AIG Israel Insurance Company Ltd

Financial Report for Year Ended 2017

Contents

<u>Chapter A: Description of corporate business</u>
For the year ended December 31, 2016

AIG Israel Insurance Company Ltd
Private Company No. 51-230488-2
("The Company)

March 27, 2017

Description of corporate business for the year ended December 31, 2017

This report constitutes a description of the Company's business as of December 31, 2017, and reviews the Company and the development of its business as occurred in 2017 ("the reported period"). The information in this report as updated as of December 31, 2017 ("the report date"), unless otherwise is explicitly indicated.

The Company is an insurer as this term is defined in the Supervision of Financial Services Law (Insurance), 1981 ("the Supervision Law"). Therefore, this report is prepared according to the guidance issued by the Supervisor of Capital Markets Authority, Insurance and Savings ("the Authority" and "the Supervisor", respectively), including Insurance Circular 2014-1-3 dated January 20, 2014, and Insurance Circular 2017-1-23 dated January 1, 2018.

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.

The financial information included in this report is reported amounts. All information in this report are in thousands 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. The description in this report on insurance products and coverage types is for the purpose of this report only, and may not serve for the interpretation of the products and coverage, and the full and binding terms in the insurance programs.

Please read the all parts of this periodic report as one unit.

Table of Contents:

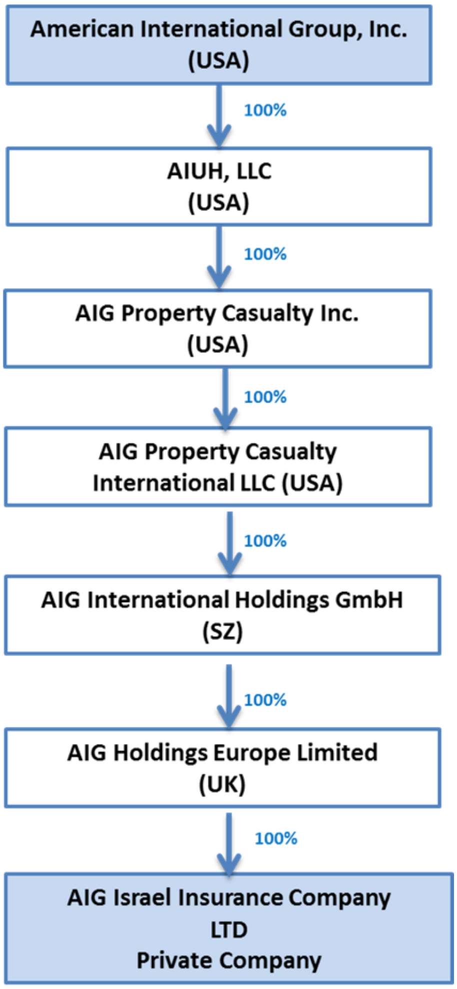
1. Part A: the activity of the Company and the development of its business

1.1 The activity of the Company and the development of its business

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. ("**the global AIG corporation**" or "**AIG**"). The global AIG corporation is a leading global insurance and finance services corporation, rated BBB+ as of report date by Standard & Poor's.

The sole shareholder of the Company is AIG Europe Holdings Limited ("AEHL"), which holds the entire issued and paid up share capital of the Company. AHEL is a company in the AIG Global Corporation.
The following is the holding structure of the Company:



The Company was granted licenses by the Supervisor to practice as an insurer in general insurance and life insurance as follows: motor vehicle insurance, compulsory motor vehicle insurance, health insurance (personal injury, serious illness and overseas travel coverage), 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 (home and vehicle 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 and 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

Most activity of the Company is to retail customers. The main activities of the Company and their general characteristics are as follows:

1.2.1 General insurance - property vehicle

General

The Company began its activity in this segment in 1997. Property vehicle insurance is also known as comprehensive vehicle insurance or "third-party insurance" and is voluntary. Property vehicle insurance is included in the general insurance business, and is focused on property damage to vehicles of the customer and those caused to a third party property.

The language of a property vehicle insurance policy is subject to the standard policy terms in the Insurance Business Supervision Regulations (Terms of Private Vehicle Insurance Contract), 1986 ("the standard policy").

The standard policy include coverage against loss or damage caused to the insured vehicle as a result of the following risks: fire, thunderbolt, explosion, accidental collision, capsizing, accident of any type, theft and any damage caused by theft, while theft or attempted theft was occurring; flood; storm; snow; volcano eruption; deliberate damage; and liability coverage to third party due to property damages.

The language of the standard policy is mandatory, and it is only possible to extend its coverage in terms of scope, risks, and covered property and persons.

Property vehicle insurance is divided into two main categories:

a. Insurance to private vehicles of up to 3.5 ton – Vehicles in this category are insured under the standard policy.
b. Insurance to vehicles of more than 3.5 tons – the policy for vehicles in this category is not subject to the terms in the standard policy.

Differential rates

Insurance rates are actuarially calculated and differential (variable and risk-adjusted), subject to approval by the Supervisor. The rate is determined based on a number of factors, including: vehicle model, engine size, production year, number of drivers, age and gender, years of driving experience, claim history, etc.

As of the date of this report, the Company price its insurance coverage based on the following criteria: vehicle characteristics, ownership and use, number of drivers, characteristics of drivers, years of driving experience of drivers and claims history.

1.2.2 **General insurance - compulsory vehicle**

General

The Company began its activity in this segment in 1997. Compulsory vehicle insurance, also known in Israel as compulsory insurance is mandatory. The Motor Vehicle Insurance Ordinance (New Version), 1970 ("the Motor Vehicle Ordinance") obligate a vehicle user or anyone who permits another person to use a vehicle to purchase compulsory insurance for bodily injuries only that may be inflicted to the driver and/or passengers and/or pedestrians hit by the insured vehicle. The Motor Vehicle Ordinance states, among other things, that no person can use, or cause or allow another person to use a motor vehicle unless an insurance policy in effect exists in the name of his name or the other person's name.

In this context, it should be noted that in December 2017, the Motor Vehicle Insurance Ordinance Amendment Law [New Version] (No. 22), 2017. In this amendment was established, among others, that insurance companies will be allowed to issue insurance certification with electronic means under the conditions and terms fixated in the amendment. According to Company knowledge, as the date of this report, no application guidance was published regarding this amendment.

The wording of a compulsory vehicle policy is subject to the terms of the standard policy that are present in the Financial Services Supervision Regulations (Insurance) (Terms of Motor Vehicle Compulsory Insurance Contract), 2010 ("compulsory vehicle standard policy").

The compulsory vehicle standard policy covers, under the Motor Vehicle Ordinance, the owner of the vehicle and driver for liabilities they may face under the Compensation to Victims of Road Accidents Law, 1975 (CVRAL). CVRAL states that the user/driver of a motor vehicle must compensate a victim for a bodily harm caused to him/her in an accident in which the vehicle is involved and also sets a liability that is absolute and complete, independent of guilt.

Reserves

The computation of general insurance reserves is done based on Supervision on Financial Services Regulations (Insurance) (Computation of General Insurance Reserves), 2013 ("the Computation of General Insurance Reserves regulations") and in accordance with the relevant provisions in the "Measurement, Equity and Management of Assets and Liabilities" chapter of the Regulation Codex. This chapter includes, among other things, guidelines for measurement of liabilities in life, general and health insurance. It also includes, among other things, provisions regarding insurance reserves, best practice for calculation of general insurance reserve for financial reporting purposes, aggregation of segments, determining the amounts of reserves in respect of policies which were sold close to balance sheet date and in respect of risks arising subsequent to balance sheet date.

Differential rates – information and supervision

A database of compulsory vehicle insurance rates is maintained for information, and is authorized by law to collect information about that segment. Under the Motor Vehicle Insurance Regulations (Creation and Management of Databases), 2004, insurance companies are legally obligated to transfer to the database information about drivers of insured vehicles, as defined by the Supervisor, as well as premium rates, payments and pending claims in scale and dates specified in those regulations.

The Supervisor gave a franchise to a service provider to manage that database, to issue reports that will be used, among other things, to assess the risks in the compulsory vehicle insurance sector, and determine the cost of pure risk that underlies the rate. The reports of the franchise holder serve as basis for the rate that is then used by the Supervisor as reference to test compulsory insurance rates.

The Supervisor sets the principles for determining compulsory vehicle insurance rates and regulates them through circulars that he issues from time to time. Those circulars specify the factors that an insurance company can use for determining premiums, the procedures that insurers need to comply with to approve premiums, maximum rates per customer and the process for approval by the Supervisor.

The factors for differential rate determination include, among other things engine size; sex, age of the youngest driver expected to drive the vehicle; years of driving experience of the youngest driver who is expected to drive the vehicle; number of past bodily damage claims and/or number of license suspensions in the previous three years of all drivers who are expected to use the vehicle; airbags installed; and the according systems installed: ESP, ABS, FCW and LDW.

Insurance companies may determine the premium using the risk premium and risk classification criteria set by the information and regulation rate database to align premiums to the covered risk.

As of the date of this report, the Company determined insurance rates using the following criteria: age and sex of the youngest driver who is expected to use the vehicle, make and year of vehicle, engine size, year of experience of youngest driver who is expected to use the vehicle, number of past claims and/or license suspensions in the previous three years of all drivers who are expected to use the vehicle and whether airbags are installed in the vehicle; ESP system; and as of January 2017: FCW and LDW systems.

<u>Residual insurance ("the Pool")</u>
The Israeli Vehicle Insurance Pool is an entity that insures the risks of vehicles that are rejected by compulsory vehicle insurers (residual insurance). This arrangement is provided by Motor Vehicle Insurance Regulations (Residual Insurance Arrangements and Mechanism for Setting Rate), 2001 ("the Pool Regulations"). The Pool operates as a normal insurance company and its rates are competitive relative to other insurers in the market. All insurance companies active in compulsory vehicle insurance are partners in the Pool, and each bears losses and gains from its income proportionally to its share in the compulsory vehicle insurance market. The share of the Company in residual insurance in 2015 was 3.2%, in 2016 was 3.0% and in 2017 was 3.1%.

<u>The Road Accident Victims Compensation Fund ("Karnit")</u>
Karnit is a corporation created under the CVRAL and is tasked with compensating victims who are eligible to compensation under that law and may not claim compensation from an insurer due to the following cases: the hitting driver is unknown, the hitting driver has no valid and paid compulsory vehicle insurance certificate, or the insurance does not cover the liability, the insurer of the vehicle is in liquidation or the insurer was appointed a special manager. Under the provisions of Compensation of Road Accident Victims Order (Financing of the Fund)(Amendment), 2003, insurance companies are required to transfer to Karnit 1% of net compulsory vehicle insurance premiums from policies they underwrite since that date.

In addition, according to the Road Accident Victim Compensation Order (Funding the Cost of Rendering Services), 2009, an insurer needs to give Karnit 9.4% of premium for each of the policies issued against the transfer of liability to any medical expenses included in the government healthcare funding to health funds.

In November 2017, the supervisor published an amendment to the provisions of a circular regarding the return of money from Karnit to the insured public ("the money return circular"). As part of the amendment, it was determined that Karnit will transfer to the insurance companies a daily report file regarding the balance of entitlement to return fees for all vehicles in Israel, and that in light of financial data in the Karnit balance sheet, the rate of refunds as of December 2, 2017 will be 7% instead of 13% In addition, the insurance company was required to submit an audited annual report signed by an accountant regarding the premiums collected by the Company and the recovery fees that the refund, the insurance fees returned to policyholders and the recovery fees deducted from them during the report period.

Concurrently with the publication of the amendment to the circular regarding the restitution of monies, an additional circular was published amending the provisions of the Circular for the Return of Funds from Karnit to the Public Insured - a Reporting Format ("the Reporting Format Circular") which is intended to make the necessary adjustments to the circular.

<u>Arrangements for distributing the compensation burden among insurance companies</u>
According to CVRAL, in a multiple-vehicle accident, each driver will be liable to bodily damages caused to passengers of the vehicle which was insured through that driver.

Arrangement for a victim outside a vehicle – in case of a victim is located outside a vehicle in a multiple-vehicle accident, the drivers are liable to that person together and separately, and are required to divide that burden in equal parts among them.

Car-Motorcycle arrangement – In a road accident that involves one or more motorcycles and one or more non-motorcycle vehicles, the non-motorcycle insurers to the insurers of the motorcycle 75% of bodily injury compensation that the insurers of the motorcycle are liable to pay due to the accident, except for compensation to victims outside the vehicle. The insurers of the non-motorcycle vehicle are liable together and separately towards the insurer of the motorcycle, and are required to divide the liability burden among them in equal parts.

In this context, it should be noted that in June 2017, the Minister of Finance published a draft Compensation for Road Accident Victims (Distribution of the Burden of Compensation among Insurers) Order, 2017. The draft circular proposes to update the division of the burden in accidents involving motorcycles, so that the insurer of the vehicle that is not a motorcycle will bear 95% instead of 75% of the compensation of bodily injury of the motorcycle rider. The purpose of the draft is to reduce the cost of compulsory insurance for motorcyclists and to allow an increase in the rate of motorcycles from all vehicles in Israel.

Light-heavy vehicle arrangement – According to the Road Accident Victims Compensation Order (Arrangements for Dividing the Compensation Burden Among Insurers), 2001, in the event of a road accident involving one or more heavy trucks (over 4 tons) and one or light vehicles, the insurers of the heavy must pay the insurers of the light vehicle 50% of bodily injury compensation as those defined in the CVRAL, while the insurers of the light vehicle are required to pay their liability for the accident, except a payment under the car-motorcycle arrangement or compensation payment to victims outside a vehicle. The insurers of the heavy vehicle are liable together and separately towards the insurers of the light vehicle and among themselves, and are required to bear this liability in equal parts.

New subrogation arrangement
In January 2018, the State Budget Proposal for 2019 was published, setting forth, inter alia, provisions regarding the change in the accounting mechanism between the National Insurance Institute ("the institute") and the insurance companies (the "New Subrogation Arrangement"). The purpose of the change is, among other things, to increase the efficiency of the existing accounting arrangements between the institution and the insurance companies in all matters relating to the payment of compensation under the Compensation Law, while reducing the legal litigation between the parties. As part of the change, it was decided to amend the arrangement set forth in Section 328 (a) of the National Insurance Law regarding the settling of accounts between the institute and the insurance companies in respect of payment of compensation for the benefit paid or to be paid by the Institute for Victims of Road Accidents pursuant to the Compensation Law, Coverage of their liability.
According to the aforementioned proposal, the new subrogation arrangement will apply to road accidents that occur as of January 1, 2019, as well as to past accidents that occurred from January 1 2014 until December 31, 2018 and for which no claim or demand has yet been filed by the institute by January 1, 2019. Events in previous periods, as well as events for which a request has been filed by the institute in the period 2014-2018, a detailed accounting will be carried out between the insurance company and the institute.

The new subrogation arrangement has no effect on the Company's financial statements for 2017. The Company is examining the future effect of the new subrogation arrangement on the Company.

1.2.3 **General insurance – home insurance**

General
The Company began its activity in this sector in 1997. Comprehensive home insurance, also known as home insurance, is a key insurance product of the individual insurance business, and is part of the general insurance.

The language of the home insurance policy is subject to the standard policy in Insurance Business Supervision Regulations (Terms of Insurance Contract for Homes and Their Contents), 1986 ("the home insurance regulations" and "the home insurance standard policy", respectively). The home insurance standard policy includes coverage against loss or other damages that may result from factors such as fire, lightning, smoke, explosion, wind in excess of 30 knots, including rain, snow or hail that fell at that time; aircraft crash, object falling from an aircraft and supersonic boom from an aircraft, contact or crash of a vehicle into the apartment, certain malicious actions, theft, robbery and break-in or attempt to commit them, illegal gathering and rioting, earthquake and flooding from an external source.

The standard policy is a minimum policy. Its language is binding, and it is only possible to add more coverage in terms of coverage amount, risks and the assets and liabilities covered. Rates of the standard home insurance policy are regulated and approved by the Supervisor.

1.2.4 **General insurance – commercial insurance**

General

The Company commenced its operations in this sector in 2000. The commercial insurance segment of the Company includes the following segments: professional liability insurance, cyber insurance, property loss and comprehensive insurance for businesses, third-party liability insurance, product liability insurance, employers' liability insurance and engineering insurance.

The Company manages this insurance business in three main categories:

a) Professional liability insurance

Professional liability insurance policies are designed to cover various professional professionals against claims filed against them for damages caused to a third party as a result of professional error or negligence, coverage of directors or officers in respect of an act or omission that they committed during their term of office and coverage for embezzlement damages and cyber insurance covering cyber events as defined In the policy.

In professional liability insurance, for the most part, the insurance period is one year, but the duration of claims is longer on average than property insurance. The main reasons for this are: the complexity of the factual and legal clarification, the period between the date on which the liability and the damage was formed and the date of filing the claim, and longer periods of prescription compared to the property insurance. Therefore, professional liability insurance is regarded as long tail claims.

This has two main implications:

- The impact of investment profits in respect of reserve funds and outstanding claims.
- The impact of legal precedents and court rulings on the Company's exposure in every claim and claim.

In professional liability insurance and directors & officers liability, coverage is based on the date of filing the claim. In other words, the coverage is given to claims that were filed during the insurance period even if the cause was created prior to the beginning of the insurance period.

b) Liabilities insurance

Liabilities insurance covers the legal liability of the customer for damage that may be caused to any third party. The main liability types marketed by the Company are: third-party liability insurance, product liability insurance, and employers' insurance.

For the most part, the period of the insurance is one year, but the time for processing the claim is on average longer than property insurance. The main determining factors are: the complexity of factual and legal procedures, the timeframe for the liability and damage and filing the claim, longer statute of limitations relative to property insurance. Therefore, liability insurance is considered to have a longer claim trail.

This has two main consequences:

- The effect of investment profits in respect of reserve funds and outstanding claims.
- The impact of legal precedents and court rulings on the Company's exposure in every claim and claim.

In some liability insurance products, such as third-party and employers' liability, coverage is event-based. That is, coverage is given to events that occurred during the insurance period and the claim can be filed after the end of the insurance period, subject to the statute of limitations in the law.

According to the Insurance Contract Law, 1981 (hereafter – "the Insurance Contract Law"), the statute of limitations on insurance compensation is three years after the occurrence of the insured event (except for a disability claim caused by the insured as a result of illness or accident, the insured has the right to claim insurance benefits according to the policy). However, in liability insurance, claiming for compensation is not subject to statute of limitations as long as a third-party claim against the insurer is not subject to statute of limitations.

To increase its share in all those commercial insurance segments. To achieve this objective, the Company utilizes the expertise and financial robustness of the AIG corporation, which is a global leader in this industry. Additionally, the Company is constantly seeking to provide appropriate coverage to its customers and to develop new customized products.

c) Property loss and engineering insurance
Property loss insurance, commercial property insurance and loss of profits and engineering insurance is intended to provide customers coverage against physical damage to property. The main insurance products marketed by the Company are: contractors' insurance and mechanical failure insurance.

The main risks covered in those policies are fire, explosion, break-in, earthquake and other natural calamities. The policy covers damages directly caused to property as well as indirect damages (loss of income, etc.) For the most part, the term of those policies is one year, and claims are processed close to the time of the insurance event, and for that, such policies are considered to have a short claim tail.

1.2.5 **Health insurance**

General
The Company began its activity in the healthcare segment in 1998. Healthcare insurance in the Company includes the following sub-segments: personal injury insurance, serious illness insurance and travel insurance.

Health insurance policies are subject, among other things, to the provisions of the Insurance Contract Law, the Supervision Law and the regulations thereunder, including the Supervision of Insurance Businesses Regulations (Terms in Insurance Contract) (Provisions About Preexisting Medical Conditions), 2004, and the Financial Services Supervision Regulations (Insurance) (Collective Health Insurance), 2009 (hereafter – " Collective Health Insurance Regulations"), as well as the directives and guidance issued by the Supervisor from time to time.

The Company manages segment in three main categories:

a) Personal injury insurance
A personal injury insurance policy provides a predetermined monetary compensation in case of hospitalization, disability and death resulting from an accident. Contrary to policies in disease and hospitalization policies, which provide coverage for illness, personal injury insurance covers only the results of an accident.

b) Serious illness insurance
A policy that covers the diagnosis of serious illness as defined by the policy. Insurance benefits are paid as a lump sum in case of diagnosing a serious illness or a medical event, without the customer having to prove any expense.

c) Travel insurance
A product providing insurance coverage to different expenses to people traveling overseas for a number of risk types: cancellation or curtailment of a trip due to reasons listed in the policy, hospitalization and non-hospitalization medical expenses, medical flights, loss and/or stolen property, third-party liability and compensation in cases of disability or accidental death. It is also possible to buy additional coverage such as: extreme and winter sports, laptop coverage, etc. It is also possible to buy coverage for special situations such as: aggravation of preexisting medical condition and coverage for pregnant women. The product is sold in different packages to cater for different types of customers: long-term travelers, families, etc. The policy is sold online and by sales reps.

In January 2017, the Supervisor published the 2017-1-26 circular concerning the amendment of the provisions of the Consolidated Circular in the Travel Insurance Section, which aims to determine provisions regarding the wording of the overseas travel insurance plan and the manner of its marketing, in a manner that will ensure proper coverage and a fair sale process. Among other things, the circular prescribes the following main provisions: Determining that the insurance amounts will be in accordance with the expected costs when an insured event occurs and taking into consideration, among other things, the expected costs in the target country; A stipulation that the coverage will be composed of a basic layer of the insurance plan and a list of extensions that can be purchased beyond the basic plan, as well as imposing an obligation on an insurance company to inform the insured about the implications of his or her previous medical condition and if necessary to offer an extension to the policy covering this medical condition. The Company has completed its preparations for the implementation of the provisions of the amendment and has begun to market overseas travel policies according to the provisions of the said amendment, commencing from September 2017.

Health insurance for covering medical expenses is managed by the Company under the life insurance segment, as explained below.

1.2.6 **Life insurance – risk only**

General

The Company began its activity in the life insurance segment in 1999. The Company provides policies to individual customers who are interested in life insurance, including to private customers who are interested in such product, including private lenders who take housing loans.

Life insurance

Life insurance policy promises a payment of a lump sum to beneficiaries in case of death of the customer. Usually in such policies, the policy expires when the customer dies or when he/she reach a certain age. Extensions offered to such policies are total permanent disability, accident disability, accident death and critical illness insurance.

Mortgage-related life insurance

A life insurance policy provides the mortgage bank a reimbursement of outstanding loan in the event of death of the customer (the mortgage customer). Those policies can be extended to include permanent total disability.

Health insurance for covering medical expenses

Health insurance policies that cover medical expenses such as "Complementary Additional Health Insurance" and "First Shekel". Policies like "Complementary Additional Health Insurance" complement or extend the coverage and services provided under complementary health coverage of health funds, to complete the coverage that is missing due to legislation, regulations, plan terms and health fund instructions. The policies include, among other things, insurance coverage for medical expenses that are caused to the customer as a result of requiring surgery, non-government sponsored medicine, transplants and ambulatory services.

"Full coverage" policies provide coverages and services for medical expenses that were caused to the insurance customer as a result of surgery, drug that are not covered by the government (the "basket"), organ transplants and ambulatory services, regardless of complementary health insurance provided by health funds.

1.3 **Investments in capital and share transactions**

On June 1, 2016, as part of a structural change in the global AIG concern, all of the shares of the company owned by AIG Europe Holdings Limited were transferred to AHEL

1.4 **Dividend distribution**

The limit on the ability of the Company to pay out dividends is derived from Supervision of Insurance Business Regulations (Minimum Equity Required of an Insurer), 1998 ("**minimum capital regulations**") and Supervisor regulations associated with this matter. Those regulations determine the minimum capital level required from an insurer, which is derived from the scale of operation, reinsurance arrangements and outstanding claim amounts.

According to the minimum capital regulations, the Company is prohibited from distributing dividend if their capital is lower than the capital established in those regulations. In addition, there is an additional restriction on dividend distribution in the Companies Law, 1999 ("**the Companies Law**") and in letters of the Supervisor to insurance companies that list the criteria for, and limits on dividend distributions by an insurer and the terms required by the Supervisor for approving a dividend distribution.

For more information about regulatory directives on dividend distribution and the dividends distributed by the Company to its controlling shareholder in 2015-2017, see note 12 to the financial statements.

In accordance with the Company's capital management policy, which also includes its dividend payout policy, the Company has to hold capital that is 120% of the minimum regulatory capital, and also comply with a solvency ratio of 130% under a regimen based on Solvency II, and subject to certain conditions, the Company will pay dividend above that threshold.

As of December 31, 2017, the Company has surplus equity over the level of equity required by the minimum capital regulation by a total of NIS 128.4 million.

For information about an offer to distribute a dividend amounted to NIS 50 million after December 31, 2017 – see note 13c(3) to the financial statements.

2. **Part B – Description and information on activity segments of the Company**

2.1 Activity segment 1 – Property vehicle insurance

2.1.1 Products and services

The Company sells a range of standard insurance products, including: comprehensive insurance (including against theft or accident), comprehensive insurance without theft coverage, comprehensive insurance without accident coverage, third-party insurance and third-party two-wheel vehicle insurance. On top of those standard policies, customers can buy more coverage and/or related services such as towing services, replacement car, window breakage, lights and mirrors, and VIP services.

In 2017, the Company did not develop material new products and services in this segment.

For more information about the general characteristics of this segment, see 1.2.1 above.

2.1.2 Competition

According to published circulars, 13 insurance companies are active in this segment, and the market is highly competitive. According to the financial statements for the first nine months of 2017, the main competition in this segment, by premium turnover are IDI Insurance Company Ltd ("**Direct Insurance**") (14.0%), Menorah Insurance Company Ltd ("**Menorah**") (13.9%), , the Phoenix Insurance Company Ltd ("**the Phoenix**") (12.6%), Migdal Insurance Company Ltd. ("**Migdal**") (9.1%) and Clal Insurance Company Ltd ("**Clal**") (8.5%). The market share of the Company in this segment in total premiums during that period is 4%.

The approach taken by the Company to address this fierce competition in this segment is using advanced pricing and actuary methods, marketing campaigns, operating restructuring and ongoing improvement of customer service.

In that context note that the insurance company service index for 2016 was published in May 2017 ("the service index"). The service index enables clients to compare between different insurance products and it is designed to increase the competition in the insurance market since it reflects the level of service provided by insurance companies by principal insurance products.
For each insurance product a service index is calculated, which his based on four components: (1) payment of claims – the percentage of claims approved and paid and how quickly these claims were handled; (2) Handling clients' queries – clients' satisfaction of insurers' handling their queries; (3) Public complaints – weighting of complains which were lodged and assessed by the Capital Market Division; (4) Phone response time – ratio of calls that got responded within 3 minutes. Data published by the Ministry of Finance show that the Company is ranked first in the overall service rating, claims rating, and satisfaction rating of customers in property vehicle insurance.

The Company believes that the continued publication of the service index will increase competition in the property vehicle sector; the Company estimates that the service index may help the Company to become the lead player in this insurance sector.

The information included in this section constitutes forward looking information, which is based, among other things, on the current results of the Company. Actual results may be different than the estimated results, and may vary significantly, among other things, as a result of regulatory changes applicable to the Company and declining ratings in the four elements of service index.

2.1.3 Customers

a. The Company sells the product mainly to individual private customers through direct marketing.

b. The following is the distribution of premiums in this segment (in thousands of NIS):

	2017	**2016**	**2015**
Private customers	305,956	255,114	226,806
Through agent mediation	46,533	59,009	57,371
Total	**352,489**	**314,123**	**284,177**

c. The Company is not dependent on any single customer.

d. No customer contribute 10% or more of total revenue of the Company

e. Renewals rate in 2017 in terms of premiums for policies that were in effect in the previous year is 75.3%.

f. The rate of customers who are also insured in compulsory vehicle insurance in 2017 is 88.8%.

g. The following information shows customers in property vehicle insurance in terms of premium in 2017 in percentage terms by years of first engagement:

First year of the first policy with the Company:	**%**
2017	37%
2016	17%
2015	11%
Until 2014	35%
Total	**100%**

2.2 **Activity segment 2 – Vehicle compulsory insurance**

2.2.1 Products and services

This segment has only one product – standard compulsory insurance policy. The insurance coverage under the policy includes any liability that might arise under CVRAL, other liability (non-CVRAL) that the customer may be liable for bodily damage to another person by or due to using the insured vehicle and bodily damage caused to the insured in a road accident.

As indicated above, under CVRAL, this is "total liability" coverage. Accordingly, road accident victims are entitled to compensation from the insurer of the vehicle, without a requirement to prove guilt of any of the persons involved. However, the CVRAL presents a number of limits and exceptions that revoke the right for compensation (e.g. a person who caused an accident intentionally), and limits the amounts of compensation, such that non-monetary damage compensation is limited to a fixed amount specified in CVRAL and compensation for lost income and disability income that are limited at three times the average salary in the Israeli economy.

Those claims are characterized by a long claims tail.

As indicated above, the vehicle compulsory insurance segment has only one product.
For more information about the general characteristics of this segment, see 1.2.2 above.

2.2.2 Competition

Most insurance companies in Israel are active in the compulsory vehicle insurance market, which results in fierce competition. More competition comes from Direct Insurance and the direct marketing arms of other insurance companies. The competition is mainly reflected in lowering insurance rates to customers.

The main competitors in this sector on the basis of premiums are: Harel Insurance Company Ltd. ("Harel"), S. Shlomo Insurance Company Ltd., Direct Insurance Phoenix and Menorah. According to the data of the financial statements for the first nine months of 2017, the total share of these companies in the total gross premiums in the segment is 51.6% The share of the Company out of the total premiums in this sector was about 3.0 %.
Since the insurance coverage offered by all insurance companies is identical, and since it is possible to compare the insurance rates charged by insurance companies on the website of the Supervisor, customers are very sensitive to change in insurance premiums. The approach taken by the Company to address this fierce competition in this segment is using advanced pricing and actuary methods, operating restructuring and ongoing improvement of customer service. Data published by the Ministry of Finance show that the Company is ranked first in the satisfaction index in the compulsory vehicle insurance sector.

The Company estimates that the continued annual publication of the service index will increase competition in the compulsory vehicle insurance sector.

2.2.3 Customers

a. The Company sells the product mainly to individual private customers through direct marketing.
b. The distribution of premium in this segment is as follows (in thousands of NIS):

	2017	2016	2015
Direct marketing	153,115	132,273	130,371
Through insurance agents	7,159	13,811	16,411
Total	**160,274**	**146,084**	**146,782**

c. The Company is not dependent on any single customer.
d. No single customer represents 10% or more from company revenue.
e. Renewals rate in 2017 in terms of premiums for policies that were in effect in the previous year is 75.4%.
f. The rate of customers who are also insured in property vehicle insurance in 2017 is 95.0%.
g. The following information shows customers in compulsory vehicle insurance in terms of premium in 2017 in percent by years of first engagement:

First year of the first policy with the Company:	%
2017	33%
2016	17%
2015	12%
Through 2014	38%
Total	**100%**

2.3 Activity segment 3 - Home insurance

2.3.1 Products and services

Home insurance is designed to give customers coverage for damage or loss caused to the home and/or its contents. This type of insurance includes extensions such as third-party liability and liability to home workers. As part of a home insurance it is possible to buy additional coverage and/or services such as piping and water damages, sealing and emergency services for water damage, coverage of all risks for valuables, etc.

Home insurance policies are sold to asset owners who are interested to insure their home and/or contents. When the insurance is bought for mortgage purposes, the insurance mostly covers the structure only and the mortgage bank is registered as a nonrecourse beneficiary.

In 2017, the Company developed private property insurance intended for the lessor and the lessee, whose focus is on providing policies unique to the landlord or tenant.
In addition, the Company has made changes in the household insurance policy in accordance with the provisions of the consolidated circular in the household insurance sector regarding the treatment of

water damages in the household insurance sector ("the plumber's circular"), which came into force in September 2017.
The plumbers' circular has dealt with the plumbing and water damage problems that have been treated so far by designated companies (such as the Shahar Group and Femi Premium), for the insurance company's responsibility. According to the provisions of the circular, the insurance company must hold at least 12 plumbers in each district (6 districts spread throughout Israel); When a damage occurs, a customer who has chosen a plumber cover in the arrangement may choose a plumber from the list of plumbers that appear on the company's website, and at the end of the treatment the insurance company must perform a satisfaction survey on the speed and quality of the plumber's work. In addition, it was determined in the plumber's circular that the list of plumbers on the site will also include an average score of each plumber following a satisfaction survey to be sent to all customers who used this service (valid from December 2017).

For more information about the general characteristics of this segment, see 1.2.3 above.

2.3.2 Competition

According to information released, 13 insurance companies are active in this segment, resulting in fierce competition. According to data in the financial statements for the first nine months of 2017, the main competitors in this segment, by premium turnover are the Phoenix (14.1%), Harel (13.3%), Clal (12.8%), Migdal (12.8%) and Menorah (10.7%). The share of the Company in the total premium turnover in the reported period is 6.3%.

Since the insurance coverage offered by all insurance companies is similar, and since it is possible to compare the insurance rates charged by insurance companies on the website of the Supervisor, customers are very sensitive to the issue of insurance premiums. The approach taken by the Company to address this competition in this segment is using advanced pricing and actuary methods, marketing campaigns, operating restructuring and ongoing improvement of customer service. Data published by the Ministry of Finance show that the Company ranks first in the customer satisfaction index and the claims payment index in the area of home insurance.

The Company believes that smart use by the insurance public population in the home insurance calculator and the continued publication of the service index annually will increase competition in the home insurance sector. The Company estimates that the service index may help the Company to become the lead player in this insurance sector.

The information included in this section constitutes forward looking information, which is based, among other things, on the current results of the Company. Actual results may be different than the estimated results, and may vary significantly, among other things, as a result of regulatory changes applicable to the Company and lower rating in the four factors underlying the service index.

2.3.3 Customers

a. The Company sells its products in this segment mainly to private customers through direct marketing.
b. The Company is not dependent on any single customer.

c. Renewals rate in 2017 in terms of premiums for policies that were in effect in the previous year is 89.8%.
d. The following information shows customers in home insurance in terms of premium in 2017 in percent by years of first engagement:

First year of the first policy with the Company	%
2017	19%
2016	14%
2015	10%
Until 2014	57%
Total	**100%**

2.4 **Activity segment e - Commercial insurance**

2.4.1 Products and services

a. Professional Liability Insurance

Coverage for various professionals from claims filed against them for damages caused to a third party as a result of professional error or negligence. This branch also includes directors & officers insurance, which covers the liability of the officer under the Companies Law and other provisions of law (in Israel and abroad), as well as cyber insurance, which covers cyber events as defined in the policy.

b. Liability insurance

Those types of insurance contracts cover the liability of the insurance customer to damages caused to a third party. Those insurance contracts are divided into a number of segments, and the main ones are:

- Third-party liability insurance – Coverage against bodily injury or property damage caused to a third party, excluding vehicle coverage and employers' insurance. The liability covered by this insurance is for the most part pursuant to the Torts Ordinance [New Version], 1968 ("**the Torts Ordinance**").

- Defective products liability insurance – Insurance coverage against injury or damage resulting from a defect in a product that was manufactured, marketed, assembled or maintained by the customer. Such policy is pursuant to two main pieces of legislation: (1) Warranty for Defected Products Law, 1980 which imposes liability on the manufacturer (as defined by the law) and apples to bodily injury only; (2) the Torts Ordinance, which makes a manufacturer liable to bodily injuries and property damages.

- Employers' liability insurance – Covers employees from bodily injury claims (accident or illness) caused to an employee during work due to negligence of the employer. Usually, the policy covers the liability of the employer under the Torts Ordinance in any amount not covered by the Israel National Insurance Institute.

c. Property insurance, contractors, mechanical failure and electronic equipment

- Property insurance – coverage to customers in case of damage to property as a result of fire or lightning. Customers can buy additional coverage such as break-in, natural disasters, earthquake, explosion and insurance for loss income as a result of the insurance event.

- Contractors insurance – Coverage against unexpected damage to the insured assets during the construction of projects and buildings. The customer buys under the policy coverage for liability to third parties and employees as part of performing the construction works.

- Mechanical breakage – Coverage of damages caused by breakage in machines and other engineering equipment.

- Electronic equipment – Coverage against loss of or damage to electronic equipment, including external information storage equipment.

Those segment are reinsurance intensive, among other things, due to the monetary scale of outstanding claims in those segments.

In 2017, the Company did not develop new material products in this insurance segment.

For more information about the general characteristics of this segment, see 1.2.4 above.

2.4.2 Competition

This segment is characterized by fierce competition from leading companies in this market. According to information in the financial statements for the first nine months of 2017, the main competitors in this segment by premium turnover are Harel (24.0%), Migdal (13.5%), the Phoenix (12.9%), Ayalon (12.1%) and Clal (11.1%). The share of the company in the professional liability and other liability from total premium turnover in the reported period is 3.7%, and the share of the Company in the property and engineering insurance by premium turnover in that period is 1.6%.

The Company addresses this competition by utilizing the expertise and financial robustness of the global AIG corporation, which is a global leader in this segment. In addition, the Company is constantly aspiring to align coverage to customers' needs and develop customized new products.

2.4.3 Customers

The company is not dependent on any single customer.

2.5 **Activity segment 5 – Health insurance**

2.5.1 Products and services

Health insurance that exist in the Company are designed to compensate or indemnify customers for medical expenses in case of injury and/or medical conditions and to provide various healthcare services through contracted providers. In addition, the Company sells a variety of personal injury products, both to individual and collective customers. Health insurance products include personal accident policy, families and groups; serious illness policy; overseas travel.

For more information about the general characteristics of this segment, see paragraph 1.2.5 above.

2.5.2 Competition

This segment is characterized by intense competition from the leading insurance companies in the segment. According to the financial statements for the first nine months of 2017, the leading insurers in this segment by premium turnover are Harel (39.4%), the Phoenix (18.0%) and Clal (16.9%). The share of the Company of total segment premium turnover in the reported period is 2.1%.

The share of the Company in personal accident segment of the total premium turnover in the segment in the reported period is 9.7% and the share of the Company in the overseas travel segment of total premium turnover in this segment is approximately 6%.

The Company faces the competition in this segment by constantly considering developing new products, new and innovative tools and constantly improving customer service.

According to data published by the Ministry of Finance, the company is ranked first in the customer satisfaction index and availability by phone in the area of personal accident insurance, travel insurance and medical expenses, and the first place in the claims payment index for travel insurance.
The Company estimates that the continued annual publication of the service index will increase competition in the health insurance sector. The Company estimates that the service index may help the Company to become the lead player in this insurance sector.

The information included in this section constitutes forward looking information, which is based, among other things, on the current results of the Company. Actual results may be different than the estimated results, and may vary significantly, among other things, as a result of regulatory changes applicable to the Company and lower rating in the four factors underlying the service index.

In 2017, the Company did not develop material new products in this segment.

2.5.3 Customers

a. The following is the distribution of premiums by customer type in this segment (thousands of NIS):

	2017	**2016**	**2015**
Private customer – personal accidents insurance	168,235	171,196	172,613
Private customers – serious illness insurance	28,944	27,101	24,342
Overseas travel insurance	37,702	19,850	16,428
Group policies	363	1,184	2,213
Total	**235,244**	**219,331**	**215,596**

b. The Company mainly sells its products to privates customers through direct marketing. The sale of personal accident insurance policies is mainly done through insurance agents.
c. In the overseas travel segment, there is dependency on an agreement related to Leumi Card and Isracard customers.
d. The sale of overseas travel insurance policies is carried out by a sales center located at the Company's offices that serves, inter alia, the credit card holders of Leumi Card and Isracard, as part of the agreements, inter alia, that the Company will insure the customers of Isracard and Leumi Card in insurance coverage for travel insurance. Maintaining the current level of activity in this sector depends on the continued existence of these agreements.

   The significant increase in premiums in overseas travel insurance in 2017 was due to the engagement with Isracard.
e. The rate of cancelations in 2017 in health policies that were in effect during the year in terms of premium was 18.41% of gross premiums.

2.6 <u>**Activity segment 6 – Life insurance**</u>

2.6.1 <u>Products and services</u>

The Company sells risk only life insurance policies to private customers (including life insurance for mortgage purposes). The policies cover death and include extensions for permanent disability and total disability, accidental disability, accidental death, critical illnesses and health insurance providing coverage of medical expenses.

