243,934)
General and administrative expenses	(11,642)	(26,148)	(37,029)		(74,819)
Financing income	-	-	1,679	3,327	5,006
Total comprehensive income (loss) before taxes on income	27,583	45,535	49,656	(7,953)	114,821
Liabilities for insurance contracts, gross, as at December 31, 2018	58,416	124,839	1,702,052		1,885,307

* 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:

	3-month period ended March 31, 2019 (unaudited)						
	Compulsory motor vehicle	Motor vehicle property	Home	Professional liability	Other property sectors*	Other liability sectors*	Total
	NIS thousands						
Gross premiums	51,464	109,963	33,795	25,695	17,218	12,986	251,121
Reinsurance premiums	(714)	-	(2,809)	(23,615)	(17,002)	(11,250)	(55,390)
Premiums in retention	50,750	109,963	30,986	2,080	216	1,736	195,731
Change in balance of unearned premiums, in retention	(8,069)	(18,098)	(4,212)	(389)	59	(378)	(31,087)
Premiums earned in retention	42,681	91,865	26,774	1,691	275	1,358	164,644
Investment gains, net	10,833	5,166	1,772	3,182	541	2,858	24,352
Commission income	-	-	303	5,156	3,102	1,947	10,508
Total income	53,514	97,031	28,849	10,029	3,918	6,163	199,504
Increase in insurance liabilities and payments for insurance contracts	(37,069)	(60,679)	(11,309)	(6,836)	(9,454)	(3,324)	(128,671)
Share of reinsurers in increase of insurance liabilities and payments for insurance contracts	3,150	-	(380)	8,039	9,183	2,772	22,764
Increase in liabilities and payments for insurance contracts in retention	(33,919)	(60,679)	(11,689)	1,203	(271)	(552)	(105,907)
Commissions, marketing expenses and other acquisition costs	(5,902)	(13,883)	(7,532)	(4,359)	(1,813)	(2,047)	(35,536)
General and administrative expenses	(2,209)	(3,459)	(3,279)	(257)	(163)	(128)	(9,495)
Financing income, net	-	197	216	1	-	4	418
Total expenses	(42,030)	(77,824)	(22,284)	(3,412)	(2,247)	(2,723)	(150,520)
Total comprehensive income before taxes on income	11,484	19,207	6,565	6,617	1,671	3,440	48,984
Liabilities with respect to insurance contracts, gross, as at March 31, 2019	706,329	293,114	105,978	281,053	100,253	269,997	1,756,724
Liabilities with respect to insurance contracts in retention as at March 31, 2019	559,696	293,114	100,647	45,107	3,577	40,217	1,042,358

(*) Other property sectors reflect mainly the results of property loss insurance, which accounts for 9% of total premiums in these sectors.
Other liability sectors reflect mainly the results of product liability insurance, which accounts for 46% 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, 2018 (unaudited)						
	Compulsory motor vehicle	Motor vehicle property	Home	Professional Liability	Other property sectors*	Other liability sectors*	Total
				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):

