

AIG Israel Insurance Company Ltd

Interim Financial Report

(Unaudited)

As of September 30, 2017

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Directors' report
AIG Israel Insurance Company Ltd ("the Company")
for the period ended September 30, 2017

The directors' report on the business of the Company as of September 30, 2017 ("**the directors' report**"), reviews the Company and developments in its business in the first three quarters of 2017 ("**the reported period**"). The information in this report are as of September 30, 2017 ("**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 based on Regulations 68-69 and the Second Addendum to the Insurance Business Supervision Regulations (Report Information), 1998 ("the Reporting Regulations") and according to the guidance issued by the Supervisor of Capital Markets, Insurance and Savings in the Israel Ministry of Finance ("**the Supervisor of Insurance**" or "**the Supervisor**"). This directors' report was prepared assuming that the user is also holding the Company's 2016 periodic report.

The financial information in this report is in reported amounts. All financial information is in thousand NIS unless otherwise is indicated.

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

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

Forward looking information

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



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1. Condensed description of the Company:

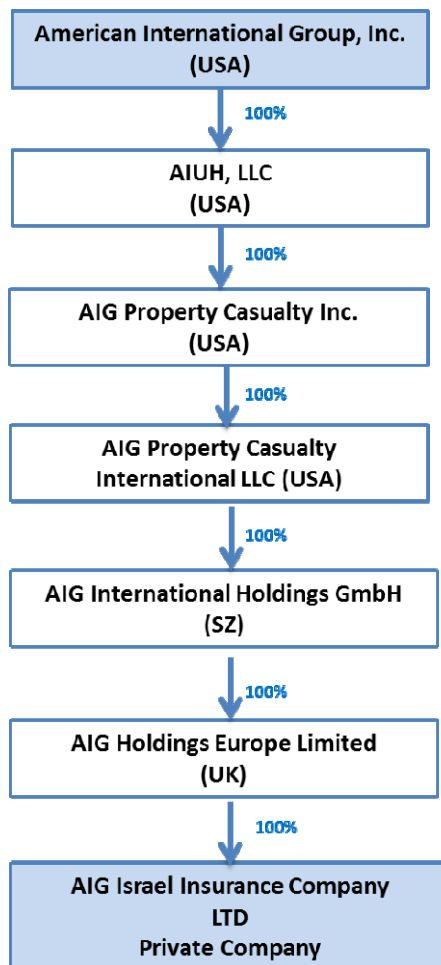
1.1 Organizational structure

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

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

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

The following is the undated holding structure of the Company:





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

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

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

1.2 Areas of activity

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

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

1.3 Dependency on customers or marketing entities

The Company has no dependency on any single customer in most business activities. For more information see Sections 2.1.3, 2.2.3, 2.3.3, 2.4.3, 2.5.3 and 2.6.3 in Chapter A (description of company's business) in the company's 2016 periodic report.

1.4 Developments or material changes in reinsurance agreements

For information about reinsurance see Section 4.5 in Chapter A (description of company's business) in the company's 2016 periodic report.

1.5 Material events since last financial statements

Note exceptional events took place since the last financial statements.



2. Description of business environment:

General

In accordance with data published by the Authority, there are more than 15 Israeli insurance companies currently active in Israel; most of these companies are engaged in general insurance. In accordance with these data, as of December 31, 2016, insurance fees from the general insurance business amounted to NIS 21,480 million (excluding Karnit); the share of the 5 largest insurance companies – Harel, Clal, Phoenix, Migdal and Menorah – was NIS 12,523 million, or 58% 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 2016 periodic report.

Developments in the company's macro-economic environment

The company invests a considerable part of its investment portfolio in the capital market; therefore, the yields arising from different routes of investments in the capital market have a significant effect on company's profits.

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

	Jan- September 2017	Jan- September 2016	Jul- September 2017	Jul- September 2016	2016
Government bonds indexes					
General government bonds	2.5%	2.2%	1.6%	(0.5%)	0.9%
Linked government bonds	1.9%	2.5%	1.7%	(0.9%)	0.7%
NIS government bonds	2.9%	2.1%	1.5%	(0.1%)	1.2%
Corporate bonds indexes					
Tel Bond 60	4.2%	2.1%	1.4%	(0.0%)	2.3%
Tel Bond NIS	5.9%	1.9%	2.4%	0.3%	2.4%
Shares indexes					
Tel-Aviv 125	0.8%	(4.1%)	0.3%	4.2%	(2.5%)

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

For information on general trends in the insurance sector and their effect on company's business, see Section 4.3 in Chapter A (description of company's business) in the Company's 2016 periodic report.

Characteristics and developments in principal insurance lines of business

For information about characteristics and developments in principal insurance lines of business of the Company, see Sections 2.1.2, 2.2.2, 2.3.2, 2.4.2, 2.5.2, 2.6.2, 4.1, 4.5 and 4.7 in Chapter A (description of company's business) in the Company's 2016 periodic report.

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

The following is a summary of major regulatory changes and the key issues that are relevant to the activity of the Company, as published by the Supervisor in circulars and drafts during the reported period until shortly before the date of issuing this report:



Discounting regulations and the Vinograd Committee recommendations

Vinograd Committee recommendation and coming into effect of the discounting regulations

On June 8, 2014, the Vinograd Committee was appointed, with the mandate to examine whether the data used by the Israel National Insurance Institute (NII) to calculate benefits for workplace injuries are up-to-date, and whether modifications are needed in life expectancy tables and interest rates used in discounting NII workplace injury benefits. Recommendations of the committee were published in March 2016, and include, among other things, recommendations for updating payments according to the current, higher, life expectancy and discounting one-off payments using 2% interest rate, rather than 3%, given the lower interest rate in recent years.

Following the recommendations of the Vinograd Committee, the National Insurance Regulations (Discounting) (Amendment), 2016 ("the amendment to the Discounting Regulations") were published in the official gazette, adopting the recommendations of the Vinograd Committee, and came into effect on October 1, 2017 ("the **effective date**"), such that its provisions apply to the calculation of discounted value from the effective date and thereafter. The amendment to the Discounting Regulations is supposed to lower the discount rate, and as a result, to increase claim payments in compulsory vehicle insurance.

Solvency II-based regime

In June 2017, and following the draft that was published in February 2017, the Supervisor issued a circular on the implementation of a solvency regime that is based on Solvency II ("**the Solvency II circular**" and "**the Directive**", respectively). That directive includes a comprehensive review of risks the insurance companies are exposed to, and standards for their management and measurement, and is based on three tiers: a quantitative tier that concerns a risk-based solvency ratio; a qualitative tier, concerning internal control processes, risk management and corporate governance and self-assessment of risks and solvency (ORSA); the third tier concerns the promotion of market discipline, disclosure and reporting. Except for a number of aspects that were adapted to the Israeli market, the provisions in the Solvency II circular are based as much as possible on the quantitative tier of the Directive and its related provision, to maintain comparability and equivalence between the Israeli and European regulatory regimes.

The Solvency circular indicates that an insurance company has a duty to comply with Financial Services Supervision Regulations (Insurance) (Minimum Required Capital by Insurers), 1998 ("**Minimum Capital Regulations**") provisions and the supervisor provisions thereunder, and that at the same time, the Authority will act to promote those regulations, such that their provisions on minimum required capital will not apply to insurance companies that are governed by the Solvency circular (and that after the insurance company obtains the approval of the Supervisor after an audit of implementing the provisions of the circular in the insurer's financial statements). The provisions of the Solvency circular took effect beginning on June 30, 2017, but insurance companies are able to calculate the required capital for solvency reasons as of the date of the annual report only, through the end of 2018.

Additionally, in July 2017, the Supervisor issued a circular on reporting to the Supervisor titled "Results of Economic Solvency Calculation". The purpose of the circular is to set a format for reporting by insurance companies to the Supervisor about economic solvency ratio calculation results under the Solvency circular. Among other things, the circular requires that the Board of Directors of an insurance company has to discuss the economic solvency calculation results, as submitted to it by the insurance company's management, prior to filing them to the supervisor, and also that insurance companies are required to file to the Supervisor within 30 days from the date of reporting a copy of the minutes of discussions that were held by the board and the solvency committee.

Additionally, in August 2017, the Supervisor issued a temporary provision to disclose of economic solvency in the periodic reports of insurance companies. That temporary provision revised the structure of required disclosure of an entity's solvency regime in the directors' report and the note to the financial statements of the insurance companies, relating to December 31, 2016 only.



Regulatory codex

Home insurance segment

In September 2017, an amendment to the uniform circular in home insurance came into effect in relation to water damages in home insurance coverage (the "plumbers' circular"). The Company made preparations to implement the circular, among that, filing a revised insurance plan and new insurance rates. The Company engaged with a management company to settle water damage claims as well as entering arrangements with plumbers. Accordingly, the Company filed to the supervisor the engagement agreement with the plumbers and the management agreement.

Overseas travel insurance

In September 2017, a January 2017 amendment to the uniform circular chapters on overseas travel insurance came into effect. The Company completed its preparations to implement the amendment and began marketing overseas travel insurance policies that comply with the amendment, beginning in September 2017.

Reporting the Supervisor

In September 2017, the Supervisor published an amendment to the provisions of the uniform circular on reporting to the Supervisor. The purpose of the amendment is to improve and update the content of reports to the Supervisor.

Circulars

- In July 2017, the Supervisor issued an amendment to Circular 2016-10-13 on the involvement of unlicensed entity in marketing and selling of insurance products other than group policies. The purpose of the amendment was to revise the effective date such that the circular will apply to overseas travel beginning in June 2018, following a recommendation of the High-Court of Justice in case 14/8973 Israeli Travel Agents and Tourism Advisors Association v. Supervisor of Capital Markets et al.
- In July 2017, the Supervisor issued an amendment to Circular 2017-9-3 titled "Transfer of Information Files through Vaults", such that certain provisions in that circular took effect in September 2017.
- In September 2017, an amendment to the circular titled "Annual and Quarterly Report to Pension and Insurance Customers of Financial Institution ("**Annual Report Circular**")". The Annual Report Circular sets, among other things, various provisions on the duty by financial institutions to send to their insurance customers a periodic report. In this context, it is important to note, that in November 2017, the Supervisor issued a draft circular which suggests to make another amendment of the Annual Report Circular and to set provisions as to the duty of an insurance company to send the annual report to the email of the insurance customer, provided that the Company has the customer's email address, and to set transitional provisions in this respect.
- In October 2017, the Supervisor issued a letter titled "Dividend Distribution by Insurance Companies". The transitional provisions of the letter revise earlier provisions by the Supervisor from August 10, 2016 on dividend distribution, and introduce certain conditions for dividend distribution by insurance companies, following the publishing of the Solvency Circular. For more information, see note 5 to the financial statements.
- In November 2017, a Supervisor opinion was published on the applicability of Solvency II-based regime to the Tel Aviv Stock Exchange (TASE) clearing houses. According to this opinion, given the announcement of the Israel Securities Authority that the TASE clearing houses qualify as counterparty under international standard for financial infrastructure, the Supervisor's position is that for calculation of capital requirements related to solvency, an insurance company may not calculate capital requirement for solvency risk when the counterparty to an exposure are TASE clearing houses.
- In November 2017, the Supervisor issued a draft amendment to a circular titled "Returning of Amounts from Karnit to Insurance Customer Population" ("**the Returned Amount Circular**"). The amendment determines that Karnit will send insurance companies a daily report on the outstanding amount for returning to all vehicles in Israel, and that due to financial information in the balance sheet of Karnit, the



returned amounts as of December 2, 2017 will be at 7% instead of 13%. The draft requires insurance companies to file an annual report that is audited and signed by a CPA about the premiums that it charged and the recharged returned amounts, the premiums it returned to customers and the returned amounts that were deducted in the reported period.

