AIG Israel Insurance Company Ltd

Interim Financial Report

(Unaudited)

As of June 30, 2019

Contents

Directors' report
AIG Israel Insurance Company Ltd ("the Company")
for the period ended June 30, 2019

The directors' report on the business of the Company as of June 30, 2019 ("**the directors' report**"), reviews the Company and developments in its business in the first half of 2019 ("**the reported period**"). The information in this report are as of June 30, 2019 ("**the date of report**") unless otherwise is indicated explicitly.

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

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

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

Forward looking information

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

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1. Condensed description of the Company:

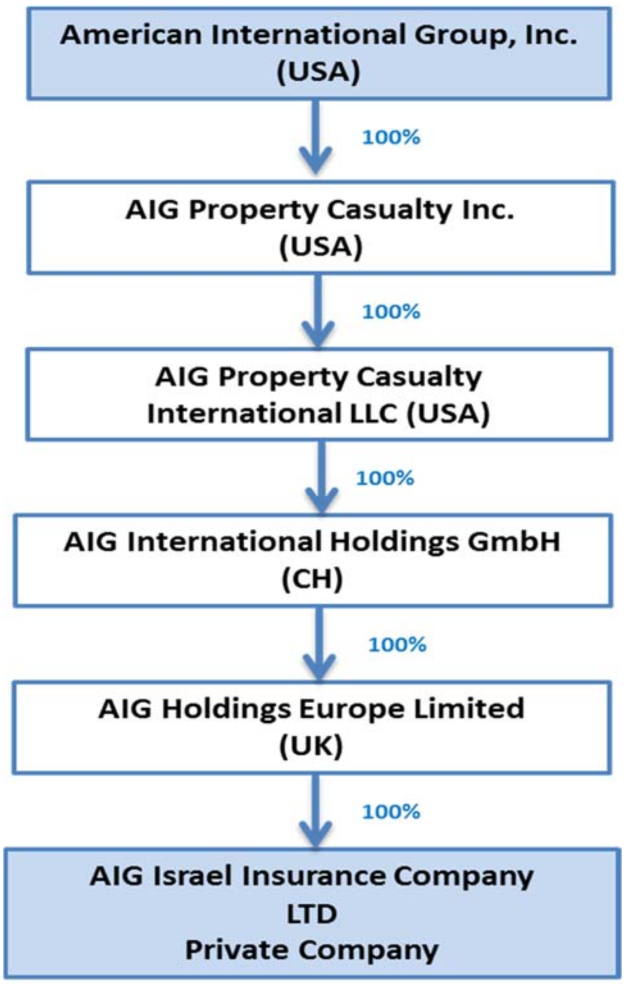
1.1 Organizational structure

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

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

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

The following is the undated holding structure of the Company:



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

The Company is operating in three business divisions (vehicle and home insurance, life and health insurance and commercial insurance), headquarters, and private customers division.

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

1.2 Areas of activity

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

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

1.3 Material events since last financial statements

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 is managing a recruitment process to replace the CEO.

2. Description of business environment:

General

In accordance with data published by the Capital Markets, Insurance and Savings Authority, there are more than 20 Israeli insurance companies currently active in Israel; most of these companies are engaged in general insurance. In accordance with these data, as of December 31, 2018, insurance fees from the general insurance business amounted to NIS 23,252 million; the share of the 5 largest insurance companies – Harel, Phoenix, Migdal, Menorah and Clal – was NIS 13,182 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 face competition in this competitive market, see Sections 2.1.2, 2.2.2, 2.3.2, 2.4.2, 2.5.2 and 2.6.2 in Chapter A (description of company's business) in the Company's 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 routes of investments in the capital market have a significant effect on company's profits.

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

	Jan-June 2019	Jan-June 2018	April-June 2019	April-June 2018	2018
Government bonds indexes					
General government bonds	4.49%	(0.6%)	1.67%	(0.9%)	(1.3%)
Linked government bonds	5.66%	(0.2%)	2.09%	(0.5%)	(1.4%)
NIS government bonds	3.66%	(1.1%)	1.37%	(1.3%)	(1.2%)
Corporate bonds indexes					
Tel Bond 60	5.82%	0.3%	1.98%	0.7%	(0.8%)
Tel Bond NIS	5.00%	(2.2%)	1.24%	(1.1%)	(4.3%)
Shares indexes					
Tel-Aviv 125	11.40%	(0.1%)	4.73%	4.0%	(2.3%)
S&P 500	17.35%	1.67%	3.79%	2.93%	7.31%

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

For information on general trends in the insurance sector and their effect on company's business, see Section 4.3 in Chapter A (description of company's business) in the Company's 2018 periodic report.

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

The following is a summary of major legislation changes and the key issues that are relevant to the activity of the Company, as published by the Commissioner in circulars and drafts during the reported period until shortly before the date of issuing this report, which were not described in previous periodic reports of the Company:

Regulation Codex

Circulars

- In May 2019, the Commissioner published a position concerning the findings of a cross-sector business continuity audit. In the aforesaid position, the Commissioner mentions judicious applications and absent applications in insurance companies, as suggested by an analysis of the drill briefings carried out.
- In May 2019, the Commissioner published Insurance Circular 2019-1-6 concerning Existence of Insurance. The Circular prescribes provisions to regulate the conduct of insurance companies in the issuance of a confirmation of existence of insurance and a mandatory format for such confirmations.
- In June 2019, the Commissioner published a notification concerning the agenda of joint meetings. The above notification 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 June 2019, the Commissioner published an amendment to the provisions of the consolidated circular concerning the economic solvency ratio report. The aforesaid update 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 July 2019, the Commissioner published an amendment to the provisions of the consolidated circular concerning guidelines for the documentation requirements pertaining to models, assumptions and studies. The aforesaid amendment 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 July 2019, the Commissioner published an amendment to the provisions of the consolidated circular concerning compensation. The aforesaid amendment proposes to update and adjust the directives of the Commissioner concerning compensation and to integrate the provisions of Public Institutions Circular 2009-9-6, "Remuneration of Outside Directors in Public Institutions", into the consolidated circular.
- In July 2019, the Commissioner published Public Institutions Circular 2019-9-7 concerning services to customers that are public institutions. The aforesaid circular aims to ensure an adequate level of services to the customer and continuous improvement of the services.

Drafts

- In May 2019, the Commissioner published a second draft amendment to the provisions of the consolidated circular concerning directives for the vehicle property sector. The aforesaid draft aims to regulate the dealings of the insurance company with appraisers and garages, to ensure that the insurance claim proceeding initiated by a policyholder is fair, effective, transparent and professional, all with an eye to the full realization of the policyholder's rights.
- In June 2019, the Commissioner published a draft amendment to the provisions of the consolidated circular concerning reports to the Commissioner. The aforesaid draft aims to improve and update the content of the reports and to postpone the reporting date of quarterly reports at the individual-asset level to 20 (in place of 15) calendar days from the end of every quarter.
- In July 2019, the Commissioner published a draft amendment to the provisions of the consolidated circular concerning personal accidents insurance. The aforesaid draft aims to regulate the "personal accidents" sector, prescribing directives with regard to both the insurance coverage and new policyholders.
- In July 2019, the Commissioner published a draft amendment to the provisions of the consolidated circular concerning investment in loans through a third party. The purpose of the aforesaid draft is to determine that the maximum increased investment that applies to the granting of a loan by a third party that is a bank - NIS 5 million - shall also apply to supervised entities other than banks that have extensive credit granting activities, thereby expanding the investment options of the public institutions and their collaborations in the extension of credit with such entities.

Kaminitz Committee

In June 2019, the Kaminitz Committee (an inter-ministerial committee established for the purpose of reviewing the discount interest rate applicable to compensation for personal injury under damages) published its final report. Among others, the report reexamines the National Insurance Regulations (Discounting) (Amendment), 2016, which had reduced the discount interest rate to 2%. As part of the aforesaid final report, the Committee recommended, inter alia, the reinstatement of the discount interest rate to 3%.

On August 8, 2019, the Supreme Court issued a ruling (Appeal 3751/17 The Israeli Vehicle Insurance Pool vs. Anonymous), which determines inter alia that, pending a legislation amendment, the updating mechanism provided for by the Kaminitz Committee should be adopted, and that the discount rate will remain at 3%.

Additionally, the aforesaid ruling stipulates that during the interim period preceding the amendment of the National Insurance Regulations (Discounting), 1978, the consent of the parties to discount the National Insurance annuities using a discount interest rate of 3% will remain in effect, this being in line with the aforementioned recommendations of the Committee, and that the National Insurance Institute will in turn file a subrogation claim against the inflictor of the damage, using a discount interest rate of 3%. For information on the effect of the recommendations of the Kaminitz Committee on the results of the Company, see note 2(c) to the financial statements.

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

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

	June 30, 2019	June 30, 2018	December 31, 2018
Other assets	321,279	298,780	281,073
Deferred acquisition expenses	161,436	159,916	157,629
Financial investments and cash	2,057,698	1,889,385	1,973,436
Reinsurance assets	750,493	740,330	718,971
Total assets	**3,290,906**	**3,088,411**	**3,131,109**
Equity	931,024	818,593	825,207
Liabilities in respect of insurance contracts	1,950,660	1,914,407	1,885,307
Other liabilities	409,222	355,411	420,595
Total equity and liabilities	**3,290,906**	**3,088,411**	**3,131,109**

Following are principal comprehensive income data (NIS thousands)

	Jan-June 2019	Jan-June 2018	Apr-June 2019	Apr-June 2018	Jan-Dec 2018
Gross premiums earned	581,527	557,985	293,720	284,726	1,145,519
Premiums earned by reinsurers	(96,141)	(80,993)	(46,574)	(41,553)	(170,467)
Premiums earned in retention	**485,386**	**476,992**	**247,146**	**243,173**	**975,052**
Net investment gains (losses) and financing income	68,193	(776)	22,522	5,978	(18,568)
Income from commissions	25,821	21,434	13,091	10,700	44,842
Total revenue	**579,400**	**497,650**	**282,759**	**259,851**	**1,001,326**
Payments and change in liability for insurance contracts, in retention	(260,200)	(315,622)	(121,490)	(171,607)	(572,758)
Total other expenses	(157,782)	(153,060)	(80,533)	(80,640)	(313,747)
Income before tax	**161,418**	**28,968**	**80,736**	**7,604**	114,821
Taxes on income	(55,601)	(11,340)	(27,650)	(3,121)	(40,579)
Income for the period and total comprehensive income for the period	**105,817**	**17,628**	**53,086**	**4,483**	**74,242**

Capital and capital requirements

As at June 30, 2019, equity amounted to NIS 931.0 million, as compared to as compared to NIS 825.2 million as at December 31, 2018. The change in equity in the reported period is due to a comprehensive income of approximately NIS 105.8 million.

For information on a dividend distribution of NIS 100 million after balance sheet date, see note 5 to the financial statements.

Solvency-II-based economic solvency regime in insurance companies

In June 2017, the Commissioner published Circular 2017-1-9, "Directives for the Implementation of a Solvency II-Based Economic Solvency Ratio Regime by Insurance Companies (hereinafter: "the Solvency Circular"), which aims to institute a new solvency regime for insurance companies in Israel, which, inter alia requires insurance companies to calculate their economic solvency ratio, this with effect as from June 30, 2017.

A circular published in December 2017 (hereinafter: "the Disclosure Circular") provides for the format of the economic solvency ratio report, the manner of its approval by the appropriate organs in the company and the principles for its audit by the company's auditors as well as the related disclosure requirements. Additionally, in June 2019 an update was published to the format of the disclosure pertaining to the economic solvency ratio report, for the purpose of adding a layer of qualitative disclosure to said report.