In risk policies, the beneficiaries are those designated by the insurance customer (if and to the extent that beneficiaries have been determined) In risk policies for protecting mortgages and other loans, the lending bank is registered as a nonrecourse beneficiary up to the outstanding amount of the loan on the date of an insurance event plus inflation linkage and interest, early repayment fee and arrears interest for up to 12 months of repaying the loan.

As discussed above, health insurance for coverage of medical expenses is managed in the company within the life insurance segment.

For more information about the general characteristics of this segment, see 1.2.6 above.

2.6.2 <u>Competition</u>

The life insurance segment is characterized by fierce competition. Most insurance companies are active in this insurance segment and 94.0% of the life insurance market is dominated by the five large insurance companies: Migdal, Clal, Harel, the Phoenix and Menorah. The share of the Company in the life insurance segment out of total premium turnover in the reported period is 0.5%.

Since it is possible to compare the life and health insurance fees collected by the various insurance companies through the life insurance rates calculator and the health insurance comparison calculator presented on the Supervisor's website, there is great sensitivity among the customers to the rate of insurance premiums. The Company's competition with the competition is in constant improvement in the provision of customer service, branding and differentiation of the Company's unique advantages and operational efficiency.

According to data published by the Ministry of Finance, the Company is in first place in the claims payment index and customer satisfaction in life assurance risk.

In the Company's estimation, intelligent use of such calculators that enable policyholders to make an efficient comparison between insurance companies' tariffs and the continued publication of the service index at an annual frequency will lead to increased competition in the life assurance and health insurance sectors and may affect the Company's market share in these sectors. The Company's assessment is forward-looking information based on the information it has at the time of publication of the report. The actual results may differ from the results estimated, inter alia, in view of the behavior of competitors and customers in these sectors.

2.6.3 Customers

The Company is not dependent on any single customer or a limited number of customers. The Company sells the product mainly to private customers through direct marketing. The Company does not have collective customers.

3. **Part C – Additional information about general insurance segments not included among activity segments.**

All insurance segments of the Company are included in Part B of this report.

4. **Part D – Additional enterprise-level information**

4.1 Restrictions and regulation applicable to the activity of the Company

The activity of the Company is subject to the provisions of different laws that are designed to ensure that insurance companies are run adequately. The following is a summary of main legal provisions:

Insurance Contract Law – This law governs mainly the relationship between parties to the insurance contract.

a. **Regulations enacted under the Supervision Law – The following is a summary of key regulations enacted under the Supervision Law and which pertain to the Company's activity:**

- Minimum Capital Regulations – Indicate the minimum capital required by an insurer and the mechanism for computation.
  In March 2018, the Supervisor published a circular regarding provisions regarding **the insurer's solvency margin ("equity capital")**. The shareholders' equity circular replaces the minimum shareholders' equity regulations with respect to the required shareholders' equity for the insurance company's solvency, and it comes alongside **the Supervision of Financial Services (Insurance) (Minimum Equity Required for an Insurer's License) Regulations, 5768-2018**. To the best of the Company's knowledge, the minimum shareholders 'equity regulations were approved by the Finance Committee in January 2018, but have not yet been signed by the Minister of Finance The provisions of the shareholders' equity circular apply to insurance companies That the circular regarding the implementation of an economic solvency policy of an Solvency II-based insurance company (**the "Solvency Circular"**) does not apply to them, Insurability returns Solvency applies, and pending certification by the Supervisor regarding audits accountant for implementing Solvency Circular.

  Concurrently, the Supervisor's position regarding the definition of recognized capital and required equity in complex capital instruments was also published at the same time. In such a position, the Supervisor determines what is proper interpretation of the terms "required capital" and "recognized capital".

- The Supervision of Financial Services (Provident Funds) (Investment Rules Applicable to Financial Institutions), 2012 and the Supervision of Insurance Business Regulations (Mode of Investment of the Capital and Reserves of an Insurer and the Management of its Obligations), 2001 ("**the investment regulations**"). The regulations set investment rules for institutional investors and corporate governance for investment activity, respectively. For more information on the investment segment of the Company see paragraph 4.4 of this report.

  In February 2018, the Supervisor published a draft circular regarding the Non-yield dependent investments committee. The purpose of the draft is to set provisions for the non-yield dependent investment committee, which will replace the investment regulations after their cancellation, and to regulate various aspects of the committee's work and composition, so that they will be adapted to the committee's functions and the current framework of corporate governance. Within the framework of the draft, provisions were made, inter alia, regarding the composition of the committee and the qualifications of its members, restrictions regarding the appointment of a committee member, the appointment of a chairman, the functions of the committee and its methods of work.

- The computation of General insurance reserves regulations, govern, among other things, the method and frequency for computing general insurance reserves.

  In March 2018, the Supervisor published an amendment to the provisions of the consolidated circular regarding measurement. The purpose of the amendment is to assimilate existing legal provisions in the consolidated circular, including the provisions of the Control of Financial Services (Provident Funds) (Calculation of Value of Assets) Regulations, 5769-2009, and the provisions of the Calculation of Insurance Reserves in General Insurance Regulations.

- The Supervision of Financial Services Regulations (Insurance) (Financial Statements), 2007, require insurance companies, among other things, to prepare annual and quarterly financial statements.

  In this context, it should be noted that in March 2018, the Supervisor published a new chapter of the Regulation Code - the Consolidated Circular - a report to the public. The chapter includes, among other things, all the Supervisor's instructions relating to the periodic reports of financial institutions published to the public. The provisions of the new chapter replace the aforesaid regulations, and therefore the provisions of these regulations will not be valid from the date on which the provisions of the new chapter will apply (beginning with the periodic report for the first quarter of 2018).

- The Supervision of Financial Services Regulations (Insurance) (The Board of Directors and its Committees), 2007 **("The Board of Directors Regulations")**, which discuss the Board of Directors and its authorities and set rules for the proper function of the board and its committees, its composition, issues that must be discussed and be decided, attendance and legal quorum, board committees, delegation of powers, etc.

  In March 2018, the Supervisor published a draft concerning the board of directors of an institutional body. The draft circular prescribes, inter alia, provisions regarding the qualifications of members of the board of directors, the composition of the board of directors, its functions, powers and manner of conduct. The proposed draft proposes that its provisions replace the Board of Directors' Regulations and the Institutional Bodies Circular 2006-9-7 regarding the "Procedure for the Work of the Board of Directors and its Committees".

For more information about corporate governance applicable to those companies, see Part E. of this report.

- The recommendations of the Winograd Committee and the entry into force of the Capitalization

  On June 8, 2014, the Winograd 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 they include, among other things, recommendations to adjust payments according to the current, higher, life expectancy and discounting one-off payments using interest rate of 2% instead of 3% due to lower interest rates in recent years.

Pursuant to the recommendations of the Winograd Committee, the National Insurance Regulations (Capitalization) (Amendment), 5766 - 2016 (**"the Amendment to the Capitalization Regulations"**), which adopted the recommendations of the Committee, were published in Reshumot and came into force on October 1, 2017 (**the "Effective Date"**), So that the provisions of the amendment to the capitalization regulations apply to the calculation of a discounted value made from the effective date onwards. The amendment to the capitalization regulations is supposed to reduce the capitalization rate as noted above, and consequently increase the claims payments in compulsory motor insurance.

As of the report date, the Company's management estimates that the provisions of the amendment to the capitalization regulations will result in an increase in liabilities in respect of the Company's insurance contracts in the CMBI branch in the amount of NIS 49.9 million gross and NIS 36.0 million in retention (including the influence of the Pool).
The information included in this section constitutes forward looking information, which is based, among other things, on present activity of the Company. Actual results may be different than the estimated results, and may vary significantly from the above forecast, due to many factors, chief among them are regulatory changes applicable to the Company, and the if development of claims in the future is significantly different than Company estimates.

Regulatory codex

Reporting to the Supervisor chapter

- • In January 2017, an amendment to the provisions of the reporting to the Supervisor chapter codex was issued, designed to changes the method of reporting and reporting address, and improve the content and quality of reporting, and reduce the frequency of certain filings.

- In December 2017, the Supervisor published Circular 2017-9-20 regarding an amendment to the provisions of the consolidated circular regarding the embedded value report. The purpose of the circular as aforesaid is to cancel the duty of insurance companies to report to the Supervisor and to the public regarding the embedded value in long-term policies in life and health insurance.

- In February 2018, the Supervisor published an amendment to the provisions of the consolidated circular regarding reinsurance reports to the Supervisor. The purpose of the amendment is to update the structure of the information reported to the Supervisor regarding reinsurance agreements, on three levels of reference: periodic reporting, immediate reporting and the manner in which reports are submitted to the Supervisor.

- In March 2018, the Supervisor published another draft regarding reports to the Supervisor. As part of the aforesaid draft, it was determined that the "Reporting of Yield Components" and "List of Assets at the Single Asset" reports, published today on the websites of the institutional entities, will also be reported to the Supervisor through the reporting system (Signal Portal).

Investment Asset Management

- In March 2018, the Supervisor published Circular 2018-9-7 concerning an amendment to the consolidated circular regarding the management of investment assets. As part of the amendment, a number of significant structural changes were made in relation to the two editions published in the past. The purpose of the structural changes is to create, inter alia, a logical sequence and relevant links between all the instructions that deal with the management of investment assets, while presenting them in a clear and simple manner.

Chapter on the approval of officers and reporting on position holders

- In March 2018, the Supervisor published Circular No. 2018-9 regarding the amendment of the provisions of the Consolidated Circular regarding the approval of officers and reporting on position holders. The purpose of the circular is to update the provisions of various circulars regarding officers, and to consolidate the provisions of the existing circulars into one framework.

Health insurance chapter

- In February 2018, a circular was published concerning the amendment of the provisions of the Consolidated Circular concerning the disclosure and reporting to policyholders in health insurance. The purpose of the circular is to determine the format in which information reports will be sent to insurance candidates and to policyholders, as well as the conditions for transferring information to the insured by digital means. The provisions of the said amendment will come into effect in September 2018, and they will apply in relation to the annual report in respect of 2018.
-
- In March 2018, the Supervisor published an amendment to the provisions of the late circular. The purpose of the circular is to enable policyholders to receive notices from the insurance companies in an accessible and convenient manner, both by e-mail and by text messages to the mobile phone. This is part of the Authority's policy to encourage the use of digital means in the interfaces between the insurance company and the insured.

Circulars, clarifications, decisions and Supervisor positions:

Circulars

The following is summary of the key matters concerning the activity of the Company that were addressed by the Supervisor in circulars, clarifications, decisions and opinions of the Supervisor in the reported period and until shortly before the date of issuing this report, and which were not included in the review of lines of business:

- In January 2017, the Supervisor issued a circular update titled "Update of Guidance on the Structure of Required Disclosure Regarding Financial Statements of Insurance Company in Accordance to International Financial Reporting Standards (IFRS)." The purpose of the circular was to update the disclosure provisions set by Insurance Circular 2010-1-4. In January 2018, an additional update was published to the disclosure provisions prescribed in the aforementioned circular.

- In January 2017, the Supervisor issued Circular 2016-10-13 on the involvement of unlicensed entities in selling and marketing insurance products that are not collective. The purpose of that circular was to provide more elaborate guidance on the engagement of regulated entities with non-regulated ones in relation to marketing or selling a non-group insurance product. In July 2017, an update was published to the aforementioned circular. The purpose of the update is to amend the commencement clause so that the provisions of the circular will apply to travel insurance as of June 2018, during the recommendation of the Court in the framework of HCJ 14/8973 Association of Travel Agencies and Tourism Consultants in Israel v. Supervisor of the Capital Market and others.

- In February 2017, the Supervisor published Circular 2017-9-2, which updates the provisions of the circular regarding an annual report and a quarterly report for members and policyholders in an institutional body. The said circular includes an update to the summary annual report section for the insured in life assurance and work disability, which does not include a savings component, as well as with regard to tax approval and capital declaration. In September 2017, a first amendment to the said circular was published. Within the framework of the amendment to the circular, as stated, various provisions were prescribed, inter alia, with regard to the obligation of financial institutions to send to their policyholders a periodic report. In December 2017, an additional amendment to the said circular was published and provisions were set forth regarding the obligation of an insurance company to send the annual report to the insured's e-mail, insofar as the company has its e-mail address, as well as transitional provisions on this matter.

- In February 2017, the Supervisor issued Circular 2017-1-1, titled "Retrieval of Personal Information". The purpose of the Circular was to determine provisions that will allow retrieval of personal information by insurance customers. The circular determined, among other things, that retrieval of information will be done using various technology tools that allow access to different insurance products and for settlement of claims.

- In February 2017, the Supervisor issued Circular 2017-1-3 titled "Cancellation of Insurance Policies". The purpose of the circular is to make policy cancellation more accessible to insurance customers, and that through a uniform provision that require insurance companies to offer customers a range of options to cancel policies and specifying the actions required, which when performed lead to cancellation of a policy.

- In March 2017, an amendment was published to the circular clarifying and settling claims and handling requests from the public. The purpose of the amendment is to prohibit problematic drivers of financial institutions in connection with the process of investigating and settling the claims they make.

- In March 2017, the Supervisor published Circular 2017-1-5 regarding provisions for the formulation of insurance plans. The purpose of the circular is to reduce the use by insurers of the wording of the insurance contract in a manner that limits the insured's ability to exercise the rights granted to him in the policy.

- In March 2017, the Supervisor published Circular 2017-1-4, which amends the provisions of the Insurance Circular. The purpose of the amendment as aforesaid is to prohibit problematic drivers of financial institutions in connection with a joining procedure for insurance.

- In March 2017, the Supervisor published Circular 2017-9-3 regarding information files via safes. The circular details the requirements of institutional entities for the use of a safe deposit box that enables confidentiality of the information. In July 2017, an amendment to the said circular was published, so that certain provisions of the said circular went into effect on September 3, 2017.

- In July 2017, the Supervisor published a circular regarding reporting to the Supervisor regarding the results of calculating the economic solvency ratio. The purpose of the circular is to regulate the reporting format of the insurance companies to the Supervisor regarding the results of the economic solvency ratio according to the provisions of the Solvency Circular. The circular stipulates that the board of directors of an insurance company will discuss the results of calculating the solvency ratio submitted to it by the management of the insurance company prior to their submission to the Supervisor within 30 days from the date of such report, a copy of the minutes of the discussion of the board of directors and of the protocol of the Solvency meeting. In December 2017, an amendment to the said circular was published, allowing the submission of the auditor's special report regarding the components relating to the examination of processes and controls, by the end of January 2018.

- In November 2017, the position of the Supervisor regarding the reference to the TASE clearing houses regarding the capital requirements of the Solvency II economic solvency regime was published. The Supervisor's position is that for the purpose of calculating the capital requirement for insolvency risk, an insurance company may not calculate a capital requirement due to a counterparty's insolvency risk component for any exposure in which the counterparty is the clearinghouse of the stock exchange.

- In December 2017, the Supervisor published a circular regarding the disclosure structure required in the periodic report and on the website of insurance companies on the subject of Solvency II financial solvency regime. The purpose of the circular is to prescribe provisions regarding the structure of disclosure in the periodic report and on the website of insurance companies on the Solvency II financial solvency regime, including the requirement to audit such disclosures, as well as the conditions for examining the approval of the Supervisor. The changes in the circular are reflected in the update of the shareholders' equity note. In the circular, as stated, it was determined that an insurance company shall include in the periodic report a report on solvency ratio based on the structure of disclosure set out in the circular and that the aforementioned report be located following the financial report. In addition, the circular includes various transitional provisions as to the disclosure required in the upcoming periodic reports.

- In January 2018, the Supervisor published Circular 2017-1-23 regarding the updating of provisions in the periodic report of insurance companies. The purpose of the circular is to shorten and improve the directors' report of the insurance companies, inter alia by requiring the inclusion of a table of contents including a reference to page numbers by hyperlink. The provisions of the circular shall apply from the periodic report for 2017.

Drafts

The following is a summary review of drafts released by the Supervisor in the reported period and through shortly before the date of issuing this report and that may have material impact on the Company:

- In January 2017, a bill of the Supervision of Financial Services Law (Insurance) (Amendment – Mortgage Loan Insurance in the Event of Unemployment), 2017. The purpose of the bill is to determine that the Supervisor may issue provisions for mortgage loan insurance coverage in the event that the lender loses his/her source of income, such that the policy will cover mortgage payments over the period of entitlement to unemployment benefits, plus additional 3 months; and to prevent a bank require buying such insurance as precondition to a mortgage loan.

- In April 2017, the Supervisor published a draft circular regarding life insurance plans incidental to a housing loan. The purpose of the draft is to set conditions that will be included in mortgage life insurance plans so that throughout the loan period, the insurance coverage acquired will be matched with the terms of the loan for which the cover was purchased as collateral, inter alia by obtaining the necessary information from the lending bank to update the policy terms in accordance with the updated terms of the loan.

- In April 2017, the Supervisor published a draft amendment to the circular regarding investment rules that apply to financial institutions and that regulate the investment rules according to which an institutional body is supposed to operate. The purpose of the draft amendment is to expand the investment possibilities of the institutional entities and enable them to invest in companies engaged in providing credit to households that are parties related to the terms and restrictions prescribed in the aforementioned draft amendment, including guaranteeing the principal of the loan on an autonomous and irrevocable guarantee from a banking corporation or other institutional entity, , before the financial institution places its relative share in the value of a loan.

- In August 2017, the Supervisor published a draft amendment to the provisions of the consolidated circular in the motor property sector. The purpose of the draft is to regulate the relationships of the insurance companies with assessors and garages, neutralizing potential conflicts of interest between them, and to ensure that the rights of the insured and third parties are exhausted and that the fair, efficient, transparent and professional treatment is handled. The draft proposes, inter alia: (1) To cancel the lists of external appraisers and to instruct each insurance company to make use of an appraiser's database, which will replace the existing appraisers' lists in each insurance company; (2) to regulate the manner in which the appraiser is chosen so that the insured will choose an appraiser independently from a supply of three appraisers listed in the assessors list; (3) to allow any garage that undertakes to comply with the principles and signs an agreement with the insurance company to serve as an agreed garage and to provide service to its policyholders or to an injured party that is a third party claiming it; and (4) to enable each policyholder to choose the agreed garage by means of grades that will measure the level of satisfaction of all the insured who received service in the same garage, and more.

- In August 2017, a draft of the position of the Supervisor was published - **Findings of an examination regarding the introduction of service letters and the manner of their marketing**. The purpose of the draft is to contribute to uniformity in the implementation of the provisions of Insurance Circular 2015-1-27 regarding the introduction of service letters and the manner of marketing them, and to improve the conduct of the insurance companies in implementing the provisions of the circular. This draft position details examples of defective applications and proper applications of the provisions of the circular. Further to the audit, in January 2018, the Supervisor published a draft circular concerning the management of letters and services and the manner of their marketing. The purpose of the draft amendment is to prevent situations that make it difficult for the policyholder to compare a service letter sold by the insurance company to a service letter sold by another entity, thereby reducing insurance costs. Among other things, the provisions include a prohibition on the effect of the sale of service letters on commissions of insurance agents in respect of the sale of an insurance policy, and the prohibition on conditioning the purchase of a written service insurance policy

- In November 2017, the Supervisor published a draft regarding personal deductibles for surgery insurance. The purpose of the aforesaid draft is to enable insurance companies to offer policyholders coverage for surgery that includes deductible. The draft proposes that the addition of a deductible can be based on a policy from "the first shekel" or on the basis of the "Supplementary Shaban" policy, adding the deductible to such policies will enable policyholders who wish to do so to purchase smaller insurance coverage and reduce the monthly premium.

- In November 2017, the Supervisor published a second draft regarding outsourcing in institutional bodies. The draft prescribes rules for the use of outsourcing by institutional entities, including the process of outsourcing and managing operations for outsourcing, as part of the provisions of the consolidated circular. As part of the said draft, it was determined, among other things, that an outsourcing agreement for material activity that was signed prior to the date of publication of the circular in force will be adjusted to its provisions up to December 31, 2018.

- In January 2018, the Supervisor published a draft amendment to the provisions of the consolidated circular concerning reports to the Supervisor. The purpose of the said draft is to update the provisions of the Consolidated Circular so as to add a "Solvency Report". The objective of the Solvency Report is to provide the Supervisor with a detailed report on the companies' financial balance sheet data, their capital composition, the capital requirement in respect of the scenarios and compliance with the required capital ratio in accordance with the Solvency Circular.

- In January 2018, the Supervisor published a draft amendment to the insurance circular. As part of the aforementioned draft, it is proposed, among other things, that the first stage of the process of matching the needs to the candidate for insurance will include checking the list of insurance products existing in his possession by querying the insurance site, in order to prevent a situation in which the insured is offered similar products that are in his possession and are not required of him, and also that a marketing entity will not perform such a query unless he has received permission for individual use from the candidate for insurance..

- In January 2018, a draft memorandum of the Control of Financial Services (Insurance) (Amendment No.) (Dispute Resolution Institution) Law, 5727 - 2017. The purpose of the draft is to streamline the procedures for settling disputes in the insurance sector in Israel, taking into account the differences in power between those seeking to exercise their rights and the insurance company, as well as reducing the burden placed on the courts, among other things, to establish within the Authority a dispute resolution institution that will enable exhaustion of the rights of applicants.

- In February 2018, the Supervisor published a draft amendment to the circular regarding the service to customers of institutional entities. As part of the draft, it is proposed to amend Circular 2011-9-7, "Service to customers of institutional bodies", such that the circular will include provisions intended to improve the quality of service provided to institutional customers. The circular prescribes general principles for the provision of services to institutional customers, and obliges an institutional body to determine a service agreement.

- In February 2018, the Supervisor published a draft circular regarding approval of the existence of insurance. The purpose of the draft is to prescribe provisions for arrangements for the conduct of insurance companies and insurance agents in the issuance of a certificate of existence of insurance.

- In February 2018, the Supervisor published a draft circular regarding an Internet interface for locating insurance products. The purpose of the draft is to amend Circular 2016-1-17 and to determine additional types of information that must be reported to the Supervisor in order to improve the services provided to policyholders through the insurance policy and to add additional new services that will be granted to policyholders.

- In February 2018, the Supervisor published a draft amendment to the circular regarding the preparation of a health insurance plan. The purpose of the draft is to amend the circular as stated, and to enable policyholders to receive notices from the insurance companies in an accessible and convenient manner, both by e-mail and by text messages to the mobile phone.

- In March 2018, the Supervisor published two new drafts that amend the provisions of the Consolidated Circular. The purpose of the drafts is to assimilate the provisions of the circular in the provisions of the Consolidated Circular regarding "embezzlement and fraud by entities within the organization and entities outside the organization", as well as the provisions of the circular regarding "management of compliance risks in institutional entities".

- In March 2018, the Supervisor published a draft amendment to the circular regarding an annual report and a quarterly report for members and policyholders in an institutional body. The purpose of the draft is to amend a number of sections of the circular regarding tax approvals and for documents signed by an insured person that the company must present at the concentration of details of its existing policies in the company, and to extend the temporary order regarding the sending of a detailed annual report for insurance coverage in the event of death in connection with a mortgage purchased through a mortgage bank prior to January 1, 2006.

4.2 **Entry and exit barriers**

4.2.1 **Key entry barriers**

Key barriers on entering the different activity areas of the Company are as follows:

a. Licenses and permits: According to the Supervision Law, practicing in each insurance sector required obtaining an insurer license from the Supervisor. In addition, holding more than five percent of a specific type of controlling instrument in an insurance company is conditioned on obtaining a permit to hold controlling instruments from the Supervisor, and controlling an insurance company also requires a controlling permit from the Supervisor.

b. Capital: An insurer has to comply with capital requirements and repayment ratio. For more information about regulatory capital requirements that apply to the Company and compliance of the Company, see Section 3 of the Directors' Report and Note 12 to the Financial Statements..

c. Infrastructure: Given the complexity of the insurance products and their daily management, an insurance company needs to create an organizational, IT and operating infrastructure and continuously maintain it.

d. Expertise, experience and reputation: Being an insurer requires a focused professional knowledge and understanding of different insurance aspects, mainly involving actuary, underwriting, investment, reinsurance, marketing and risk management. In addition, to set rates and underwriting terms for new policies, it is important to have experience and a broad actuarial database.

e. Minimum revenue: An insurance Company must generate minimum revenue to cover the high operating costs involved in investment in buying, maintaining and upgrading systems and infrastructure, including the need to comply with regulatory change that take place from time to time.

f. Reinsurance: the ability and knowhow to buy adequate protection from reinsurers and to engage in reinsurance contracts with them.

4.2.2 Key exit barriers

The key barriers on exiting the different activity areas of the Company are as follow:

a. Liquidation or dissolution of insurance business: A liquidation or dissolution of an insurer are subject to oversight by the Supervisor, who may order the insurer to act in a certain way upon dissolution of its business or to ask a court to order the dissolution to be controlled or overseen by the court.

b. Run-off: The around policies with long claims tail may continue for many years until all claims for policies sold prior to the termination of the activity are settled and until all rights of existing insurance customers are satisfied or until the sale of the insurance activity.

4.2.3 Limitations in control permit

The main limits in a permit to control a company are as follows:

a. Maintaining control over the Company: AIG committed to hold all controlling instruments in the Company and intermediate companies in the Company's chain of control at all times, and that its holding rates in the Company may not change in any way unless the Supervisor has gave an advanced, written agreement and subject to the terms and conditions he set. In addition, the control permit requires an advanced approval by the Supervisor for control over AIG.

b. Prohibition on transferring rights to controlling instruments to a third party: AIG committed to maintain all controlling instruments of the Company free and clear at all times.

c. Capital replenishment: A company in the AIG control chain irrevocably committed to replenish the capital of the Company, if required, up to the amount required by the Minimum Capital Regulation while AIG is controlling the Company.

d. Interested party transactions: AIG, the entities it controls and companies in the control chain of the Company are entitled to management fee from the Company only under a written management agreement that is submitted to the Supervisor at least sixty days prior to its effective date, provided that the Supervisor has not opposed that agreement prior to its effective date. The above limitation does not apply to providing services in the ordinary course of business and at arm's length by such companies.

e. Change to articles of association: Any change in the articles of association of the Company that may impact the control over the Company or any term of the controlling permit is subject to an advance, written approval by the Supervisor.

4.3 Key success criteria

a. Changes in the macroeconomic situation in Israel and globally, including changes in the security situation, inflation, interest rates, unemployment, the average salary, etc, may have material impact on the Company's business results. Changes in the regulatory policy for capital markets and volatility in the capital markets, in general, and bond yields, in particular, may have material impact on the business results of the Company.

b. The political and security situation in Israel affects the fiscal and monetary situation of the Israeli economy and the position of the capital market. In addition, different security arrangement may have impact on the prevalence of car theft in Israel and thus, have material impact on the results in the property vehicle insurance business.

c. The Israeli insurance market is competitive, especially so in retail insurance, which is the main activity of the Company. Raising rates given the competition in this market may impact profitability of the Company. For more information about the competition in the Company's different areas of activity and measures that the Company is taking to deal with this competition, see paragraphs 2.1.2, 2.2.2, 2.3.2, 2.4.2, 2.5.2 and 2.6.2 in this report.

d. Frequent changes in regulatory requirements and case law may have material impact on the business results of the Company.

e. In addition, the Company believes that the key factors for success in its activity include: frequent revision of actuary assumptions that underlies rates; improvement of quality, professionalism and underwriting data reliability; the quality of reinsurance and stability of reinsurers; customer mix and loyalty; customer retention levels; cutting operating costs; marketing and distribution; owning IT and supporting systems; quality of investment portfolio management and investment income; streamlining claims management and settlement costs; achieving a high rate of subrogation; improving the quality of customer service to customers; low frequency of natural disasters; reducing the scale of insurance fraud; recruiting and retaining quality human capital; the Company's ability to improve agreements with suppliers, the quality of collection of the Company, the creation of new distribution channels and continuous improvement in the field of digitization and automation

Those success factors have not materially changed in 2017 except for the financial situation that changes frequently and impacts the Company in much the same way as it impacts the entire insurance market.

4.4 Investments

Investments of the Company are managed by the Company's external portfolio managers according to instructions by the Investments Committee, which was set up pursuant to the Supervision Law and investments regulations, and according to investment asset chapter in the regulation codex, as well as other provisions of the Supervisors concerning investments.

The investment policy of an insurer is determined by the Company's board based on recommendations of the investment committee according to the law. The Company mainly implements a prudent and conservative investment policy including:

- Investment in listed government bonds
- Investment in high-rated corporate bonds
- Investment in bonds with short to long average term to maturity and in accordance with the duration of the insurance liabilities
- Investment in shares through instruments that track leading share indices in Israel and internationally

Credit risks involved with those investments are managed according to the law and the policy of the board through the investments committee and the distress debt center of the Company. The Company is not required to appoint a specialized credit committee. The risk management policy includes exposure limits, including, limits on exposure to one debtor, a group of creditors, linkage basis, industry, liquidity and credit rate.

For more information on the composition of Company investments, see notes 10 and 27 to the financial statements. For information about the contribution of investment components on the proprietary portfolio, go to: http://www.aig.co.il/אודות-aig/תיק-הנוסטרו

For more information about the composition of net investment income and net financing income, see note 21 to the financial statements.

4.5 Reinsurance

a. General

Reinsurance engagements of the Company are made on an annual basis according to the activity area. All engagement agreement with reinsurers are discussed annually by the board and reported annually to the Supervisor according to the Supervisor's guidance. In each insurance segment, the reinsurance coverage is adjusted to the nature of risk and its level. The types of coverage that the Company commonly uses:

- **Proportional reinsurance**: Those reinsurance arrangements include quota share and surplus insurance. In quota share insurance, the relative division between the reinsurer and the insurance company is identical for all policies in a given insurance area. That proportion is used for dividing both premiums and claims. In a surplus insurance, the insurance company predefines the risk level it assumes, and the remaining risk in each policy is transferred to the reinsurer, meaning that the share of the reinsurance in the risk can vary from one policy to the other.

- **Non-proportional reinsurance**: Excess of loss insurance ("**XOL**") – this type of reinsurance covers claims or events over a certain amount, i.e., the insurance cover exceptionally high multiple-risk individual claims. Any amount below the predetermined amount is covered by the insurance company only and not by the reinsurance.

- **Facultative reinsurance**: Those reinsurance arrangements cover special risks embedded in specific policies. For the most part, such business is reinsured in this way when the insurance amount exceeds the capacity of reinsurance contracts mentioned above.

The reinsurance exposure policy is established by the risk management and equity committee of the Company. This policy is based on internal actuarial assessments, various models and claim history. As part of this policy, the sectors in which it is more efficient to transfer the risk to reinsurers based on risk management factors and the size of capital held by the Company. According to the provisions of the Supervision Regulations, the board approves once annually the retention that the Company holds by activity segments and the exposures to reinsurers.

b. American International Overseas Association companies:

A major share of reinsurance is by the following three insurance companies (referred to together as: "**AIOA companies**"):

Company name	Participation (%)
New Hampshire Insurance Company	12%
National Union Fire Insurance Company of Pittsburgh, PA	78%
American Home Assurance Company	10%

Those three companies are members of the global AIG Corporation, and are related parties of the Company

As of the date of this report, those three reinsurers are rated A+ by S&P.

For more information about total premiums transferred in 2017 to reinsurers, see note 27 and 5 to the financial statements. For more information about balances and transactions with interested and related parties, see note 28 to the financial statements.

c. **Property vehicle insurance**

The Company engaged in the reported period in this sector in an XOL reinsurance contract with AIOA. The premiums recorded in favor of AIOA in the reported period were NIS 108 thousand. No fees are paid under this contract.

d. **Compulsory vehicle insurance**

The Company engaged in the reported year in this insurance segment in an XOL reinsurance contract with AIOA. The premiums recorded in favor of that company in the reported year was NIS 2,214 thousand. No fees are paid under this contract.

e. **Home insurance**

The Company entered in the reported year into a surplus reinsurance contract with AIOA. Fee is fixed as a share of premium (approximately 25%).

For catastrophe events (e.g. earthquakes and other natural disasters), the Company purchases in addition to a proportional reinsurance coverage also XOL reinsurance for home insurance. The assessment of the risk for a catastrophe event, and the expected damage was made by a professional team. According to updated calculation using special statistical models, the maximum probable loss (MPL) after self retention is 1.15%. The Company protects itself against earthquake events, including one in 250 year magnitude events. The MPL for calculating catastrophe risks in general insurance in calculating minimum required capital is 1.75%.

As of December 31, 2017, the insurance amount covered by proportional reinsurance in relation to earthquakes is NIS 738 million, while amounts covered in non-proportional reinsurance amount to NIS 57,677 million.

As of the date of this report, the Company acquired reinsurance coverage of NIS 720 million over the Company's retention, which is NIS 30 million for catastrophe.

The following is a list of premiums in home reinsurance (in thousands of NIS):

Home reinsurance premium:	**2017**	**2016**	**2015**
Proportional	4,639	4,656	7,513
Proportional - earthquake	516	2,317	4,078
Non-proportional - earthquake	7,760	7,613	5,400
Total	**12,915**	**14,586**	**16,991**

Note that this table does not refer to underwriting years but to the general calendar results at the segment level as presented in note 4 to the financial statements and may not indicate the underwriting results of reinsurers by underwriting years.

The premium recorded in favor of the AIOA companies in the reported year is NIS 12,391 thousand, and fees amount to NIS 1,711 thousand.

f. **Health insurance**

The Company entered in the reported year into the following reinsurance contracts in this segment:

- A surplus reinsurance contract, with fee as a fixed percent of premium (35%). Reinsurers in this contract are AIOA.
- A Quota Share reinsurance contract in a certain critical illness sector. The reinsurer in this contract is Swiss Re, which is rated AA- by S&P.

In 2017, the Company entered into an insurance contract of the XOL type from the retention amount of the Company up to an amount of NIS 230 million with the AIOA companies, and the Company renewed the aforementioned engagement in respect of 2018 up to an amount of NIS 165 million

The premiums recorded in favor of AIOA companies in the reported year are NIS 1,482 thousand. Commissions from reinsurance amounted to NIS 112 thousand.

g. **Commercial insurance**

The Company engaged in the reported year in quota share and surplus reinsurance contracts in liabilities, professional liability, property, contractors, mechanical breakage and electronic insurance contract with AIOA. The premiums recorded in the reported year to the related companies amounted to NIS 115,566 thousand. The Company received fees on those contracts at a fixed rate of 27.5% to 35.5% from the premium.

The Company does not purchase XOL catastrophe coverage in property insurance and commercial insurance due to the lower retentions to which the Company is exposed.

h. **Life insurance**

The Company engaged in surplus reinsurance contracts with Swiss Re, which is rated AA- by S&P and with Partner Re, which is rated A+ by S&P. Previously, the Company engaged with Gen Re, which is rated AA+ by S&P.

Fees on those contracts are at a fixed rate of premium in the first underwriting years.

In 2017, the Company engaged in a XOL insurance contract to cover catastrophe events with AIG Reinsurance Company Ltd ("**AIRCO**"), which is a company in the AIG global corporation, a related party of the Company and rated A+ by S&P. The Company renewed the engagement for 2018.

The following is information about premiums transferred to those companies:

Reinsurer name	Total reinsurance premiums (NIS in thousands)	% of total reinsurance premiums
Swiss Re	17,447	80%
Partner Re	4,028	13%
Gen Re	971	5%
AIRCO	346	2%
Total	22,792	**100%**

j. Summary of reinsurance results in general and health insurance (in thousands of NIS):

	Property vehicle			Compulsory vehicle			Home insurance		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Reinsurance premiums	108	115	116	2,214	2,016	2,051	12,915	14,586	16,991
Income / (loss)	108	115	116	(19,632)	(28,583)	60,623	9,406	8,970	6,462

	Health			Commercial (*)			Total		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Reinsurance premiums	3,277	3,037	2,408	129,137	122,040	122,757	147,651	141,794	144,323
Income / (loss)	(698)	(504)	(962)	188	(55,284)	(9,886)	(10,628)	(75,286)	56,353

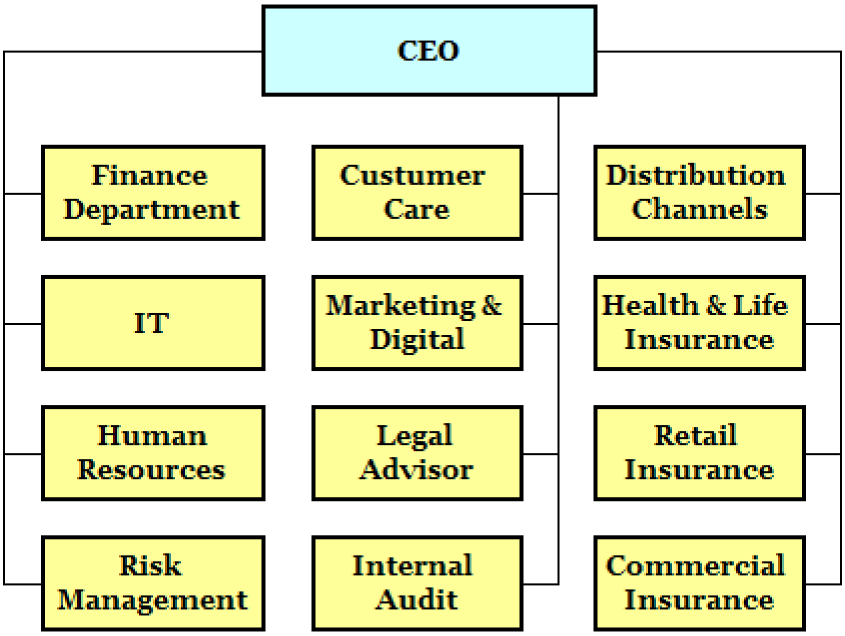
(*) Reinsurance premiums in commercial insurance are proportional contracts only, and include earthquake premium of NIS 14,575 thousand in 2017 and NIS 12,051 thousand in 2016.

For more information on reinsurance results, see note 27.f.5.3 to the financial statements.

4.6 **<u>Human capital</u>**

a. <u>General</u>

The following is an organizational structure of the Company as of the date of this report:



The organizational structure of the Company is based on operations through a head office, located in Petach Tikva, Israel.

As of December 31, 2017, the Company had 803 employees, compared with 829 employees at the end of 2016. Some 69% of employees work in sales and services, compared to 70% in 2016.

The Company has no dependence on any single employee.

The Company believes in the importance of improving its human capital, and is conducting from time to time professional seminars to managers and other employees about different areas of activity. The Company is investing special efforts to train new employees in sales and customer service centers. In addition, trainings are also provided by AIG outside of Israel on professional matters with the attendance of managers and other employees of the Company.

The Company is constantly reviewing its workforce and an option for improving efficiency in connection with its employees.

The weighted number of employees in the Company based on full-employment equivalent as of December 31, 2017 and 2016, based on the organizational structure if as follows:

Activity area:	**2017**	**2016**
Sales and services centres	476	502
Claims	77	73
Headquarters - business divisions	45	46
IT	51	44
Administrative and general	18	22
HR	21	22
Finance	20	19
Marketing	14	13
Total	**721**	**741**

b. Executives:

- Senior management, including the CEO, comprised on the date of issuing this report 13 executives compared to 13 at the end of 2016.
- For more information about management – see Regulation 26A in Chapter D to the report "Additional Information on the Corporation".
- As of December 31, 2017, the board of the Company includes 7 directors, 3 of them are external (independent) directors. For more information see Regulation 26 in Chapter D of the "Additional Information on the Corporation" chapter.

c. Compensation policy of the Company

General

Company's employees, who are not executive, may be eligible to an annual bonus. The bonus will be paid based on the Company's financial position and its meeting of its business targets; payment of the bonus is subject to the approval of the Company's board of directors. The amount of the potential annual bonus is set based on the rank of employees as a range of several salaries. This range is based on the level of performance of the employees compared to other employees in the relevant department in the Company or in the Group.

Some employees may be eligible to monthly or quarterly bonuses on top of their basic salary; this bonus is based on the scope of activities they are in charge of. This type of bonus may be payable to marketing and sales employees, i.e., Company employees who sell or market products to clients such as sales managers, portfolio managers, employees engaged in retaining a portfolio, customer service employees and sales center employees. This type of bonus changes from time to time in accordance with the business targets of the Company. The targets such employees need to meet in order to become eligible to the bonus are determined in a manner that will not encourage employees to behave unfairly to clients in order to become eligible to the bonus.