Concurrently to issuing the draft amendment to the Returned Amounts Circular, another draft was issued amending the provisions of the circular titled "Returning of Amounts from Karnit to Insurance Customer Population – Reporting Format" ("**the Reporting Format Circular**"). The purpose of that draft is to make the necessary adjustments to the Reporting Format Circular, given the future amendment of the Returned Amounts Circular. The effective date of those amendments as above is December 2, 2017.

Drafts

- In July 2017, the Minister of Finance issued Draft Financial Services Supervision Regulation (Insurance) (Minimum Required Capital for Insurer Licensing), 2017 ("**the Minimum Capital Regulations**"). The purpose of the draft Minimum Capital Regulations is to increase competition in the insurance market through lowering capital requirements for licensing as an insurer, similarly to the requirements of the directive and requirements in other countries, for the purpose of obtaining insurer license only. The draft Minimum Capital Regulations, together with the draft circular titled "Required Capital for Solvency" that the Supervisor issued on the same date will supersede the current minimum capital regulation when become mandatory.
- In July 2017, Draft Capital for Solvency Guidelines was issued. The draft intends to replace the provisions of minimum capital regulations regarding required capital of an insurer for solvency purpose, and was published concurrently and as complementary measure to draft regulations on the minimum capital required for licensing an insurance company. The draft indicates that its provisions will apply to insurance companies not governed by the Solvency circular, as well as those governed by the Solvency circular until they obtain the Supervisor's approval that they performed an audit of the Solvency circular implementation.
- In August 2017, the Supervisor issued a draft amendment to the uniform circular on property vehicle industry. The purpose of the draft is to regulate the interfaces of insurance companies with appraisers and shops, while neutralizing potential conflicts of interest between them, and to ensure that insurance customers and third parties to road accidents get full benefits they entitled to, as well as fair, efficient, transparent and professional service. The draft features the following suggested provisions, among others: (1) elimination of lists of external appraisers and order insurance companies to make use of an appraiser database, which will replace existing company-specific lists, and any qualifying appraiser under the uniform circular will be able to be added to the database; (2) regulating the mechanism for selecting an appraiser such that the insurance customer is the one to independently chose the appraiser from among available appraisers in the database; (3) to allow any repair shop that commits to comply with certain principles and sign an engagement agreement with an insurance company to serve as an agreement shop and provide services to insurance customers of that company or a third-party claimant; (4) allow any insurance customer to select among agreement shops using satisfaction scores by all customers who receive service in that shop; and more.
- In August 2017, a Supervisor draft was published, titled "Finding of Audit of Introduction and Marketing of Insurance Riders". The purpose of the draft is to contribute to uniformity in implementation of Insurance Circular 2015-1-27, titled "Introduction and Marketing of Insurance Riders" ("**the Riders Circular**"), and to improve insurance companies' practices in that market. The draft provides examples of satisfactory and unsatisfactory implementation of the Riders Circular.
- In August 2017, the Supervisor issued a draft amendment to the provisions of the uniform regarding disclosure and reporting to health insurance customers. The draft sets out the format for reporting to insurance candidates and customer (with focus on making the information simpler and more accessible to customers, so they can better understand the terms of the product purchased), and the terms for sending the information to insurance customers through digital means.



- In September 2017, the Supervisor issued draft circular titled "Declaration of Expected Investment Policy of Financial Institutions", which amends Financial Institutions Circular 2015-439 from July 26, 2009. The provisions of the draft indicate, among other things, that a financial institution may declare in its expected investment policy whether the institution considers to aspects of socially and environmentally responsible investments, and elaborate on those aspects.
- In September 2017, the Supervisor issued a second draft titled "Required Disclosure Format by Insurance Companies in Periodic Report and Online on Solvency II-based Regime". The purpose of the circular is to set regulations on the format of disclosure in the periodic report and on the websites of insurance companies regarding Solvency II-based regime, including a requirement to audit such disclosures, and the conditions for qualifying to audit approval by the Supervisor on performance of first-time audit of Solvency Circular provision implementation. The changes in the draft should be reflected in a revised equity note. The draft circular requires insurance companies to include in their periodic report a chapter disclosing a Solvency II-based ratio (economic solvency ratio report), according to the disclosure structure in the draft circular, and that this chapter will appear after the financial statements. Additionally, the draft circular includes various transitional provisions as to the required disclosure in upcoming periodic reports.
- In September 2017, the Supervisor issues amendment to the provisions of the uniform circular on officer approval and reporting. The purpose of the draft is to update the provisions about corporate officers in various circulars and to gather the provisions of existing circulars into a single framework.
- In October 2017, the Supervisor issued draft amendment of the uniform circular on reinsurance reports to the Supervisor. The purpose of that circular is to restructure the information filed to the Supervisor on reinsurance agreements on three reference aspects: periodic reporting, immediate reporting and filing reports to the Supervisor.
- In November 2017, the Supervisor issued a draft titled "Self Retention in Surgery Insurance". The purpose of the draft is to allow insurance companies offer customers surgery coverage that include self retention. The draft proposes that adding self retention can be made on the basis of full coverage or a complementary to health fund coverage. Adding self retention to the policies will allow insurance customers to buy a more limited coverage, and by reducing monthly premiums.
- In November 2017, the Supervisor issued draft guidance titled "Structure of Required Disclosure in Financial Statements of Insurance Companies under IFRS", designed to revise the provisions of Circular 2010-1-4 dated February 3, 2010, and the accompanying appendix.
- In October 2017, the Supervisor issued a draft amendment to the uniform circular on the embedded value report. The purpose of the draft is to eliminate the mandatory report to the Supervisor and the public about embedded value in long-term life and health insurance policies.
- In November 2017, the Supervisor issued draft amendment to Circular 2014-1-3 titled "Periodic Reports of Insurance Companies". The purpose of the draft is to improve the periodic report of insurance companies through preparation of focused and up-to-date reports. The draft suggests to revise the provisions concerning the preparation of the description of corporate business chapter and the directors' report, and to eliminate the additional corporate information chapter (Chapter D) in the periodic report of insurance companies.
- In November 2017, the Supervisor issued a second draft titled "Outsourcing in Financial Institutions". The draft introduces rules for using outsourced services by financial institutions, including a process for outsourcing activities and their management under the provisions of the uniform circular. The draft requires, among other things, that an agreement for outsourcing material activity that had been entered into before issuing the draft in effect should be revised by December 31, 2018.

Entry into and marketing of new lines of business

The Company did not enter any new lines of business during the reported period.



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

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

	September 30, 2017	September 30, 2016	December 31, 2016
Other assets	298,221	253,982 *	253,139
Deferred acquisition expenses	149,997	148,421	141,827
Financial investments and cash	1,783,261	1,628,490 *	1,696,771
Reinsurance assets	706,985	631,675	658,559
Total assets	2,938,464	2,662,568	2,750,296
Shareholders' equity	778,742	741,611	753,860
Liabilities in respect of insurance	1,796,422	1,619,056	1,646,765
Other liabilities	363,300	301,901	349,671
Total equity and liabilities	2,938,464	2,662,568	2,750,296

* After reclassification – see note 2u to the 2016 annual financial statements of the Company.

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

	Jan- September 2017	Jan- September 2016	Jul- September 2017	Jul- September 2016	2016
Gross earned premiums	819,567	775,004	281,858	268,148	1,037,400
Premiums earned by reinsurers	(127,749)	(127,133)	(42,574)	(44,018)	(168,023)
Premiums earned in retention	691,818	647,871	239,284	224,130	869,377
Net investment revenue and financing revenue	44,970	15,375	16,980	5,172	18,475
Fee revenue	30,987	33,664	10,628	10,653	43,553
Total revenue	767,775	696,910	266,892	239,955	931,405
Payments and change in liability for insurance contracts, in retention	(420,596)	(430,361)	(146,200)	(142,982)	(564,108)
Total other expenses	(230,383)	(238,177)	(78,901)	(83,242)	(320,290)
Income before income taxes	116,796	28,372	41,791	13,731	47,007
Taxes on income	(41,914)	(9,447)	(15,516)	(4,859)	(15,833)
Income for the period and total comprehensive income for the period	74,882	18,925	26,275	8,872	31,174



Capital and capital requirements

As of September 30, 2017, the Company's capital exceeds the level required as of that date under the Minimum Capital Requirement Regulations by NIS 136.7 million. For more information, see note 5 to the condensed interim financial information.

For more information about the capital required from the Company and existing amounts according to minimum equity regulations, and about a distribution of NIS 50 million dividend to AHEL, see note 5 to the financial statements.

Information about solvency ratio and minimum capital requirement (MCR):

Information about solvency ratio and capital requirement (MCR) is as follows (the information is unaudited and were not reviewed by the independent auditors):

a. Solvency ratio (NIS in thousands):

	December 31, 2016
Regardless of the provisions in deployment period:	
Equity for purposes of solvency capital requirement (SCR)	1,053,417
Solvency capital requirement (SCR)	600,415
Surplus as of December 31, 2016	453,002
Solvency ratio as of December 31, 2016 (%)	175%

Milestones during deployment period:

Equity for purposes of solvency capital requirement in deployment period	1,053,417
Solvency capital requirement in deployment period	360,249
Surplus in deployment period	693,168

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

	December 31, 2016
Minimum capital requirement (MCR)	179,368
Equity for purposes of MCR	753,860



4. Results of operations

The Company continued in the reported period to increase gross premiums, by 7.5% y/y. Total gross premiums in the reported period amounted to NIS 862.7 million compared with NIS 802.5 million in the corresponding period in 2016.

In the reported period, total premiums earned in retention amounted to NIS 731.2 million compared with NIS 679.1 million in the corresponding period in 2016 a 7.7% increase.