On July 7, 2019, the Company received the Commissioner's confirmation of the audit of the implementation of the Solvency regime in accordance with the Disclosure Circular, and is therefore no longer subject to the old Capital Regulations concerning the "minimum capital required" and now fully follows an economic solvency ratio regime.

Presented below are data concerning solvency ratio and MCR:

a. Solvency ratio (NIS in thousands):

	December 31, 2018	**December 31, 2017**
Regardless of the provisions in the deployment period:		
Equity for purposes of solvency capital requirement (SCR)	1,071,017	1,063,774
Solvency capital requirement (SCR)	629,586	655,304
Surplus as of reporting date	***441,431**	**404,471**
Solvency ratio as of reporting date (%)	*170%	162%
Board of Directors' target for the period	130%	130%
Surplus of capital over target	*252,555	211,879
Milestones achieved during the deployment period:		
Equity for purposes of solvency capital requirement in deployment period	1,071,017	1,063,774
Solvency capital requirement in deployment period	438,750	417,230
Surplus in the deployment period	**632,267**	**646,544**

* On August 27, 2019, after publishing the Solvency Report for year-end 2018, the Company announced a dividend payment of 100 million NIS, this dividend distribution decreases the surpluses presented above.

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

	December 31, 2018	**December 31, 2017**
Minimum capital requirement (MCR)	182,728	178,982
Equity for purposes of MCR	1,071,017	1,063,774

For additional information the solvency ratio, see the Company's economic solvency ratio report as at December 31, 2018, which is attached to this report.

The Company believes 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.

4. Results of operations

In the reported period, the Company's gross premiums continued to rise, increasing by 3.0% as compared to gross premiums in the corresponding period last year. Total gross premiums in the reported period amounted to NIS 612 million, as compared to NIS 595 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 505 million, as compared to NIS 503 million in the corresponding period in 2018, a 0.4% increase.

Premiums by principal operating segments (NIS in thousands):

Jan-June 2019	Life insurance	Health insurance	General insurance	Total
Gross	68,419	100,568	443,248	612,235
In retention	54,634	99,096	351,045	504,775
% of total gross	11.2	16.4	72.4	100.0
% of retention	10.8	19.6	69.5	100.0

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

Jan-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-June 2019	Jan-June 2018	April-June 2019	April-June 2018	Jan-Dec 2018
Income (loss) from compulsory vehicle insurance	37,811	(5,758)	26,327	(9,288)	(4,277)
Income from property vehicle insurance	34,731	17,836	15,524	6,051	61,172
Income from home insurance	10,012	1,610	3,447	479	1,612
Income (loss) from commercial insurance	14,853	(7,813)	3,125	(9,489)	(8,851)
Income from health insurance	23,571	9,965	13,641	8,391	45,535
Income from life insurance	14,232	10,932	10,158	5,121	27,583
Other - Income not allocated to any segment	26,208	2,196	8,514	6,339	(7,953)
Income before taxes	**161,418**	**28,968**	**80,736**	**7,604**	114,821
Taxes on income	(55,601)	(11,340)	(27,650)	(3,121)	(40,579)
Income for the period and total comprehensive income for the period	**105,817**	**17,628**	**53,086**	**4,483**	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 reported period amounted to approximately NIS 161.4 million, as compared to approximately 29.0 million in the corresponding period in 2018. The increase in profit was mainly due to the material increase in gains on investments in the reported period, as compared to losses on investments in the corresponding period in 2018 (see section b. below). And also from a significant improvement in the loss ratio impacted, amongst other factors, from a material decrease in insurance liabilities in the compulsory vehicle insurance sector, as a result of the Supreme Court's ruling on the discount interest rate used in discounting annuities, (see section c. below). The underwriting profit of the Company increased from NIS 27.0 million in the corresponding period to approximately NIS 92.5 million in the reported period.

b. Net investment gains amounted to NIS 68.2 million in the reported period, as compared to investment losses of NIS 0.8 million in the corresponding period in 2018. The transition from losses on investments in the corresponding period in 2018 to gains in the reported period was due mainly to the increase in the prices of corporate bonds, government bonds and share indexes in the reported period, as compared to reductions in the prices of corporate bonds and in share indexes in the corresponding period in 2018 (see section 2 above).

c. The profit of the Company from compulsory vehicle insurance amounted to NIS 37.8 million, as compared to a loss of approximately NIS 5.8 million in the corresponding period in 2018. The significant increase in profit was due to the reduction of insurance liabilities in the compulsory vehicle insurance sector by NIS 34.7 million (including the Company's share in the pool) as a result of the Supreme Court's ruling on the discount interest rate that is used in discounting annuities. For additional information on the aforementioned ruling of the Supreme Court, see note 2(c) to the financial statements as well as the "Kaminitz Committee" section in Chapter 2 above. The higher profit also resulted from 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 compulsory vehicle insurance amounted to NIS 21.0 million in the reporting period, as compared to a loss of NIS 5.4 million in the corresponding period in 2018.

d. The profit of the Company from vehicle property insurance in the reported period was NIS 34.7 million, as compared to profit of NIS 17.8 million in the corresponding period in 2018. The increased profit was due to higher gains on investments in the reported period as compared to the corresponding period in 2018. The underwriting profit of the Company from vehicle property insurance amounted to NIS 26.2 million in the reported period, as compared to profit of NIS 17.7 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 reported period was NIS 10.0 million, as compared to profit of NIS 1.6 million in the corresponding period in 2018. The increased profit was due to higher gains on investments in the reported period as compared to the corresponding period in 2018. The underwriting profit of the Company from home insurance amounted to NIS 6.8 million in the reported period, as compared to profit of NIS 1.2 million in the corresponding period in 2018. The increase in profit resulted mainly from a reduction in claims in relation to the effect of weather damage and plumbing damage.

f. The profit of the Company from professional liability insurance in the reported period was NIS 7.3 million, as compared to a loss of NIS 6.7 million in the corresponding period in 2018. The increased profit was due to higher gains on investments in the reported period as compared to the corresponding period in 2018, as well as to the material reduction in the claims' ratio during the reported period, this on the trail of negative developments in a few claims relating to directors' and officers' insurance in the corresponding period in 2018.

g. The profit of the Company from other property insurance in the reported period was NIS 4.1 million, as compared to profit of NIS 1.2 million in the corresponding period in 2018. The increased profit was due to the reduced claims' ratio and higher gains on investments in the reported period as compared to the corresponding period in 2018.

h. The profit of the Company from other liability insurance amounted to NIS 3.5 million in the reported period, as compared to a loss of NIS 2.3 million in the corresponding period in 2018. The transition from loss in the corresponding period in 2018 to profit in the reported period was due mainly to the increase in gains on investments in the reported period as compared to the corresponding period in 2018.

i. The profit of the Company from health insurance in the reported period was NIS 23.6 million, as compared to profit of NIS 10.0 million in the corresponding period in 2018. The increased profit was due to the higher gains on investments and the reduced claims' ratio, particularly 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 14.2 million, as compared to profit of NIS 10.9 million in the corresponding period in 2018. The decrease in profit was due to the reduced claims' ratio and expenses' ratio.

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

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

	Jan-June 2019	Jan-June 2018	Apr-June 2019	Apr-June 2018	Jan-Dec 2018
Vehicle property	26,249	17,691	12,405	5,547	61,827
Home	6,802	1,242	2,225	198	1,206
Property and others sectors	3,208	1,238	2,078	(150)	3,160

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

	Jan-June 2019		Jan-June 2018		Jan-Dec 2018	
	LR%	CR%	LR%	CR%	LR%	CR%
Vehicle property:						
Gross	65%	86%	68%	90%	62%	83%
In retention	65%	86%	68%	90%	62%	83%
Home:						
Gross	45%	80%	57%	93%	55%	93%
In retention	49%	88%	59%	97%	58%	99%
Property and others sectors:						
Gross	112%	131%	88%	105%	30%	48%
In retention *	(241%)	(753%)	172%	(46%)	123%	(116%)

	Apr-June 2019		Apr-June 2018	
	LR%	CR%	LR%	CR%
Vehicle property:				
Gross	64%	87%	67%	94%
In retention	64%	87%	67%	94%
Home:				
Gross	51%	86%	58%	92%
In retention	54%	92%	62%	99%
Property and others sectors:				
Gross	155%	177%	98%	118%
In retention *	(1,164%)	(1,957%)	252%	132%

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

[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.

5. Cash flows and liquidity

Net cash used in operating activities in the reported period was NIS 11.7 million, compared with net cash of NIS 65.7 million provided by operating activities in the corresponding period in 2018.

Net cash used in investing activities in the reported period amounted to NIS 6.9 million, as compared to NIS 8.4 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 21.6 million, amounting to NIS 65.7 million as of June 30, 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.

7. Material subsequent events

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

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

Controls and procedures applied to disclosure

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

Internal controls over financial reporting

In the course of the quarter ending on June 30, 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 on financial reporting.

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

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

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

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Ralph Mucerino	Shay Feldman
Chairman of the Board of Directors	CEO

August 27, 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 June 30, 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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Shay Feldman - CEO

August 27, 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 June 30, 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

August 27, 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 June 30, 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 June 30, 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: August 27, 2019

AIG ISRAEL INSURANCE COMPANY LTD.

CONDENSED INTERIM FINANCIAL STATEMENTS
(Unaudited)

JUNE 30, 2019

AIG ISRAEL INSURANCE COMPANY LTD.

CONDENSED INTERIM FINANCIAL STATEMENTS
(Unaudited)

JUNE 30, 2019

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

Introduction

We have reviewed the attached financial information of AIG Israel Insurance Company Ltd ("the Company"), which is comprised of the condensed statement of financial position as of June 30, 2019 and the condensed statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six- and three-month periods ended on that date. The Board of Directors and management are responsible for the preparation and presentation of the financial information for this interim period in accordance with the provisions of International Accounting Standard No. 34, 'Interim Financial Reporting'(hereinafter: "IAS 34"), and they are also responsible for the preparation of the financial information for this interim period in accordance with the disclosure requirements prescribed by the Supervisor of the Capital Market, Insurance and Savings Authority in accordance with the Supervision of Financial Services (Insurance) Law, 1981. Our responsibility is to express a conclusion with respect to the financial information for this interim period, based on our review.

Scope of review

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

Conclusion

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

In addition, based on our review, no matter has come to our attention that causes us to believe that the above financial information does not comply, in all material respects, with the disclosure provisions prescribed by the Supervisor of the Capital Market, Insurance and Savings Authority in accordance with the Supervision of Financial Services (Insurance) Law, 1981.

Emphasis of a matter

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

Somekh Chaikin
Certified Public Accountants (Isr.)

August 27, 2019

AIG ISRAEL INSURANCE COMPANY LTD.

CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION AS OF

	June 30		December 31,
	2019	**2018***	**2018***
	(Unaudited)		**(Audited)**
	NIS in thousands		
Assets			
Intangible assets	33,293	35,866	35,047
Deferred acquisition costs	161,436	159,916	157,629
Property and equipment	42,228	11,964	11,617
Reinsurance assets	750,493	740,330	718,971
Premiums collectible	198,455	196,242	180,029
Current tax assets	-	8,840	-
Deferred tax assets, net	-	-	12,406
Other receivables	47,303	45,868	41,974
	1,233,208	1,199,026	1,157.673
FINANCIAL INVESTMENTS:			
Marketable debt instruments	1,840,084	1,679,855	1,731,531
Non-marketable debt instruments	70,448	62,252	68,252
Other	81,461	26,316	77,738
TOTAL FINANCIAL INVESTMENTS	1,991,993	1,774,423	1,886,130
CASH AND CASH EQUIVALENTS	65,705	114,962	87,306
TOTAL ASSETS	3,290,906	3,088,411	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 financial information for interim period by the Board of Directors of the Company: August 27, 2019

AIG ISRAEL INSURANCE COMPANY LTD.

CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION AS OF

	June 30		December 31,
	2019	**2018***	**2018***
	(Unaudited)		**(Audited)**
	NIS in thousands		
Equity and liabilities			
EQUITY:			
Share capital	**6**	6	6
Share premium	**250,601**	250,601	250,601
Capital reserve	**11,084**	11,084	11,084
Retained earnings	**669,333**	556,902	563,516
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	**931,024**	818,593	825,207
LIABILITIES:			
Liabilities in respect of insurance contracts and investment contracts that are not yield dependent	**1,950,660**	1,914,407	1,885,307
Liabilities in respect of deferred taxes, net	**3,207**	-	-
Retirement benefit obligation, net	**3,157**	3,293	3,057
Liabilities to reinsurers	**279,410**	264,775	297,928
Liabilities for current taxes	**8,483**	-	17,223
Other payables	**114,965**	87,343	102,387
TOTAL LIABILITIES	**2,359,882**	2,269,818	2,305,902
TOTAL EQUITY AND LIABILITIES	**3,290,906**	3,088,411	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 these condensed interim financial statements.

AIG ISRAEL INSURANCE COMPANY LTD.

CONDENSED INTERIM STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Six months ended June 30		Three months ended June 30		Year ended December 31,
	2019	**2018***	**2019**	**2018***	**2018***
	(Unaudited)		**(Unaudited)**		**(Audited)**
	NIS in thousands				
Gross earned premiums	581,527	557,985	293,720	284,726	1,145,519
Premiums earned by reinsurers	(96,141)	(80,993)	(46,574)	(41,553)	(170,467)
Premiums earned in retention	485,386	476,992	247,146	243,173	975,052
Gains (losses) on investments, net, and financing income	68,193	(776)	22,522	5,978	(18,568)
Commission income	25,821	21,434	13,091	10,700	44,842
TOTAL INCOME	579,400	497,650	282,759	259,851	1,001,326
Payments and change in liabilities with respect to insurance contracts, gross	(330,586)	(412,613)	(165,475)	(235,881)	(680,353)
Share of reinsurers in increase of insurance liability and payments for insurance contracts	70,386	96,991	43,985	64,274	107,595
Payments and change in liabilities with respect to insurance contracts, in retention	(260,200)	(315,622)	(121,490)	(171,607)	(572,758)
Commissions, marketing expenses and other acquisition costs	(121,707)	(117,637)	(64,112)	(63,051)	(243,934)
General and administrative expenses	(36,838)	(38,161)	(17,868)	(20,059)	(74,819)
Financing income, net	763	2,738	1,447	2,470	5,006
TOTAL EXPENSES	(417,982)	(468,682)	(202,023)	(252,247)	(886,505)
INCOME BEFORE TAXES ON INCOME	161,418	28,968	80,736	7,604	114,821
Taxes on income	(55,601)	(11,340)	(27,650)	(3,121)	(40,579)
INCOME FOR THE PERIOD AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	105,817	17,628	53,086	4,483	74,242
BASIC EARNINGS PER SHARE:					
Basic earnings per share	18.47	3.08	9.26	0.78	12.96
Number of shares used in calculating basic earnings per share	5,730	5,730	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 these condensed interim financial statements.

AIG ISRAEL INSURANCE COMPANY LTD.

CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY

	Share Capital	Share premium	Other reserves	Retained earnings	Total
			NIS in thousands		
SIX-MONTH PERIOD ENDED JUNE 30, 2019					
BALANCE AS OF JANUARY 1, 2019 (audited)	6	250,601	11,084	563,516	825,207
Total comprehensive income for the period				105,817	105,817
BALANCE AS OF JUNE 30, 2019 (unaudited)	6	250,601	11,084	669,333	931,024
SIX-MONTH PERIOD ENDED JUNE 30, 2018					
BALANCE AS OF JANUARY 1, 2018 (unaudited)	6	250,601	11,084	539,274	800,965
Total comprehensive income for the period				17,628	17,628
BALANCE AS OF JUNE 30, 2018 (unaudited)	6	250,601	11,084	556,902	818,593
THREE-MONTH PERIOD ENDED JUNE 30, 2019					
BALANCE AS OF APRIL 1, 2019 (unaudited)	6	250,601	11,084	616,247	877,938
Total comprehensive income for the period				53,086	53,086
BALANCE AS OF JUNE 30, 2019 (unaudited)	6	250,601	11,084	669,333	931,024

AIG ISRAEL INSURANCE COMPANY LTD.

CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY

	Share Capital	Share premium	Other reserves	Retained earnings	Total
	NIS in thousands				
THREE-MONTH PERIOD ENDED JUNE 30, 2018					
BALANCE AS OF APRIL 1, 2018 (unaudited)	6	250,601	11,084	2,419	814,110
Total comprehensive income for the period				4,483	4,483
BALANCE AS OF JUNE 30, 2018 (unaudited)	6	250,601	11,084	556,902	818,593
YEAR ENDED DECEMBER 31, 2018					
BALANCE AS OF 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 OF DECEMBER 31, 2018 (audited)	6	250,601	11,084	563,516	825,207

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

(Continued) - 1

AIG ISRAEL INSURANCE COMPANY LTD.

CONDENSED INTERIM STATEMENTS OF CASH FLOWS

	Six-month period ended June 30		Three-month period ended June 30		Year ended December 31,
	2019	2018*	2019	2018*	2018*
	(Unaudited)		(Unaudited)		(Audited)
	NIS in thousands				
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net cash provided by (used in) operations (Appendix A)	22,048	60,980	(11,997)	39,778	76,844
Interest paid	(316)	-	(155)	-	-
Interest received	33,071	32,553	10,694	10,806	59,494
Dividend received	865	7	865	7	428
Income taxes paid	(67,374)	(65,204)	(14,003)	(45,022)	(75,394)
Income taxes received	-	37,379	-	37,379	35,701
Net cash provided by operating activities	(11,706)	65,715	(14,596)	42,948	97,073
CASH FLOWS FROM INVESTING ACTIVITIES:					
Investment in property and equipment	(1,340)	(3,314)	(525)	(1,242)	(5,900)
Investment in intangible assets	(5,609)	(5,124)	(3,010)	(2,619)	(11,656)
Net cash used in investing activities	(6,949)	(8,438)	(3,535)	(3,861)	(17,556)
CASH FLOWS FROM FINANCING ACTIVITIES -					
Dividend paid to equity holders of the Company	-	-	-	-	(50,000)
Repayment of principal of lease liabilities	(2,578)	-	(1,292)	-	-
Net cash used in financing activities	(2,578)	-	(1,292)	-	(50,000)
IMPACT OF EXCHANGE RATE FLUCTUATIONS ON CASH AND CASH EQUIVALENT BALANCES	(368)	(235)	(525)	(235)	(131)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(21,601)	57,042	(19,948)	38,852	29,386
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	87,306	57,920	85,653	76,110	57,920
CASH AND CASH EQUIVALENTS AT END OF PERIOD	65,705	114,962	65,705	114,962	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.

AIG ISRAEL INSURANCE COMPANY LTD.

CONDENSED INTERIM STATEMENTS OF CASH FLOWS

	Six-month period ended June 30		Three-month period ended June 30		Year ended December 31,
	2019	**2018***	**2019**	**2018***	**2018***
	(Unaudited)		**(Unaudited)**		**(Audited)**
	NIS in thousands				
APPENDIX A - CASH FLOWS FROM OPERATING ACTIVITIES:					
Income for the period	105,817	17,628	53,086	4,483	74,242
Adjustments for:					
Income and expenses not involving cash flows:					
Change in liabilities for insurance contracts that are not yield dependent	65,353	159,400	9,844	81,165	130,300
Change in reinsurance assets	(31,522)	(70,902)	(19,317)	(45,161)	(49,543)
Change in deferred acquisition costs	(3,807)	(10,559)	5,742	(2,639)	(8,272)
Taxes on income	55,601	11,340	27,650	3,121	40,579
Change in retirement benefits obligation, net	99	(196)	(1)	(92)	(432)
Depreciation of property and equipment	4,814	2,404	2,359	1,220	5,337
Amortization of intangible assets	7,363	7,706	3,741	4,469	15,057
Losses (gains), net, on financial investments:					
Marketable debt instruments	(31,485)	33,363	(12,362)	7,710	68,575
Non-marketable debt instruments	5,951	853	1,599	(653)	(7,927)
Other	(3,723)	(707)	941	(3,208)	8,052
Impact of fluctuation in exchange rate on cash and cash equivalents	368	235	525	235	131
	69,012	132,937	20,721	46,167	201,857
Changes in assets and liabilities:					
Liabilities to reinsurers	(18,518)	17,488	(20,250)	6,062	50,641
Investments in financial assets, net	(76,606)	(48,143)	(55,306)	(17,462)	(195,027)
Premiums collectible	(18,426)	(22,414)	10,145	3,672	(6,201)
Other receivables	(5,325)	4,482	(3,416)	4,908	6,575
Other payables	(18,934)	(8,440)	(5,319)	2,769	6,611
Current tax assets	18,648	2	(254)	(8)	(1,932)
	(119,161)	(57,025)	(74,400)	(59)	(139,333)
Adjustments for interest and dividend:					
Interest paid	316	-	155	-	-
Interest received	(33,071)	(32,553)	(10,694)	(10,806)	(59,494)
Dividend received	(865)	(7)	(865)	(7)	(428)
	(33,620)	(32,560)	(11,404)	(10,813)	(59,922)
Net cash provided by (used in) operations	22,048	60,980	(11,997)	39,778	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 these 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 parent company is American International Group Inc. (hereinafter – "AIG Global Corporation" or "AIG"), which is a leading international insurance and financial concern.

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

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

Definitions:

1) The Company – AIG Israel Insurance Company Ltd.

2) Supervisor - Supervisor of the Capital Market, Insurance and Savings Authority.

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

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

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

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

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

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

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

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

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

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS:

a. Statement of compliance

The condensed interim financial statements (hereinafter: “the interim financial information”) has been prepared in accordance with the provisions of International Accounting Standard No. 34 - "Interim Financial Reporting" (hereinafter: "IAS 34") and do not include all of the information required fur full annual financial statements, and in accordance with the disclosure requirements of the Supervision Law and the regulations promulgated thereunder. The interim financial information should be read in conjunction with the annual financial statements as of December 31, 2018 and for the year ended on that date (hereinafter – "the 2018 annual financial statements of the Company").

b. Use of estimates and judgments

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

Other than as stated in note 3, the significant judgments made by management in applying the Group’s accounting policies and the principal assumptions used in the estimation of uncertainty were the same as those that applied to the annual financial statements.

c. Discount interest rate for National Insurance annuities

Pursuant to the stated in note 27e(3) of the annual financial statements concerning an inter-ministerial committee for the review of the discount rate applicable to compensation for personal injury under damages (hereinafter: “the Committee”), it should be noted that, in June 2019, the Committee submitted its final recommendations in the matter to the Supreme Court. The recommendations prescribed a uniform discount interest rate of 3% and a mechanism for the future updating of the interest rate.