Control and supervision employees – the eligibility of those employees to annual bonus is not determined in accordance with their meeting any performance targets relating to the activities they are in charge of.

Officers (who are not directors) – The Company compensation policy to offices are according to legal requirements, including the provision of the circular titled "Compensation Policy in Financial Institutions" and the amendment of that circular. In early, 2016, a new compensation plan was adopted for officers of the Company. The provisions of the plan state, among other things, that payment of compensation for each year of qualification is spread over four years, and that subject to meeting personal annual goals, officers are entitled to a bonus whose overall ceiling and its progressive payment are predetermined by the compensation committee and board of the Company. The amount of bonus to officers is determined according to the rate of meeting those goals, multiplied by the number of salaries as determined by the compensation committee and board of the Company. Actual payment of the annual bonus is spread in such way that only 50% of the bonus amount is paid in March of the year subsequent to the year of entitlement, and the remainder is spread using the straight-line method over the next three years, and that subject to meeting the predetermined profitability goals. The goals at the Company level include premium goals, profitability, service level and personal goals, which include personal and department goals, as well as goals related to risk management and compliance. The degree of meeting personal goals is determined by the direct superior of the officer.

According to this compensation plan, no bonus is paid to officers if the Company fails to meet the capital level as required by law.

Approval of the goals of each annual plan, review of actual results and approval of bonus payment are approved by the compensation committee and the board of the Company.

The Company's previous compensation plan, which included components of an annual bonus as well as a component of the long-term compensation plan, ended on December 31, 2017. The long-term compensation plan, as stated, included a three-year bonus for officers according to several criteria relating to the Company's performance. During each three-year bonus period, a number of separate annual targets were calculated for each of the three calendar years during the said bonus period. Each annual target for a calendar year is determined and approved by the Company's Board of Directors. At the end of each three-year bonus period, the overall rate of compliance with the objectives was calculated for the bonus period, i.e. for a period of three years..

The annual compensation for each bonus period is computed as the percentage of meeting the targets for the bonus period multiplied by the amount in the personal target for each officer, which is composed of his/her average salary during the bonus year, times the "salary component" that was set by the Board of Directors of the Company according to his/her role in the Company.

Directors – the salary of Company's independent directors is determined in accordance with the provisions of The Companies Regulations (Rules Regarding Compensation and Expenses to Independent Directors), 2000 ("the Compensation Regulations"). The salary of directors who are not independent directors does not exceed the amounts set in the Compensation Regulations.

For further details regarding the employment terms of senior office holders in the Company, see Regulation 21 in Part D of the annual report.

For more information about the compensation policy of the Company, go to:
https://www.aig.co.il/about_aig/מדיניות-התגמול/

4.7 **Marketing and distribution**

The Company sells coverage directly to customers without involvement of insurance agents. This methodology is characterized by a direct relationship between the Company and its existing and prospect customers. This relationship is maintained by the main centers of the Company (sales and service) through technology, including computer software that allow Company employees using computer system to access detailed information for making decisions on the activity areas.

The call center and website are major marketing and sales resources of the Company. A disruption of those communications resources over time may materially impact the activity of the Company. The Company also sells retail policies (vehicle, home insurance and personal injury) and commercial insurance through insurance agents. Agents receive commissions at a percentage of premiums according to the rate of collection of those premiums.

As part of promoting its marketing efforts, the Company uses, among other things, advanced methods for storing databases allowing automated connectivity as well as decision-supporting systems and auxiliary systems like: a telephone system, recording applications, email, telemarketing, document scanning, sending automated email and more. The Company has a computer system that monitors work flow.

The main marketing channels of the Company are as follows:

- Media advertising (TV, internet, and radio) – main channel;
- Advertising on billboards and print;
- Cooperation with companies;
- Use of databases of the company for cross-sales and up-sales; and
- Public relations.

a. Property vehicle insurance

Policies in this segment are marketed mainly through direct marketing. The average commission paid to agents (before VAT) is 17.7% of gross premium.

b. Compulsory vehicle insurance

Policies in this segment are marketed mainly through direct marketing. The average commission paid to agents (before VAT) is 6.2% of gross premium.

c. Home insurance

Policies in this segment are marketed mainly through direct marketing. Additionally, the Company sells policies in the segment through customers who are interested to buy life insurance for mortgage lending purposes and contacted the Company thanks to marketing efforts in life insurance.

d. Health insurance

Policies in this segment are marketed mainly through direct marketing. In addition, the Company sells its products in this segment through telemarketing (cross sale), a limited number of insurance agencies and the Company's website (mainly overseas travel). With regard to dependence on a distribution channel in the sector of overseas travel insurance see section 2.5.3 above.

e. Commercial insurance

Policies in this segment are marketed exclusively through insurance agents. As of the date of this report, the average commission paid to agents (before VAT) in the liability business is 16.6% of gross premium, in professional liability 17.44% and in property and engineering 11.31%.

f. Life insurance

The Company sells most policies to customers directly without involvement of insurance agents.

g. Set out below are material changes in the laws published during the reporting period that refer to commissions or payments to distribution channels:

In March 2017, the Supervisor published a second draft circular regarding the involvement of a sales supporter in the marketing and sale of an insurance product. The draft regulates the manner in which sales supporters do not hold an agent's license and perform actions by selling an insurance product for an insurer or agent. The provisions of the draft stipulate, among other things, that a policy sold by a sales supporter shall not take effect until the customer has received the customer's approval and that a customer attached to the insurance by a sales supporter will be entitled to cancel his membership and receive back the premiums paid up to six months from the date of joining the insurance.

In April 2017, the Supervisor published Circular 2017-10-1 regarding an annual report on premiums, policies and payment of commissions by institutional entities. The provisions of the circular regulate the reports that financial institutions must submit to the Supervisor regarding the volume of activity in the distribution market, including the volume of premiums transferred to them, brokerage fees and distribution fees recorded in respect of which insurance agents are entitled to the institutional body's systems.

4.8 **<u>Suppliers and services providers</u>**

a. <u>General</u>

The Company buys products and services from numerous suppliers including advertising and marketing providers, equipment and maintenance providers, legal services providers, appraisers, investigators, healthcare institutions, software and hardware providers, auto repair and parts services, towing services, auto glass repair, damage repair, car leasing, etc. The cost of some of those purchases is recognized within cost of claims in the different insurance segments, and mainly in compulsory and property insurance.

The Company selects its suppliers according to cost, quality, quality, availability and expertise. Usually, engagement with providers is for a predefined period (automatic annual renewal) and do not involve exclusive arrangements.

b. <u>Compulsory vehicle insurance</u>

The Company purchases products and services from different providers, including advertising and marketing providers; legal services providers; appraisers; investigators; vehicle repair and parts services; used car dealers for damaged or retrieved after theft; towing; auto glass repair, etc. A significant part of the cost of those purchases is carried to the cost of claims. The Company is not materially dependent on any supplier or services providers.

c. <u>Compulsory vehicle insurance</u>

The Company purchases products and services in this segment from different providers, including: advertising and marketing providers; legal services providers; hospitalization and other healthcare services; investigators; etc. A significant part of the cost of those purchases is carried to the cost of claims. The Company is not materially dependent on any supplier or services providers.

d. <u>Home insurance</u>

Regarding policies purchased during the reporting period prior to September 3, 2017 (the date on which the plumber's circular came into effect) or for policies renewed during the reporting period prior to October 1, 2017, the Company engaged in agreements with different service providers rendering services related to covering water damages and home emergency services. A customer holding an extended policy with additional types of coverage is serviced by the relevant provider according to the relevant service contract. A significant part of the cost of those purchases is carried to the cost of claims.

With respect to policies purchased or renewed after the aforementioned dates, the Company entered into a direct agreement with a management company to settle claims for water damages and also with arrangement plumbers.
There are no suppliers and service providers to which the Company is materially dependent.

e. Health insurance

The Company purchases in this segment products and services from various providers, including healthcare service providers, advertising and marketing services, legal services providers, investigators, overseas traveler assistance services, etc. A significant part of the cost of those purchases is carried to the cost of claims. The Company is not materially dependent on any supplier or services providers.

f. Commercial insurance

The Company purchases in this segment legal, appraisal and investigation services. A significant part of the cost of the above services is carried to the cost of claims. The Company is not materially dependent on any supplier or services providers.

g. Life insurance

The Company purchases in this segment products and services from various providers, including healthcare and legal service providers, investigators, advertising and marketing providers, etc. The cost of those purchases is carried to the cost of claims. The Company is not materially dependent on any supplier or services providers.

h. Non-segment specific service providers

- **Computer and software suppliers** – The Company is engaged with a number of software and hardware providers for both purchasing new products and for regular maintenance of its systems. The two main suppliers for maintaining the insurance system are Comtech Ltd and Dortel Software Systems Ltd. In 2016 and 2017, the Company made a significant investment in a new CRM system. The Company is dependent on those suppliers to a certain degree.

  The total payment (including VAT) to those suppliers in NIS millions are as follows:

Provider	**2017**	**2016**
Comtech	2.9	3.1
Dortel	1.7	2.8

- **Marketing and advertising service providers** – The Company sells most of its products through direct marketing to customers and therefore its marketing and advertising purchases are materially relative to other insurance companies. The primary advertising service provider of the Company in this area in 2017 was the advertising agencies Reuveni Pridan Ltd. For more information about the scope of expenses in this area, see note 24 to the financial statements.

4.9 Property, plant and equipment

a. Property, plant and equipment (PPE) of the Company is located at the Company's headquarters at 25 Hasivim St., Petach Tikva, and in the emergency sites of the Company in the Haifa and Ashdod areas. For more information, see notes 5 and 7 to the financial statements.

b. Computer systems – The Company has an internal information technology (IT) unit, providing automation services to Company units, and is uses the services of suppliers and software companies, as necessary, for ensuring the required computing services. The main development and production site is located at Company headquarters in Petach Tikva, and there is also a backup site for emergencies in the Haifa area.

The main core systems of the Company include the insurance systems and financial systems that are installed on an IBM AS-400 computer.

In 2017, the Company invested NIS 21.0 million in hardware and software. A significant part of that investment relates to the new CRM system and digitization. The balance of depreciated cost of computer systems (including computer software) in the Company as of December 31, 2017 was NIS 44.7 million.

4.10 Seasonality

a. The following table presents gross premiums (general insurance and life insurance) by quarters:

2017 Quarter	1	2	3	4	Total
Property vehicle insurance	97,347	81,046	95,053	79,043	352,489
Compulsory vehicle insurance	43,162	36,952	43,194	36,966	160,274
Home insurance	28,239	24,168	29,857	25,923	108,187
Commercial insurance	43,768	33,502	32,508	31,176	140,954
Health insurance	55,445	58,618	64,657	56,524	235,244
Life insurance	31,849	31,537	31,779	31,888	127,053
Total	**299,810**	**265,823**	**297,048**	**261,520**	**1,124,201**

2016 Quarter	1	2	3	4	Total
Property vehicle insurance	86,404	74,886	84,787	68,046	314,123
Compulsory vehicle insurance	40,644	34,462	39,335	31,643	146,084
Home insurance	28,094	23,786	27,985	23,568	103,433
Commercial insurance	53,674	19,761	31,037	33,338	137,810
Health insurance	53,003	53,632	56,823	55,873	219,331
Life insurance	31,513	31,052	31,670	31,916	126,151
Total	**293,332**	**237,579**	**271,637**	**244,384**	**1,046,932**

b. The mechanism for computing reserves for unexpired risk in general insurance is mitigating the impact of seasonality on income turnover.

4.11 Intangible assets

a. is the registered trademark of the global AIG corporation.

b. The Company has permission to use the eight registered trademarks of the AIG – trademarks number 143541, 249430, 143544, 148118, 148119, 148120, 151905, 249429.

c. The trademark AIG ISRAEL 1-800-400-400 for communication with the sales centre of the Company is a major brand of the Company and an intangible asset. This telephone number is protected, among other things, through trademark no. 184361.

d. The Company owns six databases – claims information, suppliers and agents, employees, job candidates, customers and prospect customers. Those databases store, among other things, information given by customers when buying policies and more information provided in relation to services it provides (such as processing claims). The databases use the Company in the ongoing operation of its business and for marketing insurance policies.

e. For more information on intangible assets - see note 5 to the financial statements.

AIG

4.12 Risk factors

There are a number of risk factors affecting the profitability and stability of the Company. The following table presents risk factors and their impact on the Company:

Risk type	Risk factors	The degree of influence of the risk factor on the Company		
		Significant impact	Moderate impact	Small impact
Macro risks	Economic slowdown in Israel		√	
	Interest		√	
	Inflation		√	
	Share and bond prices		√	
	Credit spreads		√	
	Exchange rates			√
	International market risks			√
	Credit risk		√	
	Asset/liability alignment risk			√
Industry risks	Portfolio retention		√	
	Competition		√	
	Earthquake	√		
	Terrorism			√
	Epidemic		√	
	Regulation and compliance	√		
	Theft, accidents and fire		√	
	Reinsurance stability		√	
Company-specific risks	Legal risks		√	
	Model, parameters, underwriting risks		√	
	Operating risks		√	
	IT risk	√		
	Liquidity risk			√
	Reputation risk	√		
	Wrok relations			√

The impact of the above risk factors is based on the discretion of management based on the judgment of management based on the existing assessment as of the date of this report. This assessment is general and it is possible that different factors may have indirect impact if occurring concurrently.

For more information on the overall risk exposure of the Company – see note 27 to the financial statements.

4.13 **Material agreements and cooperation agreement**

During the reporting year, no material agreements were signed, other than in the ordinary course of business.

4.14 **Other forecasts and assessments on the business of the Company**

This section, by nature, includes forward-looking information, as defined by the Israel Securities Law, which is uncertain and based on assessments and intentions of the Company as of the date of the report. Company assessments may not materialize or partially materialize or in a different way than assessed by the Company.

The business strategy of the Company and its main targets for each line of business are as follows:

- Maximizing profit from all sources of income of the Company, while focusing on maximizing underwriting profit in each line of business separately.
- Providing high-quality customer service
- Exercising business discipline in underwriting and investment operation
- Maintaining the strength of Company brand
- Focusing on customer retention
- Increasing sales in each insurance line of business=
- Balancing between the insurance lines of business without relying on any given line of business
- Priority for investment in digital and automation.
- Constantly exploring new means of distribution
- Constant awareness to customer needs, and accordingly, developing new stand-alone and bundled products
- Control over the extent of Company expenses
- Improving operating efficiency of anything related to decision-support systems
- Nurturing excellence in all Company units
- Careful compliance with regulation.

AIG

5. Part E – Corporate governance information

5.1 Information about independent directors

As of the date of the report, the Company's Board of Directors has 7 directors, of which 3 are independent directors. In the reported period, the Board held 12 board meetings.

In March 2017, Mr. Jules Polak was appointed independent director of the Company, according to a letter from the Supervisor, dated January 25, 2017.

For more information about external directors of the Company, see Regulation 26 of the Additional Information Report of the corporation.

5.2 Internal auditor

a. **Information about the internal auditor and beginning of service**:

The internal auditor of the Company is Mr. Thomas Lowe. Mr. Lowe is an accountant (holds a South African license) and has thirteen-year experience in the AIG corporation, including ten years of different rolls in the internal audit system of AIG and three years in financial positions in Europe. He began his services in this roll on September 1, 2013.

b. **Securities holding and conflict of interest**:

The internal auditor has no business relations with the Company or a related entity. The internal auditor holds two ordinary shares in a related AIG company. This shareholding may not affect his work in any way.

c. **Work relations and additional roles:**

The internal auditor is a Company employee who has no other rolls outside the global AIG concern. The internal auditor is assisted by two internal audit employees of the Company, and when necessary, uses external service providers and the internal audit resources of AIG.

d. **Scale of employment**:

The internal auditor' scope of employment is derived from the work plan approved by the Audit Committee and is subject to changes as a result of the business activity. In 2017, the internal auditor invested 3,450 hours in his work. In 2018, the scope of employment was set to 4,300 hours.

In addition to the internal audit performed by the internal auditor, the internal auditor performs periodic audits by the internal audit function of AIG. Those audits mainly focus on the financial, risk management and IT aspects.

e. **Compensation**:

The internal auditor is compensated by a monthly salary under a personal work contract, at amounts that reflect his position and responsibility. In 2017, the compensation of the internal auditor and his team was NIS 1.6 million. Total compensation to the internal auditor in 2016 was NIS 1.5 million.

The board believes that the compensation of the internal auditor may not affect his professional judgment.

5.3 Independent auditors

The independent auditors of the Company are KPMG Somekh Chaikin Certified Public Accountant. The partner responsible for the internal audit services is Avraham Fruchtman CPA.

The date of the commencement of service as the Company's auditors is December 2017 and they replaced Kesselman & Kesselman (PwC), whose term as the Company's auditors ended near the end of 2017.The following is the independent auditors' fee in NIS (excluding VAT) for services provided in 2017 and 2016 and the number of hours invested:

2017	**Fee for audit and tax services**	**Audit related services**	**Special tax services**	**Other services[1]**	**Total**
NIS thousand	843	142	51	128	1,164
Hours	4,874	550	98	517	6,039

2016	**Fee for audit and tax services**	**Audit related services**	**Special tax services**	**Other services**	**Total**
NIS thousand	646	149	128	125	1,048
Hours	4,738	550	326	622	6,236

5.4 <u>Effectiveness of internal controls and the procedures over financial reporting and disclosure of the Company</u>

Controls and procedures related to disclosure:
A financial institution management, in cooperation with CEO and CFO of that financial institution assessed as of the end of the reported period the effectiveness of the controls and procedures in relation to the disclosure of the financial institution. Based on this assessment, CEO and CFO of the financial institution concluded that as of the end of that period, the

[1] Other services include translation and consulting services.

controls and procedures related to disclosure of the financial institution are effective in order to record, process, summarize and report the information that the financial institution is require to disclose in the annual financial statements according to the provisions of the law and the reporting requirements set by the Supervisor of Capital Markets, Insurance and Savings and on the times indicated in such regulations.

Internal control over financial reporting:
During the covered period ended December 31, 2017, no change has occurred in the internal control of the financial institutions over financial reporting that has had a material impact, or is likely to have a material impact on the internal control of the financial institutions over financial reporting.

5.5 The solvency regime based on Solvency II

For details of the regulatory capital requirements applicable to the Company and the manner in which the Company complies with them, see Section 3 of the Directors' Report and Note 12 to the Financial Statements. For further details regarding the Commissioner's additional instructions in connection with the provisions of the Solvency Circular published during the reporting period, see section 4.1 above

AIG Israel Insurance Company Ltd

Shay Feldman	Ralph Mucerino
CEO	Chairman of the Board

March 27, 2018

Chapter B: Directors Report of Company's Business
for the Year Ended December 31, 2017

AIG Israel Insurance Company Ltd.
("the Company")

Table of Contents

Chapter B: Directors Report

1. General

Operating business lines of the Company

The Company is an Israeli insurance company that operates in the following areas: compulsory motor vehicle insurance, property motor vehicle insurance, personal property insurance, commercial insurance, health insurance and life insurance (risk only). The primary activity of the Company is in the area of individual insurance, where it markets and sells policies directly to policyholders

Event or matter outside the ordinary course of company's business

During the reported period, there were no events outside of the ordinary course of business of the Company.

2. Description of business environment

Trends and developments in the operating activities and their impact on the Company's business and on the financial statements

General

In accordance with data published by the Capital Market, Insurance and Savings Authority, there are more than 15 Israeli insurance companies currently active in Israel; most of these companies are engaged in general insurance. In accordance with this data, as of September 30, 2017, insurance premiums arising from the general insurance business amounted to NIS 17,332 million (excluding Karnit); the share of the 5 largest insurance companies – Harel, Clal, Phoenix, Migdal and Menorah – amounted to NIS 9,841 million, which constituted 57% of the total premiums in the Israeli general insurance sectors.

For further details regarding the competition in the different lines of business of the company and regarding the measures taken by the company to face competition in this competitive market, see Sections 2.1.2, 2.2.2, 2.3.2, 2.4.2, 2.5.2 and 2.6.2 in Chapter A (description of company's business) in the Company's annual 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 from different investment vehicles in the capital market have a significant effect on company's profits.

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

	2017	2016	2015
Government bonds indexes:			
General government bonds	**3.6%**	0.9%	1.6%
Linked government bonds	**3.4%**	0.7%	(0.2%)
NIS government bonds	**3.7%**	1.2%	2.8%
Corporate bonds indexes:			
Tel Bond 60	**5.8%**	2.3%	(0.4%)
Tel Bond NIS	**7.5%**	2.4%	4.7%
Shares indexes -			
Tel-Aviv 125 (formerly Tel-Aviv 100)	**6.4%**	(2.5%)	2.0%

For details regarding the composition of the Company's investments, see notes 10 and 27 to the financial statements.

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

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

The following are principal data on comprehensive income (in thousands of NIS):

	2017	2016	2015
Gross premiums earned	**1,092,070**	1,037,400	988,885
Premiums earned by reinsurers	**(170,454)**	(168,023)	(160,623)
Premiums earned – retained amount	**921,616**	869,377	828,262
Investment income, net and financial income	**65,483**	18,475	18,616
Income from commissions	**41,736**	43,553	37,061
Total income	**1,028,835**	931,405	883,939
Payments and changes in liabilities in respect of insurance contracts – gross	**(693,418)**	(756,904)	(480,825)
Share of reinsurers in increase in insurance liabilities and payments with respect to insurance contracts	**129,879**	192,796	59,958
Payments and changes in liabilities in respect of insurance contracts – retained amount	**(563,539)**	(564,108)	(420,867)
Total other expenses	**(312,308)**	(320,290)	(319,010)
Income before taxes on income	**152,988**	47,007	144,062
Taxes on income	**(55,883)**	(15,833)	(53,971)
Income for the year and total comprehensive income for the year	**97,105**	31,174	90,091

The following are principal balance sheet data (in thousands of NIS):

	December 31	
	2017	2016
Other assets	**275,307**	253,139
Deferred acquisition expenses	**149,357**	141,827
Financial investments and cash	**1,817,713**	1,696,771
Reinsurance assets	**669,428**	658,559
Total assets	**2,911,805**	2,750,296
Shareholders' equity	**800,965**	753,860
Liabilities in respect of insurance contracts	**1,755,007**	1,646,765
Other liabilities	**355,833**	349,671
Total equity and assets	**2,911,805**	2,750,296

Chapter B: Directors Report

Shareholders' equity and capital requirements

As of December 31, 2017, company's shareholders' equity exceeds the shareholders' equity requirement under the Minimum Equity Regulations, by NIS 128.4 million.

To the best of the company's knowledge, as of the reporting date no events have taken place that might indicate of financial difficulties or a deficiency in the minimum required equity. In addition, in the opinion of the company for the forthcoming year, it will not be required to raise funds for the purpose of meeting the minimum shareholders' equity requirement.

For details on the amounts of capital adequacy required from the company, existing amounts under minimum capital regulations, and payment of dividend in the reported period, see note 12 to the financial statements.

Data on the solvency ratio and capital threshold ratio (MCR):

The following are details of the solvency ratio and capital adequacy ratio (MCR) (data not audited or reviewed as part of an audit or review of the financial statements):

A. Solvency Ratio (in thousands of NIS)

	December 31
	2016
Regardless of the provisions in deployment period:	
Equity for the purpose of Solvency Ratio (SCR)	1,053,417
Required solvency margin (SCR)	600,415
Surplus as at the reporting date	**453,002**
Solvency ratio as at reporting date (percentage)	**175%**
Meeting milestones during the deployment period:	
Equity for the purpose of capital required for repayment capacity during the period of deployment	1,053,417
Capital required for repayment capacity during the deployment period	360,249
Surplus during the period of deployment	**693,168**

B. Capital Threshold Ratio (MCR) (in thousands of NIS):

	December 31
	2016
Capital threshold (MCR)	162,112
Equity for the purpose of capital adequacy	753,860

4. Results of operations

In 2017, the Company increased its gross premiums written by 7.4% compared with gross premiums in 2016. The total gross premiums in the reported period amounted to NIS 1,124 million, compared with NIS 1,047 million in 2016.

Total Net premiums written in the reported period amounted to NIS 954 million, compared to NIS 884 million in the corresponding 2016 period, an increase of 7.9%.

The following are principal data regarding premiums by principal operating segments (in thousands of NIS):

	Vehicle property insurance	Compulsory motor vehicle insurance	Personal property insurance	Health insurance	Commercial insurance	Life insurance	Total
2017							
Gross premiums	**352,489**	160,274	108,187	235,244	140,954	127,053	1,124,201
Premiums – retained amount	352,381	158,060	95,272	231,967	11,817	104,261	953,758
Total gross as % of total	31.4	14.3	9.6	20.9	12.5	11.3	100.0
Total net as % of total	36.9	16.6	10.0	24.3	1.2	10.9	100.0
2016							
Gross premiums	314,123	146,084	103,433	219,331	137,810	126,151	1,046,932
Premiums – retained amount	314,008	144,068	88,847	216,295	15,770	104,785	883,773
Total gross as % of total	30.0	14.0	9.9	20.9	13.2	12.0	100.0
Total net as % of total	35.4	16.3	10.1	24.5	1.8	11.9	100.0
2015							
Gross premiums	284,177	146,782	102,246	215,596	141,171	123,116	1,013,088
Premiums – retained amount	284,061	144,731	85,255	213,188	18,414	100,026	845,675
Total gross as % of total	28.0	14.5	10.1	21.3	13.9	12.2	100.0
Total net as % of total	33.6	17.1	10.1	25.2	2.2	11.8	100.0

The following are principal comprehensive income data by principal operating segments (in thousands of NIS):

	2017	2016	2015
Profit (loss) from vehicle property insurance	35,451	(4,958)	(11,742)
Profit (loss) from compulsory motor vehicle insurance	6,810	(18,448)	59,882
Profit from personal property insurance	22,562	15,457	9,419
Profit (loss) from commercial insurance	4,380	(9,424)	5,795
Profit from health insurance	44,295	42,041	58,356
Profit from life insurance	15,375	14,086	11,607
Other – income not charged to insurance segments	24,115	8,253	10,745
Profit before tax	**152,988**	**47,007**	**144,062**
Taxes on income	(55,883)	(15,833)	(53,971)
Profit per year and total profit for the year	**97,105**	**31,174**	**90,091**

For additional data by main industries, see Note 4 to the financial statements.

The following are the explanations of the Company's Board of Directors regarding the development of some of the data presented above:

a. Profit before tax in the reported period amounted to NIS 153.0 million compared to NIS 47.0 million in 2016. The increase in profit resulted from an improvement in underwriting results and from an increase in profits from investments.

b. Profit from net investment in the reported period was NIS 65.5 million compared to a profit of NIS 18.5 million in 2016. The increase in profits from investments was due to an increase in the returns of bonds, government bonds and corporate bonds as well as equities (see section 2 above).

c. Profit from property vehicle insurance during the reported period was NIS 35.5 million, compared to a loss of NIS 5.0 million in 2016. The increase in profit stemmed from a marked improvement in the claims ratio. Already during 2016, the Company took several measures to reduce the cost of claims. As a result of these measures, the Company succeeded in reducing the average claim and also increasing subrogated insurance recoverable. As a result of this improvement in the claims ratio, the Company was able to release a Premium Liability in the amount of NIS 2.5 million during the Reporting Period. The increase in profit was also due to an improvement in profits from investments during the Reporting Period and an increase in expenses.

d. Profit from compulsory vehicle insurance was NIS 6.8 million in the reported period compared to a loss of NIS 18.4 million in 2016. The increase in profit stemmed from a marked improvement in the claims ratio. The results of 2016 were affected mainly by the implications of the amendment to the Capitalization Regulations in the amount of NIS 23.4 million, including NIS 5.2 million in respect of the Company's share in the "Pool". In the reported period, this amounted to NIS 12.6 million, including NIS 2.7 million in respect of the Company's share in "Pool". The increase in profit also derived from a significant improvement in profits from investments during the reporting period.

e. Profit from home insurance in the reported period was NIS 22.6 million, in comparison to NIS 15.5 million in 2016. The increase in income was mainly due to improvement in claims ratio. This improvement was partly due to a fewer and smaller number of weather events in 2017 than in 2016.

f. The Company's loss from professional liability insurance during the reporting period amounted to NIS 6.5 million, compared with a loss of NIS 12.0 million in 2016. The losses in the reporting period and in 2016 were primarily due to claims from previous years relating to directors and officers insurance.

g. The Company's profit from other property lines during the reported period amounted to NIS 2.9 million, compared to a profit of NIS 2.3 million in 2016.

h. Income from other liabilities during the reported period amounted to NIS 8.0 million compared with an income of NIS 0.3 million in 2016. The increase in profit resulted from a significant improvement in the ratio of claims and also from an increase in profits from investments

i. Profit from health insurance in the reported period amounted to NIS 44.3 million in compared to a NIS 42.0 million in 2016. The increase in profit stemmed mainly from an improvement in profits from investments during the reported period.

j. The Company's profit from life insurance during the reported period amounted to NIS 15.4 million, compared to NIS 14.1 million in 2016. The increase in profit was primarily due to an improvement in the expense ratio.

The following are the results of operations in the property insurance lines:

a. **Underwriting profits (losses) (in thousands of NIS):**

	2017	2016	2015
Vehicle property	28,016	(7,614)	(13,644)
Home insurance	19,687	13,746	7,802
Other property segments	2,098	2,065	576

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

	2017		2016		2015	
	LR%	CR%	LR%	CR%	LR%	CR%
Property motor vehicles:						
Gross	69%	91%	78%	103%	81%	105%
Retained amount	69%	91%	78%	103%	81%	105%
Home insurance:						
Gross	36%	72%	41%	78%	47%	86%
Retained amount	39%	79%	43%	84%	48%	91%
Other insurance segments:						
Gross	55%	75%	94%	116%	6%	29%
Retained amount	108%	(26%)	114%	(13%)	118%	67%

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

c. **Compulsory vehicle insurance**

The "Pool" losses reduced the reported income for 2017 in Compulsory vehicle insurance by NIS 12.0 million compared with a decrease of NIS 13.9 million in 2016.

[1] As to gross data, the loss ratio and expenses ratio are computed on the basis of gross premium earned. With regard to retained amounts data, the claims ratio and the expenses ratio are computed on the basis of premium earned in retention.

5. Cash flow and liquidity

Net cash used in operating activities in 2017 amounted to NIS 5,980 thousand, compared with NIS 204,631 thousand generated in 2016.

Net cash used in investing activities in 2017 amounted to NIS 22,331 thousand, compared with NIS 23,112 thousand in 2016.

Net cash used for financing activity (a dividend paid) in 2017 amounted to NIS 50,000 thousand compared with NIS 105,000 in 2016.

As a result of the above, the balance of cash and cash equivalents in the reported period decreased by NIS 78,314 thousand and amounted to NIS 57,920 thousand as of December 31, 2017.

6. Sources of funding

All of the company's operations are self-funded using self-resources and capital. The company does not use any external funding sources.

7. The Company's business strategy and its main objectives

For details of the Company's business strategy and its main objectives, see section 4.14 in Chapter A (description of company's business) of the periodic report.

8. Material events subsequent to the financial statements date

There were no material events subsequent to the date of the financial statements.

Shay Feldman CEO	Ralph Mucerino Chairman of the Board

March 27, 2018

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 year ended December 31, 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 disclosure[1] and internal controls over financial reporting of the insurance company; and -

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

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

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

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

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

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

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

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

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

Shay Feldman - CEO

March 27, 2018

Declaration

I, David Rothstein hereby declare that:

1. I reviewed the interim report of AIG Israel Insurance Company Ltd. (hereafter – "the insurance company") for the year ended December 31, 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 disclosure[1] and internal controls over financial reporting of the insurance company; and -

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

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

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

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

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

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

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

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

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

____

David Rothstein - CFO

March 27, 2018

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

Management, with the supervision of the Board of Directors of AIG Insurance Company Ltd. (hereafter the "the Insurance Company") are responsible for setting and maintaining effective internal control over financial reporting. The internal controls system of the insurance company was planned in order to provide reasonable assurance to management and Board of Directors to the effect that the financial statements are prepared and presented fairly in accordance with International Financial Reporting Standards and in accordance with the directives of the Supervisor of Insurance.
All internal controls have inherent limitations regardless of the quality of planning. Therefore, even if it is determined that these controls are effective they can only provide a reasonable measure of assurance regarding the preparation and presentation of financial statements.

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

The Insurance Company's management with the supervision of its Board of Directors evaluates the effectiveness of the internal control of the Insurance Company over financial reporting as at December 31, 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 December 31, 2017 the internal control of the Insurance Company over financial reporting is effective.

Chairman of the Board: Mr. Ralph Mucerino ___________________

CEO: Mr. Shay Feldman ___________________

CFO: Mr. David Rothstein ___________________

Date of approval of financial statements: March 27, 2018

Chapter C: Financial Statements

AIG Israel Insurance Company Ltd

This translation is for convenience purposes only.

AIG ISRAEL INSURANCE COMPANY LTD.

2017 ANNUAL REPORT

AIG ISRAEL INSURANCE COMPANY LTD.

2017 ANNUAL REPORT

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Somekh Chaikin
KPMG Millenium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv, 6100601
Tel + 972 3 684 8000

Auditors' Report

To the Shareholders of

AIG ISRAEL INSURANCE COMPANY LTD.

Regarding the Audit of Internal Control over Financial Reporting

We have audited the internal control over financial reporting of AIG Israel Insurance Company Ltd. (hereinafter "the Company") as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's board of directors and management are responsible for maintaining effective internal control over financial reporting and their assessment of the effectiveness of the Company's internal control over financial reporting is included in the Annual report. Our responsibility is to express an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB), as adopted by the Institute of Certified Public Accountants in Israel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating the risk of material weakness, and testing and evaluating the design and operating effectiveness of internal control. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Internal control over the financial reporting of a Company that is an institutional body is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards (IFRS) and in accordance with the disclosure requirements of the Commissioner of Capital Markets, Insurance and Savings under the Control of Financial Services (Insurance) Law, 1981. Internal control over financial reporting of a Company that is an institutional body includes those policies and procedures that:
(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company (including their removal from its possession); (ii) provide reasonable assurance that transactions are recorded as necessary to enable preparation of financial statements in accordance with International Financial Reporting Standards (IFRS) and in accordance with the disclosure requirements of the Commissioner of Capital Markets, Insurance and Savings under the Control of Financial Services (Insurance) Law, 1981 and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company;

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KPMG Millenium Tower
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Tel + 972 3 684 8000

and (iii) provide reasonable assurance regarding prevention or detection of unauthorized acquisition, use, or disposition (including their removal from its possession) of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any current evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with generally accepted auditing standards in Israel, the Company's statement of financial position as of December 31, 2017, and the statements of comprehensive income, changes in equity and cash flows for the period ended December 31, 2017, and our report dated March 27, 2018 expressed an unqualified opinion on those financial statements and also included emphasis of matter regarding the exposure to contingent liabilities detailed in Note 30.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 27, 2018

Somekh Chaikin
KPMG Millenium Tower
17 Ha’arba’a Street, PO Box 609
Tel Aviv, 6100601
Tel + 972 3 684 8000

Auditors' Report

To the Shareholders of

AIG ISRAEL INSURANCE COMPANY LTD.

We have audited the accompanying statement of financial position of AIG Israel Insurance Company Ltd. (“the Company”) as of December 31, 2017 and the statements of comprehensive income, changes in equity and cash flows for the year ended December 31, 2017. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audit.

The financial statements of the Company as of December 31, 2016 and for each of the two years ended December 31, 2017 were audited by other auditors whose report dated March 21, 2017 was unqualified.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditors Regulations (Auditor’s Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the board of directors and management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and the results of its operations, changes in equity and cash flows for the year then ended in conformity with International Financial Reporting Standards (IFRS) and in accordance with the disclosure requirements of the Commissioner of Capital Markets, Insurance and Savings under the Control of Financial Services (Insurance) Law, 1981.

Without qualifying our opinion, we hereby draw attention to Note 30 to the financial statements, regarding the exposure to contingent liabilities.

We have also audited in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB) of the United States on auditing internal control over financial reporting as adopted by the Institute of Certified Public Accountants in Israel, the internal control over financial reporting of the Company as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 27, 2018 expressed an unqualified opinion on the effectiveness of internal control over financial reporting.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 27, 2018

AIG ISRAEL INSURANCE COMPANY LTD.

STATEMENTS OF FINANCIAL POSITION

	Note	December 31 2017	December 31 2016
		ILS in thousands	
Assets			
Intangible assets	5	**38,448**	33,816
Deferred acquisition costs	6	**149,357**	141,827
Fixed assets	7	**11,054**	11,435
Reinsurance assets	13, 28	**669,428**	658,559
Premiums collectible	9	**173,828**	153,534
Current tax assets		**3,428**	1,864
Other receivables	8	**48,549**	52,490
		1,094,092	1,053,525
Financial investments:	10		
Marketable debt instruments		**1,588,676**	1,310,175
Non-marketable debt instruments		**85,174**	171,285
Marketable shares		**-**	-
Other		**85,943**	79,077
TOTAL FINANCIAL INVESTMENTS		**1,759,793**	1,560,537
Cash and cash equivalents	11	**57,920**	136,234
TOTAL ASSETS		**2,911,805**	2,750,296

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

Date of approval of financial statements by Board of Directors March 27, 2018.

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

AIG ISRAEL INSURANCE COMPANY LTD.

STATEMENT OF FINANCIAL POSITION

	Note	December 31 2017	December 31 2016
		ILS in thousands	
Equity and liabilities			
EQUITY:	12		
Share capital		**6**	6
Share premium		**250,601**	250,601
Other capital reserves		**11,084**	11,084
Retained earnings		**539,274**	492,169
TOTAL EQUITY ATTRIBUTABLE TO COMPANY SHAREHOLDERS		**800,965**	753,860
LIABILITIES:			
Liabilities with respect to insurance contracts that are not yield dependent	13	**1,755,007**	1,646,765
Liabilities with respect to deferred taxes, net	18	**9,281**	779
Liabilities with respect to employee rights upon retirement, net		**3,489**	2,713
Liabilities towards reinsurers	29	**247,287**	257,165
Payables	19	**95,776**	89,014
TOTAL LIABILITIES		**2,110,840**	1,996,436
TOTAL EQUITY AND LIABILITIES		**2,911,805**	2,750,296

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

AIG ISRAEL INSURANCE COMPANY LTD.

STATEMENT OF COMPREHENSIVE INCOME

	Note	2017	2016	2015
		Year ended December 31		
		ILS in thousands		
Gross premiums earned	20	**1,092,070**	1,037,400	988,885
Premiums earned by reinsurers		**(170,454)**	(168,023)	(160,623)
Premiums earned - retained amount	20	**921,616**	869,377	828,262
Investment income, net and financing income	21	**65,483**	18,475	18,616
Commission income	22	**41,736**	43,553	37,061
TOTAL INCOME		**1,028,835**	931,405	883,939
Payments and changes in liabilities with respect to insurance contracts, gross		**(693,418)**	(756,904)	(480,825)
Share of reinsurers in increase in insurance liabilities and payments with respect to insurance contracts		**129,879**	192,796	59,958
Payments and changes in liabilities with respect to insurance contracts, in retention	23	**(563,539)**	(564,108)	(420,867)
Commission, marketing expenses and other acquisition costs	24	**(236,780)**	(242,330)	(239,888)
General and administrative expenses	25	**(72,747)**	(81,370)	(82,884)
Financing income (expenses)	26	**(2,781)**	3,410	3,762
TOTAL EXPENSES		**(875,847)**	(884,398)	(739,877)
INCOME BEFORE TAXES ON INCOME		**152,988**	47,007	144,062
Taxes on income	18	**(55,883)**	(15,833)	(53,971)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**97,105**	31,174	90,091
BASIC EARNINGS PER SHARE:				
Basic earnings per share		**16.95**	5.44	15.72
Number of shares used in computation of basic earnings per share		**5,730**	5,730	5,730

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

AIG ISRAEL INSURANCE COMPANY LTD.