	Year ended December 31, 2018 (audited)						
	Compulsory motor vehicle	Motor vehicle property	Home	Professional liability	Other property sectors*	Other liability sectors*	Total
	NIS thousands						
Gross premiums	174,445	373,587	119,209	71,157	46,367	32,053	816,818
Reinsurance premiums	(2,403)	(17)	(12,442)	(65,370)	(45,445)	(27,667)	(153,344)
Premiums in retention	172,042	373,570	106,767	5,787	922	4,386	663,474
Change in balance of unearned premiums, in retention	(5,117)	(6,187)	(6,130)	(115)	543	(85)	(17,091)
Premiums earned in retention	166,925	367,383	100,637	5,672	1,465	4,301	646,383
Investment losses, net and financing income	(2,819)	(1,501)	(395)	(812)	(141)	(795)	(6,463)
Commission income	-	-	1,536	18,562	10,759	7,537	38,394
Total income	164,106	365,882	101,778	23,422	12,083	11,043	678,314
Payments and change in insurance liabilities for insurance contracts, gross	(152,650)	(229,213)	(63,216)	(74,476)	(12,352)	(8,555)	(540,462)
Share of reinsurers in increase of insurance liabilities and payments for insurance contracts	19,197	-	5,161	58,658	10,545	3,423	96,993
Payments and change in insurance liabilities for insurance contracts, in retention	(133,453)	(229,213)	(58,055)	(15,818)	(1,798)	(5,132)	(443,469)
Commissions, marketing expenses and other acquisition costs	(26,181)	(62,751)	(30,314)	(16,750)	(6,645)	(7,198)	(149,839)
General and administrative expenses	(8,749)	(13,592)	(12,598)	(980)	(621)	(489)	(37,029)
Financing income	-	846	801	23	-	9	1,679
Total expenses	(168,383)	(304,710)	(100,166)	(33,525)	(9,064)	(12,810)	(628,658)
Total comprehensive income (loss) before taxes on income	(4,277)	61,172	1,612	(10,103)	3,019	(1,767)	49,656
Liabilities with respect to insurance contracts, gross, as at December 31, 2018	689,536	270,203	101,903	277,189	93,349	269,872	1,702,052
Liabilities with respect to insurance contracts, in retention as at Dec. 31, 2018	542,437	270,203	95,110	47,635	3,638	40,287	999,310

(*) Other property sectors reflect mainly the results of property insurance, which accounts for 97% of total premiums in these sectors.
Other liability sectors reflect mainly the results of third-party liability insurance, which accounts for 42% 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, 2019 (unaudited)	
	Policies not containing savings element	Total
	Risk sold as single policy	
	Private	
	NIS thousands	
Gross risk premiums	**33,684**	**33,684**
Payments and change in liabilities in respect of insurance contracts, gross	**13,389**	**13,389**

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

	Year ended December 31, 2018 (audited)	
	Policies not containing savings element	Total
	Risk sold as single policy	
	Private	
	NIS thousands	
Gross risk premiums	129,869	129,869
Payments and change in liabilities in respect of insurance contracts, gross	41,280	41,280

Note 4 - Segment Information (cont’d)

Additional information relating to the health insurance segment:

	3-month period ended March 31, 2019 (unaudited)		
	Long-term	Short-term	Total
		NIS thousands	
Gross premiums	**43,182**	**6,260**	**49,442**
Payments and change in liabilities in respect of insurance contracts, gross	**18,099**	**4,952**	**23,051**

* Consists primarily of policies issued to individuals.

	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.

	Year ended December 31, 2018 (audited)		
	Long-term	Short-term	Total
		NIS thousands	
Gross premiums	187,045	39,928	226,973
Payments and change in liabilities in respect of insurance contracts, gross	75,956	22,655	98,611

* 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:

	March 31, 2019	March 31, 2018	December 31, 2018
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
The amount required under the Capital Regulations and the Commissioner's directives (a)	**689,987**	700,746	648,824
Existing amount calculated under the Capital Regulations:			
Original capital	**877,938**	814,110	825,207
Total existing capital calculated under the Capital Regulations	**877,938**	814,110	825,207
Surplus	**187,951**	113,364	176,383

(a) The amount required including capital requirements for:

	March 31, 2019	March 31, 2018	December 31, 2018
Operations in general insurance	**134,839**	127,041	133,698
Exceptional life insurance risks	**50,889**	47,138	49,898
Deferred acquisition costs related to life insurance	**84,306**	82,756	83,380
Investment assets and other assets	**73,448**	77,953	68,401
Catastrophe risks related to general insurance	**310,941**	332,768	278,981
Operating risks	**35,564**	33,090	34,466
Total full amount required under the Capital Regulations	**689,987**	700,746	648,824

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.

   Pursuant to the aforesaid and to the stated in Note 12(d) to the annual financial statements, in August 2018 a letter was received from the Commissioner, approving the extension of the schedule of the calculation for December 31, 2017.

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.

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

B. Solvency II (cont'd)

2. (cont'd)

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.

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;

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, 2019, no transfers were made between the various levels of the fair value hierarchy.