In August 2019, the Supreme Court issued a ruling in the matter, stipulating that the discount rate for compensation in respect of personal injury under damages will remain 3%, unless proof is provided for the necessity to modify it in accordance with the mechanism proposed by the Committee. In its ruling, the Supreme Court called for the amendment of the National Insurance Regulations to reflect the rate stipulated in the ruling and recommended in the Committee’s report.

Consequently, the Company estimated the effect of the aforesaid ruling and reduced the net provisions in the compulsory vehicle insurance segment by approximately NIS 34.7 million before tax. The balance of the net provision is approximately NIS 9.1 million before tax, this in respect of subrogation claims by the National Insurance Institute against the Company. To the extent that the Court’s recommendation to set a 3% interest rate for National Insurance claims is accepted, additional amounts may be released.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES:

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

a. Taxes on income for the interim period are recognized on the basis of management's best estimate of the average tax rate that will apply to total anticipated annual profits.

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

1) The 2018 annual financial statements of the Company presented new IFRSs and amendments to existing standards that have not yet become effective and have not been early adopted by the Company.

   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 2018 annual financial statements of the Company and except as stated below, no new IFRSs or amendments to existing standards have been published that could material affect the financial statements of the Company.

2) IFRS 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.

   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 June 30, 2019 is NIS 31,666 thousand and NIS 31,813 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%.

   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.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (continued):

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

2) IFRS 16 (continued)

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.

(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.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (continued):

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

2) IFRS 16 (continued)

(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:

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

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

a. Life insurance segment

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

b. Health insurance segment

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

c. General insurance segment

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

- **Compulsory motor vehicle sector**

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

NOTE 4 - SEGMENT INFORMATION (continued):

c. General insurance segment (continued):

- **Motor vehicle property sector**

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

- **Home insurance sector**

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

- **Professional liability sector**

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

- **Property and others sectors**

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

NOTE 4 - SEGMENT INFORMATION (continued):

c. General insurance segment (continued):

- **Other liability sectors**

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

	6-month period ended June 30, 2019 (unaudited)				
	Life insurance	**Health Insurance ***	**General insurance**	**Not attributed to operating segments**	**Total**
			NIS in thousands		
Gross earned premiums	66,328	99,488	415,711		581,527
Premiums earned by reinsurers	(13,785)	(1,472)	(80,844)		(96,141)
Premiums earned in retention	52,543	98,016	334,827		485,386
Gains on investments, net, and financing income	2	3,985	37,990	26,216	68,193
Commission income	4,398	140	21,283		25,821
Total income	56,943	102,141	394,100	26,216	579,400
Payments and change in liabilities with respect to insurance contracts, gross	(26,407)	(42,310)	(261,869)		(330,586)
Share of reinsurers in increase of insurance liabilities and payments for insurance contracts	9,040	923	60,423		70,386
Payments and change in liabilities with respect to insurance contracts, in retention	(17,367)	(41,387)	(201,446)		(260,200)
Commissions, marketing expenses and other acquisition costs	(19,645)	(24,613)	(77,449)		(121,707)
General and administrative expenses	(5,699)	(12,570)	(18,569)		(36,838)
Financing income / (expenses)	-	-	771	(8)	763
Total comprehensive income before taxes on income	14,232	23,571	97,407	26,208	161,418
Liabilities for insurance contracts, gross, as of June 30, 2019	62,487	119,104	1,769,069		1,950,660

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

NOTE 4 - SEGMENT INFORMATION (continued):

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

	3-month period ended June 30, 2019 (unaudited)				
	Life insurance	**Health Insurance ***	**General insurance**	**Not attributed to operating segments**	**Total**
			NIS in thousands		
Gross earned premiums	34,560	49,890	209,270		293,720
Premiums earned by reinsurers	(6,750)	(737)	(39,087)		(46,574)
Premiums earned in retention	27,810	49,153	170,183		247,146
Gains on investments, net, and financing income	1	1,463	13,638	7,420	22,522
Commission income	2,245	71	10,775		13,091
Total income	30,056	50,687	194,596	7,420	282,759
Payments and change in liabilities with respect to insurance contracts, gross	(13,018)	(19,259)	(133,198)		(165,475)
Share of reinsurers in increase of insurance liabilities and payments for insurance contracts	5,970	356	37,659		43,985
Payments and change in liabilities with respect to insurance contracts, in retention	(7,048)	(18,903)	(95,539)		(121,490)
Commissions, marketing expenses and other acquisition costs	(10,029)	(12,170)	(41,913)		(64,112)
General and administrative expenses	(2,821)	(5,973)	(9,074)		(17,868)
Financing income	-	-	353	1,094	1,447
Total comprehensive income before taxes on income	10,158	13,641	48,423	8,514	80,736

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

NOTE 4 - SEGMENT INFORMATION (continued):

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

	Year ended December 31, 2018 (audited)				
	Life insurance	**Health Insurance ***	**General insurance**	**Not attributed to operating segments**	**Total**
			NIS in thousands		
Gross earned premiums	129,951	226,983	788,585		1,145,519
Premiums earned by reinsurers	(25,188)	(3,077)	(142,202)		170,467
Premiums earned in retention	104,763	223,906	646,383		975,052
Gains (losses) on investments, net, and financing income	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

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

NOTE 4 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment:

	6-month period ended June 30, 2019 (unaudited)						
	Compulsory motor vehicle	Motor vehicle property	Home	Professional liability	Other property sectors*	Other liability sectors*	Total
				NIS in thousands			
Gross premiums	93,870	194,418	63,917	40,265	27,632	23,146	443,248
Reinsurance premiums	(1,279)	-	(6,610)	(36,928)	(27,389)	(19,997)	(92,203)
Premiums in retention	92,591	194,418	57,307	3,337	243	3,149	351,045
Change in balance of unearned premiums, in retention	(4,773)	(8,248)	(2,598)	(169)	133	(563)	(16,218)
Premiums earned in retention	87,818	186,170	54,709	3,168	376	2,586	334,827
Gains on investments, net, and financing income	16,768	8,131	2,805	5,067	845	4,374	37,990
Commission income	-	-	589	10,414	6,278	4,002	21,283
Total income	104,586	194,301	58,103	18,649	7,499	10,962	394,100
Payments and changes in liabilities for insurance contracts, gross	(51,267)	(121,028)	(27,225)	(19,190)	(26,188)	(16,971)	(261,869)
Share of reinsurers in increase of insurance liabilities and payments for insurance contracts	1,613	-	434	17,602	27,093	13,681	60,423
Payments and change in liabilities for insurance contracts, in retention	(49,654)	(121,028)	(26,791)	(1,588)	905	(3,290)	(201,446)
Commissions, marketing expenses and other acquisition costs 237	(12,823)	(32,160)	(15,237)	(9,220)	(4,033)	(3,976)	(77,449)
General and administrative expenses	(4,298)	(6,733)	(6,468)	(502)	(318)	(250)	(18,569)
Financing income, net	-	351	405	6	-	9	771
Total expenses	(66,775)	(159,570)	(48,091)	(11,304)	(3,446)	(7,507)	(296,693)
Total comprehensive income before taxes on income	37,811	34,731	10,012	7,345	4,053	3,455	97,407
Liabilities with respect to insurance contracts, gross, as of June 30, 2019	693,010	290,654	110,073	286,441	110,805	278,086	1,769,069
Net liabilities with respect to insurance contracts as of June 30, 2019	549,581	290,654	103,853	46,868	2,048	42,151	1,035,156

* Other property sectors reflect mainly the results of the property insurance sector, which accounts for 95% of the total premiums attributable to these sectors.
Other liability sectors reflect mainly the results of the third-party liability insurance sector, which accounts for 45% of the total premiums attributable to these sectors.

NOTE 4 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment (continued):

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

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

NOTE 4 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment (continued):

	3-month period ended June 30, 2019 (unaudited)						
	Compulsory motor vehicle	Motor vehicle property	Home	Professional liability	Other property sectors*	Other liability sectors*	Total
	NIS in thousands						
Gross premiums	42,406	84,455	30,122	14,570	10,414	10,160	192,127
Reinsurance premiums	(565)	-	(3,801)	(13,313)	(10,387)	(8,747)	(36,813)
Premiums in retention	41,841	84,455	26,321	1,257	27	1,413	155,314
Change in balance of unearned premiums, in retention	3,296	9,850	1,614	220	74	(185)	14,869
Premiums earned in retention	45,137	94,305	27,935	1,477	101	1,228	170,183
Gains on investments, net, and financing income	5,935	2,965	1,033	1,885	304	1,516	13,638
Commission income	-	-	286	5,258	3,176	2,055	10,775
Total income	51,072	97,270	29,254	8,620	3,581	4,799	194,596
Payments and change in insurance liabilities for insurance contracts, gross	(14,198)	(60,349)	(15,916)	(12,354)	(16,734)	(13,647)	(133,198)
Share of reinsurers in payments and change in insurance liabilities for insurance contracts	(1,537)	-	814	9,563	17,910	10,909	37,659
Payments and change in liabilities for insurance contracts, in retention	(15,735)	(60,349)	(15,102)	(2,791)	1,176	(2,738)	(95,539)
Commissions, marketing expenses and other acquisition costs	(6,921)	(18,277)	(7,705)	(4,861)	(2,220)	(1,929)	(41,913)
General and administrative expenses	(2,089)	(3,274)	(3,189)	(245)	(155)	(122)	(9,074)
Financing income, net	-	154	189	5	-	5	353
Total expenses	(24,745)	(81,746)	(25,807)	(7,892)	(1,199)	(4,784)	(146,173)
Total comprehensive income (loss) before taxes on income	26,327	15,524	3,447	728	2,382	15	48,423

* Other property sectors reflect mainly the results of the property insurance sector, which accounts for 93% of the total premiums attributable to these sectors.
Other liability sectors reflect mainly the results of the third-party liability insurance sector, which accounts for 44% of the total premiums attributable to these sectors.