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

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

Jan-September 2016	Life insurance	Health insurance	General insurance	Total
Gross	94,235	163,458	544,855	802,548
In retention	78,330	161,216	439,600	679,146
% of total gross	11.7	20.4	67.9	100.0
% of retention	11.5	23.8	64.7	100.0

Jan-December 2016	Life insurance	Health insurance	General insurance	Total
Gross	126,151	219,331	701,450	1,046,932
In retention	104,785	216,295	562,693	883,773
% of total gross	12.0	20.9	67.1	100.0
% of retention	11.9	24.5	63.6	100.0

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

	Jan-September 2017	Jan-September 2016	Jul-September 2017	Jul-September 2016	2016
Income (loss) from compulsory vehicle activity	11,836	(4,103)	4,129	3,311	(18,448)
Income (loss) from property vehicle activity	26,211	(7,531)	8,420	(4,110)	(4,958)
Income from home insurance activity	16,019	13,664	7,404	4,456	15,457
Income from commercial insurance activity	2,515	(6,516)	1,314	(590)	(9,424)
Income from health insurance activity	35,348	23,361	11,880	4,809	42,041
Income from life insurance activity	11,536	5,100	4,418	882	14,086
Other - Income not attributed to any line of business	13,331	4,397	4,226	4,973	8,253
Income before tax	116,796	28,372	41,791	13,731	47,007
Taxes on income	(41,914)	(9,447)	(15,516)	(4,859)	(15,833)
Income for the year and total comprehensive income for the year	74,882	18,925	26,275	8,872	31,174

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



The following is explanation on the development in some items:

- a. Net investment income and financing income was NIS 45.0 million, compared with NIS 15.4 million in the corresponding period of 2016. The increase in investment income mainly resulted from increased yields of corporate bonds and shares (see 2. Above).
- b. The loss of the Company from compulsory vehicle insurance in the reported period was NIS 11.8 million compared with a NIS 4.1 million loss in the corresponding period in 2016. The increase in income is mainly from improvement of claims ratio. Results for the corresponding period was mainly affected by the recommendations of the Vinograd Committee ("Vinograd"), at approx. NIS 15 million, including NIS 3.5 million in relation to the "Pool". The impact of Vinograd in the reported period was NIS 7.7 million. The increase in income was also a result of investment gains in the reported period relative to the corresponding period in 2016.
- c. The income of the Company from property vehicle insurance in the reported period was NIS 26.2 million compared to a loss of NIS 7.5 million in the corresponding period in 2016. The increase in income resulted from a large decrease of claims ratio. Improvement was seen in claims ratio beginning in 2016, as a result of taking a number of measures in the disposal of the Company to reduce the cost of claims. This trend continued in the reported period. Resulting from this improvement of claims ratio, the Company was able fully release the provision for premium deficit, at NIS 2.5 million.
- d. The income of the Company from home insurance in the reported period was NIS 16 million compared with NIS 13.7 million in the corresponding period in 2016.
- e. The loss of the Company from professional liability insurance in the reported period was NIS 7.5 million compared with an income of NIS 10.0 million in the corresponding period in 2016. Losses in the reported period and the corresponding period in 2016 resulted from developments in previous years' claims in directors' liability insurance.
- f. The income of the Company from other property liability insurance in the reported period was NIS 2.4 million compared with income of NIS 1.8 million in the corresponding period in 2016.
- g. The income of the Company from other liability insurance in the reported period was NIS 7.7 million compared with an income of NIS 1.8 million in the corresponding period in 2016. The increase in this item is mainly a result of improved claims ratio and higher investment income.
- h. The income of the Company from health insurance in the reported period was NIS 35.3 million compared with NIS 23.4 million in income in the corresponding period in 2016. The increase in income mainly resulted from improved claims ratios and expenses.
- i. The income of the Company from life insurance in the reported period was NIS 11.5 million compared with NIS 5.1 million in the corresponding period in 2016. This increase mainly resulted from improved expense ratio.

5. Cash flows and liquidity

Net cash provided by operating activities in the reported period was NIS 8.6 million, compared with NIS 164.8 million in the corresponding period in 2016.

Net cash used in investing activities in the reported period amounted to NIS 18.7 million, compared with NIS 16.1 million in the corresponding period in 2016.

Net cash used in financing activities of the Company in the reported period (paid dividend) was NIS 50 million, compared with NIS 105 million in the corresponding period in 2016.

As a result of the above, the balance of cash and cash equivalents in the reported period decreased by NIS 60.0 million and amounted NIS 76.2 million as of September 30, 2017.



6. Sources of funding

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

7. The effect of external factors

For more information, see section 2 above.

8. Material subsequent events

No material events occurred after the date of the financial statements.

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

Controls and procedures applied to disclosure

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

Internal controls over financial reporting

In the course of the quarter ending on September 30, 2017, no change has occurred in the internal control of the Company over financial reporting that materially affected or is reasonably expected to materially affect the Company's internal control on financial reporting.

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

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

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

Ralph Mucerino
Chairman of the Board of Directors

Shay Feldman
CEO

November 28, 2017

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 September 30, 2017 (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 disclosure¹ and internal controls over financial reporting of the insurance company; and -
 - (a) Accordingly, we have designed such disclosure controls and procedures, or have had such disclosure controls and procedures established under our charge, designed to ensure that material information relating to the insurance company is made known to us by others in the insurance company particularly during the period in which the reports were prepared;
 - (b) We designed internal controls over financial reporting, or supervised the design of such internal controls designed to provide a reasonable assurance regarding the reliability of the financial reporting and assurance to the effect that the financial statements are drawn up in accordance with International Financial Reporting Standards (IFRS) and in accordance with the directives of the Supervisor of Insurance.
 - (c) We assessed the effectiveness of controls and procedures regarding the disclosure of the insurance company and presented our conclusions regarding the effectiveness of disclosure controls and procedures as of the end of the period covered in the report, based on our estimate; and
 - (d) We disclosed in the report any change in the insurance company's internal controls over financial reporting which took place in this quarter and had a material effect or is expected to have a material effect on the insurance company's internal controls over financial reporting; and

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

5. The insurance company's other certifying officers and I have disclosed to the insurance company's auditors, the insurance company's board of directors and its audit committee, based on our most recent evaluation of internal controls over financial reporting, the following:
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the insurance company's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether material or not, that involves management or other employees who have a significant role in the insurance company's internal controls over financial reporting.

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

Shay Feldman - CEO

November 28, 2017

Declaration

I, David Rothstein hereby declare that:

1. I reviewed the interim report of AIG Israel Insurance Company Ltd. (hereafter – "the insurance company") for the quarter ended September 30, 2017 (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 disclosure¹ and internal controls over financial reporting of the insurance company; and -
 - (a) Accordingly, we have designed such disclosure controls and procedures, or have had such disclosure controls and procedures established under our charge, designed to ensure that material information relating to the insurance company is made known to us by others in the insurance company particularly during the period in which the reports were prepared;
 - (b) We designed internal controls over financial reporting, or supervised the design of such internal controls designed to provide a reasonable assurance regarding the reliability of the financial reporting and assurance to the effect that the financial statements are drawn up in accordance with International Financial Reporting Standards (IFRS) and in accordance with the directives of the Supervisor of Insurance.
 - (c) We assessed the effectiveness of controls and procedures regarding the disclosure of the insurance company and presented our conclusions regarding the effectiveness of disclosure controls and procedures as of the end of the period covered in the report, based on our estimate; and
 - (d) We disclosed in the report any change in the insurance company's internal controls over financial reporting which took place in this quarter and had a material effect or is expected to have a material effect on the insurance company's internal controls over financial reporting; and

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

5. The insurance company's other certifying officers and I have disclosed to the insurance company's auditors, the insurance company's board of directors and its audit committee, based on our most recent evaluation of internal controls over financial reporting, the following:
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the insurance company's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether material or not, that involves management or other employees who have a significant role in the insurance company's internal controls over financial reporting.

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

David Rothstein - CFO

November 28, 2017

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

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

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

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

The Insurance Company's management with the supervision of its Board of Directors evaluates the effectiveness of the internal control of the Insurance Company over financial reporting as at September 30, 2017, based on criteria set in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation management believes that as at September 30, 2017 the internal control of the Insurance Company over financial reporting is effective.

Mr. Ralph Mucerino
Chairman of the Board

Mr. Shay Feldman
CEO

Mr. David Rothstein
CFO

Date of approval of financial statements: November 28, 2017

AIG ISRAEL INSURANCE COMPANY LTD.

FINANCIAL INFORMATION FOR INTERIM PERIOD
(Unaudited)

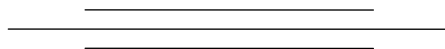
SEPTEMBER 30, 2017

AIG ISRAEL INSURANCE COMPANY LTD.
FINANCIAL INFORMATION FOR INTERIM PERIOD
(Unaudited)

SEPTEMBER 30, 2017

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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 September 30, 2017 and the condensed statements of comprehensive income, changes in equity and cash flows for the nine- and three-month periods ended on that date. The Board of Directors and management are responsible for the preparation and presentation of the financial information for this interim period in accordance with the provisions of International Accounting Standard No. 34, 'Interim Financial Reporting' (hereafter "IAS 34"), and they are also responsible for the preparation of the financial information for this interim period in accordance with the disclosure requirements of the Supervision of Financial Services (Insurance) Law, 1981 and the regulations promulgated thereunder. 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 of the Supervision of Financial Services (Insurance) Law, 1981 and the regulations promulgated thereunder.

Tel-Aviv, Israel
November 28, 2017

Kesselman & Kesselman
Certified Public Accountants (Isr.)
A member firm of PricewaterhouseCoopers International Limited

AIG ISRAEL INSURANCE COMPANY LTD.
CONDENSED STATEMENT OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 2017

	September 30	December 31,	
	2017	2016	
	(Unaudited)	(Audited)	
	NIS in thousands		
A s s e t s			
Intangible assets	39,103	30,623	33,816
Deferred acquisition costs	149,997	148,421	141,827
Property and equipment	11,730	11,793	11,435
Reinsurance assets	706,985	631,675	658,559
Premiums collectible	182,442	* 160,700	153,534
Current tax assets	3,482	-	1,864
Other receivables	61,464	50,866	52,490
	<u>1,155,203</u>	<u>1,034,078</u>	<u>1,053,525</u>
Financial investments:			
Marketable debt instruments	1,535,527	1,192,227	1,310,175
Non-marketable debt instruments	90,149	* 215,864	171,285
Other	81,372	116,583	79,077
TOTAL FINANCIAL INVESTMENTS	<u>1,707,048</u>	<u>1,524,674</u>	<u>1,560,537</u>
CASH AND CASH EQUIVALENTS	<u>76,213</u>	<u>103,816</u>	<u>136,234</u>
TOTAL ASSETS	<u>2,938,464</u>	<u>2,662,568</u>	<u>2,750,296</u>

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:
November 28, 2017

* After reclassification – See note 2(u) to the 2016 annual financial statements of the Company.

AIG ISRAEL INSURANCE COMPANY LTD.
CONDENSED STATEMENTS OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 2017

	September 30	December 31,
	2017	2016
	(Unaudited)	(Audited)
	NIS in thousands	
Equity and liabilities		
EQUITY:		
Share capital	6	6
Share premium	250,601	250,601
Capital reserves	11,084	11,084
Retained earning	517,051	479,920
TOTAL EQUITY ATTRIBUTABLE TO COMPANY SHAREHOLDERS	778,742	741,611
LIABILITIES:		
Liabilities in respect of insurance contracts and investment contracts that are not yield dependent	1,796,422	1,619,056
Liabilities in respect of deferred taxes, net	7,944	3,511
Retirement benefit obligation, net	2,612	1,704
Liabilities to reinsurers	274,465	219,524
Liabilities for current taxes	-	1,068
Payables	78,279	76,094
TOTAL LIABILITIES	2,159,722	1,920,957
TOTAL EQUITY AND LIABILITIES	2,938,464	2,662,568

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

AIG ISRAEL INSURANCE COMPANY LTD.
CONDENSED STATEMENT OF COMPREHENSIVE INCOME
FOR THE NINE AND THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2017

	Nine months ended		Three months ended		Year ended
	September 30		September 30		December 31,
	2017	2016	2017	2016	2016
	(Unaudited)		(Unaudited)		(Audited)
	NIS in thousands				
Gross earned premiums	819,567	775,004	281,858	268,148	1,037,400
Premiums earned by reinsurers	(127,749)	(127,133)	(42,574)	(44,018)	(168,023)
Premiums earned in retention	691,818	647,871	239,284	224,130	869,377
Investment income, net and financing income	44,970	15,375	16,980	5,172	18,475
Commission income	30,987	33,664	10,628	10,653	43,553
TOTAL INCOME	767,775	696,910	266,892	239,955	931,405
Payments and change in liabilities with respect to insurance contracts, gross	(527,586)	(577,342)	(203,239)	(186,954)	(756,904)
Share of reinsurers in change of insurance liability and payments for insurance contracts	106,990	146,981	57,039	43,972	192,796
Payments and change in liabilities with respect to insurance contracts, retention	(420,596)	(430,361)	(146,200)	(142,982)	(564,108)
Commission, marketing expenses and other acquisition costs	(171,861)	(178,492)	(56,946)	(61,629)	(242,330)
General and administrative expenses	(55,477)	(62,226)	(19,187)	(21,541)	(81,370)
Financing income (expenses)	(3,045)	2,541	(2,768)	(72)	3,410
TOTAL EXPENSES	(650,979)	(668,538)	(225,101)	(226,224)	(884,398)
INCOME BEFORE TAXES ON INCOME	116,796	28,372	41,791	13,731	47,007
Taxes on income	(41,914)	(9,447)	(15,516)	(4,859)	(15,833)
INCOME FOR THE PERIOD AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	74,882	18,925	26,275	8,872	31,174
BASIC EARNINGS PER SHARE:					
Basic income per share (thousand NIS)	13.07	3.30	4.59	1.55	5.44
Number of shares used in calculating basic income per share	5,730	5,730	5,730	5,730	5,730