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

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

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

C. Composition of financial investments:

	March 31, 2019 (unaudited)		
	Measured at fair value through profit or loss	Loans and receivables	Total
		NIS thousands	
Marketable debt instruments (1)	**1,772,259**	**-**	**1,772,259**
Non-marketable debt instruments (2)	**-**	**72,204**	**72,204**
Other (3)	**82,402**	**-**	**82,402**
Total	**1,854,661**	**72,204**	**1,926,865**

	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

	December 31, 2018 (audited)		
	Measured at fair value through profit or loss	Loans and receivables	Total
		NIS thousands	
Marketable debt instruments (1)	1,731,531	-	1,731,531
Non-marketable debt instruments (2)	-	76,861	76,861
Other (3)	77,738	-	77,738
Total	1,809,269	76,861	1,886,130

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

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

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

	March 31, 2019 (unaudited)	
	Value in Company's books	Amortized cost
	NIS thousands	
Government bonds	**627,962**	**619,695**
Other debt assets:		
Other non-convertible debt assets	**1,144,297**	**1,120,745**
Total marketable debt assets	**1,772,259**	**1,740,440**

	March 31, 2018 (unaudited)	
	Value in Company's books	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

	December 31, 2018 (audited)	
	Value in Company's books	Amortized Cost
	NIS thousands	
Government bonds	619,981	621,558
Other debt assets:		
Other non-convertible debt assets	1,111,550	1,115,799
Total marketable debt assets	1,731,531	1,737,357

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

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

2. Composition of non-marketable debt instruments

	March 31, 2019 (unaudited)	
	Value in Company's books	Fair value
	NIS thousands	
Bank deposits	**991**	**1,272**
Presented at amortized cost, except bank deposits	**71,213**	**72,268**
Total non-marketable debt assets	**72,204**	**73,540**

	March 31, 2018 (unaudited)	
	Value in Company's books	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

	December 31, 2018 (audited)	
	Value in Company's books	Fair value
	NIS thousands	
Bank deposits	1,173	1,440
Presented at amortized cost, except bank deposits	75,688	76,352
Total non-marketable debt assets	76,861	77,792

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

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

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

	March 31, 2019 (unaudited)	
	Value in Company's books	Cost
	NIS thousands	
Marketable financial investments	**82,402**	**83,648**

	March 31, 2018 (unaudited)	
	Value in Company's books	Cost
	NIS thousands	
Marketable financial investments	83,442	78,657

	December 31, 2018 (audited)	
	Value in Company's books	Cost
	NIS thousands	
Marketable financial investments	77,738	83,648

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 in the case.

   Recently, the petitioners filed a motion, with the consent of the Company, for the stay of proceedings pending a ruling on an appeal that was filed with the High Court of Justice regarding a ruling by the National Court in another case on the issue of overtime. On July 15, 2018, the court approved the stay of proceedings pending the ruling by the High Court of Justice.

   In the opinion of management of the Company, at present, in view of the aforementioned ruling by the National Court, the chances of the motion being certified are low.

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

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

The court ruled that it will only discuss the motion for the approval of a procedural arrangement after receiving a duly submitted notification that the submission of affidavits by all respondents has been completed.

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

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

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

The petitioners submitted their summations on October 26, 2018.

Note 7 – Contingent Liabilities (cont'd):

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

2. (cont'd)

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

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

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

On March 26, 2019, the petitioners submitted a notification, pursuant to which they will not continue to pursue a ruling on the motion, on April 3, 2019 the respondents submitted their position in relation to the petitioners' notification regarding the imposition of costs of action on the petitioners and on April 8, 2019 the petitioners submitted their response to the respondents' position.

On April 28, 2019, notification was given of the filing of a statement of withdrawal by the petitioners.

On April 30, 2019, a ruling was given, pursuant to which the court accepts the motion to withdraw, strikes the motion to certify and rejects the personal claims of the petitioners.

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.

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

Note 7 – Contingent Liabilities (cont'd):

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

3. (cont'd)

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.