NOTE 4 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment (continued):

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

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

NOTE 4 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment (continued):

	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	10,554	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 (continued):

4.1 Additional information relating to life insurance segment:

6-month period ended June 30, 2019 (unaudited) (NIS in thousands):

	Policies not containing savings element	Total
	Risk sold as single policy	
	Private	
	NIS thousands	
Gross risk premiums	68,419	68,419
Payments and change in liabilities for insurance contracts, gross	26,407	26,407

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

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

3-month period ended June 30, 2019 (unaudited) (NIS in thousands):

	Policies not containing savings element	Total
	Risk sold as single policy	
	Private	
	NIS thousands	
Gross risk premiums	34,735	34,735
Payments and change in liabilities for insurance contracts, gross	13,018	13,018

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

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

NOTE 4 - SEGMENT INFORMATION (continued):

Year ended December 31, 2018 (audited) (NIS in thousands):

	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 for insurance contracts, gross	41,280	41,280

4.2 Additional information relating to healthcare segment:

6-month period ended June 30, 2019 (unaudited) (NIS in thousands):

	Long-term	Short-term	Total
Gross premiums	84,572	15,996	** 100,568
Payments and change in liabilities for insurance contracts, gross	35,965	6,345	42,310

** Consists primarily of policies issued to individuals.

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

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

** Consists primarily of policies issued to individuals.

3-month period ended June 30, 2019 (unaudited) (NIS in thousands):

	Long-term	Short-term	Total
Gross premiums	41,390	9,736	** 51,126
Payments and change in liabilities for insurance contracts, gross	17,866	1,393	19,259

** Consists primarily of policies issued to individuals.

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

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

** Consists primarily of policies issued to individuals.

NOTE 4 - SEGMENT INFORMATION (continued):

Year ended December 31, 2018 (audited) (NIS in thousands):

	Long-term	**Short-term**	**Total**
Gross premiums	187,045	39,928	** 226,973
Payments and change in liabilities for insurance contracts, gross	75,956	22,655	98,611

** Consists primarily of policies issued to individuals.

NOTE 5 - SHAREHOLDERS' EQUITY AND CAPITAL REQUIREMENTS:

a. Capital management and requirements

The policy of the Company is to maintain a strong capital base in order to ensure its solvency and its ability to meet its obligations to policyholders, to preserve the ability of the Company to continue its business activities and to generate yield to its shareholders. The Company is subject to the capital requirements stipulated by the Commissioner. The Board of Directors of the Company has set a target Solvency II-based solvency ratio.

b. Solvency II-based economic solvency regime

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

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

   The provisions of the circular determine, among other things, that the period from June 30, 2017 to December 31, 2024 ("the deployment period"), the provisions will apply in relation to solvency capital requirement (SCR) in the deployment period at gradual upward intervals of 5% a year, such that the solvency capital requirement in the deployment period as of June 30, 2017 may not be less than 60% of the solvency required capital as per the guidance in the appendix to the circular ("SCR") and the solvency capital requirement for an insurance company calculated on the basis of the data for December 31, 2024 and thereafter will not be less than the SCR.

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

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

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

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

b. Solvency II-based economic solvency regime (continued)

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

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

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

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

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

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

3. On July 7, 2019, the Company received the Commissioner's confirmation of the audit of the implementation of the Solvency regime in accordance with the solvency circular, and is therefore no longer subject to the old Capital Regulations concerning the "minimum capital required" and now fully follows an economic solvency ratio regime.

    According to the solvency ratio report as of December 31, 2018, the Company has surplus capital independent of the transitional provisions. For additional information, see Section 3 of the Directors' Report.

    The calculation performed by the Company, as above, was reviewed by the auditors of the Company, in accordance with International Standard on Assurance Engagements (ISAE) 3400 - The Examination of Prospective Financial Information. This standard pertains to the audit of Solvency calculations and is not part of the audit standards that apply to financial statements. It should be stressed that the forecasts and assumptions that served as the basis for the preparation of the economic solvency ratio report are based, inter alia, on past experience, as reflected in actuarial studies that are performed from time to time.

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

b. Solvency II-based economic solvency regime (continued)

2. (continued)

In view of the reforms in the capital, insurance and savings market and the changes in the economic environment, past data are not necessarily indicative of future results. The calculation may be based on assumptions concerning future events and management's actions may not necessarily be realized or may be realized differently from the assumptions that served as a basis for the calculation. Additionally, actual results could materially differ from the calculation, since the realization of the combined scenario of events may materially differ from the assumptions of the calculation. The special report of the auditors draws attention to the stated in the economic solvency ratio report concerning the uncertainty deriving from regulatory changes and exposure to contingencies, the effect of which on the economic solvency ratio cannot be estimated.

c. Dividend paid

On August 27, 2019, on the date of signing of the financial statements, the distribution of a dividend in the amount of NIS 100 million, representing approximately NIS 17,452 per share, was approved. The aforesaid dividend amount was included as a "subsequent event".

NOTE 6 - FINANCIAL INSTRUMENTS AND FINANCIAL RISKS:

a. Fair value hierarchy

The various levels of fair value are determined as follows:

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

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

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

b. The fair value of financial assets and financial liabilities

- The carrying amounts of cash and cash equivalents, premiums collectible, accounts receivable, and accounts payable are identical or close to their fair values.
- For details on the fair value of financial investments, see d. below.

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

c. Composition of financial investments

	June 30, 2019 (unaudited) NIS thousands		
	Measured at fair value through profit or loss	**Loans and receivables**	**Total**
	NIS in thousands		
Marketable debt instruments (1)	1,840,084	-	1,840,084
Non-marketable debt instruments (2)	-	70,448	70,448
Other (3)	81,461	-	81,461
Total	1,921,545	70,448	1,991,993

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

	December 31, 2018 (audited)		
	Measured at fair value through profit or loss	**Loans and receivables**	**Total**
	NIS in 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 (continued):

c. **Composition of financial investments** (continued):

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

	June 30, 2019 (unaudited)	
	Carrying amount	Amortized cost
	NIS in thousands	
Government bonds	678,187	668,032
Other debt assets:		
Other non-convertible debt assets	1,161,897	668,032
Total marketable debt assets	1,840,084	1,804,850

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

	December 31, 2018 (audited)	
	Carrying amount	Amortized cost
	NIS in 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

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

	June 30, 2019 (unaudited)	
	Carrying amount	Fair value
	NIS in thousands	
Bank deposits	1,022	1,295
Presented at amortized cost, except bank deposits	69,426	70,576
Total non-marketable debt assets	70,448	71,871

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

c. Composition of financial investments (continued):

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

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

	December 31, 2018 (audited)	
	Carrying amount	Fair value
	NIS in 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

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

	June 30, 2019 (unaudited)	
	Carrying amount	Cost
	NIS in thousands	
Marketable financial investments	81,461	83,648

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

	December 31, 2018 (audited)	
	Carrying amount	Cost
	NIS in thousands	
Marketable financial investments	77,738	83,648

NOTE 7 - CONTINGENT LIABILITIES:

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

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

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

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

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

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

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

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

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

2. On August 9, 2016, a petition for the certification of a class action was filed against a number of insurance companies, including the Company. The petition concerns the impact of customer age on the pricing of premiums in vehicle compulsory and comprehensive insurance. The overall amount of damages sought is NIS 100,000 thousand. The amount of personal damages sought is negligible.

NOTE 7 - CONTINGENT LIABILITIES (continued):

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

2. (continued)

On December 8, 2016, a consent motion to amend the certification petition was filed, requesting the court to permit the petitioners to amend the certification petition. The requested amendment is by way of removal of the arguments concerning the respondents' compulsory insurance and pursuing solely the matters relating to comprehensive insurance. All this, in view of the ruling in the class action of Meyuhas et al. v. Menorah et. al (26351-09-13). On December 11, 2016, a ruling was handed down, which approved the motion to amend the certification petition.

Within the framework of the handling of the cases and following various interim proceedings, a pretrial hearing was held on September 13, 2017. The Court ruled that the certification petition does not contain the cause of practice. The Court further required the petitioners, during the hearing, to present their position concerning the continuation of the proceedings, this by November 1, 2017.

As part of the interim proceedings, on January 23, 2018, the Court rejected the petitioners' motion to order the respondents to deposit a security.

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

On May 21, 2018, the Court issued notice of the transfer of the case to a different judge.

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

Upon fulfillment of the conditions prescribed in this regard by the Court, on July 26, 2018, the Court approved the parties' proposed hearing arrangement and determined the verbal complementary arguments will be heard on February 3,2019.

The petitioners submitted their summations on October 26, 2018.

Pursuant to the Court’s rulings, 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.

NOTE 7 - CONTINGENT LIABILITIES (continued):

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

2. (continued)

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. It was further determined that the petitioners will pay the expenses of each of the respondents in the amount of NIS 10,000.

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

The plaintiffs allege the overcharging of policy holders the breach of the enhanced duties of the insurance companies to their policy holders, as reflected in the ability to update age and/or years of driving experience when moving into another age and/or driving experience bracket, which entitle them to discounted insurance rates.

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

On June 18, 2017, the Company submitted its response to the certification petition. On June 22, 2017, a pretrial hearing was held together with additional claims that were filed against other insurance companies and deal with similar issues. The Court ordered that at this stage of the proceedings, all age-related claims should be heard as a consolidated case. It was further determined that they will be participate in the hearing scheduled for September 13, 2017, in which the continuation of the proceedings will be considered.

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

On December 26, 2018, the respondent submitted its response to the petitioner's response to the petition to certify the claim as a class action.

On January 16, 2018, the respondent submitted its response to the petitioner's demand to disclose documents, rejecting it on the grounds that the documents constitute a trade secret and are therefore confidential.

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

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

Having approved one extension, 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.

Having presented their arguments in the matter, 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. It was further determined that a pre-trial hearing of the motion will be held on March 20, 2019.

NOTE 7 - CONTINGENT LIABILITIES (continued):

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

3. (continued)

   On March 6, 2019, the petitioners submitted their notification. 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.

   On April 17, 2019, a pre-trial hearing was held. In the hearing, 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 was cancelled. It has been clarified that the evidentiary hearing scheduled for September 19, 2019 will be held as planned.

   On May 28, 2019, a pre-trial hearing was held, in which the respondents were required to submit a written response to the question of the court and a motion for a procedural arrangement by June 27, 2019. On June 30, 2019, the court accepted the motion to extend the date for the submission of the motions.

   On July 10, 2019, the respondents submitted their response to the court’s question.

   On July 18, 2019, the court accepted the parties’ joint motion for a procedural arrangement.

   Three evidentiary hearings in the case have been scheduled, for December 2019 and January 2020.

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

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

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

   In view of the settlement negotiations, the pre-trial 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.

NOTE 7 - CONTINGENT LIABILITIES (continued):

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

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

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

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

   Following the court’s approval of two extension requests by the petitioners, 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.

   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 were to inform the court by March 17, 2019 if they consent to mediation. No additional hearing has been scheduled. 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. A first mediation session was held on June 26, 2019.On July 2, 2019, the parties submitted a notification of the scheduling of another mediation session for September 18, 2019. The parties are required to submit on update concerning the mediation proceeding by September 26, 2019.

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

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 in cases in which the alleged damages were not actually repaired to their policy holders and/or to third parties. The petitioner estimates the compensation due to members of the class for each year in respect of the Company in the amount of NIS 5,744 thousand.

   The Company, together with the other insurance companies included in the claim, submitted to the court a motion for the striking in limine of the certification petition, on the principal grounds that the matter is not appropriate for the filing of claim by an organization. The motion 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. Subsequently, 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.

NOTE 7 - CONTINGENT LIABILITIES (continued):

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

6. (continued)

   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 and December 2019.

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

7. On May 1, 2018, a claim and a petition to certify it as a class action were filed against the Company. These allege that the Company automatically renews home insurance policies under a mortgage, at higher insurance rates in the renewal period, without obtaining the policy holders' consent for the renewal and raising of the insurance fees and without informing them of the new price.

   The amount claimed for all the class members is NIS 2,500 thousand.

   Following negotiations between the parties, an agreement was reached and submitted to the court.

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

8. On June 3, 2019, a claim and a petition to certify it as a class action were filed against the Company and one of its service providers. The petition alleges that the Company and its service provider do not provide road services to its customers in the areas of Judea and Samaria, this allegedly in discrimination of its customers and in breach of contract.

   At this preliminary stage of the claim, management of the Company and its legal counsel are still studying the matter and are of the opinion that, due to the preliminary stage of the claim, the chances of the certification petition cannot be estimated.

9. On June 17, 2019, a claim and a petition to certify it as a class action were filed against the Company, alleging the unlawful charging of linkage differences from the policyholders by the respondent under home insurance premium payments.

   The total amount claimed for all class members in relation to the respondent is estimated at NIS 2,500 thousand.

   The Company is required to submit a response to the certification petition by November 17, 2019. The petitioner is required to submit its response to the response to the certification petition by December 17, 2019.

   A hearing has not yet been scheduled.