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

AIG ISRAEL INSURANCE COMPANY LTD.
CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE NINE AND THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2017

	<u>Share capital</u>	<u>Share premium</u>	<u>Other reserves</u>	<u>Retained earnings</u>	<u>Total</u>
	<u>NIS in thousands</u>				
BALANCE AS OF JANUARY 1, 2017 (audited)	6	250,601	11,084	492,169	753,860
Total income and comprehensive income in the nine months ended September 30, 2017				74,882	74,882
Dividend				(50,000)	(50,000)
BALANCE AS OF SEPTEMBER 30, 2017 (unaudited)	<u>6</u>	<u>250,601</u>	<u>11,084</u>	<u>517,051</u>	<u>778,742</u>
BALANCE AS OF JANUARY 1, 2016 (audited)	6	250,601	11,084	565,995	827,686
Total income and comprehensive income in the nine months ended September 30, 2016				18,925	18,925
Dividend				(105,000)	(105,000)
BALANCE AS OF SEPTEMBER 30, 2016 (unaudited)	<u>6</u>	<u>250,601</u>	<u>11,084</u>	<u>479,920</u>	<u>741,611</u>
BALANCE AS OF JULY 1, 2017 (unaudited)	6	250,601	11,084	490,776	752,467
Total income and comprehensive income in the three months ended September 30, 2017				26,275	26,275
BALANCE AS OF SEPTEMBER 30, 2017 (unaudited)	<u>6</u>	<u>250,601</u>	<u>11,084</u>	<u>517,051</u>	<u>778,742</u>
BALANCE AS OF JULY 1, 2016 (unaudited)	6	250,601	11,084	471,048	732,739
Total income and comprehensive income in the three months ended September 30, 2016				8,872	8,872
BALANCE AS OF SEPTEMBER 30, 2016 (unaudited)	<u>6</u>	<u>250,601</u>	<u>11,084</u>	<u>479,920</u>	<u>741,611</u>
BALANCE AS OF JANUARY 1, 2016 (audited)	6	250,601	11,084	565,995	827,686
Total income and comprehensive income				31,174	31,174
Dividend				(105,000)	(105,000)
BALANCE AS OF December 31, 2016 (audited)	<u>6</u>	<u>250,601</u>	<u>11,084</u>	<u>492,169</u>	<u>753,860</u>

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

AIG ISRAEL INSURANCE COMPANY LTD.**CONDENSED STATEMENT OF CASH FLOWS**

FOR THE NINE AND THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2017

	Nine months ended September 30		Three months ended September 30		Year ended December 31,
	2017	2016	2017	2016	2016
	(Unaudited)		(Unaudited)		(Audited)
	NIS in thousands				
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net cash provided by (used in) operations (Appendix A)	(17,898)	140,070	32,634	26,504	184,682
Interest received	45,166	34,267	8,039	9,626	41,449
Dividend received	63	222	-	44	259
Income taxes paid, net	(18,712)	(9,716)	(14,383)	(18,013)	(21,759)
Net cash provided by operating activities	<u>8,619</u>	<u>164,843</u>	<u>26,290</u>	<u>18,161</u>	<u>204,631</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Changes in assets covering equity and non-insurance liabilities:					
Investment in property and equipment	(4,338)	(5,426)	(308)	(1,902)	(6,396)
Investment in intangible assets	(14,313)	(10,637)	(3,950)	(4,282)	(16,716)
Net cash used in investing activities	<u>(18,651)</u>	<u>(16,063)</u>	<u>(4,258)</u>	<u>(6,184)</u>	<u>(23,112)</u>
CASH FLOWS FROM FINANCING ACTIVITIES -					
Dividend paid to shareholders	(50,000)	(105,000)	-	-	(105,000)
Net cash used in financing activities	<u>(50,000)</u>	<u>(105,000)</u>	<u>-</u>	<u>-</u>	<u>(105,000)</u>
IMPACT OF EXCHANGE RATE FLUCTUATIONS ON CASH AND CASH EQUIVALENT BALANCES					
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>11</u>	<u>(2,207)</u>	<u>50</u>	<u>489</u>	<u>(2,528)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>136,234</u>	<u>62,243</u>	<u>54,131</u>	<u>91,350</u>	<u>62,243</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>76,213</u></u>	<u><u>103,816</u></u>	<u><u>76,213</u></u>	<u><u>103,816</u></u>	<u><u>136,234</u></u>

AIG ISRAEL INSURANCE COMPANY LTD.

CONDENSED STATEMENT OF CASH FLOWS

FOR THE NINE AND THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2017

	Nine months ended		Three months ended		Year ended
	September 30		September 30		December 31,
	2017	2016	2017	2016	2016
	(Unaudited)		(Unaudited)		(Audited)
	NIS in thousands				
APPENDIX A - CASH FLOWS					
FROM OPERATING ACTIVITY:					
Income before taxes on income	116,796	28,372	41,791	13,731	47,007
Adjustments for - Items not involving cash flows:					
Change in liabilities for insurance contracts that are not yield dependent	149,657	201,067	87,770	52,156	228,776
Change in reinsurance assets	(48,426)	(83,525)	(40,910)	(15,911)	(110,409)
Change in deferred acquisition costs	(8,170)	1,254	(2,366)	994	7,848
Change in retirement benefits obligation, net	(101)	(1,077)	-	(383)	(68)
Depreciation of property and equipment	4,043	5,102	1,387	2,305	6,430
Amortization of intangible asset	9,026	6,411	3,192	2,287	9,297
Losses (gains), net, on financial investments:					
Marketable debt instruments	(1,457)	11,254	(7,803)	9,308	17,594
Non-marketable debt instruments	5,282	2,532	(1,623)	(333)	3,094
Marketable shares	-	4,162	-	-	4,162
Marketable index fund certificates	(2,409)	(766)	(1,725)	(4,892)	(3,456)
Impact of fluctuation in exchange rate on cash and cash equivalents	(11)	2,207	(50)	(489)	2,528
	<u>107,434</u>	<u>148,621</u>	<u>37,872</u>	<u>45,042</u>	<u>165,796</u>
Changes in operating assets and liabilities:					
Liabilities to reinsurers	17,300	(59,823)	16,721	(16,365)	(22,182)
Investments in financial assets, net	(147,925)	84,997	(30,921)	(6,841)	47,446
Premiums collectible	(28,908)	(9,478)	(9,500)	(2,664)	(4,836)
Receivables	(8,976)	(7,395)	(9,626)	1,122	(9,019)
Payables	(10,735)	(10,692)	(1,245)	2,159	2,228
Current tax assets	(17,655)	(43)	(4,419)	(10)	(50)
	<u>(196,899)</u>	<u>(2,434)</u>	<u>(38,990)</u>	<u>(22,599)</u>	<u>13,587</u>
Adjustments for interest and dividend:					
Interest received	(45,166)	(34,267)	(8,039)	(9,626)	(41,449)
Dividend received	(63)	(222)	-	(44)	(259)
	<u>(45,229)</u>	<u>(34,489)</u>	<u>(8,039)</u>	<u>(9,670)</u>	<u>(41,708)</u>
Net cash provided by (used in) operations	<u>(17,898)</u>	<u>140,070</u>	<u>32,634</u>	<u>(26,504)</u>	<u>184,682</u>

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

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

AIG ISRAEL INSURANCE COMPANY LTD.
NOTES TO CONDENSED 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 investees.

The ultimate parent company is American International Group Inc. (hereafter – "AIG Global Corporation" or "AIG"), which is a leading international insurance and financial concern.

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

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

Definitions:

- 1) The Company – AIG Israel Insurance Company Ltd.
- 2) The parent company – AHEL
- 3) Supervisor - Supervisor of Capital Market, Insurance and Savings Authority.
- 4) The Supervision Law – The Supervision of Financial Services (Insurance) Law, 1981.
- 5) Investment contracts – policies that do not constitute insurance contracts.
- 6) Reinsurance assets – the reinsurer's share in the reserves for insurance contracts and in the contingent claims.
- 7) CPI - The Consumer Price Index published by the Israeli Central Bureau of Statistics.
- 8) Known CPI - The CPI known at the end of the month.
- 9) Related parties - as defined in IAS 24 "Related Party Disclosures".
- 10) Interested party - as defined in the Israeli Securities (Financial Statements) Regulations, 2010.
- 11) Life insurance fund - Actuarial fund calculated in accordance with the principles generally accepted for this purpose in Israel.
- 12) Unexpired risks fund - Funds calculated in accordance with the Regulations for Calculation of General Insurance Funds.

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 1 - GENERAL (continued):

- 13) 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).
- 14) Details of account regulations - Supervision of Insurance Businesses (Details of account) Regulations, 1998.
- 15) The Investment Regulations – The Supervision of Financial Services (Provident Funds) (Investment Rules Applicable to Financial Institutions) Regulations, 2012.
- 16) Shareholders' Equity Regulations - The Supervision of Insurance Business Regulations (minimum shareholders' equity required from an insurer), 1998 and amendments as amended.
- 17) Account Segregation Regulations in Life Insurance - The Supervision of Insurance Regulations (Method of Segregation of Accounts and Assets of Insurer in Life Insurance), 1984.
- 18) Regulations for Calculation of General Insurance Funds - The Supervision of Insurance Businesses Regulations (Method of Calculation of Provisions for Future Claims in General Insurance) 1984, and amendments as amended.
- 19) Exposure to reinsurers - debit balances with the company's reinsurers, including the reinsurer's share in the company's outstanding claims and unexpired risks fund, all being net of the reinsurer's deposits with the company and the amount of documentary credits granted against the debt of the reinsurer.
- 20) 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.
- 21) Liability for insurance contracts - Insurance reserves and outstanding claims.
- 22) Premiums - Premiums including fees and proceeds for related services
- 23) Premiums earned - premiums that relate to the reporting period.

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS:

- a. The Company's condensed financial information as of September 30, 2017 and for the nine- and three-month interim period ended on that date ("the interim financial information") has been prepared in accordance with the provisions of IAS 34 'Interim Financial Reporting' (hereafter - "IAS 34") and is in compliance with the disclosure requirements of the Supervision of Financial Services (Insurance) Law, 1981 ("the supervision law") and the regulations promulgated there under. The interim financial information should be read in conjunction with the Company's annual financial statements of the Company as of December 31, 2016 and for the year ended thereon including the accompanying notes (hereinafter - the 2016 annual financial statements), which are in compliance with International Financial Reporting Standards, which are standards and interpretations published by the International Accounting Standards Board (hereafter – "IFRS").

The interim financial information has been subject to review only and has not been audited.

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (continued):

- b. Estimates- The preparation of interim financial statements requires management to exercise its judgment and also requires use of accounting estimates and assumptions that affect the application of the Company's accounting policy and the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods.