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Other reserves	Retained earnings	Total
	ILS in thousands				
BBALANCE AS OF JANUARY 1, 2017	**6**	**250,601**	**11,084**	**492,169**	**753,860**
Total comprehensive income for the period				**97,105**	**97,105**
Dividend (see note 12c(3))				**(50,000)**	**(50,000)**
BBALANCE AS OF DECEMBER 31, 2017	**6**	**250,601**	**11,084**	**539,274**	**800,965**
BBALANCE AS OF JANUARY 1, 2016	6	250,601	11,084	565,995	827,686
Total comprehensive income for the period				31,174	31,174
Dividend (see note 12c(4))				(105,000)	(105,000)
BBALANCE AS OF DECEMBER 31, 2016	6	250,601	11,084	492,169	753,860
BBALANCE AS OF JANUARY 1, 2015	6	250,601	11,084	429,216	690,907
Net aggregate impact, as of December 31, 2016, of the accumulation and first-time implementation of the "best practice" (see note 2r (d) (5))				81,688	81,688
Total comprehensive income for the period				90,091	90,091
Dividend (see note 12c(5))				(35,000)	(35,000)
BBALANCE AS OF DECEMBER 31, 2015	6	250,601	11,084	565,995	827,686

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

AIG ISRAEL INSURANCE COMPANY LTD.

STATEMENT OF CASH FLOWS

	Year ended December 31		
	2017	**2016**	**2015**
	ILS in thousands		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net cash (utilized) in operations (Appendix A)	**(17,402)**	184,682	10,261
Interest received	**59,325**	41,449	44,813
Dividend received	**63**	259	2,480
Income taxes paid	**(47,966)**	(21,759)	(22,941)
Net cash (utilized) in operations activities	**(5,980)**	204,631	34,613
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment in property and equipment	**(5,132)**	(6,396)	(6,019)
Investment intangible assets	**(17,199)**	(16,716)	(13,423)
Net cash used in investing activities	**(22,331)**	(23,112)	(19,442)
CASH FLOWS FROM FINANCING ACTIVITIES -			
dividend paid by Company shareholders	**(50,000)**	(105,000)	(35,000)
Net cash used in financing activities	**(50,000)**	(105,000)	(35,000)
EFFECT OF CHANGES IN EXCHANGE RATE ON CASH AND CASH EQUIVALENTS	**(3)**	(2,528)	(1,015)
INCREASE (DECREASE) OF CASH AND CASH EQUIVALENTS	**(78,314)**	73,991	(20,844)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**136,234**	62,243	83,087
CASH AND CASH EQUIVALENTS AT END OF YEAR	**57,920**	136,234	62,243

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

AIG ISRAEL INSURANCE COMPANY LTD.

STATEMENTS OF CASH FLOWS

	Year ended December 31		
	2017	**2016**	**2015**
	ILS in thousands		
APPENDIX A - CASH FLOWS FROM OPERATING:			
Income before taxes on income	**152,988**	47,007	144,062
Adjustments with respect to:			
Items not involving cash flows:			
Change in liability with respect to insurance contracts that are not yield dependent	**108,242**	228,776	(134,592)
Change in Reinsurance assets	**(10,869)**	(110,409)	139,009
Change in deferred acquisition costs	**(7,530)**	7,848	(1,461)
Change in liability for employee rights upon retirement, net	**776**	(68)	(288)
Depreciation of Fixed assets	**5,513**	6,430	5,213
Depreciation of intangible assets	**12,567**	9,297	7,436
Losses (gains), net on financial investments:			
Marketable debt instruments	**(3,935)**	17,594	26,506
Non marketable debt instruments	**(1,896)**	3,094	* 9,853
Marketable shares	**-**	4,162	(825)
Marketable index linked certificates	**(6,982)**	(3,456)	(329)
Influence of fluctuation in exchange rate on cash and cash equivalents	**3**	2,528	1,015
	95,889	165,796	51,537
Changes in asset and liability items:			
Liabilities towards reinsurers	**(9,878)**	(22,182)	(1,251)
Investments in financial assets net	**(186,443)**	47,446	(110,236)
Premiums collectible	**(20,294)**	(4,836)	* (16,229)
Receivables	**3,941**	(9,019)	(3,322)
Payables	**6,762**	2,228	(6,118)
Current tax assets	**(979)**	(50)	(889)
	(206,891)	13,587	(138,045)
ADJUSTMENTS WITH RESPECT TO INTEREST AND DIVIDEND:			
Interest received	**(59,325)**	(41,449)	(44,813)
Dividend received	**(63)**	(259)	(2,480)
	(59,388)	(41,708)	(47,293)
Net cash provided by operations	**(17,402)**	184,682	10,261

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

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

NOTE 1 - GENERAL

AIG Israel Insurance Company Ltd (hereinafter "the Company") was incorporated in Israel on March 27, 1996 as a private, limited liability company. The company commenced its insurance activity 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 global concern AIG

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

Definitions:

1) The Company – AIG Israel Insurance Company Ltd.

2) The parent company – AHEL

3) Supervisor - Supervisor (Commissioner of the Capital Market, Insurance and Savings at the Israel Ministry of Finance).

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

5) Investment contracts – policies which 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 (Annual 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.

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).

NOTE 1 - GENERAL (continued):

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 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 amounts of letters of credit given against the liability of a reinsurer.

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

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

22) Premium - Premium including fees and proceeds for auxiliary services.

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

a. Basis of presentation of financial statements

The Company's financial statements as of December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017, were prepared by the Company in accordance with International Financial Reporting Standards (hereafter – "IFRS"), which are standards and interpretations issued by the International Accounting Standard Board. In addition, the financial statements were prepared in accordance with the disclosure requirements prescribed in the Supervision of Financial Services (Insurance) Law, 5741-1981 and the regulations enacted thereunder..

In connection with the presentation of these financial statements, the following should be indicated:

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

1) Unless otherwise stated, the significant accounting policies described below have been applied on a consistent basis in relation to all the years presented.

2) The financial statements have been prepared under the historical cost convention, except for the principal assets and liabilities, as follows: insurance liabilities, financial instruments measured at fair value through profit or loss, and liabilities for employee severance benefits

3) The preparation of financial statements under IFRS, and especially the financial statements of an insurance company, requires management to make certain significant accounting estimates. It is also required that management exercise discretion in the process of applying the accounting policies of the Company. The principal assumptions used in the preparation of the Company's financial statements are based on actuarial estimates. Actual results could differ significantly from those derived from the use of estimates and assumptions by management. For information relating to those areas where management is required to make significant accounting estimates or exercise a significant degree of discretion in relation to accounting matters, see Note 4 below.

b. Structure of the financial statements

The statements of financial position, which primarily include the Company's assets and liabilities, are presented in accordance with International Accounting Standard No. 1 - Presentation of the Financial Statements and in accordance with the Supervisor's instructions.

c. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker in the Group who is responsible for allocating resources and assessing performance of the operating segments. For further details regarding operating segments, see Note 4

d. Translation of balances and transactions denominated in foreign currency:

1) Functional currency and presentation currency

Items reflected in the financial statements of the Company are measured in New Israel Shekels, which is the currency of the principal economic environment in which the Company operates ("the functional currency"). The financial statements of the Company are also presented in New Israel Shekels, since this is also the presentation currency of the Company.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

d. Translation of balances and transactions denominated in foreign currency (continued)**:**

The table below sets out the changes in the exchange rate of the U.S. dollar ("dollar") and the Consumer Price Index during the course of the periods under review:

	Exchange rate of dollar	Consumer price index (last known index)	Consumer price index (index for particular month
	%	%	%
Year ended December 31, 2017	**(9.8)**	**0.3**	**0.4**
Year ended December 31, 2016	(1.5)	(0.3)	(0.2)

As of December 31, 2017, the exchange rate of the U.S. dollar was $1 = ILS 3.467.

2) Transactions and balances

Transactions denominated in currencies other than the functional currency ("foreign currency") are translated into the functional currency by means of the exchange rate prevailing on the date of the transaction. Financial assets and liabilities denominated in foreign currency at the reporting date are translated into the functional currency at the exchange rate prevailing on that date. The statement of income is charged or credited with exchange rate differentials stemming from the settlement of accounts relating to the above transactions and from the translation of monetary assets and liabilities denominated in a foreign currency at the rates of exchange prevailing at the end of the period.

Translation differences with respect to financial assets which are not monetary items, such as equity securities (examples of which are shares and options), and which are classified as financial instruments at fair value through profit or loss, are recognized in the statement of comprehensive income as part of the gain or loss arising on changes in their fair value under "net investment income and financing income".

Income or loss arising from change in exchange rate and related to deposits and nonmarketable securities are also recognized in comprehensive income under "net investment income and financing income".

Income or loss arising from other changes in exchange rates is presented in comprehensive income under "financing income".

e. Fixed assets

Fixed assets is initially reflected in the accounting records at the cost of acquisition. Subsequent costs incurred are either added to the carrying value of the asset in question or recognized as a separate asset, as appropriate, only if it may be expected that the future economic benefits attributable to the item will flow to the Company and that the cost of the asset may be reliably measured. If part of the item of Fixed assets is replaced, the carrying value of that part is eliminated from the accounting records. All other repair costs, as well as maintenance expenses, are charged against income as incurred.

Fixed assets are presented at cost after deduction of accumulated depreciation and impairment losses. The historic cost includes costs directly attributable to the purchase of the asset.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

e. Fixed assets (continued):

Write-downs and impairments of value relating to Fixed assets presented at cost are charged to the statement of comprehensive income.

Depreciation is computed by means of the straight-line method in order to arrive at a residual value after depreciation of the cost over its estimated useful life, as follows:

	Annual depreciation rate
	%
Computers and communications equipment	20 - 33
Furniture and office equipment	7 - 15

Improvements to leasehold premises are amortized by means of the equal depreciation method over the shorter of the contractual period of the lease and the estimated life of the improvements.

The residual values and useful lives of assets are subject to review, and if necessary, adjustments as of each balance sheet date.

Gains or losses on the realization of assets are determined by comparing the carrying amount of the asset and the consideration received for the asset; these gains and losses are recognized in other income or loss.

See Note 7 below for impairment.

f. Intangible assets (software)

Software licenses acquired are capitalized on the basis of the actual costs incurred in the acquisition of the specific software and in the preparation of that software for use. These costs are amortized under the straight-line method on the basis of the estimated useful life of the asset (from three to five years).

Costs relating to the development or maintenance of software are recognized as expenses as incurred.

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the company which meet the conditions for recognizing intangible assets as specified below are recognized as intangible assets. Those costs include the software development employee costs and an appropriate portion of the relevant overheads.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

f. Intangible assets (software) (continued)**:**

Expenditure on software development (see below) shall be capitalized as intangible assets when the following conditions are met:

- The technical feasibility of completing the intangible asset so that it will be available for use exists;
- Management intends to complete the intangible asset and use or sell it;
- It would be possible to use or sell the intangible asset;
- The way the intangible asset will generate probable future economic benefits is demonstrable;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability of management to measure reliably the expenditure attributable to the intangible asset during its development.

Other software development costs that do not meet the above criteria are recognized as cost as incurred. Software development costs previously recognized as an expense are not recognized as an asset on a subsequent period. Capitalized development costs are presented as intangible assets and amortized as from the time the asset is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management in accordance with the straight-line method and over its useful live (which does not exceed 5 years).

See Note 7 below for impairment.

g. Impairment in value of nonmonetary assets

If an event or change in circumstances occurs that indicates that the carrying value of a depreciable asset exceeds the recoverable value of that asset, the Company undertakes a review of the decline in value of the asset in question. The amount of the recognized impairment loss is equivalent to the amount by which the carrying value of the asset exceeds the recoverable value thereof. The recoverable amount of an asset is the higher of the fair value of that asset, after deduction of selling costs, and the usage value of the asset. For the purpose of impairment reviews, assets are grouped by reference to the lowest possible level at which separate cash flows can be identified (cash generating units). At each balance sheet date, nonmonetary assets which have suffered impairments in value are reviewed for the purpose of determining whether or not any previously recognized impairments of value can be reversed.

h. Financial assets which are not derivatives:

1) Classification

The Company classifies its financial assets as either financial assets at fair value through profit or loss or as loans and receivables. The classification is determined by reference to the purpose for which the assets were acquired. Management determines the classification of financial assets on the date of their initial recognition.

a) Financial assets at fair value through profit or loss

This category is comprised of two subcategories - financial assets held for trading purposes and financial assets designated to be measured at fair value through profit or loss. A financial asset is placed in this category if it has been acquired principally for the purpose of sale in the short term or if management has specifically placed the asset

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

h. Financial assets which are not derivatives (continued)**:**

in the category, otherwise they are classified as noncurrent assets, If the Company manages such investments and makes purchase and sale decisions in respect thereof based on the fair value, in accordance with the manner in which the Company documented the risk management or investment strategy, or if the purpose is to prevent an accounting mismatch. Transaction costs that can be attributed are charged to the statement of income as incurred. These financial assets are measured at fair value and the changes therein are recognized in profit or loss..

b) Loans and receivables

Loans and receivables are non-derivative financial assets, marked by payments that are either fixed or capable of being fixed and which are not quoted in an active market. The loans and receivables of the Company are reflected in the balance sheet items, other receivables, premiums collectible, nonmarketable debt instruments and cash and cash equivalents.

2) Recognition and measurement

Ordinary purchases and sales of financial assets are recorded on the date of completion of the transaction, this being the date on which the asset is transferred either to or by the branch. The investment in all financial assets that are not presented at fair value through profit or loss is initially recognized in an amount equivalent to the sum of the fair value of the assets and the related transaction costs. Financial assets that are presented at fair value through profit or loss are initially recognized at fair value, with transaction costs being charged against profit or loss. Financial assets are eliminated from the balance sheet when the rights to the related cash flows have either expired or been transferred, and the Company has, in addition, transferred all the risks and rewards stemming from the ownership of those assets. Financial assets at fair value through profit or loss are presented in subsequent periods at fair value. Loans and receivables are presented at amortized cost as computed by means of the effective interest method.

Gains or losses stemming from changes in the fair value of financial assets at fair value through profit or loss are presented under investment income (loss), net in the statement of comprehensive income for the period in which the gains or losses accrued. Dividend income from financial assets at fair value through profit or loss is recognized in the statement of comprehensive income under investment income, net and financing income insofar as the Company is entitled to this income.

<u>Determination of fair value</u>

The fair value of financial instruments quoted in an active market is based on the current selling price of those instruments. If the financial asset is traded in a market that is not active, or if the instrument is not listed for trading, the Company uses a variety of valuation methods for determining the fair value. These methods include a reliance on recent transactions carried out under market conditions, a reliance on other instruments the principal characteristics of which are similar to those of the instrument being valued, an analysis of capitalized cash flows, and the use of option pricing models that are based primarily on market data and as little as possible on data specific to the Company itself.

As to the fair value of financial assets measured at fair value, see note 11.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

h. Financial assets which are not derivatives (continued)**:**

3) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is an immediate legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

4) Impairment of assets presented at amortized cost

The Company assesses at the each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence of impairment or a financial asset or a group of financial assets may include observable data that were brought to the attention of the Company regarding loss events such as indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows and other indications.

The amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The asset’s carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated income statement. As a practical expedient, the group may measure impairment on the basis of an instrument’s fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor’s credit rating), the reversal of the previously recognized impairment loss is recognized in the statement of comprehensive income.

i. Premiums collectible

The balance of collectible premiums relates to amounts receivable from the company's insureds for insurance policies granted in the ordinary course of business.

Premiums collectible are initially recognized at fair value and subsequently measured at amortized cost as computed by means of the effective interest method after deduction of the provision for impairment of accounts receivables. A provision for impairment of accounts receivables is created when objective evidence exists to the effect that the Company is unable
to collect all the outstanding debts receivable under the original terms.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

i. Premiums collectible (continued):

The carrying value of the debt is reduced by means of a provision account, with the amount of the loss being recognized in the statement of income. When the debt of a customer is not collectible, that debt is written off against the provision for impairment of accounts receivables. Reversal of previously write offs in a subsequent period is credited to the statement of income.

j. Cash and cash equivalents

Cash and cash equivalents include cash in hand, short term bank deposits, and other short term highly liquid investments with maturity dates not exceeding three months from the date of the investment.

k. Share capital

Ordinary shares of the company are classified as share capital.

l. Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Outstanding trade payables are initially recognized at fair value and subsequently measured at amortized cost as computed by means of the effective interest method.

m. Liabilities towards reinsurers and payables

Outstanding liabilities towards reinsurers and outstanding payables are initially recognized at fair value and subsequently measured at amortized cost as computed by means of the effective interest method.

n. Current and deferred taxes

The tax expense for the period is comprised of current taxes, deferred taxes and taxes relating to prior years. Taxes are recognized in the statement of comprehensive income, except for taxes related to items charged to other comprehensive income or directly to equity, which are also recognized in the statement of comprehensive income, respectively together with the item in respect of which they were created. The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the statement of financial position date in the counties where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates the tax aspects applicable to its taxable income, in accordance with the relevant tax laws and establishes provisions where appropriate.

The Company recognizes deferred taxes by means of the liability method for all timing differences as between the amounts of assets and liabilities as presented in the financial statements and the equivalent amounts as computed for tax purposes. The above notwithstanding, deferred taxes are not recognized if the timing differences are created upon initial recognition of an asset or liability, if, upon the date of the transaction, the asset or liability did not affect the profit or loss, either for accounting purposes or for tax purposes.

The deferred tax provision is computed by reference to the rates of tax expected to be in force at the time of realization of the deferred tax asset or at the time of settlement of the deferred tax liability, insofar as the legislation with respect to these tax rates and other taxing legislation has, as at the date of the balance sheet, already passed into law.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

n. Current and deferred taxes (continued):

The above notwithstanding, the deferred tax provision will be similarly computed if the legislative procedures in relation to proposed legislation have, as at the date of the balance sheet, been substantially completed.

Deferred tax assets are recognized for timing differences that may serve to reduce the tax expense, provided that the deferred tax assets may be expected to be capable of being utilized against future chargeable income.

Deferred income tax assets and liabilities are offset only if:

- There is a legally enforceable right to offset current tax assets against current tax liabilities; and
- When the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity where there is an intention to settle the balances on a net basis.

o. Employee benefits:

1) Liability for severance and pension payments

In accordance with the provisions of Israel labor laws and agreements, and in accordance with the Company’s prevailing practice, the Company is required to make severance payments to employees who are dismissed or who retire from their employment in certain circumstances. The Company’s obligation to make severance payments is covered, for some employees, by a defined benefit plan and, for other employees, by a defined contribution plan.

a. A defined contribution plan

A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The Company's obligations to deposit in a defined contribution plan are recognized as an expense in the income statement in the period during which the employees provided related services.

b. A defined contribution plan

A defined benefit plan is a pension plan that is not a defined contribution plan.

In relation to the Company’s obligation to those employees covered by a defined benefit plan, the benefits receivable by an employee entitled to severance pay upon retirement are based upon the number of years of service and the final salary.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

o. Employee benefits (continued):

The severance pay liability presented in the balance sheet is the present value of the defined benefit liability as of the date of the balance sheet, after deducting the fair value of the plan assets. The defined benefit liability is measured on an annual basis by independent actuaries by means of the projected unit credit method.

This method takes into account the dates and amounts of payments of the expected benefits, subject to the rate of increase in the forecasted salary, mortality and employee mortality probabilities, and subject to the Company's policy regarding payment of the benefits discounted at the balance sheet date, using a discount rate that is based on the yield curve of corporate bonds, as published by the quoting company Mirvach Hogen.
When the benefits granted by the Company to the employees are improved or reduced, that portion of the increased benefits relating to past employee service or profit or loss from depreciation is immediately recognized in profit or loss when the plan is revised or reduced.

The Company recognizes a profit or loss from settlement of a defined benefit plan when the settlement occurs. Such gains or losses are the difference between the part disposed of from the present value of the defined benefit obligation at the settlement date and the settlement price, including the assets of the transferred plan.

With respect to the remainder of its employees who are covered by a defined contribution plan. The contributions are recognized as employee benefit expense commensurate with receipt from employees of the service in respect of which they are entitled for the contributions. Prepaid contributions are recognized as an asset to the extent that a refund of the excess amounts or a reduction in the future payments is available.

2) Vacation and rest and recreation pay

Every employee is entitled by law to paid days of vacation and rest and recreation pay, both calculated on an annual basis. The degree of entitlement is based on the length of service. The Company makes provision for vacation and rest and recreation pay on the basis of the accumulated entitlement of each employee.

The company expects that the vacation benefit shall be fully settled in the course of the 24 months period after the end of the reporting period in which the employees provide the relating services. Accordingly, the liability in respect of this benefit is measured in accordance with the amount the company expects to be required to pay for the unutilized entitlement accrued as of the end of the reporting period.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

o. Employee benefits (continued):

3) Bonus schemes

The Company recognizes bonuses as a liability and an expense if required to do so by virtue of a contractual obligation or where previous practice with respect to the payment of bonuses has created an implied obligation to make such payments and at least one of the following conditions is met:

(a) The formal terms and conditions of the plan include a formula for determining the benefit;
(b) The company sets the amounts to be paid prior to approving the financial statements for publication;
(c) A pattern of past activity provides clear evidence for the amount of implied obligation of the company.

p. Provisions

Provisions are recognized when the Company has an existing legal or constructive obligation arising out of past events, when it is expected that Company resources will be required in order to settle the obligation, and when the amount of the obligation can be reliably estimated.

Provisions are measured by reference to the present value of the projected cash flows required to settle the obligation. The present value is computed through the use of such pretax discount rate as reflects current market evaluations of both the time value of the money involved and the specific risks associated with the obligation. An increase in the provision that is caused by the passage of time is treated as an interest expense. Regarding insurance claims, see 19 below.

<u>Legal claims</u>

A provision for claims is recognized when the Company has a present legal obligation or an implied obligation as a result of an event that occurred in the past, and it is more likely than not that the Company will be required to use its economic resources to settle the obligation and that it can be estimated reliably. When the effect of the time value is material, the provision is measured at its present value.

q. Revenue recognition:

1) Premiums

Premiums stemming from general insurance business are recorded as income as and when they appear on monthly yield reports. Premiums stemming from life insurance business are recorded as income as and when they fall due under the terms of the relevant policy.

Revenues from gross premiums together with related changes in unearned premiums are recorded under premiums earned, gross.

Premiums received for policies that commence after balance sheet date are recorded as prepaid premiums within other payables.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

q. Revenue recognition (continued):

1) Premiums (continued)

The income reflected in the financial statements takes account, subject to the provisions of any law, of policies that have been cancelled by policyholders and of cancellations and provisions stemming from the nonpayment of premiums, and include payments for related services (towing, repairs etc.).

Premiums, commission and claims arising from underwriting pools and joint insurance are recorded on a proportionate basis in accordance with the rate of the Company's participation in the relevant contracts. Compulsory vehicle insurance premiums are recognized upon paying the premium (which may also be in the form of clearing the debt and transferring it to a credit card company) since coverage is conditioned on paying the premium.

2) Income from commissions

Income from commissions received from reinsurers are charged on the basis of the dates of entitlement to receive the commissions under the agreements, net of change in deferred purchase expenses in respect of reinsurers.

3) Income from investments, net and financing income:

Gains and losses from net investments and finance income include net gains (losses) from the sale of financial assets, interest income in respect of amounts invested, dividend income, changes in the fair value of financial assets at fair value through profit or loss and gains and losses from exchange differences on assets. Interest income from financial assets classified as loans and receivables is recognized when they arise using the effective interest method. Dividend income is recognized when the right to receive payment is established. If dividend is received in respect of marketable shares, the company recognizes this income on the Ex dividend day.

r. General and administrative expenses

General and administrative expenses are classified into overheads to settle claims (which are included in the "payments and movement in liabilities with respect to insurance contracts, gross"), into acquisition related expenses (included under "commission, marketing expenses and other acquisition costs") and into a balance of other general and administrative costs included in this item.

s. Insurance contracts

International Financial Reporting Standard No.4, 'Insurance Contracts' ("IFRS 4"), which deals with insurance contracts, allows the insurer to continue its accounting policy prior to the transition date to IFRS regarding insurance contracts it issues (including related acquisition costs and related intangible assets), as well as reinsurance contracts it purchases.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

s. Insurance contracts (continued):

The significant accounting policies and methods of computation relating to general insurance business and life insurance business used in the preparation of these financial statements were as follows:

1) General insurance:

a) As to revenue recognition, see q above.

b) The payments and changes in liabilities with respect to insurance contracts gross and retained amount item include, among other things, settlement and direct handling costs of claims paid and indirect expenses to settle outstanding claims, as well as an adjustment of the provision for pending claims (including a provision for direct costs and overheads to settle claims) recorded in previous years.

c) Liabilities for insurance contracts and deferred acquisition costs

Insurance reserves and pending claims included in liabilities in respect of insurance contracts, and the reinsurers' share in the reserve and in the pending claims under reinsurance assets, and deferred acquisition costs in general insurance, are computed in accordance with the Control of Financial Services Regulations (Insurance) (Calculation of General Insurance Reserves), 2013 ("the Calculation of Reserves Regulations), the Supervisor's directives, and standard actuarial methods for computing pending claims, which are applied according to the chief actuary's discretion. As from December 31, 2016, the "best practice" was implemented for the first-time, as discussed in (d)(5) above.

d) Liabilities for insurance contracts composed of insurance reserves and pending claims, as follows:

1) The unearned premium reserve reflects the insurance premium for the insurance period subsequent to the balance sheet date.

2) Provision for premium deficiency is recognized if the unearned premium (less deferred acquisition costs) does not cover the expected cost for insurance contracts on the basis of actuarial valuations.

3) Insurance reserves and pending claims:

a. The pending claims reflected in the financial statements in relation to the general insurance sector are valued by an actuary, Mr. Ernst Segal, who has reported that she has valued the pending claims in accordance with the provisions of the supervision law, the instructions of the Supervisor, and generally accepted actuarial principles as of the date of the financial statements, and that, to the best of her knowledge and in accord with her best assessment, the provision for pending claims constitutes a provision that is sufficiently adequate for the purpose of covering the Company's liabilities with respect to the claims pending in the abovementioned sectors, both in total and in relation to each sector considered separately.

The actuarial valuations relate to claims in gross terms and to claims as they relate to the retained portion of the insurer's operations.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

s. **Insurance contracts** (continued):

b. The Company's management estimates that the outstanding claims are appropriate, taking into account that the outstanding claims are mainly calculated on an actuarial basis and their balance includes appropriate provisions, to the extent necessary for IBNR and IBNER. In sectors and claim types where is statistical significance, IBNR and IBNER provisions have been computed on an actuarial basis. The use of actuarial methods that rely on the claim development is most suitable when stable and sufficient information is available on claim payments and/or individual estimates of the expected total claim cost. When information available from claim experience is insufficient, the actual may sometimes use a calculation that weighs between a known estimate (of the company and/or sector), such as loss ratio, and actual claim development. Greater weight is given to estimations that are based on experience, as time passes and additional claim information is accumulated.

In January 2016, Supervisor Position "Best Practice for Calculation of General Insurance Reserves for Financial Reporting" (hereinafter - "the best practice"). The position of the Supervisor includes, among other things, explanations to several principles: professionalism, consistency, and care, which were not previously defined by the actuarial appraisal circular. The principle of care requires from an actuary to examine that it is fairly likely that reserves in retention is sufficient to cover liabilities of the insurer. For compulsory vehicle and liability insurance, the "fairly likely" test will be a probability of at least 75%. In addition, the Supervisor position also refers to the discount rate of liability flow for optimal estimation. The Supervisor position applies to the financial statements as of December 31, 2016 and thereafter.

c. Provision for overheads to settle pending claims - in accordance with the provisions of IFRS 4, the provisions for pending claims also incorporate a provision for overheads to settle claims.

4) Excess of income over expenses

Through December 31, 2016 – the date of first-time implementation of the "best practice" (see 5. Above), liabilities in compulsory vehicle and liabilities sectors had been calculated in accordance with the "excess of revenue over expenses method", as follows:

Compulsory motor vehicle and other liability sectors – the excess of income over expenses net of provision for pending claims (hereafter – "the accumulation") was not recognized as income before the end of the third year commencing with the year in which the policies were issued; the accumulation was computed in the manner prescribed by the regulations and circulars of the Supervisor.

The accumulation was calculated in accordance with the Calculation of Reserves Regulations and in accordance with the directives of the Supervisor, on the basis of revenue from premiums net of acquisition costs and claims plus investment income at a fixed annual real rate of 3%, without reference to the actual returns obtained, net of reinsurers' share in accordance with the insurance sectors and the

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

s. Insurance contracts (continued):

relating underwriting year. The accumulation accrued until its release from the year insurance started, as calculated above, was included in liabilities in respect of insurance contracts and the deficit is recognized as an expense.

5) Elimination of the accumulation and implementation of the "best practice" on the calculation of insurance reserves in general insurance, which are implemented for the first-time in the 2016 financial statements:

In January 2013, Supervision of Financial Services (Insurance) (Calculation of Insurance Reserves in General Insurance), 2013 were issued (hereinafter – "the new regulations") and a circular that was revised in January 2015 (hereinafter, together - "the amendment"), which are designed to amend current statutory provisions on calculation of insurance reserves in general insurance.

The amendment replaces Supervision of Insurance Business Regulations (Mode of Calculation of Future Claims in General Insurance), 1984. The key change implemented when the amendment came into effect is that it eliminated the accumulated beginning in the financial statements as of December 31, 2015.

In addition, as a complementary step to this change, a Supervisor position was published in January 2015, which presents to actuaries a best practice for calculation of insurance reserves in general insurance for the purpose of the financial statements to adequately and appropriately reflect insurance liabilities (hereinafter - the best practice). The best practice includes, among other things, reference to the following topics:

1. "Prudence" refers, in the context of reserves calculated by an actuary, is that "the reserve is adequate for covering liabilities of the insurer". That is, there is a fairly reasonable likelihood that the reserve in retention will be sufficient to cover liabilities of the insurer. As to outstanding claims in compulsory vehicle and liabilities insurance, the "very likely" test will be a probability of at least 75%. However, to the extent that there are limitations in the statistical analysis, the actuary needs to exercise judgment, and may use generally accepted actuary methods.

2. Refers to the discount rate for liabilities.

3. Sector aggregation – for the principle of prudence in non-aggregated sectors (as defined in the circular – statistical sectors), each sector must be considered separately, but all underwriting (or damages) years in a particular sector can be aggregated. Aggregated (non-statistical) sectors can be considered together.

4. Determination of the size of reserve for policies sold shortly before balance sheet date and risks after balance sheet date.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

s. Insurance contracts (continued):

The company implemented the amendment for the first time together with the best practice as of December 31, 2015. According to the provisions of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", this change is a change in accounting policy. In this regards, IAS 8 states that a change in accounting policy will be implemented retroactively unless it is impractical to determine the specific impact for a certain period or the accumulated impact of the change. Since in this case, retrospective implementation of the change in accounting policy is impractical, the impact of the change was recognized (net of tax) as adjustment to accounting balance as of December 31, 2015, with no retrospective application. Implementation of that change resulted in a net increase of ILS 81,688 thousand reserve balance as of December 31, 2015 (total pre-tax impact, ILS 130,868 thousand).

e) That part of the commission and other acquisition expenses which relates to unearned premiums stemming from the retained portion of the Company's business is transferred to succeeding reporting periods as deferred acquisition costs. These expenses are computed, for each individual sector, by reference to the lower of, on the one hand, the actual expenses incurred and, on the other hand, the percentage of the unearned premium, the percentage in question being determined by the standard rates specified by the supervision regulations.

f) The total amount of the subrogated claims appearing in the balance sheet does not exceed the amount which, in the opinion of management, is collectible.

2) Life insurance:

a) In accordance with the provisions of the life insurance segregation of accounts regulations, the Company manages its life insurance business as a separate operation and segregates the assets relating thereto.

b) As to revenue recognition, see q above.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

s. Insurance contracts (continued):

c) Life insurance reserves, the portion of those reserves attributable to reinsurers, and deferred acquisition costs have been computed by the Company’s actuary, Ms. Dafna Kaufman, who has declared that the amounts in question (“the amounts”) were based on Company data, the accuracy and completeness of which she has reviewed. Ms. Kaufman has also reported that the amounts were computed in accordance with accepted actuarial methods and the data utilized by the Company in connection with its insurance plans. For more information about the actuarial methods used to calculate the insurance liabilities, see section e1 to note 27.

d) Deferred acquisition costs:

1) In accordance with the provisions of the ‘details of report’ regulations, the deferred acquisition costs of new life insurance policies (hereafter- "DAC") include those general and administrative expenses that relate to the acquisition of new policies. Under these provisions, the deferred acquisition costs are amortized in equal annual installments over the shorter of 15 years and the period of the policy.

2) The Company's actuary assesses the recoverability of the DAC every year in order to verify that the liabilities for insurance policies, net of the DAC for policies sold since 1999 is sufficient, and that the policies are expected to generate future income to cover the DAC deduction and the insurance liabilities, operating expenses and commissions in respect of those policies. If necessary, a special reduction is recognized such that the amount of DAC does not exceed the amount coverable by future revenue. According to the Company's actuary declarations, deferred acquisition expenses for policies that were recognized as an asset in the accounts of the Company, can be covered by future.

The assumptions used in this assessment include assumptions regarding cancellations, operating expenses, yield on assets, mortality and morbidity rates, which are determined by the Company’s actuary on an annual basis based on past experience and the relevant latest surveys known to the Company as of the date of calculation.

e) Liability adequacy testing for life insurance contracts

The Company tests the adequacy of the liabilities arising from life insurance contracts. If the test indicates that the premiums received are not sufficient to cover the expected claims, fees and expenses are discounted and a special reserve is recorded for the deficiency. The test is made at the level of each product. Capitalization of the cash flow is done at a risk-free real interest rate plus a non-liquidity premium.

The assumptions used in the above mentioned tests include assumptions regarding cancellations, operating expenses, yield on assets, mortality rates and morbidity rates; the assumptions are set by the actuary every year based on past experience and other relevant studies.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

s. Insurance contracts (continued):

3) Health insurance:

a) As to revenue recognition, see q. above.

b) Liabilities in respect of health insurance contracts

As prescribed by the directives of the Supervisor, pending claims included in the financial statements in respect of health insurance are evaluated by the actuary – Mr. Ernest Segal – who declared that he evaluated the pending claims in accordance with Supervision Law, the instructions and directives issued by the Supervisor and acceptable actuarial principles. Ms. Segal declared that to the best of her knowledge and assessment, the reserve for pending claims forms an adequate reserve for covering the insurer's commitments in respect of its liability arising from the said sectors of insurance, both aggregately and separately at their value as of the date of the financial statements. The actuary's valuations apply to gross and retention amounts.

The provisions for pending claims, the direct expenses and overheads arising there from as well as provisions for IBNR were included in the "liabilities in respect of insurance contracts" item.

t. Earnings per share

As a general rule, the computation of basic earnings per share is based on the profit distributable to Ordinary shareholders by the number of Ordinary shares in issue during the course of the period.

u. Dividend distribution

The distribution of dividends to the Company's shareholders is recognized as a liability in the statement of financial position in the period during which the Company's board of directors approved the distribution of thereof.

v. Change in accounting policy due to changes in regulations and Supervisor directives on calculation of general insurance reserves

As to changes in accounting policies relating to the elimination of the accumulation and implementing the "best practice" for the calculation of general insurance reserves, which was implemented for the first time in the financial statements as of December 31, 2015 – see s(1)(d)(5) above.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

w. New standards and interpretations not yet adopted

1) IFRS 9

With regard to IFRS 9 "Financial Instruments" (hereinafter - "IFRS 9"), in respect of which the Company has not yet completed examining its expected impact on its financial statements, the Company's management also examines whether the Company meets certain criteria defined in the amendment to International Financial Reporting Standard 4 (Hereinafter - "the Amendment to IFRS 4"), as detailed below, to postpone the effective date of implementation of IFRS 9 by January 1, 2021.

The amendment to IFRS 4 allows, inter alia, for companies whose primary activity is related to insurance (a criterion examined in accordance with certain quantitative parameters) and which did not adopt a previous version of IFRS 9, to postpone the effective date of IFRS 9 as of January 1, 2021, The provisions of IAS 39 throughout the said deferral period, while providing certain disclosures.

In accordance with the Commissioner's instructions, it was decided that the Company will postpone the date of implementation of IFRS 9 until the effective date in Israel of International Financial Reporting Standard No. 17 regarding insurance contracts (hereinafter - IFRS 17).

Since the publication of the Company's annual financial statements for 2016 and except for the following regarding the publication of IFRS 17, no new IFRSs or amendments to existing standards that are expected to have a material impact on the financial statements of the Company.

2) IFRS 17 – Insurance Contracts

On May 18, 2017, the International Accounting Standards Board published IFRS 17. As of the date of initial application, IFRS 17 will replace International Financial Reporting Standard 4 - "Insurance Contracts" ("IFRS 4"), which relates to the accounting practices for handling insurance contracts. IFRS 17 will apply to insurance contracts (including reinsurance contracts) and to investment contracts that include a discretionary participation feature.

IFRS 17 will be applied for annual periods beginning on or after January 1, 2021. Early adoption is permitted if IFRS 15 - "Revenues from contracts with customers" and IFRS 9 - "Financial instruments" are also applied at the same time.

In accordance with IFRS 17, a current measurement model for insurance contracts (hereinafter - the "General Model") is to be implemented, the purpose of which is, inter alia, to ensure that revenues from the insurance contracts are recognized over the various reporting periods in accordance with the expected value of the insurance cover and the various services that the insurance will provide during the aforesaid periods, and the contingent claims will be recognized upon occurrence of the incurring event. According to this model, the various estimates are re-measured in each reporting period. Measurement is based on:

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

w. New standards and interpretations not yet adopted (continued)

- Building of blocks of discounted cash flows weighted by the probabilities of their occurrence;
- Risk adjustment; and
- Contractual Service Margin (hereinafter - "CSM") which represents the profit in an unearned contract.

Interest will accrue for the CSM component at an interest rate to be determined on the initial recognition date of the insurance contract. The CSM component will be released to profit or loss over the term of the contract based on the passage of time. If a group of insurance contracts are at a loss - the loss will be recognized immediately in profit or loss.

IFRS 17 allows an accounting policy to be chosen if the changes in measurement are attributable to changes in discount rates and changes in assumptions relating to other financial risks in profit or loss or in other comprehensive income. The General Model includes specific provisions regarding insurance contracts relating to profit sharing policies.

It should be noted that a simpler model according to which the premium allocation approach is applied over the period of the premium allocation will be applicable to liabilities relating to the balance of insurance coverage if this simple model provides a measurement that is not materially different from that obtained in the general model or if the period covered by the policy is one year or less. However, liabilities for incurred claims are required to be measured in this simple model based on the building of blocks of discounted cash flows weighted by the probabilities of their occurrence.

IFRS 17 expands the existing disclosure requirements under IFRS 4, particularly with respect to amounts, considerations, and risks arising from insurance contracts.

IFRS 17 will be applied retrospectively (except for certain matters specified therein) unless it is not practical. In such a case, IFRS 17 includes two alternative approaches to retrospective application, as detailed in the framework.

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

NOTE 3 - SIGNIFICANT ACCOUNTING ESTIMATES AND AREAS OF DISCRETION

Estimates and judgments are subject are constantly tested, and are based on past experience and other factors, including expectations with regard to future events that are deemed to be reasonable in the light of existing circumstances.

Significant accounting estimates and assumptions

The Company formulates estimates and assumptions with respect to the future. By their very nature, it is rare for accounting estimates to be identical to actual results. Significant risk attaches to the implementation of material adjustments to the carrying value of assets and liabilities during the course of the coming financial year through the use of estimates and assumptions, as follows:

NOTE 3 - SIGNIFICANT ACCOUNTING ESTIMATES AND AREAS OF DISCRETION (continued)

a. Actuarial estimates with respect to insurance liabilities

An actuarial evaluation is based on statistical estimates that contain an element of uncertainty. The statistical estimates are based on various assumptions that may not necessarily be realized. The assumptions employed for the purposes of the actuarial forecasts affect the final level of the provision for insurance liabilities.

Accordingly, the actual cost of claims may be higher or lower than the statistical estimate. Previous assumptions may change in the light of new information that may be received. In cases like this, the provision will change in accordance with the change in assumptions and in the light of actual results, with the differences arising during the year under review being reflected in the statements of insurance business.