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

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

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

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

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

On January 30, 2019, the petitioners filed a written motion concerning the evidentiary hearings of the cases, on February 13, 2019 the respondent submitted its response to the written motion, and on February 25, 2019 a response was submitted to the respondents' response to the written motion.

On February 27, 2019, a ruling was issued, requiring the petitioners to submit a notification as to which declarants on behalf of the respondents they wish to have testify again in additional cases, this by March 5, 2019, and scheduling a pre-trial hearing of the motion for March 20, 2019.

On March 6, 2019, the petitioners submitted their notification, to which the respondents are required to respond by March 13, 2019.

On March 13, 2019, the court accepted the respondents' motion to change the date of a hearing and to extend the date for the submission of the respondents' response and the petitioners' response to the notification from March 6, 2019 until April 7, 2019.

A pre-trial hearing of the case has been scheduled for April 17, 2019.

On April 17, 2019, a pre-trial hearing was held. It has been determined that the hearing scheduled for May 28, 2019 will be a pre-trial hearing rather than an evidentiary hearing. The evidentiary hearing scheduled for June 2, 2019 is cancelled. The evidentiary hearing scheduled for September 19, 2019 will be held as planned.

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):

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, to allow consideration of settlement in the case. As part of the understandings, an auditor was appointed on behalf of the plaintiffs, who has examined and confirmed the volumes of exposure declared by the Company. The parties are currently negotiating a settlement on the basis of the declared volumes of exposure.

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

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

5. 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.

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

   On July 4, 2018, the court accepted the petitioners’ motion to postpone the submission of their response to the Respondents’ response until September 6, 2018. On August 26, 2018, the petitioners filed an additional motion to extend the submission of their response to the response of the Respondents until September 24, 2018. The court accepted the motion. On October 10, 2018, the petitioners submitted their response to the Respondents’ response to the motion to certify the claim as a class action. On November 5, 2018, the court accepted the Respondents’ motion to postpone the date of the hearing. A pre-trial hearing was scheduled for February 19, 2019.

Note 7 – Contingent Liabilities (cont'd):

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

5. (cont'd)

On February 19, 2019, a pre-trial hearing was held. The court raised various insights concerning the proceeding and suggested that the parties refer to a mediation proceeding. The parties are to inform the court by March 17, 2019 if they consent to mediation. No additional hearing has been scheduled. The petitioners expressed their consent to a mediation proceeding.

On March 13, 2019, some of the respondents submitted their response, expressing their consent to the court's suggestion to refer the case to mediation.

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

6. 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 motion of the Company, together with the other insurance companies named in the claim, to dismiss the certification motion in limine, since the case is not suitable for filing by an organization – was rejected by the court. The Company has submitted its response to the certification motion and the petitioner submitted its response to those of the respondents.

Shortly before the hearing, all respondents submitted a motion to strike the petitioner's response in the light of new arguments and new documents that were attached. The petitioner has recently submitted its response. A ruling was given, rejecting the striking of the petitioners' response, but permitting the respondents to respond jointly. A response has yet to be submitted.

On November 13, 2018, a pre-trial hearing was held in the case, in which the court suggested that the class be limited to policyholders only and the withdrawal of all arguments pertaining to third parties. The court also noted that the relevant period for policyholders is 3 years back from January 1, 2018 in view of the statute of limitations, and for third parties – 7 years.

Evidentiary hearings in the case have been scheduled for November 24, 2019, November 26, 2019 and December 1, 2019.

In the opinion of the Company's management, which is based on the opinion of its legal counsel, the motion 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):

7. On May 1, 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.

   Negotiations between the parties evolved into an agreement, which was submitted to the court.

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

Pending petitions to certify claims as class actions:	**Number of claims**	**Amount claimed (NIS thousands)**
Amount relating to the Company	7	* 51,143

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

Note 8 – Subsequent Events

On April 28, 2019, the CEO of the Company, Mr. Shay Feldman, announced his intention to end his office. The final day of office of Mr. Shay Feldman will be October 31, 2019. The Company has initiated steps for the recruitment of a new CEO.