Actual results could differ from those estimates.

Significant judgments exercised by management in preparation of these condensed interim financial statements as well as the uncertainty involved in the key sources of those estimates were identical to the ones used in the Company's annual financial statements for the year ended December 31, 2016.

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 2016 annual financial statements of the Company, except for the following matters:

- a. Taxes on income for the reported interim period are accounted for on the basis on management's best estimate of the average tax rate applicable to the projected annual profits.
- b. New accounting standards:
 - 1) The 2016 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, as well as amendments to an IFRS that become applicable for accounting periods beginning on or after January 1, 2017.

In this context, note that as to IFRS 9 "Financial Instruments", in relation to which the Company has yet to complete an assessment of its expected impact on the financial statements, management also tests whether the Company meets certain criteria as defined in an amendment to IFRS 4 "Insurance Contracts" (hereinafter - "IFRS 4 Amendment"), as detailed below, for a temporary exemption from applying of IFRS 9 until January 1, 2021.

Among other things, IFRS 4 Amendment allows companies with activities predominantly connected with insurance (a criteria determined using certain quantitative tests) and that has not adopted an earlier version of IFRS 9 to defer the first-time application of IFRS 9 to January 1, 2021 and continue to apply IAS 39 over the temporary exemption, with providing certain disclosures.

Since the date of issuance of the Company's 2016 annual financial statements, except as discussed below about the issue of IFRS 17 "Insurance Contract", no new standards of amendments to existing standards were issued that are expected to have material impact on the Company's financial statements.

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (continued):

2) IFRS 17 "Insurance Contracts"

On May 18, 2017, the IASB published IFRS 17 "Insurance Contracts" to replace IFRS 4 "Insurance Contracts", which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will apply to insurance contracts (including reinsurance contracts) and investment contracts with discretionary participation feature.

IFRS 17 applies to annual periods beginning on or after January 1, 2021. Earlier application is permitted if IFRS 15 "Revenue from Contracts with Customers" and IFRS 9 "Financial Instruments" are also applied.

IFRS 17 requires a current measurement model (hereinafter - "the general model"), which requires to recognize insurance revenue over the reporting periods according to expected value of insurance coverage and the various services that an insurance company provides over those periods, and claims are presented when incurred. According to that model, estimates are remeasured in each reporting period

The measurement is based on:

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

Interest is accreted on the CSM at rates locked in at initial recognition of a contract. The CSM is released to profit or loss in each period on the basis of passage of time. If a group of contracts is or becomes loss-making, an entity recognizes the loss immediately.

Under IFRS 17, entities have an accounting policy choice to recognize the impact of changes in discount rates and other assumptions that relate to financial risks either in profit or loss or in other comprehensive income. The general model includes specific guidance for some asset-based insurance contracts.

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

The disclosure requirements are more detailed than currently required under IFRS 4 regarding amounts, discretion and risks arising from insurance contracts.

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

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

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 4 - SEGMENT INFORMATION:

The Company's chief operational decision-makers review the Company's internal reports for the purposes of evaluating performance and deciding upon the allocation of resources. Management has established operating segments on the basis of these reports. Segment performance is assessed by measuring pre-tax profit and the profit before investment income and tax and by considering particular ratios, such as the claims ratio and the expenses ratio.

The Company operates in the general insurance segment, the health insurance segment and the life insurance segment, as follows:

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 of Insurance, the segment is divided into the following sectors: the compulsory motor vehicle sector, the motor vehicle property sector, the apartment's insurance sector, property and others sectors, the professional liability sector and other liability sectors

• Compulsory motor vehicle sector

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

• Motor vehicle property sector

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

• Home insurance sector

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

• Professional liability sector

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

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 4 - SEGMENT INFORMATION (continued):

- **Property and others sectors**

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

- **Other liability sectors**

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

	For 9-month period ended September 30, 2017 (unaudited)				
	Life insurance	Health insurance	General insurance	Not attributed to operating segments	Total
	NIS in thousands				
Gross earned premiums	95,165	176,853	547,549		819,567
Premiums earned by reinsurers	(17,029)	(2,451)	(108,269)		(127,749)
Premiums earned in retention	78,136	174,402	439,280		691,818
Investment income, net and financial income	2	3,214	24,441	17,313	44,970
Commission income	2,963	282	27,742		30,987
Total income	81,101	177,898	491,463	17,313	767,775
Payments and change in liabilities with respect to insurance contracts (gross)	(40,460)	(82,847)	(404,279)		(527,586)
Share of reinsurers in change of insurance liabilities and payments with respect to insurance contracts	8,349	2,490	96,151		106,990
Payments and change in liabilities with respect to insurance contracts, in retention	(32,111)	(80,357)	(308,128)		(420,596)
Commissions and other acquisition costs	(29,678)	(41,527)	(100,656)		(171,861)
General and administrative expenses	(7,776)	(20,666)	(27,035)		(55,477)
Financing income (expenses)	-	-	937	(3,982)	(3,045)
Total comprehensive income before taxes on income	11,536	35,348	56,581	13,331	116,796
Liabilities for insurance contracts, gross, as of September 30, 2017	70,534	131,867	1,594,021		1,796,422

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 4 - SEGMENT INFORMATION (continued):

	For 3-month period ended September 30, 2016 (unaudited)				
	Life insurance	Health insurance	General insurance	Not attributed to operating segments	Total
	NIS in thousands				
Gross earned premiums	31,684	56,660	179,804		268,148
Premiums earned by reinsurers	(4,629)	(772)	(38,617)		(44,018)
Premiums earned in retention	27,055	55,888	141,187		224,130
Investment income (loss), net and financing income	1	(3)	(277)	5,451	5,172
Commission income	738	93	9,822		10,653
Total income	27,794	55,978	150,732	5,451	239,955
Payments and change in liabilities with respect to insurance contracts (gross)	(16,414)	(30,262)	(140,278)		(186,954)
Share of reinsurers in change in insurance liabilities and payments with respect to insurance contracts	5,284	479	38,209		43,972
Payments and change in liabilities with respect to insurance contracts, in retention	(11,130)	(29,783)	(102,069)		(142,982)
Commissions and other acquisition costs	(12,017)	(13,562)	(36,050)		(61,629)
General and administrative expenses	(3,765)	(7,824)	(9,952)		(21,541)
Financing income (expenses)	-	-	406	(478)	(72)
Total comprehensive income before taxes on income	882	4,809	3,067	4,973	13,731

	For the year ended December 31, 2016 (audited)				
	Life insurance	Health insurance	General insurance	Not attributed to operating segments	Total
	NIS in thousands				
Gross earned premiums	126,319	218,858	692,223		1,037,400
Premiums earned by reinsurers	(21,365)	(3,037)	(143,621)		(168,023)
Premiums earned in retention	104,954	215,821	548,602		869,377
Investment income, net, and financing income	3	1,533	10,608	6,331	18,475
Commission income	3,446	404	39,703		43,553
Total income	108,403	217,758	598,913	6,331	931,405
Payments and change in liabilities with respect to insurance contracts (gross)	(44,105)	(97,000)	(615,799)		(756,904)
Share of reinsurers in increase of insurance liabilities and payments for insurance contracts					
Payments and change in liabilities with respect to insurance contracts in retention	10,960	3,137	178,699		192,796
	(33,145)	(93,863)	(437,100)		(564,108)
Commission, marketing expenses and other acquisition costs	(46,758)	(53,308)	(142,264)		(242,330)
General and administrative expenses	(14,414)	(28,546)	(38,410)		(81,370)
Financing income	-	-	1,488	1,922	3,410
Total comprehensive income (loss) before taxes on income	14,086	42,041	(17,373)	8,253	47,007
Liabilities with respect to insurance contracts, gross, as of December 31, 2016	57,065	119,988	1,469,712		1,646,765

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 4 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment:

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

* Property and others sectors reflect mainly the results of property loss insurance sectors with 96% of the total premiums attributable to these sectors. Other liability sectors reflect mainly the results of the third party liability insurance sector, with 42% of the total premiums attributable to these sectors.

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 4 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment (continued):

	For 9-month period ended September 30, 2016 (unaudited)						Total
	Compulsory motor vehicle	Motor vehicle property	Home	Professional liability	Other property Sectors*	Other liability Sectors*	
	NIS in thousands						
Gross premiums	114,441	246,077	79,865	49,961	26,896	27,615	544,855
Reinsurance premiums	(1,581)	(87)	(11,864)	(43,349)	(25,664)	(22,710)	(105,255)
Premiums in retention	112,860	245,990	68,001	6,612	1,232	4,905	439,600
Change in balance of unearned premiums, in retention	(5,248)	(21,280)	(4,991)	183	78	328	(30,930)
Premiums earned in retention	107,612	224,710	63,010	6,795	1,310	5,233	408,670
Investment income, net and financing income	4,489	2,212	745	1,445	245	1,632	10,768
Commission income	-	-	3,061	13,062	7,797	6,882	30,802
Total income	112,101	226,922	66,816	21,302	9,352	13,747	450,240
Payment and change in insurance liabilities with respect to insurance contracts, gross	(112,731)	(180,761)	(30,028)	(76,010)	(25,537)	(31,660)	(456,727)
Share of reinsurers in change of insurance liabilities and payments with respect to insurance contracts	20,670	-	3,364	59,200	24,049	26,820	134,103
Payments and changes in liabilities with respect to insurance contracts, in retention	(92,061)	(180,761)	(26,664)	(16,810)	(1,488)	(4,840)	(322,624)
Commission, marketing expenses and other acquisition costs	(19,414)	(41,929)	(16,792)	(12,498)	(5,513)	(6,562)	(102,708)
General and administrative expenses	(4,729)	(12,246)	(10,490)	(2,044)	(580)	(585)	(30,674)
Financing income, net	-	483	794	3	-	-	1,280
Total expenses	(116,204)	(234,453)	(53,152)	(31,349)	(7,581)	(11,987)	(454,726)
Total comprehensive income (loss) before taxes on income	(4,103)	(7,531)	13,664	(10,047)	1,771	1,760	(4,486)
Liabilities with respect to insurance contracts, gross, as of September 30, 2016	532,949	243,366	71,479	218,417	84,415	279,862	1,430,488
Net liabilities with respect to insurance contracts, retention as of September 30, 2016	426,452	243,366	64,561	40,689	3,490	38,976	817,534

* Property and others sectors reflect mainly the results of property loss insurance sectors with 82% of the total premiums attributable to these sectors. Other liability sectors reflect mainly the results of the third party liability insurance sector, with 34% of the total premiums attributable to these sectors.

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 4 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment (continued):

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

* Other property sectors mainly include the results of property insurance, with 95% of the total premiums attributable to these sectors. Other liability sectors reflect mainly the results of the third-party liability insurance sector, with 47% of the total premiums attributable to these sectors.