Had the actuarial results been higher or lower by 10% compared with the estimates of the Company's actuary, the amount of the gross insurance liabilities would have been higher or lower by app. ILS 132 million.

b. Provisions for lawsuits

Several legal claims and applications to approve claims as class actions are pending against the company. In evaluating the chances of legal claims that were filed against the company, it relied on opinions prepared by its legal counsels. These legal opinion are based on the legal counsels' best professional judgment, considering the stage at which the proceedings are at, and the accumulated legal experience with the various issues, this given that the outcomes of the claims as decided by the courts may differ from the estimates. See note 30 for additional information

c. Testing for impairment of deferred purchase expenses in life insurance

As discussed in note 2s2, the company is testing whether the amount of DAC is more than the amount that can be covered by estimated future income from existing insurance contracts, and, as necessary, amortize DAC accordingly. This test requires the use of estimates on the amounts of expected revenue from existing insurance contracts, including an estimation of the useful life of the existing insurance policy portfolio.

d. Deferred taxes

The Company recognizes deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities. The company regularly reviews its deferred tax assets for recoverability, based on historical taxable income, projected future taxable income, the expected timing of the reversals of existing temporary differences and the implementation of tax planning strategies. If the company is unable to generate sufficient future taxable income, or if there is a material change in the actual effective tax rates or time period within which the underlying temporary differences become taxable or deductible, the company could be required to eliminate a portion of the deferred tax asset or increase the deferred tax liabilities resulting in an increase in its effective tax rate and an adverse impact on operating results.

NOTE 4 - OPERATING SEGMENTS

The Company operates in a number of sectors, as follows: general insurance, health insurance and life insurance, as described below. The activity which is not allocated to segments includes equity, liabilities which are not related to the insurance businesses and the assets held against these liabilities.

a. Life insurance sector

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

b. Health insurance sector

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

c. General insurance sector

The general insurance sector encompasses the property and liability branches. In accordance with the directives of the Supervisor, the sector is divided into the following branches, viz. the compulsory car insurance branch, the car damages insurance branch, the apartment insurance branch, other property branches, other liability branches and the professional liability branch.

- Compulsory car insurance branch

  The compulsory car insurance branch 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 consequence of the use of a motor vehicle.

- Car damages insurance branch

  The car damages insurance branch 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.

- Flats insurance sector
  The flats insurance sector focuses in providing coverage for damages caused to flats and includes coverage in respect of damages caused by earth quake.

- Professional liability branch

  The professional liability branch 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, as well as cover to company directors and officers in relation to any unlawful act or omission committed or occurring whilst they were carrying out their duties, cover for damages caused by embezzlement and coverage in respect of cyber events.

- Property branches and miscellaneous

  Other property branches operate in sectors not connected with the motor vehicle or liability branches. Cover is principally provided with respect to property insurance, subcontractors and mechanical breakdown insurance.

- Other liability branches

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

NOTE 4 - OPERATING SEGMENTS (continued):

	For year ended December 31, 2017				
	Life insurance	Health insurance *	General insurance	Not allocated to operating segments	Total
	ILS in thousands				
Gross earned premiums	127,051	235,232	729,787		1,092,070
Premiums earned by reinsurers	(22,794)	(3,283)	(144,377)		(170,454)
Premiums earned - retained amount	104,257	231,949	585,410		921,616
Investment income, net and financing income	2	4,533	33,341	27,607	65,483
Commission income	4,066	367	37,303		41,736
Total income	108,325	236,849	656,054	27,607	1,028,835
Payments and change in insurance liabilities and with respect to insurance contracts, gross	(52,426)	(110,908)	(530,084)		(693,418)
Share of reinsurers in increase in insurance liabilities and payments with respect to insurance contracts	9,261	3,614	117,004		129,879
Payments and change in liabilities for insurance contracts, in retention	(43,165)	(107,294)	(413,080)		(563,539)
Commissions and other acquisition expenses	(39,957)	(56,594)	(140,229)		(236,780)
General and administrative expenses	(9,828)	(28,666)	(34,253)		(72,747)
Financing income	-	-	711	(3,492)	(2,781)
Total comprehensive income (loss) before tax	15,375	44,295	69,203	24,115	152,988

* The health sector mainly includes the results of the personal accidents sector.

NOTE 4 - OPERATING SEGMENTS (continued):

	For year ended December 31, 2016				
	Life insurance	Health Insurance *	General insurance	Not allocated to operating segments	Total
	ILS 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 - retained amount	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 insurance liabilities and with respect to insurance contracts, gross	(44,105)	(97,000)	(615,799)		(756,904)
Share of reinsurers in increase in insurance liabilities and payments with respect to insurance contracts	10,960	3,137	178,699		192,796
Payments and change in liabilities for insurance contracts, in retention	(33,145)	(93,863)	(437,100)		
Commissions and other acquisition expenses	(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 tax	14,086	42,041	(17,373)	8,253	47,007

* The health sector mainly includes the results of the personal accidents sector.

NOTE 4 - OPERATING SEGMENTS (continued):

	For year ended December 31, 2015				
	Life insurance	Health insurance *	General insurance	Not allocated to operating segments	Total
	ILS in thousands				
Gross earned premiums	123,046	216,421	649,418		988,885
Premiums earned by reinsurers	(23,095)	(2,408)	(135,120)		(160,623)
Premiums earned retained amount	99,951	214,013	514,298		828,262
Investment income, net and financing income	-	1,236	8,617	8,763	18,616
Commission income	3,907	565	32,589		37,061
Total income	103,858	215,814	555,504	8,763	883,939
Change in insurance liabilities and payments with respect to insurance contracts, gross	(40,010)	(76,333)	(364,482)		(480,825)
Share of reinsurers in increase in insurance liabilities and payments with respect to insurance contracts	11,939	2,805	45,214		59,958
Payments and change in liabilities for insurance contracts, in retention	(28,071)	(73,528)	(319,268)		(420,867)
Commissions and other acquisition expenses	(44,998)	(53,411)	(141,479)		(239,888)
General and administrative expenses	(19,182)	(30,519)	(33,183)		(82,884)
Financing income	-	-	1,780	1,982	3,762
Total comprehensive income before tax	11,607	58,356	63,354	10,745	144,062

* The health sector mainly includes the results of the personal accidents sector.

NOTE 4 - OPERATING SEGMENTS (continued):

	December 31, 2017				
	Life insurance	Health Insurance *	General insurance	Not allocated to operating segments	Total
	ILS in thousands				
Assets					
Intangible assets	-	-	-	38,448	38,448
Deferred acquisition costs	-	477	66,747	82,133	149,357
Financial investments:					
Marketable debt instruments	-	130,272	902,024	556,380	1,588,676
Nonmarketable debt instruments	-	-	83,886	1,288	85,174
Other	-	-	-	85,943	85,943
Total financial investments	-	130,272	985,910	643,611	1,759,793
Cash and cash equivalents	3,656	8,605	10,689	35,000	57,920
Reinsurance assets	15,634	2,074	651,720	-	669,428
Premiums collectible	157	5,586	168,085	-	173,828
Other assets	2,906	-	46,970	11,054	60,930
Total assets	22,353	146,984	1,932,222	810,246	2,911,805
Liabilities					
Liabilities for insurance contracts and nonprofit participating investment contracts	67,282	129,918	1,557,807	-	1,755,007
Other liabilities	11,281	192	335,079	9,281	355,833
Total liabilities	78,563	130,110	1,892,886	9,281	2,110,840

* The health sector mainly includes the results of the personal accidents sector.

NOTE 4 - OPERATING SEGMENTS (continued):

	December 31, 2016				
	Life insurance	Health Insurance *	General insurance	Not allocated to operating segments	Total
	ILS in thousands				
Assets					
Intangible assets	-	-		33,816	33,816
Deferred acquisition costs	-	837	61,303	79,687	141,827
Financial investments:					
Marketable debt instruments	-	113,705	755,243	441,227	1,310,175
Nonmarketable debt instruments	-	-	111,887	59,398	171,285
Other	-	-	-	79,077	79,077
Total financial investments	-	113,705	867,130	579,702	1,560,537
Cash and cash equivalents	7,194	19,853	59,187	50,000	136,234
Reinsurance assets	15,066	1,568	641,925	-	658,559
Premiums collectible	65	6,526	146,943	-	153,534
Other assets	2,559	-	51,795	11,435	65,789
Total assets	24,884	142,489	1,828,283	754,640	2,750,296
Liabilities					
Liabilities for insurance contracts and nonprofit participating investment contracts	57,065	119,988	1,469,712	-	1,646,765
Other liabilities	11,781	209	336,902	779	349,671
Total liabilities	68,846	120,197	1,806,614	779	1,996,436

* The health sector mainly includes the results of the personal accidents sector.

NOTE 4 - OPERATING SEGMENTS (continued):

	For year ended December 31, 2017						
	Compulsory car insurance	**Car damages insurance**	**Home insurance**	**Professional liability**	**Property insurance and others***	**Other liability insurance***	**Total**
	ILS in thousands						
Gross premiums	**160,274**	**352,489**	**108,187**	**65,312**	**40,769**	**34,873**	**761,904**
Reinsurance premiums	**(2,214)**	**(108)**	**(12,915)**	**(59,932)**	**(39,038)**	**(30,167)**	**(144,374)**
Premiums in retention	**158,060**	**352,381**	**95,272**	**5,380**	**1,731**	**4,706**	**617,530**
Change in balance of unearned premiums, in retention	**(8,178)**	**(23,226)**	**(2,769)**	**1,587**	**(62)**	**528**	**(32,120)**
Premiums earned, in retention	**149,882**	**329,155**	**92,503**	**6,967**	**1,669**	**5,234**	**585,410**
Investment income, net and financing income	**14,486**	**7,435**	**2,168**	**4,011**	**760**	**4,481**	**33,341**
Commission income	**-**	**-**	**1,546**	**17,897**	**10,011**	**7,849**	**37,303**
Total income	**164,368**	**336,590**	**96,217**	**28,875**	**12,440**	**17,564**	**656,054**
Payments and change in insurance liabilities and payments with respect to insurance contracts	**(149,788)**	**(228,667)**	**(37,637)**	**(69,975)**	**(20,704)**	**(23,313)**	**(530,084)**
Share of reinsurers in increase of insurance liabilities and payments with respect to insurance contracts	**21,846**	**-**	**1,579**	**52,658**	**18,903**	**22,018**	**117,004**
Payments and change in insurance liabilities and payments with respect to insurance contracts, in retention	**(127,942)**	**(228,667)**	**(36,058)**	**(17,317)**	**(1,801)**	**(1,295)**	**(413,080)**
Commission, marketing expenses and other acquisition expenses	**(22,698)**	**(59,411)**	**(27,320)**	**(16,511)**	**(6,758)**	**(7,531)**	**(140,229)**
General and administrative expenses	**(6,918)**	**(13,061)**	**(10,984)**	**(1,570)**	**(1,023)**	**(697)**	**(34,253)**
Financing expenses	**-**	**-**	**707**	**4**	**-**	**-**	**711**
Total expenses	**(157,558)**	**(301,139)**	**(73,655)**	**(35,394)**	**(9,582)**	**(9,523)**	**(586,851)**
Total comprehensive income (loss) before taxes on income							
Gross liabilities with respect to insurance contracts as of December 31, 2017	**6,810**	**34,451**	**22,562**	**(6,519)**	**2,858**	**8,041**	**69,203**
Liability insurance contracts in retention as of	**625,446**	**261,904**	**74,596**	**220,250**	**92,857**	**282,754**	**1,557,807**
December 31, 2017	**492,800**	**261,904**	**68,176**	**42,133**	**3,632**	**37,442**	**906,087**

* Property insurance and others include mainly results from the property insurance sector, contributing 90% of total premiums in these sectors. Other liability sectors include mainly results from the product liability insurance sector, contributing 35% of total premiums in those sectors.

NOTE 4 - OPERATING SEGMENTS (continued):

Additional information relating to general insurance segment:

	For year ended December 31, 2016						
	Compulsory car insurance	**Car damages insurance**	**Home insurance**	**Professional liability**	**Property insurance and others***	**Other liability insurance***	**Total**
	ILS 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, in 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
Payments and change in insurance liabilities and payments with respect to insurance contracts	(164,584)	(236,673)	(41,540)	(93,799)	(32,614)	(46,589)	(615,799)
Share of reinsurers in increase of insurance liabilities and payments with respect to insurance contracts	30,599	-	4,958	73,467	30,525	39,150	178,699
Payments and change in insurance liabilities and payments with respect to insurance contracts, in retention	(133,985)	(236,673)	(36,582)	(20,332)	(2,089)	(7,439)	(437,100)
Commission, marketing expenses and other acquisition expenses	(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 expenses	-	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 with respect to insurance contracts as of December 31, 2017	563,257	229,188	72,443	230,229	87,024	287,571	1,469,712
Liability insurance contracts in retention as of December 31, 2017	447,320	229,188	65,787	41,732	3,492	40,268	827,787

*NOTE 4 - OPERATING SEGMENTS (continued):

Additional information relating to general insurance segment (continued):

	For year ended December 31, 2015						
	Compulsory car insurance	Car damages insurance	Home insurance	Professional liability	Property insurance and others*	Other liability insurance*	Total
	ILS in thousands						
Gross premiums	146,782	284,177	102,246	62,239	40,167	38,765	674,376
Reinsurance premiums	(2,051)	(116)	(16,991)	(52,726)	(38,212)	(31,819)	(141,915)
Premiums, in retention	144,731	284,061	85,255	9,513	1,955	6,946	532,461
Change in balance of unearned premiums, in retention	(1,013)	(15,292)	(1,595)	328	(207)	(384)	(18,163)
Premiums earned, in retention	143,718	268,769	83,660	9,841	1,748	6,562	514,298
Investment income, net and financing income	4,212	1,257	484	1,209	162	1,293	8,617
Commission income	-	-	4,138	13,571	7,436	7,444	32,589
Total income	147,930	270,026	88,282	24,621	9,346	15,299	555,504
Payments and change in insurance liabilities and payments with respect to insurance contracts	4,888	(216,420)	(48,644)	(72,636)	(1,855)	(29,815)	(364,482)
Share of reinsurers in increase of insurance liabilities and payments with respect to insurance contracts	(58,572)	-	8,177	70,834	(207)	24,982	45,214
Payments and change in insurance liabilities and payments with respect to insurance, in retention	(53,684)	(216,420)	(40,467)	(1,802)	(2,062)	(4,833)	(319,268)
Commission, marketing expenses and other acquisition expenses	(27,511)	(58,625)	(27,432)	(15,077)	(5,162)	(7,672)	(141,479)
General and administrative expenses	(6,853)	(7,368)	(12,097)	(4,251)	(1,384)	(1,230)	(33,183)
Financing expenses	-	645	1,133	-	-	2	1,780
Total expenses	(88,048)	(281,768)	(78,863)	(21,130)	(8,608)	(13,733)	(492,150)
Total comprehensive income (loss) before taxes on income	59,882	(11,742)	9,419	3,491	738	1,566	63,354
Gross liabilities with respect to insurance contracts as of December 31, 2016	475,386	206,560	70,551	155,586	77,626	267,910	1,253,619
Liability for retention insurance contracts in retention as of December 31, 2016	384,669	206,560	61,654	27,338	3,496	36,772	720,489

* Property lines and other include mainly results from the property insurance sector, the operations of which constitute 83% of total premiums in these sectors.
Other liability sectors include mainly results from the product liability insurance sector, the operations of which constitute 44% of total premiums in these sectors.

NOTE 5 - INTANGIBLE ASSETS:

	Software
	ILS in thousands
Cost:	
Balance as of January 1, 2016	69,439
Additions in 2016*	16,716
Retirements in 2016	(832)
Balance as of December 31, 2016	85,323
Additions in 2017*	**17,199**
Retirements in 2017	**(1,622)**
Balance as of December 31, 2017	**100,900**
Accumulated amortization:	
Balance as of January 1, 2016	43,042
Additions in 2016	9,297
Retirements in 2016	(832)
Balance as of December 31, 2016	51,507
Additions in 2017	**12,567**
Retirements in 2017	**(1,622)**
Balance as of December 31, 2017	**62,452**
Depreciated balance:	
At December 31, 2017	**38,448**
At December 31, 2016	33,816

* Additions in respect of computer software include mainly additions in respect of proprietary development: in 2017 - ILS 15,592 thousand and in 2016 - ILS 13,998 thousand.

NOTE 6 - DEFERRED ACQUISITION COSTS:

a. Composition

	December 31	
	2017	**2016**
	ILS in thousands	
Life insurance (see section b.)	**82,133**	79,687
Health insurance (see section b.)	**477**	837
General insurance	**66,747**	61,303
Total	**149,357**	141,827

b. Changes in deferred acquisition costs (life insurance and health insurance):

	Life insurance	Health insurance	Total
		ILS in thousands	
Balance as of January 1, 2016	84,452	673	85,125
Additions (acquisition expenses)	20,735	837	21,572
Current amortization	(6,399)	(673)	(7,072)
Amortization relating to cancellations	(19,101)	-	(19,101)
Balance as of December 31, 2016	79,687	837	80,524
Additions (acquisition expenses)	22,767	477	23,244
Current amortization	(6,273)	(837)	(7,110)
Amortization relating to cancellations	(14,048)	-	(14,048)
Balance as of December 31, 2017	82,133	477	82,610

NOTE 7 - PROPERTY AND EQUIPMENT:

a. Composition of assets and accumulated depreciation thereon, grouped by major classifications, and changes therein in 2017, are as follows:

	Computers and communications equipment	Office furniture and equipment	Leasehold improvements	Total
	ILS in thousands			
Cost:				
Balance at January 1, 2017	**29,764**	**8,035**	**8,422**	**46,221**
Additions during year	**3,805**	**1,012**	**315**	**5,132**
Retirements during year	**(3,883)**	**(1,057)**	**(699)**	**(5,639)**
Balance at December 31, 2017	**29,686**	**7,990**	**8,038**	**45,714**
Accumulated depreciation:				
Balance at January 1, 2017	**22,800**	**4,036**	**7,950**	**34,786**
Additions during year	**4,419**	**751**	**343**	**5,513**
Retirements during year	**(3,883)**	**(1,057)**	**(699)**	**(5,639)**
Balance at December 31, 2017	**23,336**	**3,730**	**7,594**	**34,660**
Depreciated balance at December 31, 2017	**6,350**	**4,260**	**444**	**11,054**

b. Composition of assets and accumulated depreciation thereon, grouped by major classifications, and changes therein in 2016, are as follows:

	Computers and communications equipment	Office furniture and equipment	Leasehold improvements	Total
	ILS in thousands			
Cost:				
Balance at January 1, 2017	26,321	6,871	12,034	45,226
Additions during year	4,152	2,172	72	6,396
Retirements during year	(709)	(1,008)	(3,684)	(5,401)
Balance at December 31, 2017	29,764	8,035	8,422	46,221
Accumulated depreciation:				
Balance at January 1, 2017	19,127	4,145	10,485	33,757
Additions during year	4,382	899	1,149	6,430
Retirements during year	(709)	(1,008)	(3,684)	(5,401)
Balance at December 31, 2017	22,800	4,036	7,950	34,786
Depreciated balance at December 31, 2017	6,964	3,999	472	11,435

NOTE 8 - OTHER RECEIVABLES:

	December 31	
	2017	**2016**
	ILS in thousands	
Prepaid expenses	**20,021**	21,893
Employees	**278**	364
Insurance companies and insurance brokers	**18,973**	18,484
Related parties (see note 29a)	**8,406**	10,876
Other	**871**	873
Total other receivables	**48,549**	52,490

As of December 31, 2017 and December 31, 2016, no provision for impairment of accounts receivables was required.

NOTE 9 - PREMIUMS COLLECTIBLE:

a. Composition:

	December 31	
	2017	**2016 ****
	ILS in thousands	
Premiums collectible (*)	**184,232**	161,597
Less - provision for impairment of accounts receivables (see c.)	**(10,404)**	(8,063)
Total premiums collectible	**173,828**	153,534
(*) Includes backdated checks, payments by standing order and payments though credit card companies	**156,341**	132,438

For information about linkage terms of premium collectible, see note 27c(3).

The Company has a balance of premium collectible from related parties, see note 298.

NOTE 9 - PREMIUMS COLLECTIBLE (continued):

b. Aging:

	December 31	
	2017	**2016**
	ILS in thousands	
Unimpaired premiums collectible:		
Not overdue	171,871	151,704
Overdue**:		
Less than 90 days	838	500
Between 90 and 180 days	1,119	1,330
Total unimpaired premiums collectible	173,828	153,534
Impaired premiums collectible	10,404	8,063
	184,232	161,597
Less - provision for impairment of accounts receivables	(10,404)	(8,063)
Total premiums collectible	173,828	153,534

As of December 31, 2017 and December 31, 2016, the Company had no unimpaired premiums collectible that are 180 days or more overdue.

* After reclassification, see note 2u.

** Including an amount as of December 31, 2017 of ILS 11 thousand (as of December 31, 2016 of ILS 18 thousand) for overdue life insurance receivables.

c. Change in provision for impairment of accounts receivables:

	Year ended December 31	
	2017	**2016**
	ILS in thousands	
Balance at January 1	**(8,063)**	(8,107)
Change in provision during year through profit and loss	**(2,341)**	44
Balance at December 31	**(10,404)**	(8,063)

NOTE 10 - FINANCIAL INVESTMENTS:

Financial investments composition:

	As of December 31, 2017		
	At fair value through profit or loss	Loans and receivables	Total
	ILS in thousands		
Marketable debt assets (a)	**1,588,676**	**-**	**1,588,676**
Nonmarketable debt assets (b)	**-**	**85,174**	**85,174**
Listed shares (d)	**85,943**	**-**	**85,943**
Other (e)	**-**	**-**	**-**
Total	**1,674,619**	**85,174**	**1,759,793**

	As of December 31, 2016		
	At fair value through profit or loss	Loans and receivables	Total
	ILS in thousands		
Marketable debt assets (a)	1,310,175	-	1,310,175
Nonmarketable debt assets (b)	-	171,285	171,285
Listed shares (d)	-	-	-
Other (e)	79,077	-	79,077
Total	1,389,252	171,285	1,560,537

a. **Composition of marketable debt instruments** (earmarked upon initial recognition for category of financial assets at fair value through profit or loss):

	December 31	
	2017	2016
	ILS in thousands	
Government bonds	**557,539**	559,286
Other non-convertible marketable debt instruments	**1,031,137**	750,889
Total marketable debt instruments	**1,588,676**	1,310,175

b. **Composition of nonmarketable debt instruments** (presented as loans and receivables):

	Carrying amount		Fair value	
	2017	2016	2017	2016
	ILS in thousands			
Presented at amortized cost, excluding bank deposits	**83,886**	114,243	**87,718**	116,602
Bank deposits	**1,288**	57,042	**1,638**	57,084
Total non-convertible debt assets	**85,174**	171,285	**89,356**	173,686

As of December 31, 2017 and December 31, 2016, ass non-marketable debt assets are not overdue and not impaired.

NOTE 10 - FINANCIAL INVESTMENTS (continued):

c. Details regarding interest and linkage in respect of debt instruments:

	Effective interest*	
	2017	**2016**
	Percentages	
Marketable debt assets:		
Linkage basis:		
Linked to CPI	**3.51%**	3.24%
Linked to USD	**5.03%**	-
ILS denominated	**3.98%**	4.29%
Nonmarketable debt assets:		
Linkage basis:		
Linked to CPI	**3.67%**	1.77%
Linked to USD	-	-
ILS denominated	**4.60%**	8.23%

* Weighted average

d. Other financial investments:

	December 31	
	2017	**2016**
	ILS in thousands	
Marketable shares* - designated upon initial recognition at fair value through profit or loss	85,943	**79,077**

e. Interest rates used in determining fair value

The fair value of financial nonmarketable debt instruments, the data regarding the fair value of which is presented in the financial statements for disclosure purposes only, is determined by discounting the estimated future cash flows in respect of these assets. The discount rates are based on government bonds yields and margins of corporate bonds as measured in the Tel Aviv Stock Exchange with the addition of premium in respect of non-marketability,
As measured in the Tel Aviv Stock Exchange Ltd, with the addition of a premium in respect of non-marketability. The interest rates used in capitalization are set by "Fair Spread Ltd.", which provides quoted interest rates in proportion to various risk ratings.

	December 31	
	2017	**2016**
	Percentages	
AA rating or more	**1.49%**	1.86%
A rating	**2.84%**	4.12%
Lower than BBB rating	-	18.24%

NOTE 10 - FINANCIAL INVESTMENTS (continued):

f. Hierarchy of fair value of financial assets

Fair value hierarchy is determined as follows:

- Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

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

Further to the above, no transfers of the fair value measurements of financial assets were made between raising the variance in the fair value hierarchy.

NOTE 11 - CASH AND CASH EQUIVALENTS:

	December 31	
	2017	**2016**
	ILS in thousands	
Cash and deposits available for withdrawal on demand:	**57,920**	136,234
	57,920	136,234

As of the date of the balance sheet, cash and cash equivalents deposited with banks were credited with interest at rates based upon the daily bank deposit rate (0.02%)

NOTE 12 - SHAREHOLDERS’ EQUITY AND EQUITY REQUIREMENTS:

a. Composition of share capital:

	Number of shares			
	Authorized		Issued and fully paid	
	December 31			
	2017	2016	2017	2016
Ordinary ILS 1 shares	**45,000,100**	45,000,100	**5,730**	5,730

b. Rights attached to shares

Rights to vote in shareholders meetings, the right to receive dividends, rights attendant upon the liquidation or winding up of the Company, and the right to appoint the directors of the Company.

The rights attached to preferred shares are comprised of voting rights at general meetings of the Company .

c. Capital management and requirements:

1) Management’s policy is to maintain a strong capital base in order to preserve the ability of the Company to continue operating to generate profits for its shareholders and to support future business activity. The Company is subject to the capital requirements set by the Supervisor.

2) In accordance with the Company's capital management policy, as approved by the Company's Board of Directors, which also includes a policy regarding the distribution of dividends, the Company must hold capital of 120% of the minimum shareholders' equity required and also meet a repayment ratio of 130% according to the Solvency II Directive, and subject to certain additional conditions prescribed in such policy, the Company may pay a dividend to its shareholders above such threshold.

3) The following is information about the required and existing capital of the Company under the Supervision of Financial Services Regulations (Insurance) (Minimum Capital Required of an Insurer), 1998 (hereinafter - the capital regulations) and the directives of the Supervisor.

The amounts of capital held by the Company according to the capital regulations:

	December 31	
	2017	2016
	ILS in thousands	
The amount required by the Supervisor's regulations and the directives of the Supervisor (a)	**672,592**	584,790
The existing amount computed under the capital regulations:		
Initial basic capital	**800,965**	753,860
Total existing capital, computed according the capital regulations	**800,965**	753,860
Surplus as of the date of this report	**128,373**	169,070
Subsequent events:		
Dividend (3)	**-**	50,000
Surplus considering subsequent events	**128,373**	119,070

NOTE 12 - SHAREHOLDERS' EQUITY AND EQUITY REQUIREMENTS (continued)**:**

	December 31	
	2017	**2016**
	ILS in thousands	
(a) The required equity includes, inter alia, capital requirements with respect to the following:		
Operations related to general insurance	**124,754**	117,976
Exceptional life insurance risks	**46,122**	41,588
Deferred acquisition costs in relation to life insurance	**82,133**	79,687
Investment assets and other assets	**73,326**	58,507
Catastrophe risk related to general insurance	**314,639**	257,227
Operating risks	**31,618**	29,805
Total	**672,592**	584,790

3) On March 21, 2017, the Company's Board of Directors decided to distribute a dividend of ILS 50 million, representing ILS 8,726 per share. The dividend was paid on March 27, 2017.

4) On April 19, 2016, the Board of Directors of the Company approved a ILS 105 million dividend, representing ILS 18,325 per share. The dividend was paid on May 24, 2016.

5) On October 27, 2016, the Board of Directors of the Company resolved to distribute dividend of ILS 35 million, or ILS 6,108 per share. The dividend was paid on November 19, 2015.

d. Solvency II:

1. On June 1, 2017, the Supervisor issued a circular on the provisions for implementing Solvency II-based regimen. 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 regimen to be recognize as compatible to that in Europe.

NOTE 12 - SHAREHOLDERS' EQUITY AND EQUITY REQUIREMENTS (continued)**:**

The circular states that an insurance company has to maintain economic solvency according to the provisions of the circular and its appendices, without detracting from the duty to comply with the minimum capital regulations and the Supervisor guidance issued thereunder, and that the Capital Markets, Insurance and Savings Authority will concurrently act to amend the regulations, such that their provisions in relation to minimum required capital will not apply to insurance companies covered by the provisions of the circular, and that after an insurance company obtains certification of the Supervisor for performing an audit of circular compliance in its annual financial statements.

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 will be 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, will be 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, will be 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, will be 80% of the SCR.
6) The solvency required capital of an insurance company in the deployment period as calculated using data as of December 31, 2021 and the data for June 30, 2022, shall not be less than 85% of the SCR ;
7) The solvency required capital an insurance company in the deployment period as calculated on December 31, 2022 and on June 30, 2023, shall not be less than 90% of SCR;
8) The solvency required capital an insurance company in the deployment period as calculated on December 31, 2023 and on June 30, 2024, shall not be less than 95% of SCR;
9) The solvency required capital an insurance company in the deployment period as calculated on December 31, 2024 and thereafter, shall not be less than SCR.

2. On October 1, 2017, a letter was published by the Supervisor to the managers of the insurance companies regarding the distribution of dividends by an insurance company (hereinafter - "the letter"). According to the letter:

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

1. After the distribution, the Company has an equity ratio to the required equity capital (hereinafter - the "Repayment Ratio") at a rate of at least 115% according to existing capital regulations or directives that replace them.

2. After the distribution, the Company has a solvency ratio of at least 100% according to the Solvency Agreement, calculated without the provisions during the deployment period and without a period of adjustment of the share scenario and subject to the solvency ratio determined by the Company's Board of Directors.

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

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

NOTE 13 - LIABILITIES WITH RESPECT TO NONPROFIT PARTICIPATING INSURANCE CONTRACTS AND INVESTMENT CONTRACTS:

	As of December 31					
	Gross		Reinsurance		Retained amount	
	2017	2016	2017	2016	2017	2016
	ILS in thousands					
Insurance contracts in life insurance sector	**67,282**	57,065	**15,634**	15,066	**51,648**	41,999
Insurance contracts in health insurance sector	**129,918**	119,988	**2,074**	1,568	**127,844**	118,420
Insurance contracts in general insurance sector	**1,551,807**	1,557,807	**651,720**	641,925	**906,087**	827,787
Total liabilities with respect non-profit Participating insurance contracts and investment contracts	**1,749,007**	1,775,077	**669,428**	* 658,559	**1,085,579**	988,206

* Most are to related-party reinsurance, see note 28a.

NOTE 14 - LIABILITIES WITH RESPECT TO INSURANCE CONTRACTS IN GENERAL INSURANCE SECTOR:

a.1.Liabilities with respect to insurance contracts in general insurance sector by category:

	As of December 31					
	Gross		Reinsurance		Retained amount	
	2017	2016	2017	2016	2017	2016
	ILS in thousands					
Compulsory car insurance and liability sectors:						
Provision for unearned premiums	**121,430**	114,528	**42,444**	41,606	**78,986**	72,922
Pending claims	**1,007,020**	966,529	**513,631**	510,131	**493,389**	456,398
Total liabilities in compulsory car insurance and liability sectors *	**1,128,450**	1,081,057	**556,075**	551,737	**572,375**	529,320
Property and miscellaneous sectors:						
Provision for unearned premiums	**232,186**	206,970	**21,356**	22,197	**210,830**	184,773
premium deficiency reserve	**-**	2,465	**-**	-	**-**	2,465
Pending claims	**197,171**	179,220	**74,289**	67,991	**122,882**	111,229
Total liabilities in property and miscellaneous sectors	**429,357**	388,655	**95,645**	90,188	**333,712**	298,467
Total liabilities with respect to insurance contracts in general insurance sector	**1,557,807**	1,469,712	**651,720**	641,925	**906,087**	827,787

NOTE 14 - LIABILITIES WITH RESPECT TO INSURANCE CONTRACTS IN GENERAL INSURANCE SECTOR (continued):

a.1. Insurance liabilities with respect to insurance contracts in general insurance sector by category

	As of December 31					
	Gross		Reinsurance		Retained amount	
	2017	2016	2017	2016	2017	2016
Deferred acquisition costs:	ILS in thousands					
Compulsory car insurance and liability sectors	**21,756**	20,534	**12,085**	11,156	**9,671**	9,378
Property and miscellaneous sectors	**44,991**	40,769	**5,502**	5,085	**39,489**	35,684
Total	**66,747**	61,303	**17,587**	16,241	**49,160**	45,062
Liabilities with respect to general insurance contracts, after deduction of deferred acquisition costs:						
Compulsory car insurance and liability sectors (see b(1) below)	**1,106,694**	1,060,523	**543,990**	540,581	**562,704**	519,942
Property and miscellaneous sectors (see b.2 below)	**384,366**	347,886	**90,143**	85,103	**294,223**	262,783
Total liabilities with respect to general insurance contracts, after deduction of deferred acquisition costs	**1,491,060**	1,408,409	**634,133**	625,684	**856,927**	782,725
* Of that amount, liability for compulsory vehicle	**625,446**	563,257	**132,646**	115,937	**492,800**	447,320

NOTE 14 - LIABILITIES WITH RESPECT TO INSURANCE CONTRACTS IN GENERAL INSURANCE SECTOR (continued):

a.2. Insurance liabilities with respect to insurance contracts in general insurance sector by method of computation

	As of December 31					
	Gross		Reinsurance		Retained earnings	
	2017	2016	2017	2016	2017	2016
	ILS in thousands					
Actuarial valuations:						
Mr. Ernst Segal	**1,204,191**	**1,145,639**	**587,921**	578,122	616,270	**567,517**
Total actuarial valuations	**1,204,191**	**1,145,639**	**587,921**	578,122	**616,270**	**567,517**
Provision for unearned premiums	**353,616**	321,498	**63,799**	63,803	**289,817**	257,695
Premium deficiency reserve, not included in actuary estimates	-	2,575	-	-	-	2,575
Total insurance liabilities with respect to insurance contracts in general insurance sector	**1,551,807**	1,469,712	**651,720**	641,925	**906,087**	827,787

NOTE 14 - LIABILITIES WITH RESPECT TO INSURANCE CONTRACTS IN GENERAL INSURANCE SECTOR (continued):

b. Changes in liabilities with respect to insurance contracts in general insurance sector, after deduction of deferred acquisition costs:

b1. Compulsory car insurance and liability sectors:

	As of December 31					
	Gross		Reinsurance		Retained amounts	
	2017	2016	2017	2016	2017	2016
	ILS in thousands					
Balance as of beginning of year	**1,060,523**	876,789	**540,581**	438,139	**519,942**	438,650
Ultimate cost of claims with respect to current underwriting year	**226,534**	210,469	**79,030**	75,050	**147,504**	135,419
Change in balances as of beginning of year as result of linkage to Consumer Price Index and investment income in accordance with capitalization discount reflected in liabilities	**6,948**	5,953	**-**	-	**6,948**	5,953
Change in estimate of ultimate cost of claims with respect to previous underwriting years	**15,272**	85,867	**17,400**	67,743	**(2,128)**	18,124
Total change in ultimate cost of claims	**248,754**	302,289	**96,430**	142,793	**152,324**	159,496
Payments in settlement of claims during course of year:						
With respect to current underwriting year	**(2,741)**	(1,524)	**(595)**	(332)	(2,146)	(1,192)
With respect to previous underwriting years	**(199,842)**	(117,031)	**(92,426)**	(40,019)	(107,416)	(77,012)
Total payments for period	**(202,583)**	(118,555)	**(93,021)**	(40,351)	**(109,562)**	(78,204)
Accumulation added to profits on closing of underwriting year *	-	-	-	-	-	-
Remaining change in accumulation*	-	-	-	-	-	-
Total change in accumulation for period	-	-	-	-	-	-
Balance as of end of year	**1,106,694**	1,060,523	**543,990**	540,581	**562,704**	519,942

1. The opening and closing balances include pending claims, accumulation and unearned premium, net of deferred acquisition costs.
2. The ultimate cost of claims includes the balance of outstanding pending claims (without accumulation), provision for premium shortfall, unearned premium net of deferred acquisition costs together with the total of payments made in respect of claims including direct and indirect expenses incurred in the settlement of claims.
3. Payment for settlement of claims during the year includes direct and indirect general and administrative costs incurred in, and attributable to, the settlement of claims; the costs are allocated between the various underwriting years.
4. The change in the estimate of the cost of cumulative claims in respect of underwriting years prior to 2016 derives mainly from CMBI following the implications of the amendment to the National Insurance Institute's capitalization regulations published in September 2016 following the conclusions of the Vinograd Committee. For details, see Note 27E (3).

NOTE 14 - LIABILITIES WITH RESPECT TO INSURANCE CONTRACTS IN GENERAL INSURANCE SECTOR (continued):

b. Changes in liabilities with respect to insurance contracts in general insurance sector, after deduction of deferred acquisition costs (continued):

b2. Property and miscellaneous sectors:

	As of December 31					
	Gross		Reinsurance		Retained amount	
	2017	2016	2017	2016	2017	2016
	ILS in thousands					
Balance as of beginning of year	**347,886**	312,280	**85,103**	76,329	**262,783**	235,951
Ultimate cost of claims with respect to events occurring in year under review	**317,487**	324,194	**30,490**	36,437	**286,997**	287,757
Change in ultimate cost of claims with respect to events in prior years	**(30,483)**	(15,832)	**(10,005)**	(951)	**(20,478)**	(14,881)
Payments made in course of year in settlement of claims:						
With respect to events occurring in year under review	**(197,244)**	(210,488)	**(4,289)**	(9,052)	**(192,955)**	(201,436)
With respect to events occurring in prior years	**(74,273)**	(78,171)	**(9,896)**	(15,638)	**(64,377)**	(62,533)
Total payments	**(271,517)**	(288,659)	**(14,185)**	(24,690)	**(257,332)**	(263,969)
Change in provision for unearned premiums, after deduction of deferred acquisition costs	**20,993**	13,438	**(1,260)**	(2,022)	**22,253**	15,460
Change in premium deficiency reserve	**-**	2,465	**-**	-	**-**	2,465
Balance as of end of year	**384,366**	347,886	**90,143**	85,103	**294,223**	262,783

1. The opening and closing balances include outstanding pending claims, a provision for premium shortfall and unearned premiums, net of deferred acquisition costs.

2. The cumulative cost of claims in respect of event in the reported year includes the balance of outstanding pending claims at the end of the reported year with the addition of total payments for claims in the reported period, including direct and indirect expenses incurred in the settlement of claims.

3. Payment to settlement of claims during the year includes direct and indirect general and administrative costs incurred in, and attributable to, the settlement of claims; the costs are allocated between the various underwriting years.

NOTE 14 - LIABILITIES WITH RESPECT TO INSURANCE CONTRACTS IN GENERAL INSURANCE SECTOR (continued):

c1. Review of development of gross liabilities with respect to insurance contracts, after deduction of deferred acquisition costs, in compulsory motor insurance and liability sectors as of December 31, 2017 according to underwriting year in ILS thousands (CPI-adjusted):

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Paid claims (accumulated) at end of year:											
After one year	3,562	3,652	2,735	2,116	2,943	2,445	2,293	2,244	1,576	2,741	
After two years	14,629	16,692	13,127	20,358	11,198	14,606	13,279	14,348	13,758		
After three years	30,687	35,810	23,936	43,267	28,304	31,926	37,233	38,294			
After four years	44,067	74,029	36,863	73,327	45,425	56,391	67,836				
After five years	59,560	92,372	52,652	83,450	59,268	104,551					
After six years	79,218	88,530	247,125	75,032	103,942						
After seven years	88,530	247,125	75,032	103,942							
After eight years	94,031	257,529	90,300								
After nine years	102,408	277,276									
After ten years	105,455										
Assessment of accumulated claims (including payments) at end of year:											
After one year**	187,630	242,588	210,068	214,616	213,389	217,554	236,942	207,554	230,838	226,412	
After two years	192,466	245,526	206,025	232,604	21,202	232,222	168,880	195,811	214,725		
After three years	191,777	179,518	197,971	164,013	189,727	162,466	220,141	203,933			
After four years	179,518	141,902	191,145	161,314	161,434	156,767	214,877				
After five years	141,902	191,145	161,314	161,434	156,767	214,877					
After six years	142,806	185,752	132,654	156,846	155,111						
After seven years	140,664	294,412	137,159	164,548							
After eight years	127,663	312,596	139,753								
After nine years	129,186	306,611									
After ten years	125,774										
Excess (deficit) relative to first year, excluding accumulation* **	**53,744**	**(108,640)**	**24,260**	**25,179**	**7,355**	**5,264**					**7,162**
Rate of deviation relative to first year, excluding accumulated %	29.9%	(54.9%)	14.8%	13.3%	4.5%	2.4%					0.8%
Cost of accumulated claims as of December 31, 2017	**125,774**	**306,611**	**139,753**	**164,548**	**155,111**	**214,877**	**203,933**	**208,927**	**214,725**	**226,412**	**1,960,671**
Accumulated payments through December 31, 2017	105,455	277,276	90,300	103,942	85,790	104,551	67,836	38,294	13,758	2,741	889,943
Balance of pending claims	20,319	29,335	49,453	60,606	69,320	110,326	136,097	170,633	200,967	223,671	1,070,727
Pending claims through underwriting year 2006											**35,967**
Total liabilities in respect of insurance contracts in compulsory vehicle and liabilities sectors, net of deferred acquisition costs as of December 2017											**1,106,694**

* The amounts above are presented in inflation-adjusted values to allow presentation of development based on real valued.