   At this preliminary stage of the claim, management of the Company and its legal counsel are still studying the matter and are of the opinion that, due to the preliminary stage of the claim, the chances of the certification petition cannot be estimated.

NOTE 7 - CONTINGENT LIABILITIES (continued):

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

	Number of claims	The amount claimed - NIS thousands
Pending petitions for certification of class actions:		
Claim amount stated	6	53,643
Claim amount not stated	3	-
Total	**9**	**53,643**

NOTE 8 – SUBSEQUENT EVENTS

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

Report on the Economic Solvency Ratio of

AIG Israel Insurance Company Ltd

As at 31.12.2018

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Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 61006, Israel
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15th July 2019

For the attention of: The Board of Directors of
AIG Israel Insurance Company Ltd

Re: Examination of the implementation of certain directives of the Commissioner of the Capital, Insurance and Savings Market regarding the economic solvency (based on Solvency II) of AIG Israel Insurance Company as at 31st December 2018

We have examined the Solvency Capital Requirement ("SCR") and the economic capital of AIG Israel Insurance Company Ltd as at 31st December 2018 ("the information"), which is attached hereto and marked with our office's stamp for identification. The Board of Directors and Management are responsible for the preparation and presentation of the information, prepared in accordance with the directives of the Commissioner of the Capital, Insurance and Savings Market (hereinafter - "the Commissioner") regarding the economic solvency of an insurance company, based on Solvency II (hereinafter – "the Directives"), as included in Commissioner's Memorandum 2017-1-9 of 1st July 2017. The calculations, forecasts and assumptions that served as the basis for preparing the information are the responsibility of the Board of Directors and Management.

Our examination was carried out in accordance with International Standard for Assurance Engagements ISAE 3400 - The Examination of Prospective Financial Information and in accordance with the Commissioner's guidelines as included in Appendix B of Insurance Memorandum 2017-1-20 dated 3rd December 2017 detailing directives regarding the audit of the Economic Solvency Ratio Report.

Based on an examination of the evidence supporting the calculations, forecasts and assumptions, as mentioned below, which were used by the company's Board of Directors and Management in preparing the information, nothing has come to our attention that causes us to believe that the forecasts and assumptions as a whole are not a reasonable basis for the information, in accordance with the Directives. In addition, in our opinion, the information, including the method of determining the assumptions and the forecasts, were prepared, in all material respects, in accordance with the Directives, and presented, in all material respects, in accordance with the Directives.

It should be emphasized that the forecasts and assumptions are based mainly on past experience as can be derived from actuarial studies which are conducted from time to time. In view of the reforms in the capital, insurance and savings market and changes in the economic environment, past data do not necessarily reflect the future results. The information is sometimes based on assumptions regarding future events and management actions that will not necessarily materialize or will materialize differently than the assumptions that served as the basis for the information. In addition, the actual results may differ materially from the information, since the conjunction of scenarios may materialize in a manner materially different from the assumptions in the information.

Without qualifying our opinion, we draw attention to paragraph 2a of the company's report regarding exposure to contingent liabilities and uncertainty as a result of regulatory changes, whose effect on the solvency ratio cannot be assessed

Sincerely,
KPMG Somekh Chaikin

A. Background and Disclosure Requirements

On 3rd December 2017, the Commissioner of the Capital Market, Insurance and Savings ("the Commissioner") published Insurance Circular 2017-1-20 regarding the structure of the required disclosure in the periodic reports and on the websites of insurance companies on the subject of an economic solvency regime, based on Solvency II. On 26th June 2019, the Commissioner published an update to the provisions of this circular (Insurance Circular 2019-1-8). The updated circular added qualitative disclosures to the Report on the Economic Solvency Ratio. The circular with its updates shall be referred to hereinafter as the "Disclosure circular".

On 7th August 7 2018, directives were published regarding postponing the reporting and publication of the results of the Economic Solvency Ratio, as published in the Disclosure Circular. According to the directives, the Report on the Economic Solvency Ratio based on the data of 31st December 2018 is to be published by 15th July 2019, and the report based on the data of 30th June 2019, is to be published by 31st December 2019. Beginning with the annual report as at 31st December 2019, the Report on the Economic Solvency Ratio will be published at the same time as the publication of the following year's first quarter reports, and the half-year report will be published together with the publication of the third quarter report. Furthermore, the Circular includes directives regarding the Economic Solvency Ratio Report, its approval by the Company's applicable functions, its audit by the Company's auditors, and the disclosure requirements to be met.

The Company's auditors performed their first audit in accordance with Standard ISAE 3400 and in July 2019 a certification of the audit was received from the Commissioner.

The company hereby publishes its Report on the Economic Solvency Ratio as at 31st December 2018. This report was prepared in accordance with the rules and principles prescribed by the Commissioner in a circular dated 1st June 2017 (Insurance Circular 2017-1-9) ("the Solvency Circular" or the "Directive") which deals with instructions for implementing the economic solvency regime at an insurance company, based on the European Solvency II Directive.

Under the framework of the circular, there is a requirement to hold own funds that can be used to absorb losses arising from the materialization of unexpected risks to which the company is exposed. The solvency regime, which examines the risks and standards for managing and measuring them, is based on three pillars: a quantitative first pillar, which deals with a risk-based solvency ratio; a qualitative second pillar relating to internal control processes, risk management, corporate governance and the Own Risk and Solvency Assessment process (ORSA); and a third pillar relating to the promotion of market discipline, disclosure and reporting.

It should be noted that in accordance with the provisions of the Solvency Circular, the Economic Balance Sheet (EBS) is to be calculated by assessing the value of the assets and liabilities of the insurance company, subject to the provisions of Part A of the appendix to the Solvency Circular. The calculation of the Solvency Capital Requirement (SCR) is to be based on the EBS items calculated as above, under scenarios with a probability of 1 in 200 years, taking into account the levels of correlation between the various risk factors, subject to the provisions of Part C of the appendix to the Solvency Circular. The calculation of the Eligible Own Funds is to be carried out subject to the provisions of Part B of the appendix to the Solvency Circular.

The provisions of the circular stipulate, inter alia, that during the period commencing on 30th June 2017 and ending on 31st December 2024 (the "Transition Period"), the directives regarding the Solvency Capital Requirement during the Transition Period will apply with a gradual increase of 5% per year, such that the SCR during the Transition Period as at 30th June 2017, shall be no less than 60% of the SCR according to the appendix to the circular, and the SCR of an insurance company calculated on 31st December 2024 and thereafter, shall be no less than the full SCR.

Clarification regarding forward-looking information in this report

The determination of the Best Estimate (as the term is defined below) is based on forecasts, assessments and estimates of future events whose materialization is uncertain and is not under the Company's control, and should be considered "forward-looking information" as defined in Section 32A of the Securities Law, 1968. Actual results may be different than those reflected in the report as a result of all or some of these forecasts, assessments and estimates not materializing or materializing differently than anticipated with respect to inter alia, actuarial estimates (including mortality, morbidity, recovery, expense and loss ratios) risk free interest rates, market yields, future income and catastrophic scenarios.

The Best Estimate has been calculated in accordance with the methodology, rules and principles established in the Solvency Circular. The assumptions in the model are based on "Best Estimate Assumptions", i.e. assumptions that are the result of projecting the existing experience forwards, within the environment in which the insurance companies operate, and without using prudent factors.

Naturally, as stated above, since these are long-term future estimates, the actual results are expected to differ from those estimated when calculating the Best Estimate liability.

Deviations from the following parameters can have a material effect on the outcome:

1. Economic factors (e.g. discounting interest rate, yields).
2. Demographic factors (e.g. changes in mortality and morbidity).
3. Legislation and legislative arrangements on relevant subjects.
4. Contingent liabilities.
5. Taxation.
6. Changes in the business environment.

Future results, which deviate from the estimates made on the basis of "Best Estimate Assumptions" are natural and are expected to occur, even if there is no change in the parameters mentioned above. Therefore, it is expected that the actual results each year will differ from those predicted by the Best Estimate model, if only due to ordinary random fluctuations.

In recent years, many reforms have taken place in the insurance and health fields that have influenced and are influencing the assessment and calculation of the Best Estimate. There is uncertainty as to the expected effect of the legislative reforms, taking into account, inter alia, the fact that some of the reforms have not yet been completed or have not been implemented, and that the implementation of some of the reforms in practice may be different from the manner foreseen, and depends on various uncertain parameters, including the competitive environment, preferences of policyholders and members and the behavior of competitors and distributors. Therefore, the calculation of the Best Estimate liability does not take into account the possible future implications of these reforms.

B. Definitions

"Best Estimate" (BE): The probability-weighted average (Expected Value) of the cash flows that are required to repay the insurance liabilities during the entire period of their existence, discounted at the adjusted risk-free interest rate, taking into account all positive and negative cash flows.

"Health Insurance Similar to Life Techniques" (Health SLT): Health insurance that is managed in a manner similar to life insurance, which includes the covers specified in Table 3 in Part A of the appendix regarding health insurance.

"Health Insurance Not Similar to Life Techniques" (Health NSLT): Health insurance that is managed in a manner similar to general insurance, which includes the covers listed in categories 1 and 2 in Table 2 of Part A of the appendix.

"Basic Solvency Capital Requirements" (BSCR): The capital an insurance company requires to hold in order to maintain solvency, calculated according to the directives of the economic solvency regime, without taking into account the capital requirement for operational risk, adjustments for the loss-absorbing capacity of deferred taxes, and the capital requirement for management companies.

"Solvency Capital Requirement" (SCR): The capital an insurance company requires to hold in order to maintain solvency, calculated according to the provisions contained in Chapter 2 Part C of the appendix.

"Own funds": The total of Tier I and Tier II capital of an insurance company, in accordance with Part B of the appendix.

"Basic Tier I capital": The total of all items listed in paragraph 1) below, less the items listed in paragraph 2) below:

1) Surplus of assets over liabilities, valued according to the provisions in Part A of the appendix, which includes the following components:

    a) Ordinary issued and paid-up share capital
    b) Share premium
    c) Retained earnings
    d) The change in the surplus of assets over liabilities arising from differences between the method of valuation of assets and liabilities according to the provisions of Part A and the valuation manner of assets and liabilities under Chapter 1 of Part 2 of Section 5 of the Consolidated Circular (Reconciliation Reserve).

2) Amounts deducted from basic Tier I capital

    a) Unrecognized assets
    b) Self-investment in ordinary shares
    c) Dividends declared after the reporting date

"Diversification effect between risk components": The correlation between the various risks in the model; the greater the diversification between the operating segments in the portfolio and the greater the diversification between risks, the effect of the diversification is greater, which reduces the overall risk.

"Equity Risk Scenario Adjustment": A reduced capital requirement for certain types of investments that will gradually increase until 2023, when the capital requirement for these investments reaches its full value.

"Solvency Ratio": The ratio between the Own Funds of an insurance company and the Solvency Capital Requirement.

"Economic Balance Sheet" (EBS): An insurance company's balance sheet, in accordance with the provisions of Part A.

"Risk Margin": An amount in addition to the BE that reflects the total cost of capital that is expected to be required by another insurance company or reinsurer, in order to accept the insurance liabilities of an insurance company, calculated in accordance with the provisions of Part A of the appendix.

"Minimum Capital Requirement" (MCR): The minimum capital required of an insurance company, calculated according to the provisions of Chapter 4 of Part C of the Appendix.

"Transition Period": Under the framework of the Transition Guidelines for the implementation of an economic solvency regime, between 2016 and 2024 the insurance company's required capital will gradually increase from 60% in 2016 to full compliance with the SCR (100%) in 2024.