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 4 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment (continued):

	For 3-month period ended September 30, 2016 (unaudited)						
	Compulsory motor vehicle	Motor vehicle property	Home	Professional liability	Other property Sectors*	Other liability Sectors*	Total
	NIS in thousands						
Gross premiums	39,335	84,787	27,985	15,863	8,195	6,979	183,144
Reinsurance premiums	(531)	(29)	(3,311)	(13,649)	(7,853)	(5,796)	(31,169)
Premiums in retention	38,804	84,758	24,674	2,214	342	1,183	151,975
Change in balance of unearned premiums, in retention	(1,761)	(6,848)	(2,830)	96	89	466	(10,788)
Premiums earned in retention	37,043	77,910	21,844	2,310	431	1,649	141,187
Investment income (loss), net and financing income	(163)	(77)	(19)	69	(23)	(64)	(277)
Commission income	-	-	579	4,387	2,544	2,312	9,822
Total income	36,880	77,833	22,404	6,766	2,952	3,897	150,732
Payment and change in insurance liabilities with respect to insurance contracts, gross	(27,033)	(63,900)	(10,172)	(7,463)	(7,843)	(23,867)	(140,278)
Share of reinsurers in change of insurance liabilities and payments with respect to insurance contracts	2,106	-	1,061	6,454	7,398	21,190	38,209
Payments and changes in liabilities with respect to insurance contracts, in retention	(24,927)	(63,900)	(9,111)	(1,009)	(445)	(2,677)	(102,069)
Commission, marketing expenses and other acquisition costs	(7,099)	(14,608)	(5,609)	(4,269)	(2,100)	(2,365)	(36,050)
General and administrative expenses	(1,543)	(3,588)	(3,481)	(954)	(275)	(111)	(9,952)
Financing income, net	-	153	253	-	-	-	406
Total expenses	(33,569)	(81,943)	(17,948)	(6,232)	(2,820)	(5,153)	(147,665)
Total comprehensive income (loss) before taxes on income	3,311	(4,110)	4,456	534	132	(1,256)	3,067

* Property and others sectors reflect mainly the results of property loss insurance sectors with 82% of the total premiums attributable to these sectors. Other liability sectors reflect mainly the results of the third party liability insurance sector, with 34% of the total premiums attributable to these sectors.

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 4 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment (continued):

	For the year ended December 31, 2016 (audited)						
	Compulsory motor vehicle	Motor vehicle property	Home	Professional liability	Other property sectors *	Other liability sectors *	Total
	NIS in thousands						
Gross premiums	146,084	314,123	103,433	65,773	38,102	33,935	701,450
Reinsurance premiums	(2,016)	(115)	(14,586)	(57,742)	(36,282)	(28,016)	(138,757)
Premiums in retention	144,068	314,008	88,847	8,031	1,820	5,919	562,693
Change in balance of unearned premiums, in retention	(286)	(11,429)	(3,963)	824	8	755	(14,091)
Premiums earned retention	143,782	302,579	84,884	8,855	1,828	6,674	548,602
Investment income, net and financing income	4,472	2,134	752	1,343	251	1,656	10,608
Commission income	-	-	3,552	17,570	9,941	8,640	39,703
Total income	148,254	304,713	89,188	27,768	12,020	16,970	598,913
Payment and change in insurance liabilities with respect to insurance contracts, gross	(164,584)	(236,673)	(41,540)	(93,799)	(32,614)	(46,589)	(615,799)
Share of reinsurers in change of insurance liabilities and payments with respect to insurance contracts	30,599	-	4,958	73,467	30,525	39,150	178,699
Payments and changes in liabilities with respect to insurance contracts, in retention	(133,985)	(236,673)	(36,582)	(20,332)	(2,089)	(7,439)	(437,100)
Commissions, marketing expenses and other acquisition costs	(27,065)	(58,867)	(24,159)	(16,830)	(6,870)	(8,473)	(142,264)
General and administrative expenses	(5,652)	(14,653)	(13,949)	(2,642)	(745)	(769)	(38,410)
Financing income, net	-	522	959	3	2	2	1,488
Total expenses	(166,702)	(309,671)	(73,731)	(39,801)	(9,702)	(16,679)	(616,286)
Total comprehensive income (loss) before taxes on income	(18,448)	(4,958)	15,457	(12,033)	2,318	291	(17,373)
Gross liabilities for insurance contracts as of December 31, 2016	563,257	229,188	72,443	230,229	87,024	287,571	1,469,712
Net liabilities with respect to insurance contracts as of December 31, 2016	447,320	229,188	65,787	41,732	3,492	40,268	827,787

* Property and others sectors reflect mainly the results of the property loss insurance sector, with 90% of the total premiums attributable to these sectors. Other liability sectors reflect mainly the results of the product liability insurance sector, with 35% of the total premiums attributable to these sectors.

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 4 - SEGMENT INFORMATION (continued):

4.1 Additional information relating to life insurance segment:

For the 9-month period ended September 30, 2017 (unaudited) (NIS in thousands):

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

For the 9-month period ended September 30, 2016 (unaudited) (NIS in thousands):

	Policies not containing savings element		Total
	Risk sold as single policy		
	Private	Group	
Gross risk premiums	94,235	-	94,235
Payments and change in liabilities for gross insurance contracts	40,215	-	40,215

For the 3-month period ended September 30, 2017 (unaudited) (NIS in thousands):

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

For the 3-month period ended September 30, 2016 (unaudited) (NIS in thousands):

	Policies not containing savings element		Total
	Risk sold as single policy		
	Private	Group	
Gross risk premiums	31,670	-	31,670
Payments and change in liabilities for gross insurance contracts	16,414	-	16,414

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 4 - SEGMENT INFORMATION (continued):

4.1 Additional information relating to life insurance segment (continued):

For the year ended December 31, 2016 (audited) (NIS in thousands):

	Policies not containing savings element		Total
	Risk sold as single policy		
	Private	Group	
Gross risk premiums	126,151	-	126,151
Payments and change in liabilities for gross insurance contracts	44,105	-	44,105

4.2 Additional information relating to healthcare segment:

For the 9-month period ended September 30, 2017 (unaudited) (NIS in thousands):

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

* Includes mainly policies issued to individuals

For the 9-month period ended September 30, 2016 (unaudited) (NIS in thousands):

	Long-term **	Short-term **	Total
Gross premiums	148,720	14,738	* 163,458
Payments and change in liabilities for gross insurance contracts	71,144	9,256	80,400

* Includes mainly policies issued to individuals

** Reclassified

For the 3-month period ended September 30, 2017 (unaudited) (NIS in thousands):

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

* Includes mainly policies issued to individuals

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 4 - SEGMENT INFORMATION (continued):

4.2 Additional information relating to healthcare segment (continued):

For the 3-month period ended September 30, 2016 (unaudited) (NIS in thousands):

	Long-term **	Short-term **	Total
Gross premiums	<u>49,476</u>	<u>7,347</u>	<u>* 56,823</u>
Payments and change in liabilities for gross insurance contracts	<u>25,988</u>	<u>4,274</u>	<u>30,262</u>

* Includes mainly policies issued to individuals

** Reclassified

For the year ended December 31, 2016 (audited) (NIS in thousands):

	Long-term	Short-term	Total
Gross premiums	<u>198,297</u>	<u>21,034</u>	<u>* 219,331</u>
Payments and change in liabilities for gross insurance contracts	<u>87,383</u>	<u>9,617</u>	<u>97,000</u>

* Includes mainly policies issued to individuals

NOTE 5 - SHAREHOLDERS' EQUITY AND CAPITAL REQUIREMENTS:

a. Capital management and requirements

As of September 30, 2017, the Company is subject to two different compliance regimes (see 1 and 2 below), and that until approval by the Supervisor to perform an audit of the Solvency II-based regime.

1) Regime under Capital Regulations

The table below provides information with respect to the capital requirements in the Supervision of Financial Services Regulations (Insurance) (Minimum Required Capital of Insurers), 1998 (hereinafter - capital regulations), and guidance of the Supervisor.

	September 30		December 31,
	2017	2016	2016
	(Unaudited)		(Audited)
The amount required under Capital Regulations and supervisor guidelines (a)	<u>642,025</u>	<u>521,715</u>	<u>584,790</u>
Existing amount calculated under Capital Regulations:			
Basic primary capital	<u>778,742</u>	<u>741,611</u>	<u>753,860</u>
Total existing capital calculated under Capital Regulations	<u>778,742</u>	<u>741,611</u>	<u>753,860</u>
Surplus as of date of report	<u>136,717</u>	<u>219,896</u>	<u>169,070</u>

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

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

	September 30		December 31,
	2017	2016	2016
	(Unaudited)		(Audited)
Subsequent events:			
Dividend declared			(50,000)
Surplus after consideration of subsequent events	136,717	219,896	119,070
(a) The amount required including capital requirements for:			
Operations in general insurance	124,198	115,320	117,976
Exceptional life insurance risks	45,033	40,383	41,588
Deferred acquisition costs related to life insurance	80,066	81,149	79,687
Investment and other assets	73,425	50,864	58,507
Catastrophe risks in general insurance	286,947	204,947	257,227
Operating risks	32,356	29,052	29,805
Total full amount required under capital regulations	642,025	521,715	584,790

2) Solvency II-based regimen

According to the Company calculations regarding to Solvency II-based regimen, as of December 31, 2016, the Company has excess capital in deployment period (see also c(1) below). For more information, see section 3 to the directors' report of the Company. Note that that information was neither audited nor reviewed as part of an audit or review, respectively, of the Company's financial statements.

b. Dividend paid

On March 21, 2017, the Company's board approved a NIS 50 million dividend, or NIS 8,726 per share. The dividend was paid on March 27, 2017.

c. Solvency II:

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

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

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

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

c. Solvency II (continued):

The provisions of the circular came into effect beginning on June 30, 2017, but insurance companies will be permitted to calculate, until the end of 2018, required solvency capital as of the date of the annual statements only.

In this respect, it is important to note that the provisions of the circular determine, among other things, that the period from June 30, 2017 to December 31, 2024 ("the deployment period"), the following provisions will apply in relation to solvency capital requirement (SCR) in the deployment period:

- 1) 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");
- 2) The solvency required capital in the deployment period as calculated using data as of December 31, 2017 may not be less than 65% of the SCR;
- 3) The solvency required capital in the deployment period as calculated using data as of December 31, 2018 and data as of June 30, 2019, may not be less than 70% of the SCR;
- 4) The solvency required capital in the deployment period as calculated using data as of December 31, 2019 and data as of June 30, 2020, may not be less than 75% of the SCR;
- 5) The solvency required capital of an insurance company in the deployment period as calculated using data as of December 31, 2020 and data as of June 30, 2021, may not be less than 80% of the SCR.
- 6) The solvency required capital of an insurance company as calculated using data as of December 31, 2021 and data as of June 30, 2022, may not be less than 85% of the SCR.
- 7) The solvency required capital of an insurance company in the deployment period as calculated using data as of December 31, 2022 and data as of June 30, 2023, may not be less than 90% of the SCR.
- 8) The solvency required capital of an insurance company in the deployment period as calculated using data as of December 31, 2023 and data as of June 30, 2024, may not be less than 95% of the SCR.
- 9) The solvency required capital of an insurance company in the deployment period as calculated using data as of December 31, 2024 and thereafter, will not be less than SCR.

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

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

c. Solvency II (continued):

- 2) On October 1, 2017, a Supervisor letter was issued to CEOs of insurance companies on dividend payouts by insurance companies (hereinafter - "the letter"). According to the letter:
 - a) Through the date of obtaining the Supervisor's approval on performing an independent audit of implementation of the Solvency Circular, an insurance company is permitted to distribute dividend if the following conditions are satisfied:
 - After such distribution, the company has a recognized a recognized to required capital ratio (hereinafter - "solvency ratio") of at least 115% under existing capital requirements or provisions that may replace them.
 - After the distribution, the company has a solvency ratio of at least 100% under the Solvency Circular, calculated without considering the deployment period provisions and excluding adjustment of share scenario period, and subject to the solvency ratio target as set by the company's board of directors.
 - b) After the date of obtaining approval from the Supervisor on performing an independent audit of Solvency Circular implementation, an insurance company is permitted to distribute dividend if it meets the conditions in (a)(2) above.
 - c) An insurance company distributing dividend as above, is required to report all the following to the Supervisor within 20 days from the date of distribution:
 - Biannual income forecast for the two subsequent years after the date of distribution;
 - An updated debt servicing plan of the insurance company, after being approved by the Company's board, and an updated debt servicing plan of the holding company that is holding the insurance company as approved by the board of the holding company;
 - An updated capital management plan, as approved by the board of the insurance company, including broad discussion on long-term meeting the solvency ratio target as determined by the board, excluding the deployment period and excluding adjustment of share scenario period;
 - A copy of the minutes of discussion by the board of the insurance company in which a dividend distribution is approved, plus background material for discussion.