** Estimated accumulated claims at the end of first year includes reserve for unearned premium less deferred acquisition expenses.

*** The difference between estimated accumulated claims in the first year excluding accumulation and estimated accumulated claims as of the date of this report.

NOTE 14 - LIABILITIES WITH RESPECT TO INSURANCE CONTRACTS IN GENERAL INSURANCE SECTOR (continued):

c2. Review of development of retained amounts of liabilities with respect to insurance contracts, after deduction of deferred acquisition costs, in compulsory motor insurance and liability sectors as of December 31, 2017 according to underwriting year in ILS thousands (CPI-adjusted):

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Paid claims (accumulated) at end of year:											
After one year	3,534	2,631	2,209	1,582	2,117	2,092	2,118	1,299	1,244	2,146	
After two years	12,966	13,835	9,304	9,201	8,143	10,282	10,231	9,015	10,224		
After three years	26,418	25,302	18,846	20,133	22,679	23,592	26,744	26,548			
After four years	38,376	38,589	29,106	32,809	35,701	37,773	48,434				
After five years	46,373	48,510	37,525	40,739	45,891	58,317					
After six years	53,698	57,461	46,022	47,992	55,609						
After seven years	59,932	72,165	52,974	58,019							
After eight years	63,700	79,598	59,552								
After nine years	69,291	85,947									
After ten years	71,171										
Assessment of accumulated claims (including payments) at end of year:											
After one year**	119,395	128,696	124,512	124,182	131,481	146,307	157,798	128,713	144,820	147,505	
After two years	121,896	130,284	117,519	121,542	126,339	136,275	104,324	111,409	122,080		
After three years	123,474	133,872	120,269	125,857	127,634	85,634	112,287	114,998			
After four years	124,308	87,439	84,949	88,303	83,109	103,749	121,566				
After five years	80,147	88,542	81,897	78,888	81,920	103,194					
After six years	82,093	90,015	74,448	78,410	78,886						
After seven years	80,604	92,255	77,303	89,259							
After eight years	76,567	96,033	76,258								
After nine years	78,680	95,635									
After ten years	79,427										
Excess (deficit) relative to first year, excluding accumulation* **	**44,881**	**(8,196)**	**8,691**	**(956)**	**4,223**	**555**					**49,199**
Rate of deviation relative to first year, excluding accumulated %	36.1%	(9.4%)	10.2%	(1.1%)	5.1%	0.5%					12.0%
Cost of accumulated claims as of December 31, 2017	**79,427**	**95,635**	**76,258**	**89,259**	**78,886**	**103,194**	**121,566**	**114,998**	**122,080**	**147,505**	**1,028,807**
Accumulated payments through December 31, 2017	71,171	85,947	59,552	58,019	55,609	58,317	48,434	26,548	10,224	2,146	475,967
Balance of pending claims	8,256	9,688	16,706	31,240	23,277	44,877	73,132	88,450	111,855	145,359	552,840
Pending claims through underwriting year 2006											**9,864**
Total liabilities in respect of insurance contracts in compulsory vehicle and liabilities sectors, net of deferred acquisition costs as of December 2017											**562,704**

* The amounts above are presented in inflation-adjusted values to allow presentation of development based on real valued.

** Estimated accumulated claims at the end of first year includes reserve for unearned premium less deferred acquisition expenses.

*** The difference between estimated accumulated claims in the first year excluding accumulation and estimated accumulated claims as of the date of this report.

NOTE 14 - LIABILITIES WITH RESPECT TO INSURANCE CONTRACTS IN GENERAL INSURANCE SECTOR (continued):

c3. Review of development of gross liabilities with respect to insurance contracts, after deduction of deferred acquisition costs, in compulsory motor insurance sector as of December 31, 2017 according to underwriting year in ILS thousands (CPI-adjusted):

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Paid claims (accumulated) at end of year:											
After one year	3,379	2,444	1,873	1,305	1,771	1,857	1,931	1,161	1,172	1,825	
After two years	12,205	12,854	8,249	5,804	7,020	9,439	9,558	7,666	11,577		
After three years	25,612	23,331	17,309	13,775	20,600	22,477	24,528	23,965			
After four years	37,053	34,621	26,933	22,947	32,908	34,719	43,421				
After five years	49,203	48,672	38,037	30,378	41,869	48,710					
After six years	54,783	57,493	45,424	37,262	50,908						
After seven years	61,196	65,990	51,989	45,667							
After eight years	65,286	74,334	58,727								
After nine years	70,032	79,249									
After ten years	71,843										
Assessment of accumulated claims (including payments) at end of year:											
After one year**	118,623	124,922	122,646	118,067	120,269	138,875	151,361	122,136	146,647	148,352	
After two years	120,934	134,207	116,481	114,536	124,239	141,237	108,841	112,498	133,199		
After three years	123,191	135,773	121,665	116,578	125,672	88,378	118,849	115,984			
After four years	131,381	95,560	88,458	84,862	78,558	102,681	126,284				
After five years	88,408	95,581	85,997	72,000	76,328	104,085					
After six years	87,241	93,343	73,735	69,875	77,928						
After seven years	86,790	87,561	76,772	69,836							
After eight years	79,802	92,422	76,889								
After nine years	82,677	90,332									
After ten years	86,039										
Excess (deficit) relative to first year, excluding accumulation*:**	**45,342**	**5,228**	**11,569**	**15,026**	**630**	**(1,404)**	**630**	**15,026**	**11,569**	**5,228**	**76,391**
Rate of deviation relative to first year, excluding accumulated %	34.5%	5.5%	13.1%	17.7%	0.8%	(1.4%)	0.8%	17.7%	13.1%	5.5%	19.2%
Cost of accumulated claims as of December 31, 2017	**86,039**	**90,332**	**76,889**	**69,836**	**77,928**	**104,085**	**126,284**	**115,984**	**133,199**	**148,352**	**1,028,928**
Accumulated payments through December 31, 2017	71,843	79,249	58,727	45,667	50,908	48,710	43,421	23,965	11,577	1,825	4,353,891
Balance of pending claims	14,195	11,083	18,162	24,169	27,020	55,375	82,864	92,019	121,622	146,527	593,037
Pending claims through underwriting year 2006											**21,263**
Total liabilities in respect of insurance contracts in compulsory vehicle and liabilities sectors, net of deferred acquisition costs as of December 2017											**614,301**

* The amounts above are presented in inflation-adjusted values to allow presentation of development based on real valued.

** Estimated accumulated claims at the end of first year includes reserve for unearned premium less deferred acquisition expenses.

*** The difference between estimated accumulated claims in the first year excluding accumulation and estimated accumulated claims as of the date of this report.

NOTE 15 - LIABILITIES WITH RESPECT TO INSURANCE CONTRACTS IN GENERAL INSURANCE SECTOR (continued):

c4. Review of development of retained amounts of liabilities with respect to insurance contracts, after deduction of deferred acquisition costs, in compulsory vehicle insurance sector as of December 31, 2017 according to underwriting year in ILS thousands (CPI-adjusted):

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Paid claims (accumulated) at end of year:											
After one year	3,379	2,444	1,873	1,305	1,771	1,857	1,931	1,161	1,172	1,825	
After two years	12,205	12,854	8,249	5,804	7,020	9,439	9,558	7,666	9,921		
After three years	24,886	23,331	17,309	13,775	20,600	21,995	24,528	23,965			
After four years	36,133	34,621	26,933	22,758	32,908	34,237	43,421				
After five years	43,543	43,610	34,854	30,189	41,869	47,563					
After six years	49,071	51,769	42,241	37,073	50,908						
After seven years	54,936	58,829	48,807	45,478							
After eight years	58,425	65,879	54,167								
After nine years	63,148	69,356									
After ten years	64,958										
Assessment of accumulated claims (including payments) at end of year:											
After one year**	107,127	114,224	107,830	102,379	110,923	127,656	139,321	114,978	134,100	136,877	
After two years	109,282	116,578	101,377	96,949	104,522	120,681	94,363	96,792	110,080		
After three years	112,082	118,934	104,097	99,349	107,157	76,065	100,409	100,718			
After four years	114,009	75,160	71,146	68,641	69,172	86,412	106,317				
After five years	69,998	75,994	69,756	62,096	66,812	86,894					
After six years	72,601	77,830	63,886	62,778	68,701						
After seven years	72,210	75,019	65,786	60,821							
After eight years	68,555	76,317	65,492								
After nine years	71,110	76,798									
After ten years	72,498										
Excess (deficit) relative to first year, excluding accumulation* **	**41,511**	**(1,638)**	**5,654**	**7,820**	**471**	**(482)**					**53,336**
Rate of deviation relative to first year, excluding accumulated %	36.4%	(2.2%)	7.9%	11.4%	0.7%	(0.6%)					15.6%
Cost of accumulated claims as of December 31, 2017	**72,498**	**76,798**	**65,492**	**60,821**	**68,701**	**86,894**	**106,317**	**100,718**	**110,080**	**136,877**	**885,195**
Accumulated payments through December 31, 2017	64,958	69,356	54,167	45,478	50,908	47,563	43,421	23,965	9,921	1,825	411,562
Balance of pending claims	7,539	7,442	11,325	15,343	17,794	39,331	62,896	76,753	100,158	135,052	47,634
Pending claims through underwriting year 2006											**8,024**
Total liabilities in respect of insurance contracts in compulsory vehicle and liabilities sectors, net of deferred acquisition costs as of December 2017											**481,658**

* The amounts above are presented in inflation-adjusted values to allow presentation of development based on real valued.

** Estimated accumulated claims at the end of first year includes reserve for unearned premium less deferred acquisition expenses.

*** The difference between estimated accumulated claims in the first year excluding accumulation and estimated accumulated claims as of the date of this report.

NOTE 14 - LIABILITIES WITH RESPECT TO INSURANCE CONTRACTS IN GENERAL INSURANCE SECTOR (continued):

c5. Accrued information for underwriting years in compulsory vehicle insurance:

For the year ended December 31, 2017:

	Underwriting year						
	2017	2016	2015	2014	2013	2012	2011
	ILS in thousands						
Gross premium	161,772	146,101	146,609	146,126	134,861	115,159	104,494
Gain in retention for underwriting year - accumulated	(6,238)	5,036	13,021	5,327	18,211	19,554	22,529
Effect of investment revenue on retained income in retention for the underwriting year	1641	3,805	3,789	4,780	6,415	8,422	11,852

c6. Accrued information for underwriting years in liability and miscellaneous insurance:

For the year ended December 31, 2017:

	Underwriting year						
	2017	2016	2015	2014	2013	2012	2011
	ILS in thousands						
Gross premium	94,530	100,124	102,026	90,945	79,163	97,895	94,436
Gain in retention for underwriting year - accumulated	(823)	2,155	(1,670)	(4,479)	(12,097)	2,591	(17,110)
Effect of investment revenue on retained income in retention for the underwriting year	623	1,643	2,030	1,993	3,343	5,189	5,680

NOTE 14 - LIABILITIES WITH RESPECT TO INSURANCE CONTRACTS IN GENERAL INSURANCE SECTOR (continued)**:**

c7. Composition of income (loss) in retention in compulsory vehicle and liability insurance:

	Gain (loss) in respect of open years	Income in respect of underwriting year which was released in the reported year	Adjustments in respect of underwriting years which were released in previous years	Activity not included in calculation of reserves	Comprehensive income
	ILS in thousands				
Year Ended:					
2015*	-	40,397	41,776	(22,291)	59,882

	Gain (loss) in respect of open years	Adjustments in respect of underwriting years which were released in previous years	Activity not included in calculation of reserves	Comprehensive income
	Retained amount		Gross	
Year Ended:				
2017	(15,723)	2,901	(6,241)	13,048
2016	(20,883)	(26,146)	(10,188)	(8,260)

c8. Composition of income (loss) in retention in liabilities and miscellaneous insurance:

	Gain (loss) in respect of open years	Income in respect of underwriting year which was released in the reported year	Adjustments in respect of underwriting years which were released in previous years	Activity not included in calculation of reserves	Comprehensive income
	ILS in thousands				
Year ended:					
2015*	-	7,720	6,907	(9,570)	5,057

NOTE 14 - LIABILITIES WITH RESPECT TO INSURANCE CONTRACTS IN GENERAL INSURANCE SECTOR (continued)**:**

	Gain (loss) in respect of open years	Income in respect of underwriting year which was released in the reported year	Adjustments in respect of underwriting years which were released in previous years	Comprehensive income
	Retained amount		Gross	
Year Ended:				
2017	(8,418)	(1,222)	(824)	2,346
2016	(5,571)	(58,013)	(184)	(11,558)

* For information about elimination of the accumulation and implementation of the "best practice" to calculation of general insurance reserves - see note 2r(d)(5).

NOTE 15 - ADDITIONAL DATA CONCERNING LIFE INSURANCE SECTOR:

a. Details of liabilities with respect to insurance contracts and investment contracts by reference to financial and insurance exposure

Data pertaining to year ended December 31, 2017 (ILS in thousands):

	Policies not containing savings element		Total
	Risk sold as individual policy		
	Private	Group	
Insurance reserves	**759**	**-**	**759**
Pending claims	**66,523**	**-**	**66,523**
Total	**67,282**	**-**	**67,282**

Data pertaining to year ended December 31, 2016 (ILS in thousands):

	Policies not containing savings element		Total
	Risk sold as individual policy		
	Private	Group	
Insurance reserves	757	-	757
Pending claims	56,308	-	56,308
Total	57,065	-	57,065

b. Details of results by type of policy

Data pertaining to year ended December 31, 2017 (ILS in thousands):

	Policies not containing savings element		Total
	Risk sold as single policy		
	Private	Group	
Gross risk premiums	**127,053**	**-**	**127,053**
Gain from life insurance business	**15,375**	**-**	**15,375**
New annualized premium	**24,796**	**-**	**24,796**
Payments and change in liabilities for gross insurance contracts	**52,426**	**-**	**52,426**

NOTE 16 - ADDITIONAL DATA CONCERNING LIFE INSURANCE SECTOR (continued):

Data pertaining to year ended December 31, 2016 (ILS in thousands):

	Policies not containing savings element		Total
	Risk sold as single policy		
	Private	Group	
Gross risk premiums	126,151	-	126,151
Gain from life insurance business	14,086	-	14,086
New annualized premium	25,280	-	25,280
Payments and change in liabilities for gross insurance contracts	44,105	-	44,105

Data pertaining to year ended December 31, 2015 (ILS in thousands):

	Policies not containing savings element		Total
	Risk sold as single policy		
	Private	Group	
Gross risk premiums	123,116	-	123,116
Gain from life insurance business	11,607	-	11,607
New annualized premium	38,338	-	38,338
Payments and change in liabilities for gross insurance contracts	40,010	-	40,010

NOTE 16 - BREAKDOWN OF LIABILITIES IN RESPECT OF INSURANCE CONTRACTS IN HEALTH INSURANCE:

a. Breakdown of liabilities in respect of insurance contracts by insurance and financial exposure:

Data pertaining to year ended December 31, 2017 (ILS in thousands):

	Long-term	Short-term	Total
By insurance exposure insurance reserves	**-**	**2,408**	**2,408**
Pending claims	**101,471**	**26,039**	**127,510**
Total	**101,471**	**28,447**	**129,918**

Personal injuries is the most significant item in long-term healthcare coverage, and travel insurance and collective injury insurance in the short-term.

No difference exists between actuary assessments in healthcare business and overall liability in the financial statements.

NOTE 16 - BREAKDOWN OF LIABILITIES IN RESPECT OF INSURANCE CONTRACTS IN HEALTH INSURANCE (continued):

Data pertaining to year ended December 31, 2016 (ILS in thousands):

	Long-term	Short-term	Total
By insurance exposure insurance reserves	-	2,396	2,396
Pending claims	99,639	17,953	117,592
Total	99,639	20,349	119,988

Personal injuries is the most significant item in long-term healthcare coverage, and travel insurance.

No difference exists between actuary assessments in healthcare business and overall liability in the financial statements.

* Reclassified

b. Breakdown of results by type of policy in the healthcare sector

Data pertaining to year ended December 31, 2017 (ILS in thousands):

	Long-term	Short-term	Total
Gross premiums	**197,179**	**38,065**	*** 235,244**
Income from healthcare insurance business	**41,728**	**2,567**	**44,295**
Annualized premium - new	**36,399**	**-**	**36,399**

* Of which individual premiums at ILS 234,853 thousand and collective premiums at ILS 391 thousand. The most significant coverage in long-term healthcare insurance is personal accidents and travel insurance and collective personal injuries in short-term.

Data pertaining to year ended December 31, 2016 (ILS in thousands):

	Long-term	Short-term	Total
Gross premiums	198,297	21,034	* 219,331
Income from healthcare insurance business	37,345	4,696	42,041
Annualized premium - new	29,445	-	29,445

* Of which individual premiums at ILS 217,915 thousand and collective premiums at ILS 1,416 thousand. The most significant coverage in long-term healthcare insurance is personal accidents and travel insurance and collective personal injuries in short-term.

** Reclassified.

NOTE 16 - BREAKDOWN OF LIABILITIES IN RESPECT OF INSURANCE CONTRACTS IN HEALTH INSURANCE (continued):

Data pertaining to year ended December 31, 2015 (ILS in thousands):

	Long-term	Short-term	Total
Gross premiums	196,955	18,641	* 215,596
Income from healthcare insurance business	51,389	6,967	58,356
Annualized premium - new	42,801	-	42,801

* Of which individual premiums at ILS 212,714 thousand and group premiums at ILS 2,882 thousand. The most material coverage included in health insurance is individual bodily accidents in the short-term, and overseas travel.

NOTE 17 - CHANGES IN LIABILITIES WITH RESPECT TO LIFE INSURANCE CONTRACTS AND HEALTH INSURANCE CONTRACTS:

	Life insurance	Health insurance
	ILS in thousands	
Balance as of January 1, 2016	49,140	115,230
Decrease (increase) in premiums accounted for as liabilities	(170)	(1,429)
Changes in pending and IBNR claims	8,095	6,187
Balance as of December 31, 2016	57,065	119,988
Decrease (increase) in premiums accounted for as liabilities	**1**	**(791)**
Changes in pending and IBNR claims	**10,216**	**10,721**
Balance as of December 31, 2017	**67,282**	**129,918**

NOTE 18 - TAXES ON INCOME:

a. Taxing statutes applicable to Company:

1) General

AIG Israel Insurance Company Ltd. is a financial institution, as that term is defined in the Value Added Tax Law, 1975. The tax chargeable on the income of financial institutions is comprised of company tax and profits tax.

2) Special tax arrangements for insurance industry - Arrangement with tax authorities

The Association of Life Insurance Companies Ltd and the Income Tax Authority have entered into a special arrangement (“the tax arrangement”). The arrangement, which is subject to renewal and revision from time to time, deals with unique tax issues. As of December 31, 2017, tax agreements have been signed, as above, for tax years up to and including the 2016 tax year. The arrangement deals, inter alia, with the following issues:

- Direct expenses of insurance companies for the purpose of acquiring life insurance contracts - (DAC) - deductible deferred policy acquisition costs incurred in 2016 and thereafter shall be deductible for tax purposes in equal portions spread over ten years (compared to deduction over the term of policy but not more than 15 years as performed in the financial statements - see note 2r(2)(d)(1)). Note that deferred acquisition expenses incurred until 2015 (inclusive) are deductible for tax purposes in equal installments with spread over only four years.

- Allocation of expenses to preferred income – allocation of expenses shall be applied to income which is subject to reduced tax rates and to tax exempt income received by the insurance companies ("preferred income"). The allocation of expenses means that some of the preferred income is turned into income taxable at the normal tax rate, in accordance with the rate of allocation. The rate of allocation set in the agreement is dependent on the source of the funds from which the preferred income is derived.

- Taxation of marketable securities – income and/or expenses from securities are reported for tax purposes on realization basis. The said income/expenses do not include linkage differences, interest and amortization of discount in respect of marketable securities that will be reported on accrual basis. Also, the said income/expenses do not include material impairment which is carried directly to income. Such impairment will only be considered as loss for tax purposes on realization basis.

The Company is not member of the Association of Life Insurance Companies Ltd, but an agreement signed between the Company and the ITA indicate that those agreements will also apply to the Company.

Current and deferred taxes in these financial statements were determined based on the principles in those agreements.

NOTE 18 - TAXES ON INCOME (continued)**:**

3) Effect of adoption of IFRS in Israel on tax liability

The Company prepares its financial statements in accordance with IFRS. IFRS vary from Accounting Principles Generally Accepted in Israel and accordingly, preparation of financial statements in accordance with IFRS may reflect a financial position, results of operations and cash flows that are materially different from the ones presented in financial statements presented in accordance with accounting principles generally accepted in Israel.

In accordance with the provisions of amendments to the Income Tax Ordinance published in 2010, 2012 and 2015 (hereafter – the temporary orders), Accounting Standard No. 29 issued by the Israel Accounting Standard Board would not apply upon determining the taxable income for tax purposes in respect of tax years 2007-2013; this would be the case even if the said accounting standard was applied for the said tax years in the financial statements. The meaning of the temporary orders is that IFRS shall not apply in actual fact at the time of calculation of the taxable income for tax purposes of the said tax years.

On October 30, 2011 the Government of Israel published a law memorandum in connection with the amendment to the Income Tax Ordinance (hereafter – the law memorandum) resulting from application of IFRS in the financial statements. Generally, the law memorandum adopts IFRS. Nevertheless, the law memorandum suggests making several amendments to the Income Tax Ordinance, which will serve to clarify and determine the manner of computation of taxable income for tax purposes in cases where the manner of computation is not clear and IFRS do not comply with the principles of the tax method applied in Israel. The legislation procedures relating to the law memorandum have not yet been completed and it is doubtful whether they shall be completed in the near future.

Since the legislation procedures relating to the law memorandum have not yet been completed the Company estimates that the term of the temporary order which applies to the years 2007 to 2013 shall be extended to 2015 through 2017 as well. Therefore Company's management expects that at this stage the new legislation shall not apply to tax years preceding 2017.

Taking into consideration the temporary order which applies to tax years 2007 to 2013 and the Company's estimate regarding the potential extension of the term of the temporary order to 2015 and 2017 as above, the Company computed its taxable income for tax years 2007 to 2017 based on Israeli accounting standards applicable prior to adoption of IFRS in Israel, subject to certain adjustments.

NOTE 18 - TAXES ON INCOME (continued):

b. Tax rates applicable to the company

The statutory tax applicable to financial institutions, including the company, is comprised of corporate tax and profit tax.

On August 5, 2013, the Law for Change of National Priorities (Legislative Amendments for the Achievement of Budgetary Objectives for 2013 and 2015), 2013 was published in the official gazette, stating among other things, that the above change in corporate tax rate will be 26.5% (instead of 25%) in 2014 and thereafter.

In January 2016, the Law for the Amendment of the Income Tax Ordinance (No. 216) was published, enacting a reduction of corporate tax rate beginning in 2017 and thereafter, from 26.5% to 25%.

In December 2017, the Economic Efficiency Law (Legislative Amendments for Implementing the Economic Policy for the 2017 and 2018 Budget Year), 2017 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.

In addition to corporate tax, as a financial institution, the Company is required to pay profit tax, which through September 2016, was 18% of annual income.

According to Value Added Tax Order (Tax Rate on Non-Profits and Financial Institutions) (Amendment), 2016, beginning on October 1, 2016, profit tax applicable to annual income was reduced to 17%. The change in tax rate for 2016 applies on a linear basis, such that annual profit is liable to profit tax at 17.75%.

Note that under Amendment No. 35 to the Value Added Tax Law, 1975, beginning in 2008, the entire profit tax paid by a financial institution is deductible from the income used for profit tax purposes.

Set forth below are the applicable tax rate; (as to the difference between the theoretical tax and taxes on income as per statement of income - see f. below):

	Rate of corporate tax	Rate of profit tax	Overall tax rate for financial institutions
		%	
Year:			
2015	26.5	17.75	37.58
2017	25.0	17.00	35.90
2017	24.0	17.00	35.04
2018 and thereafter	23.0	17.00	34.19

NOTE 18 - TAXES ON INCOME (continued):

c. Final tax assessments

As of the date of these financial statements, the Company has been issued final tax assessments through tax year 2015.

d. Taxes on income included in the income statements:

	For the year ended December 31		
	2017	**2016**	**2015**
	ILS in thousands		
Current	**(45,299)**	(22,865)	(56,210)
Creation and reversal of deferred taxes in respect of the reported year	**(8,486)**	6, 955	2,011
Creation and reversal of deferred taxes in respect of previous years	**(16)**	407	115
In respect of previous years	**(2,082)**	(330)	113
	(55,883)	(15,833)	(53,971)

e. Taxes on income relating to equity items:

	For the year ended December 31		
	2017	**2016**	**2015**
	ILS in thousands		
Tax element for net accumulated impact as of December 31, 2016 of elimination of the accumulation and first-time implementation of the "best practice" - see note 2r(1)(d)(5)	-	-	49,180

NOTE 18 - TAXES ON INCOME (continued):

f. Deferred taxes

Deferred assets and liabilities are offset when there is an enforceable legal right to offset current tax assets against current tax liabilities and when the deferred taxes are in respect of taxes on income levied by the same tax authority. The offset amounts are as follows:

Composition:

	Deferred acquisition costs	Vacation recreation pay	Profit From securities	Provision for doubtful accounts	Other	Total
			ILS in thousands			
Balance of tax asset (liability) as of January 1, 2016	(19,994)	2,415	5,071	3,014	1,353	(8,141)
Changes charged to income	2,672	(11)	4,088	(16)	222	6,955
Impact of change in tax rate (see b. above)	1,393	(161)	(526)	(172)	(127)	407
Balance of deferred tax asset (liability) as of December 31, 2016	(15,929)	2,243	8,633	2,826	1,448	(779)
Changes charged to income	**1,875**	**559**	**(13,229)**	**820**	**1489**	**(8,486)**
Impact of change in tax rate (see b. above)	**-**	**(39)**	**112**	**(89)**	**-**	**(16)**
Balance of deferred tax asset (liability) as of December 31, 2017	**(14,054)**	**2,763**	**(4,484)**	**3,557**	**2,937**	**(9,281)**

The deferred taxes are presented in the balance sheet among deferred tax liabilities.

	December 31	
	2017	2016
	ILS in thousands	
Deferred tax assets	**9,257**	15,150
Deferred tax liabilities	**(18,538)**	(15,929)
Deferred tax liabilities, Net	**9,281**	**(779)**

NOTE 18 - TAXES ON INCOME (continued):

g. Theoretical tax

Following is a reconciliation of the theoretical tax expense, assuming all income and expenses, profits and losses in the statement of income are taxed at the statutory tax rates, and the tax expense charged in the taxes of income (loss):

	Year ended December 31		
	2017	**2016**	**2015**
	ILS in thousands		
Income before taxes on income	**152,988**	47,007	144,062
Overall statutory tax rate applicable to financial institutions (see b. above)	**35.04%**	35.90%	37.58%
Taxes computed based on the statutory tax rate	**53,607**	16,875	54,138
Increase (decrease) in taxes arising from:			
Expenses not deductible for tax purposes	**1,471**	461	14
Updating of deferred tax balances in respect of change in tax rates	**16**	(407)	(115)
Taxes in respect of previous years	**769**	(860)	(113)
Other	**19**	(236)	47
Taxes on income	**55,883**	15,833	53,971
Average effective tax rate	**36.52%**	**33.68%**	**37.46%**

NOTE 19 - PAYABLES AND SURPLUS RESERVES:

	December 31	
	2017	**2016**
	ILS in thousands	
Employees and other payroll related liabilities	**22,521**	22,231
Suppliers and service providers	**30,615**	32,556
Premiums paid in advance	**16,983**	12,347
Commissions payable	**8,652**	8,832
Related parties (see note 29a)	**5,848**	5,944
Other	**11,157**	7,104
	95,776	89,014

NOTE 20 - PREMIUMS - RETAINED:

	Year ended December 31, 2017		
	Gross	Reinsurance	Retained amount
	ILS in thousands		
Life insurance premiums	**127,053**	**22,792**	**104,261**
Health insurance premiums	**235,244**	**3,277**	**231,967**
General insurance premiums	**761,904**	**144,374**	**617,530**
Total premiums gross	**1,124,201**	**170,443**	**953,758**
Less - change in balance of unearned premium **	**(32,131)**	**11**	**(32,142)**
Total earned premiums	**1,092,070**	*** 170,454**	**921,616**

	Year ended December 31, 2016		
	Gross	Reinsurance	Retained amount
	ILS in thousands		
Life insurance premiums	126,151	21,366	104,785
Health insurance premiums	219,331	3,036	216,295
General insurance premiums	701,450	138,757	562,693
Total premiums gross	1,046,932	163,159	883,773
Less - change in balance of unearned Premium **	(9,532)	4,864	(14,396)
Total earned premiums	1,037,400	* 168,023	869,377

	Year ended December 31, 2015		
	Gross	Reinsurance	Retained amount
	ILS in thousands		
Life insurance premiums	123,116	23,090	100,026
Health insurance premiums	215,596	2,408	213,188
General insurance premiums	674,376	141,915	532,461
Total premiums gross	1,013,088	167,413	845,675
Less - change in balance of unearned Premium **	(24,203)	(6,790)	(17,413)
Total earned premiums	988,885	* 160,623	828,262

* For information about reinsurance premiums with related parties, see note 29b below.

** The change in the unearned premium balance mainly arises from general insurance.

NOTE 21 - NET REVNEUES FROM INVESTMENTS AND FINANCING INCOME:

	Year ended December 31		
	2017	**2016**	**2015**
	ILS in thousands		
Income from assets held against non profit participating liabilities, shareholders' equity and others:			
Income (loss) from financial investments excluding interest, linkage differences, exchange differences and dividends on assets at fair value through profit or loss	**7,036**	(25,238)	(28,648)
Income from interest, linkage differences and exchange differences, exchange differences, on financial assets through profit or loss	**54,815**	38,873	40,688
Income from interest on deposits and cash and nonmarketable securities	**3,580**	4,646	4,074
Income from dividends	**52**	194	2,502
Total revenues from net investments and Financing income	**65,483**	18,475	18,616

* For information about reinsurance premiums with related parties, see note 29b below.
** The change in the unearned premium balance mainly arises from general insurance.

NOTE 22 - REVNEUES FROM COMMISSIONS:

	Year ended December 31		
	2017	**2016**	**2015**
	ILS in thousands		
Reinsurance commissions, net of change in deferred acquisition costs relating to reinsurance	**41,736**	43,553	37,061

For information about reinsurance premiums with related parties, see note 29b below.

NOTE 23 - PAYMENTS AND CHANGES IN LIABILITIES IN RESPECT OF RETAINED INSURANCE CONTRACTS:

	Year ended December 31		
	2017	**2016**	**2015**
	ILS in thousands		
Total payments and changes in liabilities in respect of life insurance contracts:			
Gross	**52,426**	44,105	40,010
Reinsurance	**(9,261)**	(10,960)	(11,939)
Life insurance contracts - retained	**43,165**	33,145	28,071
Total payments and changes in liabilities in respect of general insurance contracts:			
Gross	**530,084**	615,799	364,482
Reinsurance*	**(117,004)**	(178,699)	(45,214)
General insurance contracts retained	**413,080**	437,100	319,268

	Year ended December 31		
	2017	**2016**	**2015**
	ILS in thousands		
Total payments and changes in liabilities in respect of health insurance contracts:			
Gross	**110,908**	97,000	76,333
Reinsurance*	**(3,614)**	(3,137)	(2,805)
Health insurance contracts retained	**107,294**	93,863	73,528
Total payments and changes in liabilities in respect of retained insurance contracts	**563,539**	564,108	420,867

* Total payments and changes in liabilities in respect of insurance contracts of related-party reinsurers see note 29b below.

NOTE 24 - COMMISSIONS, MARKETING EXPENSES AND OTHER ACQUISITION COSTS:

	Year ended December 31		
	2017	**2016**	**2015**
	ILS in thousands		
Acquisition commissions	**38,646**	40,454	42,399
Marketing and other expenses (reclassified from general and administrative expenses)	**205,664**	194,028	198,950
Change in Acquisition costs	**(7,530)**	7,848	(1,461)
Total commissions, marketing expenses and other acquisition expenses	**236,780**	242,330	239,888

NOTE 25 - GENERAL AND ADMINISTRATIVE EXPENSES:

	Year ended December 31		
	2017	**2016**	**2015**
	ILS in thousands		
Payroll and related expenses	**191,848**	186,665	193,237
Depreciation and amortization	**18,080**	15,727	12,650
Maintenance of offices and communication	**20,984**	21,698	24,392
Marketing and advertisement	**44,899**	45,979	46,750
Legal and professional consulting	**6,375**	6,334	6,139
Information technology expenses	**15,600**	17,226	15,626
Other	**10,463**	9,460	9,164
Total*	**308,249**	303,089	307,968
Less:			
Amounts classified to changes in liabilities and payments in respect of insurance contracts	**(29,838)**	(27,691)	(26,134)
Amounts classified to commissions, marketing expenses and other acquisition expenses	**(205,664)**	(194,028)	(198,950)
General and administrative expenses	**72,747**	81,370	82,884
* Management and general expenses include expenses relating to automation in the total amount of	**52,520**	49,037	45,824

NOTE 26 - FINANCING INCOME:

	Year ended December 31		
	2017	**2016**	**2015**
	ILS in thousands		
Interest and exchange differences income	**(2,781)**	3,410	3,762
Interest expense to reinsurers	**-**	-	-
Total financing income	**(2,781)**	3,410	3,762

NOTE 27 - RISK MANAGEMENT:

General

The Company operates in the following operative segments: general insurance, health insurance and life insurance (only risk component). The Company's operations expose it to the following risks:

Insurance risks
Market risks
Liquidity risks
Credit risks
Operative risks

Other risks beyond those listed above include: reputational risk, legal risk, regulation and compliance and risk and information security risk.

NOTE 27 - RISK MANAGEMENT (continued)**:**

a. Description of risk management procedures and methods

1) The Company manages risk based on the risk management policy approved by the board, which is aligned with rules and guidance of local regulations and the enterprise risk management policies of the AIG global corporation.

2) The risk management policy is designed to support achieving business objectives of the Company and ensure controlled exposure to risks, in tune with changes in the business environment. Monitoring and reporting on the implementation of the policy, including compliance with limits and restrictions are performed according to regulatory requirements and a reporting escalation procedure established by the board and its committees.

3) The risk management process includes an ongoing process of identifying and mapping exposures in different processes, assessment and measurement of exposures and controls, reporting and assessing the alignment to the Company's risk appetite.

4) Risk management in the Company is based on three protection levels:

   - First line of defense – business units – responsible for risk management in the scope of their activity.

   - Second line of defense – support functions – risk management, compliance and enforcement, actuary, accounting, etc. The role of those functions is, among other things, to ensure that consistent processes are in place to detect, control, track and report risks.

   - Third line of defense – internal audit which is in charge of conducting independent audits of the first and second line of defense.

5) The Company has committees and forums to manage risks, in addition to forums on different professional issues, led by CEO and other executives. The Company has committees to manage risk in: capital management, reserve management, operating risk management, insurance risk management, cyber risk management, and committee for product development.

6) The Company applies the principles of Solvency II in Israel, serving as a basis for assessing the economic capital required for the activity of the Company. The Company develops risk assessment processes that can have impact on economic capital. In addition, the Company adopted risk appetite at 120% of statutory capital and 130% of capital required under Solvency II. Risk appetite is based on the main risk assessments of the Company and risk appetite scenarios. Risk appetite serves as basis for developing capital management policy and dividend distribution policy of the Company (see also note 12 above).

NOTE 27 - RISK MANAGEMENT (continued)**:**

b. Legal requirements (continued)

The Supervisor's guidance on risk management are included, among other things, in the consolidated circular (Title 5, Part 1, Chapter 10) which replaces the sections in Insurance Circular No. 14-1-2006 on the duties of the risk manager and the relationships he/she has with other officers in the Company. Under the consolidated circular, the main duties of the risk manager are:

1) To ensure that high-quality processes are in place for detection of insurance risks, market risks, cash flow risks and counterparty risks that are material and embedded in assets and liabilities and may have impact on the financial stability of the entity.

2) To quantify and assess the potential impact of material risks identified on the financial stability of the entity and on its liability towards insurance clients.

3) To assess risks that are embedded in new activities or product.

4) To present to the board and investment committee existing and potential risks in investment assets for establishing an investment policy and updating it.

5) To periodically report to the board, investment committee and CEO on exposures to risks and their potential impact on the financial stability of the entity.

There are other circulars that enact guidance on managing specific exposures on: readiness for disaster recovery, management of exposure to reinsurers, fraud prevention, management of cyber risks, financial reporting control (SOX) and credit risk management. Solvency II readiness.

The Company appointed a risk manager who work to implement regulatory requirements in this area.

c. Market risks

The Company's market risks relate to financial assets and liabilities or insurance liabilities. The Company's assets' portfolio arises mainly from its insurance activity. Management of proprietary investments is carried out in compliance with the provisions of the law, Company's investment policy, its credit policy and its risk management policy set out by the Board of Directors and the Investment Committee. Most of the Company's funds are invested in Israel.

Market risk is the risk that the fair value or future cash flows of financial assets, financial liabilities, or insurance liabilities will change as a result of unexpected changes in market prices. Market risk includes, inter alia, risks arising from changes in interest rates, credit spreads, share prices, the CPI, and foreign currencies.

The bond portfolio is managed by two external investment managers. The stock portfolio is invested in in passive share instruments. The Company receives investment consulting from the parent company.

NOTE 27 - RISK MANAGEMENT (continued)**:**

c. Market risks (continued)

1) Market risk sensitivity tests

The following is a sensitivity analysis in relation to the impact of change in those factors on profit (loss) for the year and overall income (capital). The sensitivity test refers to financial risks, financial liabilities and liabilities for insurance contracts as of each balance sheet date, assuming that all other factors remain constant. For example, the change in interest rate is under the assumption that all other variables remain unchanged. The sensitivity analysis does not consider the impact of yield-dependent contracts, as indicated below. In addition, it is assumed that those changes do not reflect permanent impairment of assets that are presented at depreciated cost or available-for-sale assets, and thus, the above sensitivity analysis does not include impairment losses for those assets.

The sensitivity analysis reflects direct impacts only, without secondary impacts. Note also that sensitivity is not necessarily linear, and that the impact of larger or smaller changes or larger changes than those described below may not necessarily be derived through a simple extrapolation.

Data as of December 31, 2017:

	Rate of interest (1)		**Investments in capital instruments (2)**		**Rate of change in the consumer price index**		**The rate of change in the exchange rate of the foreign currency**	
	+1%	**-1%**	**+10%**	**-10%**	**+1%**	**-1%**	**+10%**	**-10%**
	ILS in thousands							
Income (loss)(3)	**(30,151)**	**29,965**	**5,656**	**(5,656)**	**757**	**(757)**	**1,801**	**(1,801)**
Comprehensive income (shareholders' equity)(4)	**(30,151)**	**29,965**	**5,656**	**(5,656)**	**757**	**(757)**	**1,801**	**(1,801)**

Data as of December 31, 2016:

	Rate of interest (1)		**Investments in capital instruments (2)**		**Rate of change in the consumer price index**		**The rate of change in the exchange rate of the foreign currency**	
	+1%	**-1%**	**+10%**	**-10%**	**+1%**	**-1%**	**+10%**	**-10%**
	ILS in thousands							
Income (loss)(3)	(27,411)	27,333	5,068	(5,068)	1,448	(1,448)	806	(806)
Comprehensive income (shareholders' equity)(4)	(27,411)	27,333	5,068	(5,068)	1,448	(1,448)	806	(806)

1) The sensitivity test of the change in interest was made both in respect of fixed interest rates and in respect of variable interest instruments. As to fixed interest instruments - the exposure is in respect of the book value of the instrument; as to variable interest instruments, the exposure is in respect of the cash flow arising from the financial instrument. The calculation of the sensitivity analysis considers interest changes since the beginning of the year also for assets acquired during the year.