"Ultimate Forward Rate" (UFR): The last forward interest rate derived from the expected long-term real interest rate and the long-term inflation expectations to which the adjusted yield curve converges, in accordance with the directives of the economic solvency regime.

C. Calculation Methodology

The directives of the economic solvency regime prescribe guidelines for calculating the Own Funds and the SCR on an economic basis. In general, in accordance with the directives of the economic solvency regime, the EBS items are calculated according to economic value, and in particular the insurance liabilities are calculated on the basis of BE of all expected future cash flows from existing businesses, without prudent margins, plus a risk margin, which reflects the total cost of capital that is expected to be required by another insurance company or reinsurer in order to accept the insurance liabilities of an insurance company, calculated on a BE basis, as defined in the directives of the economic solvency regime.

In the EBS, as a rule, intangible assets are not recognized. The EBS is prepared on the basis of the company's financial statements. Calculation of the SCR is based on an assessment of the exposure of the economic own funds to risk components, which are prescribed in the directives of the economic solvency regime. The risk components are: life insurance risks, health insurance risks, general insurance risks, market risks, and counterparty default risks. These risk components include sub-risk components with respect to specific risks to which the insurance company is exposed. The exposure assessment of the economic own funds to each sub-risk component is carried out on the basis of a defined scenario prescribed in the guidelines.

The determination of the SCR is based on a sum of the capital requirements in respect of the risk components and the sub-risk components, as noted, taking into consideration the correlations assigned to them, less an adjustment for the loss-absorbing capacity of deferred taxes, as prescribed in the guidelines. In addition, the calculation of the SCR includes components for the capital requirement in respect of operational risk.

It should be emphasized that the results of the models used in calculating the eligible own funds and the SCR are highly sensitive to the forecasts and assumptions included therein, as well as to the manner in which the directives have been implemented. The economic solvency ratio is highly sensitive to market variables and other variables, and is accordingly might be volatile.

1. Solvency Ratio and Minimum Capital Requirement

The data have been audited in accordance with ISAE3400 – The Examination of Prospective Financial Information.

A. Solvency Ratio

	As at 31st December 2018	As at 31st December 2017
Without taking into consideration the directives for the Transition Period and the Equity Risk Scenario Adjustment:		
Own funds for the purposes of SCR – see Section 4 (ILS, thousands)	1,071,017	1,063,774
Solvency Capital Requirement (SCR) – see Section 5 (ILS, thousands)	629,586	655,304
Surplus (ILS, thousands)	441,431	408,470
Solvency Ratio (%)	170%	162%
Target Capital as agreed by Company's Board of Directors	130%	130%
Surplus over target capital (ILS, thousands)	252,555	211,879
Meeting milestones: taking into consideration the directives for the Transition Period and the Equity Risk Scenario Adjustment:		
Own funds for the purposes of the SCR – see Section 4 (ILS, thousands)	1,071,017	1,063,774
Solvency Capital Requirement (SCR) – see Section 5 (ILS, thousands)	438,750	417,230
Surplus (ILS, thousands)	632,267	646,544

The Company received in July 2019 the Commissioner's certification of the first audit and, therefore, it no longer has to meet the previous Capital Regulation requirements.

B. Minimum Capital Requirement (MCR)

	As at 31st December 2018	As at 31st December 2017
	ILS, Thousands	
Minimum Capital Requirement (MCR) – See Section 6.A	182,728	178,982
Own funds for the purposes of the MCR – See Section 6.B	1,071,017	1,063,774

Changes in Own Funds after the calculation date which were included in the results as at 31st December 2017

On 28th August 2018, the Company announced a dividend distribution of ILS 50 million to its shareholders. This amount was deducted from the eligible own funds as calculated and presented as at 31st December 2017.

The Company updated its expense study after publication of the 2017 Financial Statements. This update led to an immaterial increase in the Company's solvency ratio.

2. Economic Balance Sheet

The measurement basis for the EBS is fair value, subject to the provisions of Part A of the appendix to the Solvency Circular.

	As at 31 December 2018		As at 31 December 2017	
	Balance Sheet according to accounting standards	Economic Balance Sheet	Balance Sheet according to accounting standards	Economic Balance Sheet
	ILS thousands			
Assets:				
Intangible assets	35,047	-	38,448	-
Deferred acquisition costs	157,629	-	149,357	-
Fixed assets	11,617	11,617	11,054	11,054
Reinsurance recoverables	718,971	591,023	669,428	554,390
Accounts receivable and debit balances	234,409	204,970	225,805	208,312
Other financial investments:				
Marketable fixed income assets	1,731,531	1,731,531	1588,676	1,588,674
Non-marketable debt securities	76,861	77,792	85,174	89,357
Others	77,738	77,738	85,943	85,943
Total other financial investments	**1,886,130**	**1,887,061**	**1,759,793**	**1,763,974**
Cash and other cash equivalents	87,306	87,306	57,920	57,920
Total Assets	**3,131,109**	**2,781,976**	**2,911,805**	**2,595,650**
Capital				
Basic Tier I capital	825,207	1,071,017	800,965	1,113,774
Total Capital	**825,207**	**1,071,017**	**800,965**	**1,113,774**
Liabilities:				
Liabilities for non-yield dependent insurance and investment contracts – see Section B	1,885,307	1,005,140	1,755,007	685,642
Risk margin	-	188,999	-	298,156
Net liability for deferred taxes	-	115,287	9,281	169,112
Accounts payable and credit balances	420,595	401,533	346,552	328,966
Total Liabilities	**2,305,902**	**1,710,959**	**2,110,840**	**1,481,876**
Total Capital and Liabilities	**3,131,109**	**2,781,976**	**2,911,805**	**2,595,650**

2a. **Information regarding the Economic Balance Sheet**

The fair value of assets and liabilities in the EBS was calculated in accordance with the requirements included in the chapter on evaluation of assets and liabilities for the purposes of the financial statements, in the Consolidated Circular (the Regulation Codex), except for items prescribed otherwise in the Solvency Circular, as follows:

Insurance Liabilities

The calculation of the insurance liabilities is based on a best estimate, based on assumptions that are mainly the result of the projection into the future of existing experience relating to past events, within the environment in which the company operates, and without using prudent factors. Calculation of the insurance liabilities was carried out in accordance with the directives of the economic solvency regime, which in general with respect to Life and Health SLT liabilities is carried out in accordance with the EV calculation methodology in Israel, and with respect to General Insurance and Health NSLT is performed on the basis of the "best practice" methodology.

The model does not include the value of future sales, but does include an assumption regarding continued receipt of premiums in respect of existing businesses. In addition, the calculation assumes continued business activity or "going concern", for example regarding operating assumptions.

Future results that deviate from the assessments made on the basis of "BE assumptions" are natural and are likely to occur even if there is no change in the parameters underlying the calculation. In recent years, there have been many reforms that have influenced and are influencing the calculation of the BE. There is uncertainty as to the expected effect of the legislative reforms due to, inter alia, the fact that some of the reforms have recently been implemented and their effect has not yet been sufficiently clarified, some of them have not yet been completed or have not yet been implemented, and some are in various stages of preparation (including publication of drafts) but their full and precise nature is not yet clear. The actual implementation of some of the reforms may differ from the manner predicted, and depends on various uncertainties, including the competitive environment, the preferences and behavior of the policyholders, the behavior of various factors in the market (including competitors, distributors and employers) and the interactive effect of the various reforms on each other. Therefore, the BE, and accordingly the calculation of the scenarios derived from it, do not take into account the full potential implications of these reforms, rather they take them into account partially or in a manner which may not be complete and exhaustive.

Limitations and reservations in the calculation of the Best Estimate

- In general, the assumptions underlying the models were formulated mainly on the basis of studies and analyses based on the Company's experience over the past few years, which did not include extreme events. Therefore, there is a possibility of extreme scenarios, the probability of occurrence of which is very low but which the company is unable to assess, as well as the extent of the impact of these events. Such events were not taken into account in determining the assumptions underlying the models.
- Due to the lack of adequate data, the BE calculation made no assumptions regarding, and neither did the Company examined, the level of correlation between demographic and operational assumptions and assumptions relating to market conditions (e.g. interest rate), which may materially affect the BE.
- The BE should be based on distribution assessment of the possible results. In the absence of significant statistical data to evaluate the distribution of BE for all demographic and operational factors in Life and Health SLT insurance, the Company used realistic assumptions for each parameter by itself, according to the expected value of each relevant factor.

Demographic and operational assumptions

All the assumptions that have a material effect on the calculation were determined according to the Company's best measures for each demographic and operating factor, and reflect the Company's future expectations for these factors. The demographic assumptions included in the calculation were taken from internal studies conducted by the Company, if any, and conclusions drawn from professional judgment based on relevant experience and on the integration of information from external sources, such as information received from reinsurers and mortality and morbidity tables published by the authorities.

The operating assumptions (administrative and general expenses) were calculated in accordance with the results of the Company's internal pricing model used for expenses related to the relevant insurance liabilities, including: allocation of expenses to the various segments and to the various activities (production, ongoing management, investments, etc.) and assumptions regarding their future development (CPI, premiums volume, assets size, etc.)

As a rule, the assumptions for the BE are identical to the assumptions used to calculate insurance liabilities in the Company's Statutory balance sheet. However, the actuarial methods used to produce the BE may differ from those used for calculating Statutory balance sheet liabilities.

General insurance claim costs

The cost of claims in the various lines of insurance in respect of earned policies is based on the provisions in the Statutory balance sheet of December 2018. The estimate includes Unallocated Loss Adjustment Expenses (ULAE) and does not include a Risk Margin (RM) and other non-explicit margins which were taken into account in order to test reserve adequacy for the above-mentioned balance sheet.

In respect of the unearned portion, the cost is based on the Statutory balance sheet calculations, taking the unearned part of the outstanding claims (also deducted from risk margins and other non-explicit margins).

Yield and discount rate

In calculating the insurance liabilities, the future yield and the discount rate were determined according to the adjusted risk-free interest rate for Solvency II purposes calculated by the Capital Markets Authority in accordance with the directives of the economic solvency regime. This curve is based on the adjusted risk-free interest rate including a UFR assumption of 2.6%.

Risk Margin

In addition to the insurance liabilities based on the BE, a risk margin component is calculated in order to reflect the total cost of capital that is expected to be required by another insurance company or reinsurer in order to accept the insurance liabilities of the insurance company, based on the BE as defined in the directives of the economic solvency regime. The Risk Margin is based on a cost of capital of 6% and is discounted at the adjusted risk-free interest rate.

Other assets and liabilities

- Deferred acquisition costs are valued at zero.
- Other intangible assets are valued at zero, unless the company estimates that they can be sold separately, at quoted market prices in an active market.
- The fair value of marketable fixed income assets that are not at fair value in the financial statements is calculated on the basis of up-to-date information that exists in the financial markets. The fair value of non-marketable debt securities is calculated according to a model based on discounted cash flows, with discounting interest rates determined by a company that quotes prices and provides interest rates to institutional entities.

- Net liabilities in respect of deferred taxes are evaluated in accordance with the principles set forth in the Solvency Circular - the calculation is based on the difference between the value attributed to the assets and liabilities in the EBS and the value attributed to them for tax purposes in accordance with the directives regarding recognition, measurement and presentation of accounting standard IAS 12.
- Accounts payable and credit balances are evaluated in accordance with the principles set forth in the Solvency Circular - the balances in this item were computed in accordance with the general principles regarding the EBS, including acquisition costs of reinsurers and the company's liabilities for employee benefits.