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 6 - FINANCIAL INSTRUMENTS AND FINANCIAL RISKS:

a. Fair value disclosure

Following the discussion in note 10(g) to the Company's 2016 annual financial statements, during the 9-month period ended September 30, 2017, no transfers of fair value measurement for financial assets were made between the different levels in the fair value hierarchy.

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

- 1) The financial statements balances of cash and cash equivalents, premiums collectible, accounts receivables, liabilities to reinsurance and accounts payable are equal to or approximate their fair value.
- 2) For details on the fair value of financial investments, see d. below.

c. In the 9-month period ended September 30, 2017, no material changes have occurred in the financial risk management policy of the Company, compared to the policy it reported in its 2016 annual financial statements.

d. Composition of financial investments:

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

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

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

d. Composition of financial investments (continued):

	As of September 30, 2016 (unaudited)		
	Measured at		
	fair value through profit or loss	Loans and Receivables *	Total
	NIS in thousands		
Marketable debt instruments(1)	1,192,227	-	1,192,227
Non-marketable debt instruments (2)	-	215,864	215,864
Other (3)	116,583	-	116,583
Total	1,308,810	215,864	1,524,674

* After reclassification – See note 2(u) to the 2016 annual financial statements of the Company.

	As of December 31, 2016 (audited)		
	Measured at		
	fair value through profit or loss	Loans and receivables	Total
	NIS in thousands		
Marketable debt instruments (1)	1,310,175	-	1,310,175
Non-marketable debt instruments (2)	-	171,285	171,285
Other (3)	79,077	-	79,077
Total	1,389,252	171,285	1,560,537

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

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

	As of September 30, 2016	
	(Unaudited)	
	Carrying amount	Amortized cost
	NIS in thousands	
Government bonds	528,247	526,759
<u>Other debt assets:</u>		
other non-convertible debt assets	663,980	666,587
Total marketable debt assets	1,192,227	1,193,346

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued):

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

d. Composition of financial investments (continued):

	As of December 31, 2016	
	(Audited)	
	Carrying amount	Amortized cost
	NIS in thousands	
Government bonds	559,286	561,571
<u>Other debt assets:</u>		
other non-convertible debt assets	750,889	742,539
Total marketable debt assets	1,310,175	1,304,110

2) Composition of non-marketable debt instruments:

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

	As of September 30, 2016	
	(unaudited) *	
	Carrying amount	Fair value
	NIS in thousands	
Bank deposits	97,756	98,230
Other non-convertible debt assets	118,108	120,813
Total non-marketable debt assets	215,864	219,043

* After reclassification – See note 2(u) to the 2016 annual financial statements of the Company.

	As of December 31, 2016	
	(Audited)	
	Carrying amount	Fair value
	NIS in thousands	
Bank deposits	57,042	57,084
Other non-convertible debt assets	114,243	116,602
Total non-marketable debt assets	171,285	173,686

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

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

d. Composition of financial investments (continued):

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

	As of September 30, 2017 (unaudited)	
	Carrying amount	Cost
	NIS in thousands	
Marketable financial investments	81,372	78,657

	As of September 30, 2016 (unaudited)	
	Carrying amount	Cost
	NIS in thousands	
Marketable financial investments	116,583	114,270

	As December 31, 2016 (audited)	
	Carrying amount	Cost
	NIS in thousands	
Marketable financial investments	79,077	74,684

NOTE 7 - TAXES ON INCOME:

- a.** Calculating the income tax for the interim period is based on the best estimate of the weighted income tax rate expected for the full fiscal year. The expected weighted average annual tax rate, as above, for the year ending December 31, 2017 is 35.04%, see also b below (2016 - 35.9%).
- b.** Changes in corporate tax rate that came into effect on January 1, 2017

In December 2016, the Economic Efficiency Law (Legislative Amendments for Implementing the Economic Policy for the 2017 and 2018 Budget Year), 2016 was published, introducing a gradual reduction in corporate tax rate from 25% to 23%. However, the law also included a temporary provision setting the corporate tax rate in 2017 at 24%. As a result, the corporate tax rate will be 24% in 2017 and 23% in 2018 and thereafter.

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 8 - CONTINGENT LIABILITIES - CLASS ACTION:

- a. A legal claim and a motion to certify a class action were filed on June 23, 2014 against the Company and 6 other insurance companies (hereafter – "the respondents") to the Jerusalem District Court (hereafter – "the court") by eight persons insured by the respondents (hereafter – "the applicants"). In the motion to certify the claim as a class action, it was claimed that the amount from which the mortgage life insurance premium has been derived by the respondents exceeded the actual balance of the loan with the lending bank and, as a result, the premiums paid the applicants were higher than the premiums they should have paid.

According to the applicants, the group of claimants in the class action includes all persons insured by the respondents under a life insurance policy for the purpose of securing a mortgage loan in the course of the seven year-period prior to filing the application and who paid to any of the respondents premiums which were higher than the premiums they should have paid since the amount from which the mortgage life insurance premium has been derived by the respondents exceeded the actual balance of the loan with the lending bank.

The causes of the claim according to the applicants are contravention of Sections 55 and 58 to the Supervision of Financial Services (Insurance) Law, 1981, breach of statutory duty, and breach of duty of good faith, negligence and unjust enrichment.

The applicants seek to repay the persons included in the group the amount of difference between the insurance premiums that they were supposed to pay and the insurance premium they paid in practice with the addition of compensation for mental anguish. The applicants request that the court orders the respondents to update the amount of the insurance premium on a monthly or semi-annual basis based on exact mortgage loan data; they also request that the court orders the respondents to provide persons they insure an explanation regarding the option to provide the respondents with an updated balance of the loans with the lending banks (where no exact mortgage loan data is available).

The amount of the individual claim filed by the applicants against the Company is NIS 272 and the amount claimed by the group of persons insured by the Company amounts to NIS 5,784 thousand.

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 8 - CONTINGENT LIABILITIES - CLASS ACTION (continued):

On January 6, 2015, the respondents filed their reply to the motion to certify the claim as a class action. In their reply, the respondents claimed, among other things, that neither the law nor the insurance policy requires them to reduce the insured amount on their own accord and to adjust it to the updated balance of the loan. On the contrary, the insurance policy informs the insured individuals of the potential difference between the balance of the loan and the insured amount and in any case the updated insured amount is presented in the annual statements posted to all insured individuals; the respondents claim that without a specific request of the insured individual (to which an approval of the lending bank should be attached) they cannot reduce the insured amount since this will be considered breach of the provisions of the insurance policy; the respondents claim that they are unable to reduce the insured amount so that it corresponds to the balance of the loan since this information is subject to the bank secrecy duty; the respondents claim that the insured amount covers not only the repayment of the principal of the loan but also the repayment of other related amounts, the existence and scope of which are not known to the insurance company in the course of the insurance period (such as payment arrears). Also, the balance of the loan is subject to changes taking place in the course of the loan period as a result of changes or revaluations carried out by the borrower or the lending bank; the respondents claim that upon the occurrence of an insurance event, the respondents repay the mortgage loan and the related amounts to the lending bank and the remainder of the insured amount is paid to the other beneficiaries whose identity is determined by the insured individual; thus, according to the respondents the premiums paid by the applicants are not higher than the premiums they should have paid. The respondents also claim that the underlying assumptions on which the applicants relied in their application are not shared by all applicants and that the applicants themselves acted in contradiction to those assumptions. The respondents claim that the non-disclosure claims that underlie the motion to certify the claim as a class action are specific and individual claims, which should not be debated as part of a class action.

On April 19, 2015, the applicants filed their reply to the motion to certify the claim as a class action. The applicants reject the claims raised in the reply to the application.

A preliminary hearing to discuss the application was held on June 14, 2015. In the course of this hearing, the Court informed the parties that it intends to address questions arising from the motion to certify the claim as a class action to the Supervisor of Insurance; the Court asked the parties to provide it, by July 16, 2015, with questions that will be addressed to the Supervisor of Insurance.

On July 16, 2015, the parties filed the Court some questions they wish to refer to the Supervisor of Insurance as above.

A further preliminary hearing was held on July 20, 2015, in which the Court ordered to refer questions to the Supervisor of Insurance.

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 8 - CONTINGENT LIABILITIES - CLASS ACTIONS (continued):

On December 21, 2015, the Supervisor of Insurance notified the court that it sent the questions of the court to the Supervisor of Banks.

On March 23, 2016, the Supervisor of Insurance submitted its position, after reviewing the issues, with the help of the Supervisor of Banks. The regulatory position allegedly supports in principle the arguments that the respondents raised in their arguments to the motion to certify ("the Supervisor's position").

On April 7, 2016, the respondents filed their comments to the Supervisor's position, in which they argued, among other things, that the Supervisor's position supports their own arguments to the motions to certify, and that given the Supervisor's position, the plaintiffs should withdraw their motion to certify and the claim against the Company. The plaintiffs also filed their comments to the Supervisor's position, arguing that it has no impact on their arguments regarding the certification.

On April 10, 2016, an additional pretrial hearing was held, in which the court ordered to plaintiffs' attorney, following the Supervisor's opinion, to notify the court whether he agrees to focus the claim and the motion to certify on the issue of the scope of informing customers on the method of insurance amount revaluation (interest rates) on the date of preparing the insurance contract. In this regard, the plaintiffs' attorney will also notify whether he withdraw his claims in relation to policy lifespan. The plaintiffs' attorney is required to file his position to the court by May 11, 2016.

On May 11, 2016, the plaintiffs notified the court that they decided at that stage not to give up their arguments in the motions to certify ("the plaintiffs' notice").

On May 19, 2016, the Company filed a motion to reject the plaintiff's notice. On May 24, 2016, another pretrial hearing was held in which the plaintiffs accepted a suggestion by the court to focus the class action on the information that was known at the pre-contract and contract preparation stages (and not the life of the policy). The court recommended the parties to pursue mediation on the disputed points. The plaintiffs accepted the recommendation.

On June 5, 2016, the Company notified the court that it agreed to refer the limited issues that remained disputed to an arbitration proceeding, but provided that the arbitration is set to examine possible additional focusing or clarifying of arguments of the parties to the arbitration. On June 13, 2016, the plaintiffs notified that they do not agree with limiting the arguments of the parties in the mediation procedure. On June 29, 2016, the Company notified the court that in the circumstances of the matter, given the plaintiffs notice, it does see any benefit in arbitration, and asked the court to decide on the motion to certify a class action based on the arguments filed and the position of the Supervisor.

On July 12, 2016, another pretrial hearing was held, in which the parties gave their agreement to the courts proposal to refer the open disputed issues to arbitration. On August 4, 2016, the parties notified the court that they agreed on an attorney to serve as arbitrator.

An arbitration hearing was held on November 23, 2016. Following the arbitration procedure, in a pretrial hearing dated July 3, 2017, the parties notified the court on reaching in-principle agreements on an outline for withdrawal of the motion to certify.

On August 23, 2017, the parties filed a joint motion to withdraw, in which the court was asked to reject the personal claims of the plaintiffs and the motion to certify. This motion is still pending a court ruling. In a judgment, dated September 13, 2017, the court accepted the motion to reject, and ordered to cancel the motion to certify.