NOTE 27 - RISK MANAGEMENT (continued)**:**

c. Market risks (continued)

1) (continued)

The impact of 1% increase/decrease in interest rate on comprehensive income for the insurance liability in the sensitivity analysis is estimated at ILS 3,214 / (3,232) thousand (2016 - ILS 1,267 /(1,288) thousand).

The sensitivity analysis is based on the carrying amount and not the economic value. This sensitivity analysis does not consider asset and liability items with direct interest risk, as discussed in note 28c(2).

Note that the portion of liabilities that was subject to the sensitivity analysis of total liability for non-yield-dependent insurance contracts is 26.7%.

2) Investments in instruments that do not have a fixed cash flow or alternatively, the Company does not have data regarding this cash flow.

3) The sensitivity tests are presented net of taxes in accordance with the tax rate applicable in the reported year.

4) The sensitivity tests regarding the comprehensive income also reflect the effect on the income (loss) for the reported period.

2) Direct interest risk

The direct interest risk is the risk that a change in the market interest rate will cause a change in the value of the financial assets or liability. This risk relates to assets that are paid off in cash. The addition of the word “direct” underscores the fact that change of interest can also affect other types of assets but not directly, such as the impact of a change in the interest rate on share prices.

NOTE 27 - RISK MANAGEMENT (continued):

c. Market risks (continued)

2) Direct interest risk

Set forth below is a breakdown of the assets and liabilities by exposure to interest risks:

	Nonprofit participating assets and liabilities as of December 31	
	2017	**2016**
	ILS in thousands	
Assets with direct interest risk:		
Marketable debt instruments	**1,588,676**	1,310,175
Non-marketable debt asset:		
Non-marketable bonds	**22,071**	56,618
Other	**1,288**	57,042
Reinsurance asset	**132,644**	44,000
Cash and cash equivalents	**57,920**	136,234
Total assets with direct interest risk	**1,802,599**	1,604,069
Total assets without direct interest risk	**1,109,206**	1,146,227
Total assets	**2,911,805**	2,750,296
Liabilities with direct interest risk:		
Liabilities in respect of insurance contracts non depending yield	**466,823**	171,574
Liabilities for employee rights upon retirements	**3,489**	2,713
Liabilities in respect of reinsurers	**225,103**	216,517
Total liabilities with direct interest risk	**695,415**	390,804
Total liabilities without direct interest risk	**1,415,425**	1,605,632
Shareholders' equity	**800,965**	753,860
Total equity and liabilities	**2,911,805**	2,750,296
Total assets, net of liabilities	**800,965**	753,860

Assets without direct interest risk include shares, property and equipment, deferred acquisition costs and other assets as well as groups of balance sheet financial assets whose interest risk is relatively low; (collectible premiums, current balances of insurance companies and accounts receivables).

Liabilities without a direct interest risk include liabilities in respect of nonprofit participating insurance contracts, liabilities in respect of deferred taxes, net, liabilities in respect of current taxes and other accounts payable.

NOTE 27 - RISK MANAGEMENT (continued)**:**

3) Breakdown of assets and liabilities of the Company by linkage bases:

	As of December 31, 2017				
	In ILS unlinked	**In ILS linked to the CPI**	**In foreign currency or linked thereto**	**Non-financial items and others**	**Total**
	ILS in thousands				
Intangible assets				**38,448**	**38,448**
Deferred acquisition costs				**149,357**	**149,357**
Property and equipment				**11,054**	**11,054**
Reinsurance assets	**23,355**	**605,617**	**40,456**		**669,428**
Premiums collectible	**102,558**	**53,887**	**17,383**		**173,828**
Current tax assets		**1,327**			**1,327**
Other accounts receivables	**19,637**	**258**	**8,632**	**20,022**	**48,549**
Other financial investments:					
Marketable debt instruments	**810,416**	**770,577**	**7,683**		**1,588,676**
Nonmarketable debt instruments	**63,696**	**21,478**			**85,174**
Other			**25,932**	**60,011**	**85,943**
Total other financial investments	**874,112**	**792,055**	**33,615**	**60,011**	**1,759,793**
Other cash and cash equivalents	**56,299**		**1,621**		**57,920**
Total assets	**1,075,961**	**1,455,245**	**101,707**	**278,892**	**2,911,805**
Total shareholders' equity				**800,965**	**800,965**
Liabilities:					
Liabilities for non-yield dependent insurance contracts	**354,885**	**1,338,089**	**62,033**		**1,755,007**
Liabilities for deferred taxes - net				**9,281**	**9,281**
	3,489				**3,489**
Retirement benefit obligation	**225,101**		**4,599**	**17,587**	**247,287**
Accounts payable	**95,748**	**-**	**28**	**-**	**95,776**
Total liabilities	**679,223**	**1,338,089**	**66,660**	**26,868**	**2,110,840**
Total liabilities and shareholders' equity	**679,223**	**1,338,089**	**66,660**	**827,833**	**2,911,805**
Total balance sheet exposure	**396,738**	**117,156**	**35,047**	**(548,941)**	

* After reclassification, see note 2u.

NOTE 27 - RISK MANAGEMENT (continued)**:**

	As of December 31, 2016				
	In ILS unlinked	**In ILS linked to the CPI**	**In foreign currency or linked thereto**	**Non-financial items and others**	**Total**
	ILS in thousands				
Intangible assets	-	-	-	33,816	33,816
Deferred acquisition costs	-	-	-	141,827	141,827
Property and equipment	-	-	-	11,435	11,435
Reinsurance assets	23,242	594,735	40,582	-	658,559
Premiums collectible	90,294	47,443	15,797	-	153,534
Current tax assets	-	1,864	-	-	1,864
Other accounts receivables	19,200	328	11,069	21,893	52,490
Other financial investments:					
Marketable debt instruments	539,658	770,517	-	-	1,310,175
Nonmarketable debt instruments	86,685	84,600	-	-	171,285
Other			6,992	72,085	79,077
Total other financial investments	626,343	855,117	6,992	72,085	1,560,537
Other cash and cash equivalents	116,654		19,580		136,234
Total assets	875,733	1,499,487	94,020	281,056	2,750,296
Total shareholders' equity				753,860	753,860
Liabilities:					
Liabilities for non-yield dependent insurance contracts	317,897	1,273,553	55,315	-	1,646,765
Liabilities for deferred taxes - net	-	-	-	779	779
Retirement benefit obligation	2,713	-	-	-	2,713
Accounts payable	302,905	-	26,135	17,139	346,179
Total liabilities	623,515	1,273,553	81,450	17,918	1,996,436
Total liabilities and shareholders' equity	623,515	1,273,553	81,450	771,778	2,750,296
Total balance sheet exposure	252,218	225,934	12,570	(490,722)	

NOTE 27 - RISK MANAGEMENT (continued)**:**

d. Liquidity risk

The Company is exposed to risks stemming from the uncertainty as to the dates in which it would be required to pay insured entities or individual the amounts their claims in proportion to the scope of funds that will be available for that purpose on that date. A potential need to recruit funds unexpectedly and during a short term period may require disposal of assets over a short term period and the sale thereof at prices that would not necessarily reflect their market prices. The scale of liquid assets is according to a rate established in the relevant Company policy. The Company approved a liquidity model that is based on the AIG corporate methodology, with necessary local adjustments. The model presents the required level of liquidity based on different scenarios.

Management of assets and liabilities

The Company manages its assets and liabilities in accordance with the requirements of regulatory provisions and based on the approved ALM (Asset Liability Management) policy - an adjustment between approved assets and liabilities.

The tables presented below include the estimated repayment dates of the amounts of the undiscounted insurance liabilities of the Company.

The estimated repayment dates of the liabilities in respect of general insurance contracts were included in the table as follows:

Insurance liabilities estimated by an actuary - on the basis of an actuarial estimate.
Insurance liabilities in sectors, which are not assessed by the Company's actuary.

The estimated repayment dates of the liabilities in respect of life and health insurance contracts were included in the tables on the basis of an actuarial estimate.

Liabilities in respect of life insurance contracts and health insurance contracts*:

	Less than one year	Between 1 and 5 years	Between 5 and 10 years	Between 10 and 15 years	More than 15 years	Without fixed repayment date	Total
				ILS in thousands			
As of December 31, 2017	**94,393**	**96,496**	**2,344**	**135**	**3,832**	**-**	**197,200**
As of December 31, 2016	83,435	84,290	4,275	420	4,633	-	177,053

NOTE 27 - RISK MANAGEMENT (continued):

Liabilities in respect of general insurance contracts:

	Less than one year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years	Without fixed repayment date	Total
	ILS in thousands					
As of December 31, 2017	**555,981**	**314,067**	**246,136**	**424,252**	**17,371**	**1,557,807**
As of December 31, 2016	507,381	296,775	231,042	417,541	16,973	1,469,712

NOTE 27 - RISK MANAGEMENT (continued):

e. Insurance risks

The insurance risks include, inter alia, the following:

Underwriting risks: The risk that erroneous pricing would be used as a result of deficiencies in the underwriting process and from the differences between the risk upon pricing and determining the premium and actual events so that the premiums that are collected are not sufficient to cover future claims and expenses. The differences may arise from incidental changes in the business results and from changes in the cost of the average claim and/or the frequency of the claims due to various factors.

Reserve risks: The risk for an erroneous estimation of the insurance liabilities that may bring about a situation where the actuarial reserves are insufficient to cover all the liabilities and claims. The actuarial models in accordance with which the Company assesses its insurance liabilities are based on the assumption that the pattern of behavior and claims in the past represents future events. The Company's exposure is composed of the following risks:

- Model Risk the risk of electing an erroneous model of pricing and/or for assessment of the insurance liabilities.
- Parameter risk – the risk for usage of erroneous parameters, including the risk that the amount to be paid for settlement of the insurance liabilities of the Company or that the date of the settlement of the insurance liabilities would be different from the expected amount or date.
- Systemic risk: the risk of unexpected future change in profitability trend in a calendar year.

Catastrophe risk: Exposure to the risk that a single event of extensive effect (a catastrophe) such as natural catastrophe, war, terrorism, fire, flooding, would cause an accumulation of damages of extensive scope. The material catastrophic event to which the Company is exposed to is an earthquake in Israel.

The amount of the loss expected in the general insurance business as a result from the exposure to a single large damage or accumulation of damages due to a very big event at a maximal possible loss (MPL) probability of 1.15%is ILS 1,193.0 million (gross) and ILS 31.4 million (retained). This rate is computed in accordance with Company's internal models

The expected damage for catastrophe risk in general insurance as part of the required minimum capital computation is 1.75%. The expected loss in the general insurance business from exposure to a large single damage or accumulation of damages for an especially large event at the maximum possible loss (MPL) of 1.75% is ILS 1,841.4 million in gross terms and ILS 291.5 million in self-retention.

As to the data regarding the various insurance products in respect of which the insurer is exposed to an insurance risk, see the breakdown of the insurance liabilities by insurance risk in note 4 - additional data as to the general insurance segment and breakdown of assets and liabilities in respect of life insurance contracts by insurance exposure and in note 16 - the breakdown of insurance liabilities arising from health insurance.

NOTE 27 - RISK MANAGEMENT (continued):

e1. Insurance risk embedded in life insurance contracts

General

Set forth below is the description of the various insurance contracts and the assumptions used for computation of the liabilities related to those products, based on the type of the product. In general, based on the supervisor's instructions, the insurance liabilities are computed by an actuary, based on accepted actuarial methods and consistently with previous year. The liabilities are computed in accordance with the relevant coverage data, such as age and sex of the insured person, the period of insurance, the date of commencement of the insurance, the type of the insurance, periodic premium and the amount of insurance.

Actuarial methods used for computation of the insurance liabilities:

1) The "individual personal accidents" plans include pure risk products (death as a result of an accident, disability as a result of accident) that are sold as independent policies. For those plans the liability is computed on an actuarial basis. The computation is made using the "Gross Premium Reserve" method that includes in the expected proceeds all the premium components and reduces the expected expenses and commissions.

2) The liability in respect of pending claims related to health and personal accidents include mainly provisions for pending claims for risks of death and disability from accident, and a provision for IBNR.

3) The computation is made on a gross basis. Some of reinsurance is computed based on the agreements.

The main assumptions used for computation of insurance liabilities:

1) Rate of discount:

   In the life insurance sector that includes pure risk products with fixed premium the discount rate used is of 0.68%.

2) The rates of mortality and illness:

   a) The mortality rates used to compute the insurance liabilities under life insurance policies in respect of mortality of insured individuals are identical to the rates used to determine the tariff.

   b) The rates of illness refer to the frequency of claims in respect of serious illnesses. These rates were determined based on researches made by reinsurers. The higher the assumption regarding rate of illness will be, the higher the insurance liability as a result of serious illnesses.

NOTE 27 - RISK MANAGEMENT (continued):

<u>Sensitivity analyses in life insurance</u>:

As of December 31, 2017 (in thousands of ILS):

	Rate of illness and mortality	
	+10%	**-10%**
Profit (loss)	**(3,426)**	**3,317**

e2. Insurance risk embedded in health insurance contracts and personal insurance contracts

<u>General</u>

Set forth below is the description of the various insurance contracts and the assumptions used for computation of the liabilities related to those products, based on the type of the product. In general, based on the supervisor's instructions, the insurance liabilities are computed by an actuary, based on accepted actuarial methods and consistently with previous year. The liabilities are computed in accordance with the relevant coverage data, such as age and sex of the insured person, the period of insurance, the date of commencement of the insurance, the type of the insurance, periodic premium and the amount of insurance.

<u>Actuarial methods used for computation of the insurance liabilities</u>:

- The "individual personal accidents" plans include pure risk products (death as a result of an accident, disability as a result of accident) that are sold as independent policies. For those plans the liability is computed on an actuarial basis. The computation is made using the "Gross Premium Reserve" method that includes in the expected proceeds all the premium components and reduces the expected expenses and commissions.

- The liability in respect of pending claims related to health and personal accidents include mainly provisions for pending claims for risks of death from accident, serious illnesses and disability from an accidents and a provision for IBNR - Incurred by not Reported Losses. For the personal accidents sectors - both individual and group - the Link Ration models were set up on the basis of accumulated cost of the claims (payments of the claims with the addition of individual assessments and - Average Cost per Claim. The models are settled at the level of quarterly damage. Cost drivers were calculated to optimize the estimation.

- This estimate includes a conservativism factor to bring the provision in the account to a level of prudence of 75%.

- The computation is made on a gross basis. Some of the reinsurance is computed based on the agreements.

NOTE 27 - RISK MANAGEMENT (continued):

Key assumptions used for the calculation of insurance liabilities:

- In January 2015, a Supervisor position was issued titled "Best Practice for Calculation of General Insurance Reserves for Financial Reporting". The Supervisor's position includes, among other things, explanations for the principles: professionalism, consistency, and prudence, which have not been defined in General Insurance Actuarial Assessment Circular 2015-1-1. The principle of prudence requires an actuary to examine that assessments in liabilities sectors are tuned to a probability of at least 75%. In addition, the Supervisor's opinion also refers to the issue to liabilities cash flow discount rates for optimal assessments.

- According to the position of the Supervisor, beginning in the 2015 year-end, regarding outstanding claims in compulsory and liability segments, testing that it is "fairly likely" that reserves will be sufficient to cover the liabilities of the insurance is set to a probability of at least 75%.

- The Company implements the **Reserve/Premium Risk Statistical Model** ("**the RPS model**"), which is implemented by the AIG Group worldwide, in order to determine stochastically the 75th percentile estimate.

The main assumptions used for computation of the insurance liabilities:

1) Rate of discount

In the Personal accidents – individual sector the gross premium reserve is computed on the basis of a risk free interest.

2) The rates of mortality and illness

The rates of illness refer to the frequency of claims in respect of serious illnesses, disability as a result of accidents and death as a result of an accident. These rates were determined based on the Company's past experience. The higher the assumption regarding rate of illness will be, the higher the insurance liability as a result of serious illnesses and disability as a result of an accident.

3) Rates of cancellations

The rates of cancellations affect the insurance liabilities in respect of part of some of the health insurances. Insurance contracts can be cancelled by the Company due to unpaid premiums or at the request of the owner of the policy. The assumptions as to the rates of cancellations are based on the company's past experience based on the type of the products, the estimated useful life of the product and sales trends. A 10% increase or decrease in the cancellations assumption is immaterial for the profit item since the gross premium reserve is relatively small.

NOTE 27 - RISK MANAGEMENT (continued):

Sensitivity analysis for health insurance and personal injury insurance as of December 31, 2017 (ILS in thousands):

	Rate of the cancellation (withdrawals, settlements and reductions)		Morbidity and mortality rate	
	+10%	**-10%**	**+10%**	**-10%**
Profit (loss)	**94**	**(192)**	**(2,046)**	**1,163**

e3. Insurance risk in general insurance contracts

A summary of the main insurance sectors in which the Company operates

The Company writes insurance contracts in the field of general insurance, mainly in the compulsory car insurance sector, liabilities, car damages insurance and property insurance.

Compulsory car insurance covers the owner of the policy and the driver for any liability they may incur as a result of the provisions of the Road Accidents Victims Compensation Law, 1975, for bodily damage caused as a result of usage of motor vehicle to the driver, the passengers or pedestrians hit by the car. Compulsory car insurance claims are characterized by a long tail, i.e., sometimes a long period of time elapses from the date the event takes place to the final settlement of the claim.

The liability insurances are designed to cover the liability of an insured person for any damage he may cause to a third party. The two main types of insurance are: liability to a third party, liability of employers, other liability insurances such as professional responsibility, liability arising due to products and directors and office holders' responsibility. The timing of the filing of the claims and the settlement thereof is influenced from several factors, such as the type of coverage, the terms of the policy and legislation and legal precedents. Normally, the claims in the liability insurance are characterized by a long tail. i.e., sometimes a long period of time elapses from the date the event takes place to the final settlement of the claim.

Policy for insurance of car damages and third party car damages entitle the insured person with property damage coverage. The coverage is usually limited to the value of the damaged car. The tariff for vehicle damage insurance requires the approval of the supervisor and the same applies for the approval of the policy as a whole; the said tariff is an actuarial tariff and partially differential (varies in accordance with the risk). The said tariff is based on several parameters, both parameters that are related to the vehicle insured under the policy (such as the type of the vehicle, year of manufacture etc.) and parameters related to characters of the person insured (age of the drivers, claims history etc.). The underwriting procedure is partially performed through the tariff itself and partly based on a system of procedures that are designed to examine the claims history of the person insured that include presentation a no claim certificate from a previous insurer (for the last three years), presentation of up to date certificate of defense, etc. The implementation of the procedures is mechanically combined into procedure of issuance of the policies.

NOTE 27 - RISK MANAGEMENT (continued):

e3. Insurance risk in general insurance contracts (continued):

In most of the cases the car damages insurance policies are issued for a one year period. Also, in most cases, claims in respect of these policies are settled close to the time in which the insurance event happened.

Property insurance policies are intended to provide the insured person coverage against physical damage to his property and loss of profits due to the damage caused to his property.

The main risks covered by property insurance policies are fire risks, explosion, burglary, earthquake and natural catastrophe. The property insurance policies sometimes include coverage for loss of profits originating in physical damage to property. Property insurance constitutes an important part of home insurance, business insurance, engineering insurances, freight (sea freight, land freight, air freight) etc.). In most cases, claims regarding those policies are settled close to the time in which the insurance event happened.

<u>Principles of computation the actuarial assessment in general insurance</u>:

a) The liabilities in respect of general insurance contracts include the following components:
- Optimized estimation of pending claims
- Conservativism addition to the 75% quartile
- Reserve for premium that has not yet been earned.
- Provision for indirect expenses

b) In January 2015, Insurance Circular "Actuarial Assessment in General Insurance" was published. The provisions of this circular are intended to improve the quality of assessing the general insurance liability (hereinafter - insurance reserves), which are a central tier in assessing the liabilities of the insurer, and regulate the inclusion in the financial statements of a professional opinion by an appointed actuary (hereinafter - actuary) in relation to the assessment of those insurance liabilities. This circular states the scope of actuarial assessment that the general insurance actuary needs to perform, the actuarial report the actuary needs to prepare and a declaration that the actuary is required to sign, which will be attached to the financial statements.

c) In January 2015, a Supervisor position, titled "Best Practice for Calculation of General Insurance Reserves for Financial Reporting" (hereinafter - "the Supervisor's opinion"). The Supervisor's opinion includes, among other things, explanations for the principles: professionalism, consistency, and prudence, which have not been defined in General Insurance Actuarial Assessment Circular 2015-1-1. The principle of prudence requires an actuary to examine that assessments in liabilities sectors are tuned to a probability of at least 75%. In addition, the Supervisor's opinion also refers to the issue to liabilities cash flow discount rates for optimal assessments.

NOTE 27 - RISK MANAGEMENT (continued):

e3. Insurance risk in general insurance contracts (continued):

d) In accordance with the instructions of the supervisor, the pending claims are computed by an actuary based on accepted actuarial methods, initially according to the optimal assessment and later with necessary addition to the 75th quartile. The election of the actuarial method appropriate for each insurance sector and for each year of event/underwriting is being made using discretion in accordance with the extent to which the method is suitable for the sector and sometimes the various methods are combined. The assessments are based mainly on past experience of the development of payments regarding claims and/or developments in the amount of payments and specific assessments. The assessments include assumptions regarding the cost of an average claims, costs of handling of claims and the frequency of the claims. Further assumptions may be in respect of changes in rates of interest, exchange rates and the timing of payments. The payments of the claims include direct and indirect claims for settlement of claims, net of subrogation and excess insurance.

e) The usage in actuarial methods that are based on developments of claims is mainly appropriate when there is stable and satisfactory information regarding payments of claims and/or specific assessments used in order to assess the total expected cost of claim. Where the information available regarding the actual experience regarding the claims is insufficient the actuary sometime uses a computation weighting a known estimate (made by the Company and/or the sector) such as loss ratio and the development of actual claims. A greater importance is given to the assessment that is based on experience as time elapses and further data is accumulated regarding the claims.

f) Also included are quantitative assessments and discretion is used as to the extent that past trends would not continue in the future. For example, due to one-off event, internal changes, such as a change in the mix of the portfolio, the underwriting policy and procedures and due to the effects of external factors such as legal rulings, legislation, etc. When changes as above are not fully reflected in the past experience the actuary updates the models and/or makes specific provisions based on statistical and/or legal assessments as appropriate.

g) In cases of large claims of non-statistical characters, the provision is determined (gross and retained) based on an opinion issued by Company's experts and in accordance with the recommendations of its legal advisors.

h) The share of the reinsurers in the pending claims is estimated taking into account the type of the agreement (proportionate/disproportionate), actual experience in the claims and the premium transferred to reinsurer.

i) The assessment of the pending claims in respect of the Company's share in the pool was based on a computation performed by the pool.

j) The provision for unearned premiums is also calculated using a 75% probability, pursuant to the new guidance in the Supervisor's opinion. We examine that it is possible to return deferred acquisition cost and the cost of future claims, including other expenses related to the treatment of the policy and claims.

NOTE 27 - RISK MANAGEMENT (continued):

e3. Insurance risk in general insurance contracts (continued):

Breakdown of actuarial methods in the principal insurance sectors:

a) The vehicle damage insurance

In the vehicle damage sector, the liabilities are computed based on the development of the claims payments and the development of the payments amounts and the specific assessment, while referring to the types of coverage such as comprehensive/third party coverage and the types of damages such as self-damage/third party/theft/total loss. For the last months of damage in respect of which there are not enough data the average method is also used when determining the cost of claim.

b) Compulsory vehicle insurance

In the compulsory vehicle liabilities insurance, reserves are computed based on the development of payments and pending amounts in respect of smaller claims (up to the excess point). The liabilities above the excess point are computed using actuarial models that are based on development of frequency multiplied by severity. The share of the reinsurers in the excess of loss claims is calculated using a model for larger claims and based on actual larger claims.

c) Liabilities insurance

In the liabilities insurance the liabilities are computed based on the development of identified claims. For periods in respect of which there are not enough data, the cost of claims is computed using the loss ratio method. In large claims the specific assessments of the claims department are also taken into account.

d) Property insurance and other

In property insurance and other insurance, the liabilities are computed based on the development of the claims payments and/or development of the payments and pending claims.

e) Estimation of indirect claim processing expenses

The indirect expense element in paid claims is calculated by the Finance Division. Those expenses include all costs of the Claims Department and allocation of indirect expenses of the Company that are allocated to settle the claims (those include IT expenses, HR, depreciation and Finance)

The unallocated loss adjustment expense (ULAE) factor is based on the historical ratio of paid ULAE to paid losses for the latest calendar years. The ULAE reserve was computed assuming one half the cost of settling a claim is incurred upon opening a file and the remainder upon closing it, however in allocating the ULAE reserves by line, some weight was given to consider the length of time until claims are initially reported and ultimately settled.

NOTE 27 - RISK MANAGEMENT (continued):

In light of the fact that this calculation is made on a gross basis and that commercial liability segments have large IBNR amounts, adjustments were made in relation to liabilities segments when calculating retention amounts.

The ULAE reserve was allocated by accident year proportional to the unpaid indemnity reserves held by accident year.
Calendar year paid ULAE is available only in aggregate for all lines combined. The paid ULAE by line was estimated based on an allocation, by accident year, proportional to the paid indemnity losses during the calendar year.

The principal assumptions that were taken into account for purpose of actuarial assessment:

- According to the Supervisor's position, published in a circular on January 15, 2015, beginning from the 2015 year-end in relation to outstanding claims in compulsory and liability segments, testing that it is "fairly likely" that reserves will be sufficient to cover the liabilities of the insurance is set to a probability of at least 75%
- The conservativism margin was obtained using stochastic models that estimate the volatility in claims experience. Those models also estimate random and systemic risks.
- The Company implements the Reserve/Premium Risk Statistical Model ("the RPS model"), which is implemented by the AIG Group worldwide, in order to determine stochastically the 75th percentile estimate.
- Outstanding claims in compulsory vehicle and liabilities segments were not discounted

In the estimation of Company management, the implications of the amendment of the discounting regulations of national insurance that was issued in September 2016 following the Vinograd Committee conclusions which is expected to increase the Company's amounts, as to the amounts that it will be required to pay to settle claims for insurance contracts in the compulsory vehicle segment In an accumulated amount of NIS 36 million in retention, including NIS 7.9 million in respect of the Company's share in "Pool". In the period of the report, this impact amounted to NIS 12.6 million, including NIS 2.7 million in respect of the Company's share in "Pool".

f. Credit risk data:

Credit risk arises from exposure to decrease in the quality of credit or default of borrowers from deterioration of their financial situation. Investments in bonds, capital notes and deposits of companies are mainly rated A or above, which represents a lower credit risk.

Investment in acquisition of bonds is done after a deep analysis of the Company and the investment based on credit criteria and policy as approved by the investments committee. Those debts are monitored continuously, with special attention given to problematic debt.
Once a quarter, the Company holds a debt forum, which is tasked with assessing the status of debt. The purpose of the forum is to discuss high-sensitive/distressed debt, including in cases of rating downgrades. The process for making a decision on the means to be applied to handle such debt is the responsibility of officers who are authorized to make decisions about distressed debt. Reporting on this issue is given to the investments committee of the Company.

NOTE 27 - RISK MANAGEMENT (continued):

1) Distribution of debt instruments by location*

	December 31, 2017		
	Marketable	Nonmarketable	Total
		ILS in thousands	
Domestic	**1,588,676**	**85,174**	**1,673,850**
Abroad	**-**	**-**	**-**
Total debt instruments	**1,588,676**	**85,174**	**1,673,850**

	December 31, 2016		
	Marketable	Nonmarketable	Total
		ILS in thousands	
Domestic	1,310,175	171,285	1,481,460
Abroad	-	-	-
Total debt instruments	1,310,175	171,285	1,481,460

* The classification between domestic debt instruments and debt instruments abroad was made in accordance with the country in which the instrument in traded.

** After reclassification, see note 2u.

2) Breakdown of assets by ratings:

a. Debt assets (excluding cash and cash equivalents, premiums collectible and other receivables)

	Domestic rating			
	As of December 31, 2017			
	-AA and above	BBB through A+	Lower than BBB	Total
		ILS in thousands		
Debt assets in Israel				
Marketable debt assets:				
Government bonds	**557,539**	**-**	**-**	**557,539**
Corporate bonds	**578,145**	**452,992**	**-**	**1,031,137**
Total marketable debt assets in Israel	**1,135,684**	**452,992**	**-**	**1,588,676**
Non-marketable debt assets:				
Corporate bonds	**20,191**	**1,880**	**-**	**22,071**
Loans and receivables, excluding bank deposits	**61,815**	**-**	**-**	**61,815**
Deposits with banks and financial institutions	**1,288**	**-**	**-**	**1,288**
Total nonmarketable debt assets in Israel	**83,294**	**1,880**		**85,174**
Total domestic debt instruments	**1,218,978**	**454,872**	**-**	**1,673,850**

Debt assets abroad

As of December 31, 2017, the Company has no debt assets overseas.

NOTE 27 - RISK MANAGEMENT (continued):

a. **Debt assets** (excluding cash and cash equivalents, premiums collectible and other receivables) (continued)

	Domestic rating			
	As of December 31, 2016			
	-AA and above	BBB through A+	Lower than BBB	Total
	ILS in thousands			
Debt assets in Israel				
Marketable debt assets:				
Government bonds	559,286	-	-	559,286
Corporate bonds	480,066	270,823	-	750,889
Total marketable debt assets in Israel	1,039,352	270,823	-	1,310,175
Nonmarketable debt assets:				
Corporate bonds	52,685	3,933	-	56,618
Loans and receivables, excluding bank deposits	57,625	-	-	57,625
Deposits with banks and financial institutions	57,042	-	-	57,042
Total nonmarketable debt assets in Israel	167,352	3,933	-	171,285
Total domestic debt instruments	1,206,704	274,756	-	1,481,460

b. **Credit risk in respect of other financial assets** (in Israel)

	Domestic rating				
	As of December 31, 2017				
	A and above	BBB	Lower than BBB	Not rated	Total
	ILS in thousands				
Accounts receivable - excluding balances of reinsurers	-	-	-	**220,040**	**220,040**
Cash and cash equivalents	**57,920**	-	-	-	**57,920**
	57,920	-	-	**220,040**	**277,960**

NOTE 27 - RISK MANAGEMENT (continued):

	Domestic rating				
	As of December 31, 2016				
	A and above	BBB	Lower than BBB	Not rated	Total
	ILS in thousands				
Accounts receivable - excluding balances of reinsurers	-	-	-	204,020	204,020
Cash and cash equivalents	136,234	-	-	-	136,234
	136,234	-	-	204,020	340,254

* After reclassification, see note 2u.

1) Additional data regarding credit risks:

a. The systems of ratings of domestic debt instruments and debt instruments abroad vary from one another. It should be indicated that in accordance with the Capital Market circular 2008-6-1, regarding the publication of data for conversion of the Israeli rating system and the international rating system, the supervisor instructed that through January 1, 2009 the rating companies that received the approval of the Commissioner of Capital Market, Insurance and Savings to operate as a rating company in accordance with the Capital Market circular 2004/1 are to publish a system for the conversion of the Israeli rating into the international rating.

b. As to balances with reinsurers amounting to ILS 669,364 **thousand**, see note 13. Also see note 27f(5)(3).

4) Breakdown of exposure to investments in marketable and marketable financial debt instruments by industry:

	As of December 31, 2017	
	Balance sheet credit risk	
	Amount	% of total
	ILS in thousands	
Industry		
Construction and real estate	**452,974**	**27.1**
Banking	**200,569**	**12.0**
Other business services	**26,415**	**1.6**
High-tech	**33,068**	**2.0**
Investments and holdings	**106,974**	**6.4**
Commerce	**69,060**	**4.1**
Production industry	**47,634**	**2.8**
Insurance	**28,141**	**1.7**
Oil and gas exploration	**24,688**	**1.5**
Hospitality and tourism	**1,727**	**0.1**
	1,054,496	**63.0**
Loans	**61,815**	**3.7**
Government bonds	**557,539**	**33.3**
TOTAL	**1,673,850**	**100.0**

NOTE 27 - RISK MANAGEMENT (continued):

	As of December 31, 2016	
	Balance sheet credit risk	
	Amount	% of total
	ILS in thousands	
Economic sector		
Banks	342,659	23.1
Construction and real estate	230,675	15.6
Investment and holdings	81,103	5.5
Other business services	59,087	4.0
High-tech	52,880	3.6
Oil and gas	28,801	1.9
Commerce	27,445	1.9
Production industry	20,023	1.4
Insurance	18,703	1.3
	3,174	0.2
Loans*	864,550	58.5
Government bonds	57,625	3.8
Total	559,285	37.7

5) Reinsurance

The Group's insurance companies insure some of their businesses by means of reinsurance (mostly with global AIG Corporation companies, which are related parties of the Company). However, the reinsurance does not relieve the direct insurers of their obligations towards their policyholders under the insurance policies

The Company is exposed to risks arising from uncertainty as to the ability of the reinsurers to pay their share in the liability in respect of insurance contract (the reinsurance assets) and their obligations in respect of claims that were paid. This exposure is managed by holding a follow-up on a current basis with regard to the reinsurer's situation in the world market and a follow-up with respect of the fulfillment of the reinsurer's financial liabilities.

Under the guidelines set by the Supervisor, the Board of Directors set one a year, maximal exposure levels to the reinsurer with which the Company entered (or will enter) into reinsurance agreement; such levels are based on the reinsurers' international rating. Those exposures are managed by individual assessment of significant exposures to reinsurers, including monitoring and development of risk level indicators, considering all reinsurers with which the Company engages.
Also, the Company's exposures are divided between various reinsurers; the most significant of these exposures are to reinsurers of high international ratings.

1. In 2016 and 2017, most of the Company's general insurance contracts (include earthquake exposure) were with insurance companies, as follows:

   - ("NHIC") New Hampshire Insurance Company
   - ("NUFIC") National Union Fire Insurance Company of Pittsburgh, PA
   - ("AHAC") American Home Assurance Company

NOTE 27 - RISK MANAGEMENT (continued):

The above-mentioned companies are global AIG Corporation companies and they are related parties of the Company. For further details on balances and transactions with related parties see note 28. The said companies have been granted an A+ rating by S&P.

2. In 2016 and 2017, the Company entered into most of the life insurance contracts with the following insurance companies:
   - Swiss Re
   - Partner Re

NOTE 27 – RISK MANAGEMENT (continued):

f. Credit risk data (continued):

3. Information regarding the exposure to credit risks as of December 31, 2017:

Rating group	Total premiums to reinsurers for 2017	Net debit (credit) balances	Reinsurance assets: Life insurance	Reinsurance assets: Property insurance	Reinsurance assets: Liabilities insurance	Deposits by reinsurers	Amount of letters of credit received from reinsurers	Total exposure	Debts overdue: 0.5-1 year	Debts overdue: In excess of 1 year
	ILS in thousands									
AA- or above										
GEN RE	971	(231)	136	-	-	(388)	-	(483)	-	-
SWISS RE	19,241	(921)	12,740	-	-	(7,697)	-	4,122	-	-
Other	877	(6)	-	-	-	-	-	(6)	-	-
	21,089	(1,158)	12,876	-	-	(8,085)	-	3,633	-	-
A										
Partner Reinsurance Co Ltd.	4,028	7	2,758	-	-	(1,611)	-	1,154	-	-
AHAC*	13,641	(186)	-	6,838	55,525	(21,540)	-	40,637	-	-
NUFIC*	106,396	(1,450)	-	53,336	433,098	(168,016)	-	316,968	-	-
NHIC*	16,368	(223)	-	8,205	66,630	(25,849)	-	48,763	-	-
Other companies in the AIG international corporation	8,420	6,184	-	29,097	819	-	-	36,100	4,746	-
Other	501	(787)	-	247	-	-	-	(540)	-	-
	149,354	3,545	2,758	97,723	556,072	(217,016)	-	443,082	4,746	-
Total	170,443	2,387	15,634	97,723	556,072	(225,101)	-	446,715	4,746	-

* Global AIG Corporation companies which are related parties of the Company.

NOTE 27 - RISK MANAGEMENT (continued):

f. **Credit risk data** (continued):

3. **Information regarding the exposure to credit risks as of December 31, 2016:**

Rating group	Total premiums to reinsurers for 2016	Net debit (credit) balances	Reinsurance assets: Life insurance	Reinsurance assets: Property insurance	Reinsurance assets: Liabilities insurance	Deposits by reinsurers	Amount of letters of credit received from reinsurers	Total exposure	Debts overdue: 0.5-1 year	Debts overdue: In excess of 1 year
	ILS in thousands									
AA- or above										
GEN RE	1,166	3	1,943	-	-	(467)	-	1,479	-	-
SWISS RE	18,560	(1,743)	10,860	-	-	(7,424)	-	1,693	-	-
Other	870	-	-	-	-	-	-	-	-	-
	20,596	(1,740)	12,803	-	-	(7,891)	-	3,172	-	-
A										
Partner Reinsurance Co Ltd.	2,768	(342)	2,263	-	-	(1,450)	-	471	-	-
AHAC*	13,429	(1,573)	-	8,731	52,165	(20,718)	-	38,605	-	-
NUFIC*	104,741	(12,280)	-	68,100	406,886	(161,597)	-	301,109	-	-
NHIC*	16,114	(1,888)	-	10,477	62,598	(24,861)	-	46,326	-	-
Other companies in the AIG international corporation	5,263	3,272	-	33,161	1,079	-	-	37,512	3,272	-
Other	248	(74)	-	296	-	-	-	222	-	-
	142,563	(12,885)	2,263	120,765	522,728	(208,626)	-	424,245	3,272	-
Total	**163,159**	(14,625)	15,066	120,765	522,728	**(216,517)**	-	427,417	3,272	-

***** Global AIG Corporation companies which are related parties of the Company.

NOTE 27 - RISK MANAGEMENT (continued):

g. Operating risks

The risk management function in the Company includes appointment of "risk-management champions" in business units who report risk events. The risk events and key risk indicators are reported in accordance with the reporting hierarchy. The Company also has an operating risk management committee whose members include the managers of the departments. The internal auditor is invited to take part in the committee's meetings.

The committee convenes every quarter and discusses risk management in various processes, risk events, etc.

In 2017, risk management procedures were integrated to have ongoing detection, treatment, monitoring and regular reporting of exposures in the organizational operating processes. In addition, regular training was given to employees on detection and reporting operating risk events.

As part of the overall risk management vision of the organization, the company set up an independent control unit. The control unit constitute a second line of defense, implementing controls in addition to those of the first line of defense.

As part of the operating risk management, the Company designed a disaster recovery plan (DRP) and a business continuity plan (BCP) to recover in an instance of damage to operating infrastructure. In addition, the Company performs once a period a risk survey to detect fraud.

Information security and cyber – The Company manages its information security risk according to a relevant policy it approved. Chief Information Officer prepares to implement regulatory requirements that are expected to be published on cyber security, in addition to professional guidance of the international AIG Corporation. In 2017, a cyber committee was set up to coordinate the handling of this issue.

Further, the Company is operating an internal audit function that performs periodic audits according to an annual and multi-annual plan. This plan reflects the findings of a legally mandatory risk survey and different guidance.

NOTE 27 - RISK MANAGEMENT (continued):

h. Geographic risks

	December 31, 2017					
	Government bonds	**Corporate bonds**	**Index funds**	**Mutual funds**	**Other investments**	**Total balance sheet exposure**
	ILS in thousands					
Israel	**557,539**	**949,177**	**60,011**		**121,023**	**1,687,750**
North America	**-**	**96,143**	**-**		**-**	**96,143**
Other	**-**	**7,888**	**25,932**		**-**	**33,820**
Total	**557,539**	**1,053,208**	**85,943**		**121,023**	**1,817,713**

	December 31, 2016					
	Government bonds	**Corporate bonds**	**Shares**	**Index funds**	**Other investments**	**Total balance sheet exposure**
	ILS in thousands					
Israel	559,286	698,983	-	56,545	250,901	1,565,715
North America	-	49,031	10,519	-	-	59,550
Other	-	59,493	12,013	-	-	71,506
Total	**559,286**	**807,507**	**22,532**	**56,545**	**250,901**	**1,696,771**

The geographical exposure reported in the table for the different asset classes is based on the ultimate location of exposure, by country or region, as applicable. In cases where it is not possible to identify the location of ultimate exposure, the exposure is reported based on the place where the asset was issued or is traded.