Solvency Capital Requirement

The SCR calculation is based on these principles:

- The company is a going concern;
- It relates to risks arising from existing businesses and from General Insurance and Health NSLT Insurance business that is expected to be signed within 12 months after the date of the report;
- With respect to existing business, it will cover only unexpected losses;
- It reflects the volume of own funds that will enable an insurance company to absorb unexpected losses and meet its liabilities to policyholders and beneficiaries on time, and constitutes a value at risk (VaR) of basic Tier I capital of the Company at a 99.5% confidence level over a period of 12 months;
- Covers the following risk components: Life Insurance, Health Insurance, General Insurance, Market, and Counterparty Default;
- Takes into account means and methods for mitigating risks.

The scenarios calculation is based on an assessment of the deviation from the assets and liabilities valuation in the EBS as the scenario materializes. In particular, for life and health SLT components the scenarios assessment is based on the results of BE models and accordingly are subject to the limitations and reservations described above.

Composition of eligible capital

The directives of the economic solvency regime prescribe provisions regarding the composition of the eligible capital on an economic basis, according to which the own funds will be Tier I and Tier II capital, as defined in the directives:

- Tier I capital: surplus of assets over liabilities, estimated according to the directives regarding the EBS that includes the following components: ordinary issued and paid-up share capital, share premium, retained earnings, capital funds less capital reserves in debit, and the change in assets over liabilities deriving from differences in the manner of valuation of the assets and liabilities according to the directives (reconciliation reserve), less: unrecognized assets, self-investment in ordinary shares, and dividend announced after the date of the report. Additional Tier I capital (up to 20%) components are: perpetual capital notes, non-accumulative preferred shares, additional Tier I capital instruments, and complex primary capital instruments.

- Tier II capital: Tier I capital instruments not included in Tier I, Tier II capital instruments, complex secondary capital instruments, complex tertiary capital instruments, and subordinate secondary capital instruments.

The proportion of components included in Tier I capital, after amortization, shall not be less than 60% of the SCR and 80% of the MCR. The percentage of components included in Tier II capital, after amortization, shall not exceed 40% of the SCR and 20% of the MCR at any time.

<u>Directives during the Transition Period</u>

The directives of the economic solvency regime prescribe a transition period in which the following guidelines are to be implemented:

- The capital requirement in respect of the equity risk sub-component, as defined in the directives, will gradually increase over a period of seven years starting from the effective date, from 22% to 30%, 39% and 49% for investment in infrastructure, Type 1 equity and Type 2 equity, respectively. The gradual increase will also apply to the anti-cyclical adjustment, as defined in the provisions.
- The SCR, calculated according to the transitional measure regarding the equity risk sub-component, as detailed above, will gradually increase from 60% of the SCR as per the directives, at a rate of 5% per year, up until full compliance with the SCR requirements for the calculation based on data as at 31st December 2024.
- Regarding the capital composition, it was determined that the maximum amount of Tier II capital during the Transition Period will be 50% of the SCR.

<u>Implementation team</u>

The Company has been informed by the regulator that the latter will act to appoint an Implementation Team which will discuss certain issues in the directives of the economic solvency regime and the need to make adjustments thereto. At this stage, the Company is unable to assess whether, following the activity of the Implementation Team, the regulator will act to implement such changes and what the impact of such changes on the Company's solvency ratio will be, if and when they are accepted.

2b. Composition of Liabilities for Insurance and Investment Contracts

	As at 31st December 2018		
	Best Estimate Liabilities		
	Gross	Reinsurance recoverables	Net
	ILS Thousands		
Liabilities for non-yield dependent insurance and investment contracts:			
Life and long-term health insurance contracts (SLT)	(445,899)	(8,457)	(437,442)
General and short-term heath investment contracts (NSTL)	1,451,040	599,480	851,560
Total liabilities for non-yield dependent insurance and investment contracts	**1,005,141**	**591,023**	**414,118**
Total liabilities for insurance and investment contracts	**1,005,141**	**591,023**	**414,118**

	As at 31st December 2017		
	Best Estimate Liabilities		
	Gross	Reinsurance recoverables	Net
	ILS Thousands		
Liabilities for non-yield dependent insurance and investment contracts:			
Life and long-term health (SLT) insurance contracts	(702,702)	(26,650)	(676,052)
General and short-term heath (NSTL) investment contracts	1,388,344	581,040	807,304
Total liabilities for non-yield dependent insurance and investment contracts	**685,642**	**554,390**	**131,252**
Total liabilities for insurance and investment contracts	**685,642**	**554,390**	**131,252**

2c. Report On the Movement in Net Best Estimate Liabilities for Life and Long-Term Health (SLT) Insurance Contracts

		2018	2017
		Net of reinsurance	
		ILS thousands	
Best estimate liabilities for life and long-term health (SLT) insurance contracts as at 1st January		(676,052)	(740,032)
Impact of changes to operating and demographic assumptions	(a)	187,835	48,944
Real cash flow expected to be released	(b)	108,348	103,922
Impact of deviations from operating and demographic assumptions	(c)	16,945	33,688
New Business	(d)	(79,642)	(97,420)
Impact of inflation	(e)	(5,711)	(2,149)
Impact of changes to economic assumptions, and deviations from economic assumptions	(f)	10,765	(23,014)
Impact of other changes	(g)	69	7
Best estimate liabilities for life and long-term health (SLT) insurance contracts as at 31st December		**(437,442)**	**(676,052)**

(a) Effect of changes to operating and demographic assumptions - this item includes the change in liabilities deriving from changes in the basis of the assumptions used at the end of the previous year versus the assumptions used at the end of the reporting year.

(b) Real cash flows expected to be released - this item includes the forecasted cash flow that was included in the opening balance and was expected to be released in the reporting year.

(c) Effect of deviations from operating and demographic assumptions - this item includes the difference between the calculation of the best estimate liabilities based on the updated assumptions and the actual experience during the reporting year.

(d) New business - this item includes the effect on the best estimate liabilities as a result of the sale of new insurance contracts.

(e) Effect of inflation - this item includes the effect of inflation in the reporting year on the opening balance. This effect is mainly due to the terms of the contracts that include linkage to the CPI.

(f) Effect of changes to economic assumptions and deviations from the economic assumptions - this item includes the change in the best estimate liabilities deriving from a change in the basis of assumptions used at the end of the previous year versus the assumptions used at the end of the reporting year, and the difference between the calculation of the best estimate liabilities based on the updated assumptions and the actual experience during the reporting year.

(g) Effect of other changes - this item includes other changes, including: updates to the model and the database, regulatory updates, etc.

3. <u>Own Funds for the purposes of the SCR</u>

As of 31st December 2018

	Tier I Capital				
	Basic Tier I Capital	**Additional Tier I Capital**	**Tier II Capital**	**Total**	**Taking into Consideration the Directives for the Transition Period and the Equity Risk Scenario Adjustment**
	ILS thousands				
Own funds	1,071,017			1,071,017	1,071,017
Deductions from Tier I capital (a)	-			-	-
Reductions (b)					
Exceedance of quantitative limits (c)					
Own funds for the purposes of the SCR (d)	1,071,017			1,071,017	1,071,017
Of this - Expected Profit In Future Premiums (EPIFP) after tax	370,319			370,319	

As of 31st December 2017

	Tier I Capital				
	Basic Tier I Capital	**Additional Tier I Capital**	**Tier II Capital**	**Total**	**Taking into Consideration the Directives for the Transition Period and the Equity Risk Scenario Adjustment**
	ILS thousands				
Own funds	1,113,774			1,113,774	1,113,774
Deductions from Tier I capital (a)	(50,000)			(50,000)	(50,000)
Reductions (b)					
Exceedance of quantitative limits (c)					
Own funds for the purposes of the SCR (d)	1,063,774			1,063,774	1,063,774
Of this - Expected Profit In Future Premiums (EPIFP) after tax	536,957			536,957	

(a) Deductions from Tier I Capital - according to the definition of "Basic Tier 1 Capital" in the appendix to the Solvency Circular, these deductions include the amount of assets held against liabilities in respect of non-yield dependent insurance contracts and investment contracts contrary to the regulations regarding investment rules, the amount of self-investment in ordinary shares, and the amount of dividends announced subsequent to the reporting date and before the first publication date of the report.

(b) Reductions – in accordance with Chapter 6 of Part B, "Directives regarding the own funds of an insurance company" of the Solvency Circular.

(c) Exceedance of quantitative limits - in accordance with the directives of Chapter 2 of Part B, "Directives regarding the own funds of an insurance company" of the Solvency Circular.

(d) Composition of own funds for the purposes of the SCR:

	As at 31st December 2018	**As at 31st December 2017**
	ILS thousands	
Tier I Capital:		
Basic Tier I Capital	1,071,017	1,063,774
Total own funds for the purposes of the SCR	1,071,017	1,063,774

4. Solvency Capital Requirement (SCR)

	As at 31st December 2018	As at 31st December 2017
	ILS thousands	
Basic Solvency Capital Requirement (BSCR):		
Market risk capital requirements	103,842	126,835
Counterparty default risk capital requirement	83,046	71,185
Life insurance underwriting risk capital requirement	149,702	192,845
Health insurance (NSLT+SLT) underwriting risk capital requirement (*)	229,522	354,885
General insurance underwriting risk capital requirement	521,360	515,794
Total	**1,087,472**	**1,261,544**
Diversification impact between risk components	(386,129)	(478,779)
Total Basic Solvency Capital Requirement (BSCR)	**701,343**	**782,765**
Operational risk capital requirement	45,530	41,651
Adjustment for loss-absorbing capacity of deferred taxes	(115,287)	(169,112)
Total Solvency Capital Requirement (SCR)	**629,586**	**655,304**
Total Solvency Capital Requirement (SCR) taking in to consideration Equity Risk Scenario Adjustment	**626,786**	**641,893**
Total Solvency Capital Requirement (SCR) taking in to consideration directives for the Transition Period (70% and 65% of the full SCR, respectively) and the Equity Risk Scenario Adjustment	**438,750**	**417,230**

(*) For accidental death covers the company used the mortality scenario in 2017 and the morbidity scenario in 2018. The change was not material.

5. Minimum Capital Requirement (MCR)

A. Minimum Capital Requirement (MCR)

	As at 31st December 2018	As at 31st December 2017
	ILS thousands	
MCR in accordance with the formula	182,728	178,982
Lower bound (25% of the Transition Period SCR)	109,688	104,308
Upper bound (45% of the Transition Period SCR)	197,438	187,754
MCR	182,728	178,982

B. Own funds for the purposes of the MCR

	As at 31st December 2018		
	Tier I Capital	Tier II Capital	Total
		ILS thousands	
Own funds for the purposes of the SCR in accordance with Section 4	1,071,017	-	1,071,017
Exceedance of quantitative limits for the MCR (*)		-	-
Own funds for the purposes of the MCR	1,071,017	-	1,071,017

	As at 31st December 2017		
	Tier I Capital	Tier II Capital	Total
		ILS thousands	
Own funds for the purposes of the SCR in accordance with Section 4	1,063,774	-	1,063,774
Exceedance of quantitative limits for the MCR (*)		-	-
Own funds for the purposes of the MCR	1,063,774	-	1,063,774

(*) In accordance with the directives of Chapter 3 of Part B "Directives regarding the own funds of an insurance company" in the Solvency Circular, Tier II capital may not exceed 20% of the MCR.

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

15 July 2019