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 8 - CONTINGENT LIABILITIES - CLASS ACTIONS (continued):

- b.** A legal claim and a motion to certify a class action were filed in May 2015 against the Company and 5 other insurance companies. The plaintiffs claim that the insurers do not pay to insured people/entities and/or third parties the VAT component applicable to the cost of damages in cases where the alleged damages were not repaired in practice.

The plaintiffs rely in their legal claim on the Supreme Court's ruling in the Zlutzin vs. Diur La-Olle case (civil appeal 17229/99) according to which even where repairs were not carried out in practice, the defendant (who caused the damage in the said case) should bear the VAT component. The plaintiffs also rely on In-Principle Ruling 2014-46025 titled "In-Principle Ruling on Payment of VAT and Depreciation of Unrepaired Vehicle". This in-principle ruling states that even if the customer did not repair the vehicle in practice the insurer must pay the customer insurance benefits including, among other things, VAT applicable in this matter.

The total amount of damages claimed from the Company is NIS 40,211 thousands.

Concurrently with filing the motion for certifying a class action, the plaintiffs asked the Herzeliya Magistrate Court, which hears individual claims on the Ikea fire damages, to allow them to withdraw the VAT component from individual claims and to file instead a motion for certifying a class action.

On January 2, 2016, a ruling was handed down that rejects the motion of the plaintiffs. The plaintiffs filed a motion to appeal the ruling. On September 4, 2016, their motion was rejected.

Given the court decision, the plaintiffs filed a motion to be replaced by Public Trust. On October 5, 2016, the Company filed a response to the motion, in which it was claimed that it would not be appropriate to allow an organization to represent the class. The plaintiffs responded to that response.

On February 20, 2017, a decision was handed down rejecting the motion to replace the plaintiffs by Public Trust, and accordingly, the motion to certify a class action was rejected.

On March 28, 2017, the plaintiffs filed an appeal on the decision of the Supreme Court. A hearing is scheduled for January 1, 2018.

Management believes, based on the opinion of its legal counsel, that it is more likely than not that the claim will be rejected.

- c.** On December 17, 2015, the Reserve Forces Association filed an application to certify a class action against the Company and another insurance Company.

The applicants claim that the defendants charge reservists for full insurance premiums but only provide them with a partial and deficient insurance coverage, whose value is lower than the value of the premiums collected from reservists. According to the applicants, this situation is caused since the defendants do not insure the reservists during reserve-service periods but still charge the reservists for premiums in respect of those periods.

The class includes anyone who had an insurance policy which included an exclusion regarding reserve-service periods and who paid the defendants insurance premiums in respect of reserve-service periods in the seven years prior to the filing the class action application.

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 8 - CONTINGENT LIABILITIES - CLASS ACTIONS (continued):

A similar class action is heard in the District Court (Center District) against other insurance companies, in which a motion for consolidation of cases was filed between the motion to certify and the other proceeding.

On January 27, 2016, the Central District Court approved the consolidation of cases. On June 23, 2016, the plaintiffs filed to the District Court an agreed-upon motion to extend the deadline for filing responses to the motion to certify by additional 10 days.

On the same date, the district court approved the motion of the defendants such that the date for filing the responses to the motion was set to July 11, 2016.

On July 11, 2016, the Company's response to the motion to certify was file, in which it argued, among other things, that at the factual level, the Company did not engage in unjust enrichment and that its customers serving in reserve suffered no damage, since they receive full and continuous insurance coverage under the provisions of the policy, in which premiums were priced based on the risk that the company bears. At the legal level, the motion to certify has no normative standing. The Company acted lawfully, in compliance with the position of the regulator, and in adherence to the provisions in the relevant policy, including exclusions that explicitly appear in them and known to all customers, and which served as basis for pricing the premiums to begin with.

On September 7, 2016 the applicant filed its response to the Company's response to the motion to certify the claim. The applicant claimed, among other things, that the respondents implement a cross subsidy strategy that disadvantages those clients, who are reservists; the applicant also claimed that the respondents have the ability to price the premium in respect of risks relating to damages that may arise from reserve service.

A preliminary hearing was held on September 18, 2016. At the conclusion of this hearing, the Court explained to the applicant that it may face some obstacles if it still wishes to certify the claim as a class action; the Court advised the applicant to consider whether it insists on the pursuing the application any further.

On March 5, 2017, the parties notified the court that they reached in-principle understandings as to the settlement of the dispute that is the object of the motion to certify. On August 22, 2017, the court approved the motion to withdraw and rejected the personal claims of the plaintiffs.

- d.** On February 10, 2016, a lawsuit and a motion to certify a class action was filed against the Company. The claim argues that the Company calculates compulsory vehicle premiums based on incorrect vehicle data, which leads to higher premiums than those approved by the Supervisor and that presented on the Supervisor's website that compares prices of different insurance companies.

The amount of personal damages claimed from the Company is negligible. The plaintiff did not specify the amount of damages of the class, but it estimated it at several million NIS.

After negotiations between the parties, a motions was filed for approval of a settlement agreement.

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NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 8 - CONTINGENT LIABILITIES - CLASS ACTIONS (continued):

In a hearing on November 20, 2016, the court ordered to provide a number of clarifications as to the settlement agreement.

Clarifications were provided and the court ordered to publish the fact that a settlement agreement has been reached and to send a copy to the attorney so that he could consider whether to object it. No objections were received from class members, and the Attorney General notified that he did not object. On August 3, 2017, the court approved the settlement agreement, and the Company is implementing it.

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

The response of the Company to the motion to certify the claim as class action was filed on January 1, 2017. The plaintiffs filed a response on their behalf to the Company response dated June 1, 2017. Concurrently, the plaintiffs filed a motion for discovery of documents. On October 1, 2017, the Company filed its response to the motion for discovery. No ruling has been handed down on a response from the plaintiffs.

A pretrial hearing on the case is scheduled to February 12, 2018.

According to the assessment of the Company, based on its legal counsel, at this preliminary stage of the case, it is not possible to assess the likelihood of certifying this claim as class action.

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

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

On December 11, 2016, a ruling was handed down which approved the motion to amend the motion to certify such that it will be filed until January 10, 2017. On January 10, 2017, an extension was granted to the plaintiffs to file the amended motion to certify until January 16, 2017. On January 17, 2017, an amendment motion to certify a class action was filed.

On June 21, 2017, the Company filed its response to the motion to certify. On June 23, 2017, the response of the plaintiffs to the response to the motion to certify was filed. On August 18, 2017, the defendants filed a motion to reject the plaintiffs response to the defendants' response to the motion to certify, and alternatively, to reject certain paragraphs. The plaintiffs are required to respond to this motion through September 6, 2017, and the defendants may respond to the plaintiff's response by September 11, 2017.

On September 13, 2017, a pretrial was held on the motion of the defendants to reject paragraphs in the response, due to broadening the scope of claim. The attorney of the plaintiffs clarifies during the hearing that the motion to certify does not include the practice cause. The court ruled that in light of this declaration by the plaintiff's attorney, the motion to certify does not include the practice cause.

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 8 - CONTINGENT LIABILITIES - CLASS ACTIONS (continued):

It was further also determined that given the judgments in the Myuhas and Litvinov case, and given the likelihood of this proceeding, the plaintiffs are required to present their position as to continuation of the proceedings by November 1, 2017. An additional pretrial hearing was scheduled to February 22, 2018.

Management believes, based on its legal counsel that it is more likely than not that the claim will be rejected.

- g.** On November 2, 2016, a lawsuit and a motion to certify a class action was filed against a number of insurance companies, including the Company concerning mortgage loan life insurance.

The motion concerns insurance coverage to homeowners who take mortgage loans where the loan capital is only returned at the end of the loan period ("balloon loans"). The plaintiff estimates the overall damage to the class at NIS 75 million. The alleged share of the Company in the claimed amount is NIS 15 million.

On May 29, 2017 a motion to certify the lawsuit as a class action was filed. On July 17, 2017, a first pretrial hearing was held on the case. The court adopted the arguments raised by the Company that no class plaintiff with viable cause is present in the action against the Company. However, the court believed that there is a place to better clarify the fact that in the occurrence of an insurance event, the insurer will bear the full amount of loan as recorded on the books of the bank or in the policy (whichever is the greater), especially given the fact that no explicit inquiry was made with customers when creating new policies whether they take balloon loans or ones based on Spitzer amortization.

By recommendation of the court, the parties negotiated, resulting in the plaintiffs filing a motion to withdraw the motion to certify. The plaintiffs filed a request for expenses, representative plaintiff award, and legal fee and the Company will respond later.

- h.** On January 3, 2017, a claim and a motion to certify a class action was filed against the Company.

The plaintiffs claim prohibited discrimination based on marital status in assessing the risk and determining premiums to divorced customers.

The plaintiffs estimate the damage due to excessive premiums at NIS 63,791 thousands and the non-monetary damage at NIS 6,368 thousands, totaling at NIS 70,159 thousands.

After a motion to modify the motion and a response were filed, the court ordered the Company to file a response to the motion to certify by December 21, 2017. A hearing was scheduled for February 18, 2018.

Management believes, based on the opinion of its legal counsel that it is more likely than note that the motion to certify will be rejected.

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

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

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NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 8 - CONTINGENT LIABILITIES - CLASS ACTIONS (continued):

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

The Company was required to file its response to the motion to certify by June 8, 2017. The plaintiff is required to file his response by July 9, 2017. On June 18, 2017, the Company filed its response to the motion to certify. On June 22, 2017, a pretrial hearing was held together with additional claims that were filed against other insurance companies and deal with similar issues. The court ordered that at this stage of the proceedings, all age-related claims should be heard as a consolidated case, and it was determined that all plaintiffs will participate in a hearing on September 13, 2017 to determine the proceedings going forward.

On September 7, 2017, the plaintiffs filed their response to the defendant's response to the motion to certify. On September 13, 2017, a pretrial was held, in which the court permitted to include evidence that was added to the plaintiff's and defendant's responses, and gave the defendant a right to respond to the plaintiff's response. The defendant has to respond by December 3, 2017. Another pretrial hearing was scheduled to February 22, 2018.

Management believes, based on its legal counsel that it is more likely than not that the claim will be rejected.

- j.** On April 27, 2017, a lawsuit and a motion to certify a class action were filed against the Company and two other insurance companies. The plaintiffs argue that insurance companies charged customer who pay premiums in installments credit fees in excess of the rates permitted by law and/or the interest rates presented in policies. It was argued that the Company caused a damage of NIS 20,879,250 over seven years.

It was agreed with attorneys of the plaintiff on a 60-day delay in filing the response and postponement of the hearing respectively, to explore an option of settling the case.

- k.** On June 22, 2017, a lawsuit and a motion to certify a class action were filed against the Company.

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

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

The date for filing the response of the Company to the motion to certify is November 19, 2017. A hearing is scheduled to January 8, 2018.

Note that motions to certify class actions have been also filed against other insurance companies.

Management believes, based on its legal counsel that it is more likely than not that the claim will be rejected.

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NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 8 - CONTINGENT LIABILITIES - CLASS ACTIONS (continued):

The following is information about pending motions to certify class action suits:

Pending applications for approval of legal claims as class actions	Number of claims	The amount claimed NIS in thousands
An amount relating to the Company was specified	<u>11</u>	<u>* 182,769</u>

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

Management believes, based on the opinion of its legal counsel, that given the likelihood of these procedures, the financial statements include adequate provisions, where necessary, to cover damages from such claims.