NOTE 28 – BALANCES AND TRANSACTIONS WITH INTERESTED PARTIES AND RELATED PARTIES

Interested parties as defined in the Israeli Securities Regulations (Preparation of Annual Financial Statements), 2010.
Related parties - as defined in IAS 24 - "Related Party Disclosures".

Company's key management personnel (which are included together with others in the definition of "related parties" under IAS 24) include members of the Board of Directors and member of senior management (hereafter – "key management personnel").

a. Balances with interested parties and related parties:

		December 31			
		2017		2016	
	Note	Global AIG corporation companies	Key management personnel	Global AIG corporation companies	Key management personnel
		ILS in thousands			
Reinsurance assets	13, 27.f.3.5	**653,548**	**-**	643,197	-
Accounts receivable	8	**8,406**	**-**	10,876	-
Accounts payable	19	**-**	**5,848**	-	5,944
Liabilities to reinsurers	29	**217,851**	**-**	227,414	-

NOTE 28 - BALANCES AND TRANSACTIONS WITH INTERESTED PARTIES AND RELATED PARTIES (continued):

b. Transactions with interested parties and related parties

	Note	December 31 2017	2016	2015
		ILS in thousands		
Premiums - gross*	20	**87**	68	33
Reinsurance premiums**	20	**(144,825)**	(139,547)	(141,661)
Income from commissions**	22	**38,567**	37,014	38,754
Payments and change in insurance liabilities in respect of insurance contracts**	23	**119,156**	(181,835)	(48,019)
Administrative and general expenses*	25	**(13,588)**	(18,480)	(10,824)
Administrative and general expenses**	25	**-**	(1,036)	(1,167)
Financial income (expenses)**	26	**-**	(7)	-

* Transactions with key management personnel. Officers of the Company may purchase, from time to time, insurance contracts that were issued by the Company, at market conditions and in the ordinary course of business.

** Transactions with Global AIG Corporation companies.

c. Benefits to key management personnel:

	For the year ended December 31 2017		2016		2015	
	No. of people	Amount	No. of people	Amount *	No. of people	Amount *
			ILS in thousands			
Short-term benefits	**13**	**11,397**	13	12,705	14	9,410
Other long-term benefits	**13**	**277**	13	3,980	14	462
Post-transaction benefits	**13**	**1,914**	13	1,795	14	952
		13,588		18,480		10,824

* Reclassified

NOTE 28 - BALANCES AND TRANSACTIONS WITH INTERESTED PARTIES AND RELATED PARTIES (continued):

d. Benefits to key management personnel – directors:

	For the year ended December 31					
	2017		2016		2015	
	No. of people	Amount	No. of people	Amount	No. of people	Amount
	ILS in thousands					
Fees to directors	**3**	**500**	3	574	4	507
	3	**500**	3	574	4	507

e. <u>Income and expenses from related parties and interested parties</u>

1) Transactions with global AIG Corporation companies which are related parties of the Company

Most of the Company's transactions with reinsurers are carried out with global AIG Corporation companies which are related parties of the Company.
As to the amounts of the said transactions, see a. and b. above. See also note 28(f)(5)(c).

2) <u>Bonuses to key management personnel</u>

Short-term and long-term benefits include bonuses and other benefits to key management personnel, amounting to ILS 729 thousand (2015 – ILS 964 thousand and 2015 – ILS 3,108 thousand).

NOTE 29 -LIABILITIES TO REINSURANCE:

	December 31	
	2017	2016
	ILS in thousands	
Deposits of reinsurers (1) ,(2)	**225,101**	216,517
Deferred acquisition costs in respect of reinsurance	**17,587**	16,241
Related parties (1) ,(2)	**2,446**	20,238
Other	**2,153**	4,169
	247,287	257,165

(1) As to the details of deposits and balances of reinsurers, most of which are related parties – see note 27(f)(3).
(2) See also note 28a.

NOTE 30 - CONTINGENT LIABILITES AND ENGAGEMENT IN LEASE AGREEMENTS:

a. Contingent liabilities – motions to certify class actions:

1) 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 ILS 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 defendants filed a response to the Company's response on June 1, 2017. At the same time, the petitioners filed a request for discovery of documents. On October 1, 1717, the Company filed a response on its behalf to the request for discovery of documents.

   On February 12, 2018, there was a pretrial hearing. There was an additional pretrial hearing on July 16, 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.

2) 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 ILS 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 submitted its response to the request for approval. On July 23, 2017, the petitioners submitted their response to the request for approval. On August 18, 2017, the respondents filed an application to delete the Respondents 'response to the respondents' responses to the request for approval and alternatively to delete sections of the response.

   On September 13, 2017, a pretrial hearing was held in which the Respondents' request to delete items from the response was discussed. The petitioners clarified during the hearing that the request for approval does not include within it the grounds for practice. The Court further ruled that in view of the decisions made in the matter of Meyuchas and Litvinov, and in light of the chances of the proceeding at hand, the petitioners are required to inform their position regarding the continuation of the proceedings until November 1, 2017.

   On November 14, 2017, the petitioners notified the court that they intend to continue conducting the proceedings and requested that the proceedings be continued and that the case be set for hearing evidence.

   On November 18, 2017, the Court ruled that in light of the petitioners' position to continue the proceeding, the parties were given the right to submit a brief plea-bargain regarding the request for deposit of the pending guarantee, until November 26, 2017. On November 24, 2017, the

NOTE 30 - CONTINGENT LIABILITES AND ENGAGEMENT IN LEASE AGREEMENTS (continued)

a. Contingent liabilities – motions to certify class actions (continued):

respondents filed a motion to extend the date for submission of the completion of the argument so that it will be submitted by December 6 2017, The court granted this request. On December 6, 2017, the respondents filed a supplementary argument on their behalf regarding the request to deposit a guarantee.

On December 13, 2017, the petitioners filed a request to the court to delay the decision to file a security deposit in seven days, claiming that the respondents added new documents to the completion of their arguments that were not previously joined by the petitioners.

The court granted the request and on December 17, 2017 the petitioners filed a motion to erase the completion of the argument on the part of the respondents with a request to deposit a guarantee. The court ruled that the respondents have the right of reply by January 7, 2018 and the right to respond to the response to the applicants by January 17, 2018.

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

On January 23, 2018, the Court rejected the request of the respondents to order the applicants to deposit a guarantee.

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

The court approved the procedural arrangement and held that the questions should be completed by March 25, 2018 and that the questions must be answered by May 17, 2018.
Discussion summaries of the oral hearing was scheduled for July 8, 2018.

In the opinion of the Company's management, which is based on the opinion of its legal counsel, it is more reasonable that the request to recognize the claim as a class action will be rejected, rather than accepted.

NOTE 30 - CONTINGENT LIABILITES AND ENGAGEMENT IN LEASE AGREEMENTS (continued)

a. Contingent liabilities – motions to certify class actions (continued)**:**

3) On November 2, 2016, a request was submitted to approve a claim as a class action against a number of insurance companies and the Company in their content regarding a mortgage insurance policy.

   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 total damage to the class group at NIS 75 million. Of the amount claimed, the Company's alleged share is NIS 15 million.

   On May 29, 2017, a response was filed to the request to certify the claim as a class action on behalf of the Company. On July 17, 2017, a pre-trial hearing was held in the case. The court adopted the Company's claims that there is no class action suit against the Company. However, the court held that it was more appropriate to clarify the fact that in the event of an insurance event, the insurer will bear the full amount of the loan as recorded in the books of the bank or the policy (the higher of the two), especially in light of the fact that at the underwriting stage, no explicit clarification was made with the insurance candidate whether he was taking a balloon or Spitzer loan.

   At the recommendation of the court, negotiations were conducted by the parties. At the end of the petition, a motion was submitted by consent to the withdrawal of the applicants. The Court's decision has not yet been made.

4) On January 8, 2017, a request to approve a class action was filed against the company and another insurance company.

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

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

   The Company must submit its response to the request for approval by June 8, 2017. The applicant must submit a response to the reply by July 9, 2017. On June 18, 2017, the Company submitted a response on its behalf to the request for approval. On June 22, 2017, a pre-trial hearing was held, together with other claims filed against other insurance companies that deal with similar questions of fact and law. The Court ordered that, as of this stage of the proceeding, all claims dealing with the practice of transition beyond age will be discussed in a consolidated manner, and it was decided that they will participate in the permanent hearing on September 13, 2017 in order to examine the continuation of the proceedings.

   On September 7, 2017, the petitioners filed their response to the respondent's response to the request for approval. On September 13, 2017 there was a pre-trial hearing, in which the court allowed the inclusion of the evidence added to the response and the reply, and gave the respondent the right of reply to the petitioners' response. On November 26, 2017, all the respondents submitted files in the case of an age-old practice, requesting an extension of the date for submission of their responses, to be submitted by December 14 2017. The court accepted the request. The respondent must submit its response to the petitioners' response by December 14, 2017.

NOTE 30 - CONTINGENT LIABILITES AND ENGAGEMENT IN LEASE AGREEMENTS (continued)

a. Contingent liabilities – motions to certify class actions (continued)**:**

On December 26, 20177, the respondent submitted its response to the applicant's response to the request to approve the claim as a class action.

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

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

In the opinion of the Company's management, which is based on the opinion of its legal counsel, it is more reasonable that the request to recognize the claim as a class action will be rejected, rather than accepted.

5) On April 27, 2017, a request was filed to approve a claim as a class action against the Company and two additional insurance companies. The plaintiffs claim that the insurance companies collected from policyholders who paid the premium in installments, credit fees in excess of the time that exceeded the interest rates permitted by law and / or the interest rates presented in the policies. It is alleged that the Company caused estimated damage in the amount of NIS 20,879 thousand over 7 years.

An agreement was reached with the Plaintiffs' counsel for an extension until March 12, 2018, to submit the response and to postpone the hearing, respectively, in order to examine the possibility of completing the settlement process.

In the opinion of the Company's management, which is based on the opinion of its legal counsel, the Company will succeed in reaching an arrangement in this claim.

6) On June 22, 2017, a request was filed to approve a claim as a class action against the Company.

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

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

The Company filed a response to the request to certify the claim as a class action and is awaiting the petitioner's response. Hearings were held on April 26, 18.
It should be noted that requests to approve class actions were also filed against other insurance companies.
In the opinion of the Company's management, which is based on the opinion of its legal counsel, it is more reasonable that the request to recognize the claim as a class action will be rejected, rather than accepted.

NOTE 30 - CONTINGENT LIABILITES AND ENGAGEMENT IN LEASE AGREEMENTS (continued)

a. Contingent liabilities – motions to certify class actions (continued)**:**

7) On September 14, 2017, a request was submitted to approve a claim as a class action against 13 insurance companies, including the Company (the "Respondents").

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

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

The respondent is required to submit its response to the request to certify the claim as a class action by March 29, 2018.

The plaintiff can submit their response to the respondent's reply by May 6, 2018.

The hearing has been scheduled to June 14,2018 .

At this early stage of the claim, the Company's management and legal advisors are still studying the matter. In the opinion of the Company's management, based on its legal counsel, at this preliminary stage it is not possible to estimate the chances of the request to approve the claim as a class action.

8) On December 26, 2017, a claim and an application to approve it as a class action were filed against the Company. The plaintiff alleges that the Company adds to the amounts it collects from policyholders who did not pay on time, "collection expenses" for attorneys fees contrary to the law. It should be noted that similar requests were also filed against other entities, including other insurance companies.

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

A hearing on the request for approval was set for July 1, 2018.

In the opinion of the Company's management, which is based on the opinion of its legal counsel, it is more reasonable that the request to recognize the claim as a class action will be rejected, rather than accepted.

NOTE 30 - CONTINGENT LIABILITES AND ENGAGEMENT IN LEASE AGREEMENTS (continued)

a. Contingent liabilities – motions to certify class actions (continued):

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

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

At this early stage of the claim, the Company's management and legal advisors are still studying the matter. In the opinion of the Company's management, based on its legal counsel, at this preliminary stage it is not possible to estimate the chances of the request to approve the claim as a class action.

Pending applications for approval of legal claims as class actions -	**Number of claims**	**The amount claimed ILS in thousands**
an amount relating to the Company was specified	9	* 103,143

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

There is general exposure, which cannot be estimated or quantified, stemming, inter alia, from the complexity of the services provided by the Company to its policyholders and the frequent regulatory changes. These arrangements are complex and include, among other things, the potential for claims relating to a long list of commercial and regulatory conditions. It is not possible to anticipate the types of claims and interpretations raised in this area and the exposure deriving from these and other claims.

In addition, there is general exposure, arising from the fact that complaints are filed against the Company from time to time to various authorities, such as supervision regarding the rights of policyholders under insurance and / or law policies. These complaints are handled regularly by those responsible for public inquiries at the Company. The decisions of the authorities in these complaints, if and when they are decided, are sometimes given as lateral decisions. At times the complainants even threaten to take legal action with respect to their complaint, including in the framework of a request to approve them as a class action. In these preliminary stages, it is not possible to assess how these procedures will develop and therefore it is not possible to assess the potential exposure to them or the very opening of such proceedings. Therefore, no provision was included in respect of the aforesaid exposure.

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.

NOTE 30 - CONTINGENT LIABILITES AND ENGAGEMENT IN LEASE AGREEMENTS (continued)

b. Contingent liabilities – motions to certify class actions that had ended

1) In May 2015, a request to approve a claim as a class action was filed 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 insurer (which insures the person who caused the damage) should bear the VAT component. The plaintiffs also rely on In-Principle Ruling issued by the Supervisor titled "In-Principle Ruling on Payment of VAT and Depreciation of Unrepaired Vehicle". This in-principle ruling states that when an insurance customer or a third party claims direct damages from repairing a vehicle and the insurer does not reject that claim, the insurer must pay the customer insurance benefits including, among other things, the VAT applicable in this matter, even if the customer did not repair the vehicle in practice.

   The total amount of damage claimed from the Company is ILS 40,211 thousand.

   Concurrently with filing the class action motion, the plaintiff asked the Herzliya Magistrate Court, which is considering individual claims on the Ikea fire damages, to eliminate the VAT element in individual claims and to file a motion for certifying a class action in its respect.

   On January 2, 2016, the Court handed down a decision, rejecting the plaintiff's request. The plaintiffs filed a motion to appeal the decision. On September 4, 2016, their decision 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 certified a class action was rejected.

   On March 28, 2017, the plaintiffs appealed the decision to the Supreme Court. On January 3, 2018, a hearing was held in the Supreme Court at the end of which the appeal filed by the class action plaintiffs against the decision to dismiss the class action was dismissed. Under these circumstances, the case was closed.

2) On February 10, 2016, a request was filed to approve an action as a class action 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 ILS.

   After negotiations held between the parties, a motion was filed to approve a settlement agreement.

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

NOTE 30 - CONTINGENT LIABILITES AND ENGAGEMENT IN LEASE AGREEMENTS (continued)

b. Contingent liabilities – motions to certify class actions that had ended (continued):

The clarifications were given and after publication on August 3, 2017, the court approved the settlement agreement.

The Company completed its share of the settlement agreement and the Company's financial statements for 2017 include the effect of the settlement agreement detailed above.

3) On January 3, 2017, a request to approve 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 ILS 63,791 thousand and the non-monetary damage at ILS 6,368 thousand, totaling at ILS 70,159 thousand.

The Company filed a response to the request to certify the claim as a class action.

On February 18, 2018, a hearing was held at the end of which the court recommended that the appellant withdraw from the request for approval. The Company is waiting for the applicant's position, which is due to be received by March 15 2015,

In the opinion of the Company's management, which is based on an assessment of the opinions of its legal counsel, it is more reasonable than not that the claim that the request to recognize the claim as a class action be rejected will be accepted.

c) Leases:

The Company is engaged in a commercial lease of the real estate in its possession, which is used for Company offices. This lease is non-cancellable and has a lifespan of up to 5 years.

Minimum future lease payment expected to be paid for the non-cancellable operating lease contracts as of December 31 are:

	December 31	
	2017	**2016**
	ILS in thousands	
First year	**4,662**	4,620
Second to fifth year	**9,240**	13,860
	13,902	18,480

Chapter D: Additional Information

Regulation 25a

Name of company:	**AIG Insurance Co. Ltd.**
No, of company with companies' registrar	51-230488-2
Address:	25 Hasivim St. Kiryat Matalon, Petach Tikva
Telephone no:	03-9272333
Fax no.	03-9272366
Website:	www.aig.co.il
Balance sheet date:	December 31, 2017
Date of financial statements:	March 27, 2018

AIG

Regulation 11: List of Investments in Subsidiaries and related Companies as of date of financial statements

None

Regulation 12: Changes in Investments in Subsidiaries and Related Companies in the reported period

None

Regulation 13: Income or Losses of Subsidiaries and Related Companies for the year ended December 31, 2016

None

Regulation 14: List of Loan Balances Extended as of Date of Financial Statements

None. Extending loans is not a principal activity of the company.

Regulation 20: Trade in the Stock Exchange

None. As of date of financial statements there are no securities issued by the company, which are listed in the Stock Exchange.

Regulation 21: Payments to Interested Parties and Senior Office Holders

Set forth below is a breakdown of the payments made by the company and amounts it undertook to pay in the reported year for each of the five office holders receiving the highest salary among office holders who served in their position, regardless of whether they were granted by the company or by others (amounts are denominated in thousands of NIS and excluding payroll tax).

	Salary	Social benefits and related payments	Total
1	2,236	297	2,533
2	920	185	1,105
3	857	172	1,029
4	816	138	954
5	635	147	782

Compensation to CEO

In October 2016, the monthly salary of CEO was set to ILS 95,000 plus a bonus that is set according to the officer bonus plan of the Company (see paragraph 4.6c in Chapter A (Description of Corporate Business) in the periodic report) and standard social conditions (a car, mobile phone and expense reimbursement).

Director remuneration

Salary paid to outside directors - ILS 500 thousands, including VAT.

Regulation 21a: Company's controlling shareholders

As of the date of publication of these financial statements, the controlling shareholder of the company is AEHL (AIG Holding Europe Limited), which holds 100% of the ordinary shares of the company. AEHL is a member of American International Group Inc. ("AIG"). AIG holds the final control permit of the Company.

Regulation 22: Transactions with a controlling shareholder or transactions in the approval of which the controlling shareholder has personal interest, into which the Company has entered in the reported year or subsequent to the end of the reported year through the date of the publication of this report or which is valid at the time of the publication of the report

Exceptional transactions and engagement for obtaining services

See para. 4.5 (reinsurance) in Chapter A – Description of Corporate Business, and note 29 (balances with interested parties and related parties) to the financial statements.

Insignificant transactions

There were no insignificant transactions with the controlling shareholder or transactions in the approval of which the controlling shareholder had personal interest.

Regulation 24: Shares and Convertible Securities Held by an Interested Party in the Company as of date of financial statements

				Holding rate		
Name of interested party	No. of company with registrar of companies	Name of security	Par value as of 31.12.17	In equity	In voting rights	In authority to appoint directors
AIG Europe Holdings Ltd.	Foreign	Ordinary shares	5,730	100%	100%	100%

Regulation 24a: Registered shares capital, issued share capital and convertible securities

The company's registered share capital includes NIS 45,000,100, divided into 45,000,100 ordinary shares of NIS 1 par value each and 100 preferred shares of NIS 1 par value each.

The issued and paid share capital of the company is NIS 5,730, which is distributed into 5,730 ordinary shares of NIS 1 par value each.

Regulation24b: company's shareholders register

For details regarding the sole shareholder of the company, see Regulation 21a to this chapter.

Regulation 26: Company's Directors

1.

Name	Ralph Mucerino (Chairman of the Board)
Passport No.	516514209
Year of birth	1946
Address	175 Water Street – 12th Floor, New York, NY 10038
Nationality	American
Member of Directors Committee	No
Independent director/outside director	No
Employee of the company, subsidiary related company or an interested party?	Yes, President, Distribution Partners & Multinational Clients U.S General Insurance, Personal Insurance, AIG
Date of commencement of service as director	13.1.2011
Education and main occupation during the past 5 years as well as other companies in which he serves as a director	University graduate, COO of AIU
Relative of another interested party in the company?	No

2.

Name	Robert Quane
Passport No.	548460262
Year of birth	1968
Address	175 Water Street – 26th Floor, New York, NY 10038
Nationality	American
Member of Directors Committee	No
Independent director/outside director	No
Employee of the company, subsidiary related company or an interested party?	Yes, Head of Commercial Property, AIG Inc.
Date of commencement of service as director	27.07.2010
Education and main occupation during the past 5 years as well as other companies in which he serves as a director	University graduate, Global Head of Property and Personal Lines AIG Inc.
Relative of another interested party in the company?	No

3.

Name	Neil Minnich
ID No.	452109240
Year of birth	1960
Address	58 Fenchurch Street London EC3M 4AB, England
Nationality	US
Member of Directors Committee	No
Independent director/outside director	No
Employee of the company, subsidiary related company or an interested party?	Yes, Senior Vice President, Head of Accident, Health & Travel, AIG Europe Ltd, AIG
Date of commencement of service as director	10.12.2015
Education and main occupation during the past 5 years as well as other companies in which he serves as a director	University graduate, Vice President and Head of Personal Lines UK, AEL
Relative of another interested party in the company?	No

4.

Name	Maureen Hackett
ID No.	21909619
Year of birth	1964
Address	175 Water Street, New York, NY 10038
Nationality	US
Member of Directors Committee	No
Independent director/outside director	No
Employee of the company, subsidiary related company or an interested party?	Yes. Head of Individual Segment - Personal Lines, AIG
Date of commencement of service as director	23.08.2016
Education and main occupation during the past 5 years as well as other companies in which he serves as a director	University graduate. Head of Global Property – Consumer, Executive Vice President' Chief Underwriting Officer, AIG Inc.
Relative of another interested party in the company?	No

5.

Name	David Klein
ID No.	007256647
Year of birth	1935
Address	30 Jabotinsky St. Kfar Saba
Nationality	Israeli
Member of Directors Committee	Yes. Member of Investments Committee, Compensation Committee and Audit Committee
Independent director/outside director	Yes, investment committee, compensation, audit
Employee of the company, subsidiary related company or an interested party?	No
Date of commencement of service as director	1.4.2011
Education and main occupation during the past 5 years as well as other companies in which he serves as a director	Academic, PhD in Economics, owners of David Klein Financial Consulting Ltd.
Relative of another interested party in the company?	No

6.

Name	Arie Nachmias
ID No.	051604205
Year of birth	1952
Address	1 Hohit St., Giva'at Hasla'im Rosh-HaAyin
Nationality	Israeli
Member of Directors Committee	Yes, Audit Committee, Investments Committee, Compensation Committee
Independent director/outside director	Yes. Has accounting and financial expertise. Has insurance related expertise.
Employee of the company, subsidiary related company or an interested party?	No
Date of commencement of service as director	19.1.2016
Education and main occupation during the past 5 years as well as other companies in which he serves as a director	University graduate, BA in Economics from Tel Aviv University, M.Sc. in Economics & Management from Hebrew University of Jerusalem, PhD in Management from University of Wisconsin–Milwaukee, Head of Master's Degree Program Business Administration Open University.
Relative of another interested party in the company?	No

7.

Name	Jules Polak
ID No.	026059444
Year of birth	1946
Address	6 Amos St. Ramat Gan
Nationality	Dutch
Member of Directors Committee	Yes. Audit Committee and Compensation Committee
Independent director/outside director	Yes. Has financial and accounting expertise. Has insurance expertise
Employee of the company, subsidiary related company or an interested party?	No
Date of commencement of service as director	1.3.2017
Education and main occupation during the past 5 years as well as other companies in which he serves as a director	University graduate, BA in Accounting from Tel Aviv University, MBA in Business Administration from the Hebrew University of Jerusalem, and Certified Public Accountant. University graduate, CPA, MBA, CEO of Jules Polak Business Management Ltd., Director at IBI Mutual Fund Management (1978) Ltd.
Relative of another interested party in the company?	No

Regulation 26a: Senior Office Holders of the Company

1.

Name	Shay Feldman
ID No.	031872245
Year of birth	1974
Position in the company	CEO
Interested party or relative of another office holder or of an interested party in the company?	No
Education and main occupation during the past 5 years	University graduate, BA in Economics and Management (Tel Aviv-Yaffo Academic College), MA in Business Administration and Marketing from Derby University, Senior Vice President Marketing and Personal Insurance EMEA in London
Year of commencement of service	2013

2.

Name	David Rothstein
ID No.	017016973
Year of birth	1958
Position in the company	CFO
Interested party or relative of another office holder or of an interested party in the company?	No
Education and main occupation during the past 5 years	University graduate, CPA
Year of commencement of service	2001

3.

Name	Lior Scheinin
ID No.	028024099
Year of birth	1970
Position in the company	Senior VP Consumer Distribution
Interested party or relative of another office holder or of an interested party in the company?	No
Education and main occupation during the past 5 years	University graduate, BA in Business Administration, VP Personal Insurance
Year of commencement of service	2003

4.

Name	Gil Tamir
ID No.	028024099
Year of birth	1970
Position in the company	Chief Information Systems Officer
Interested party or relative of another office holder or of an interested party in the company?	No
Education and main occupation during the past 5 years	University graduate, degree in Information Systems Engineering. Director of Development - Partner Communications
Year of commencement of service	2017

5.

Name	Yael Nadav
ID No.	028731131
Year of birth	1971
Position in the company	VP Human Resources
Interested party or relative of another office holder or of an interested party in the company?	No
Education and main occupation during the past 5 years	University graduate, MA in Occupational Psychology, VP HR at Tnuva, Senior HR manager at Teva
Year of commencement of service	2016

6.

Name	Nurit Kantor
ID No.	031817356
Year of birth	1974
Position in the company	Senior VP Customers
Interested party or relative of another office holder or of an interested party in the company?	No
Education and main occupation during the past 5 years	University graduate BA and MA in Business Management, VP Customer Service and Sales Bezeq International
Year of commencement of service	2012

7.

Name	Gil Sagiv
ID No.	025469248
Year of birth	1973
Position in the company	VP Marketing and Digital
Interested party or relative of another office holder or of an interested party in the company	No
Education and main occupation during the past 5 years	University graduate, B. Sc Engineering, MBA Business Administration from Tel Aviv University, Chief Marketing Officer and member of management of Kardan Vehicle Ltd. – holder of Avis' franchise in Israel.
Year of commencement of service	2014

8.

Name	Olivia Zohar
ID No.	011179322
Year of birth	1970
Position in the company	VP, Risks and Compliance Officer
Interested party or relative of another office holder or of an interested party in the company	No
Education and main occupation during the past 5 years	University graduate, CPA, MBA, Chief Risks Officer of the Senior Pension Funds
Year of commencement of service	2013

9.

Name	Aviram Gavish
ID No.	029312550
Year of birth	1972
Position in the company	VP, Legal, Commercial Insurance and Logistics
Interested party or relative of another office holder or of an interested party in the company	No
Education and main occupation during the past 5 years	University graduate, lawyer, advocate in England and Wales (Solicitor of England and Wales), MA in Commercial Law from the Tel-Aviv University, BA in Law from the Hebrew University of Jerusalem.
Year of commencement of service	2012

10.

Name	Thomas Lowe
ID No.	327077798
Year of birth	1976
Position in the company	VP, Internal Audit
Interested party or relative of another office holder or of an interested party in the company	No
Education and main occupation during the past 5 years	University graduate, CPA (South African licensee), Senior Manager Internal Audit, Controller, Financial Project Manager.
Year of commencement of service	2013

11.

Name	Orna Karni
ID No.	025164567
Year of birth	1973
Position in the company	VP, Manager of life and health insurance lines.
Interested party or relative of another office holder or of an interested party in the company	No
Education and main occupation during the past 5 years	University graduate, B.A in Management, MBA, LL.B, B.A in Law. In the last five years, served as VP Life and Health Insurance in the Company, Head of Life and Health Insurance in the Company.
Year of commencement of service	2014

12.

Name	Yifat Reiter
ID No.	029480548
Year of birth	1972
Position in the company	VP, Head of Personal Injury, Life and Health Insurance
Interested party or relative of another office holder or of an interested party in the company	No
Education and main occupation during the past 5 years	University graduate. B.A Economics and Financing, MBA, VP Consumer Insurance in the Company
Year of commencement of service	2014

13.

Name	Lee Dagan
ID No.	38345443
Year of birth	1975
Position in the company	VP, Vehicle and Home Insurance
Interested party or relative of another office holder or of an interested party in the company	No
Education and main occupation during the past 5 years	University graduate. B.A Economics and Accounting, MBA both from the Hebrew University of Jerusalem. Deputy Supervisor of Capital Markets, Insurance and Savings. VP Professional HQ, Health Division, Clal Insurance Company.
Year of commencement of service	2016

Regulation 26b: Number of Independent Signatories as determined by the Company

None

Regulation 27: Auditors of the Company

Somekh Chaikin KPMG CPAs, 17 Ha'arba'a St. Tel Aviv

To the best of the company's knowledge the auditors, including Mr. Abraham Fruchtman ,CPA, who is the engagement partner in the said firm, are not interested parties and/or related to any senior officeholder or interested parties in the company.

Regulation 28: Changes in the Memorandum or Articles of Association of the Company in 2016

None.

Regulation 29: Resolutions and Recommendations of the Board of Directors

a. Set forth below are the recommendations of the Board of Directors and the resolutions of the Board of Directors which do not require the approval of a General Meeting:

   1. Payment of dividend (or distribution) as defined in the Companies Law, in any other way, or distribution of bonus shares: For details see note 12 to the financial statements.
   2. Changes to authorized or issued equity of the Company: None.
   3. Changes to the Memorandum or Articles of Association of the Company: None.
   4. Redemption of shares: None.
   5. Early redemption of debentures: None.
   6. Non-arm's-length transaction between the company and an interested party thereof, except for a transaction between the Company and a subsidiary thereof. For details, see Regulation 22 above.

b. General Meeting resolutions that were taken without being recommended by the Board of Directors. None

c. Resolutions of Special General Meeting.

1. On February 2, 2017, the Company's General Meeting made the following resolutions:
   i. Renewal of the liability insurance policy covering Company's office holders and directors.
   ii. Reappointment of Kesselman & Kesselman CPAs as the Company's auditors. Regarding the replacement of the Company's auditor, see Regulation 27 above.
   iii. The appointment of Mr. Jules Pollack as an external director of the Company for a period of three years, as of March 1, 2017
   iv. Extending the term of office of Dr. David Klein as an external director of the Company, for a further period of three years, as of April 1, 2017.

2. On December 7, 2017, the Company's General Meeting approved the appointment of Somekh Chaikin KPMG CPAs as the Company's auditors

Regulation 29a: Resolutions of the Company

a. Approval of acts under Section 255 to the Companies Law. None

b. An act in accordance with Section 254(a) to the Companies Law, which has not yet been approved. None

c. Transactions that require special approval in accordance with Section 270(1) to the Companies Law and provided that the transaction is an exceptional transaction as defined in the Companies Law; for details see Regulation 22 above.

d. Exemption, insurance or liability to indemnify an office holder as defined in the Companies Law and which is in effect as of the date of publication of the report:

Insurance

The Company entered into an officers' liability insurance policy covering office holders and directors for the period from February 1, 2017 through January 31, 2018. The liability limit is $ 25 million per claim and for the whole insurance period including legal expenses; (but in respect of claims filed in Israel the policy covers legal expenses in excess of the above liability limit to an amount equal to 20% of the said liability limit. The insurance policy was renewed until January 31, 2019 with the same terms and conditions as presented above.

Indemnification

The Company has undertaken in advance to indemnify its office holders in accordance with the wording of the indemnity letters it provided to the office holders. According to the indemnity letters, the Company has undertaken, to the extent allowed by law, to indemnify its office holders for any liability or expense with which he was charged or which he expended in consequence of an act which he/she performed by virtue of holding office in the Company. The accumulated amount of indemnity for all office holders in respect of one or more than one of the event set by the Board of Directors shall not exceed 25% of the Company's equity. The Company has also undertaken to indemnify its office holders for payment which was levied on them as part of payment to a victim of breach; the Company has also undertaken to indemnify its office holders for expenses they accrued as part of a procedure for levying financial sanctions on those office holders, including reasonable legal expenses.

Exemption

As part of an exemption letter issued to its office holders, subject to the provisions of Sections 258-263 to the Companies Law, 1999 and any law that is to replace them, the Company has undertaken to exempt its officers, from all of his/her responsibility for damage caused to the Company, whether directly or indirectly, due to his/her violation of the obligation of caution towards the Company as a result of actions taken in good faith and as part of his/her capacity as office holder in the Company and/or employee of the Company; the exemption will not apply in cases where the obligation of caution was violated intentionally or rashly; nor will the exemption apply if the obligation of caution was violated due to any matter relating to distribution.

AIG Insurance Co. Ltd.

Date: March 27, 2018

Shay Feldman **CEO**	**Ralph Mucerino** **Chairman of the Board**

Chapter E: Actuary Reports

AIG Israel Insurance Company Ltd

GENERAL INSURANCE SECTORS – ACTUARY STATEMENT

AS OF DECEMBER 31, 2017

AIG ISRAEL INSURANCE CO. LTD.

Chapter A - Identity of the actuary

I was requested by AIG Israel Insurance Co. Ltd. to evaluate the provisions listed in Chapter B hereafter in the general insurance sectors for the financial statements ("the provisions") of the insurer AIG Israel Insurance Co. Ltd. at December 31, 2017, as detailed below.

I am a salaried employee of the insurer. I am not an interested party in the insurer nor am I a relative of an interested party of the insurer.

I was appointed to this position on 31.12.2015.

Chapter B - Scope of the actuarial opinion

1. Wording of scope of the actuarial opinion section

1.1 For the purpose of calculating the insurer's provisions, I relied on data that I received from the insurer. My requests for information and data were satisfied adequately for the purpose of evaluating the provisions for financial statements purposes. I reviewed the reasonability and adequacy of the data, including comparing the said data with the data for the year to which the statement refers and the data for previous years.

1.2 Where necessary, my evaluation also relied on data received from other reliable sources. I reviewed the consistency and adequacy of the data and their relevance.

1.3 The actuarial assumptions that I used in my work, as well as the methods for evaluating the provisions specified in section 2 below were determined by me, to the best of my professional judgment, and subject to the instructions, directives and principles specified in section 1 to Chapter C, below.

1.4 To calculate the retention, I asked the entities responsible for the insurer's reinsurance for information concerning the insurer's reinsurance arrangements, the ability to collect claims, and problems with the reinsurers' payment policy. Based on the information that I received, I reviewed the effect and implications of the reinsurance arrangements on the provisions.

1.5 The following matters were also taken into account in my opinion:
The provision that was calculated for the Company's share of the "Pool" (Israel Motor Insurance Pool) was based on an assessment conducted by the Pool's actuary.

1.6 No reserve was taken for the absence of a correlation between the different sectors for the purpose of writing down the total provision for all the sectors included in my evaluation."

2. Data included in the section on the scope of the actuarial opinion

As of December 31, 2017

2.1 Pending Claims

2.1.1 Non-aggregated sectors:

	Gross	Retention
	ILS in thousands	
Motor property	73,836	73,836
Comprehensive home	21,363	17,579
Loss of property	42,806	1,913
Engineering insurance	30,198	579
Compulsory motor	533,+58	401,303
Liability employers	58,732	7,479
Third-party liability	144,946	12,783
Product liability	61,707	11,787
Professional liability	180,698	35,747
Other	3,110	392
Total non-aggregated sectors	1,151,342	563,394
Total aggregated sectors	0	0
2.1.2 Total aggregated and non-aggregated sectors	**1,151,342**	**563,394**
2.2 Indirect expenses for all sectors	35,484	35,484
2.3 Premium deficiency:		
Motor property	-	-
Engineering insurance	-	-
Total pending claims, indirect expenses, premium deficiency reserve computed in accordance with actuarial valuation	**1,186,826**	**598,878**

Chapter C – the Opinion

I hereby declare and confirm that in the following sectors, comprehensive flats, motor vehicle insurance – property (owned and third party), motor vehicles (New Version), 1970:

1. I evaluated the insurer's provisions listed in Chapter B in accordance with the instructions, directives and principles set forth below, and all in effect as of the date of the financial statements:

   a. The provisions of the Control of Financial Services (Insurance) Law, 1981, and regulations promulgated thereunder.
   b. Instructions and directives issued by the Supervisor of Insurance;
   c. Supervisor's position regarding calculation of general insurance reserves
   d. Acceptable actuarial principles.

2. After reviewing the data mentioned in Chapter B, I concluded that the data are reasonable and adequate, and that they can be relied on for the purpose of my evaluation.

3. I determined the assumptions and methods used to assess the provisions, to the best of my professional judgment, and in accordance with the instructions, directives and principles specified above.

4. To the best of my knowledge, the provisions specified in Chapter B, section 2.1.1 in respect of the non-aggregated sectors comprehensive flats, property loss, engineering, compulsory motor, employers liability, third party liability, product liability, professional liability and other form an adequate reserve for covering the insurer's commitments in respect of the pending claims, defined above, for each statistical sector listed separately, in effect as of the date of the financial statements.

5. To the best of my knowledge, the total provisions listed in Chapter B, section 2.1.2, form an adequate reserve for covering the insurer's commitments in respect of pending claims in the aggregated and non-aggregated sectors together, in effect as of the date of the financial statements.

6. To the best of my knowledge, the provision specified in Chapter B, section 2.2 forms an adequate reserve for covering the insurer's commitments in respect of indirect expenses to settle the claims in effect as of the date of the financial statements.

7. To the best of my knowledge, the provisions listed in Chapter B, section 2.3, form an adequate reserve for covering the insurer's commitment in respect of a deficit premium at retention level (inasmuch as such deficit premium exists) in the sectors listed, in effect as of the date of the financial statements.

Chapter D – Comments and Clarifications

1. **Comments, clarifications and explanations in connection with the actuary opinion I rendered, to the best of my professional judgment.**

   a. In January 2015 a new Insurance Circular was published - "Actuarial Assessment in General Insurance" - which is designed to enhance the quality of assessment of the reserves for an insurer's liability due to general insurance contracts (hereafter – "insurance reserves), which are an important element in the assessment of an insurer's liability, and to regulate the attachment of the professional opinion of an appointed actuary (hereafter – "the actuary") on these provisions to the financial statements. The circular establishes the scope of the actuarial assessment which the actuary is required to perform, the actuarial report he/she is required to prepare and the statement he/she is required to sign, which must be attached to the financial statements.

   b. In January 2015 the Supervisor published a position paper on "Best Practice for Calculation of Insurance Reserves in General Insurance for Financial Reporting" (hereafter – "the position paper"). The Supervisor's position paper includes, inter alia, explanations of the principles of professionalism, consistency and caution which have not been previously defined in circular 2015-1-1 on Actuarial Valuation in General Insurance. The principle of caution will require the actuary to verify that the valuations made in the liability sectors aim for a probability estimate of 75% at the very least. The Supervisor's position paper also refers to the issue of the discount rate applied to liabilities for best estimate purposes.

   c. In January 2015 a circular was published – "Calculation of Reserves in General Insurance – Update"; in accordance with the this circular, commencing in the financial statements as of December 31, 2015, the reserve in respect of the excess of income over expenses shall not be calculated for the liability insurance sectors and the compulsory vehicle insurance sector.

d. In 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 they include, among other things, recommendations for the amendment of National Insurance Regulations (Discounting), 1978 (hereinafter - the discounting regulations) in relation to updating payments according to the current, higher, life expectancy and discounting one-off payments based on a 4-year average in a way detailed in the recommendations, whereas, as long as no such determination is set, interest rate will be set to 2% instead of 3% as indicated by the regulations so far, and that on the backdrop of lower recent interest rates.

On May 17, 2016, the Amendment to the Discounting Regulations (hereafter – "the Amendment to the Discounting Regulations") was signed by the Minister of Social Affairs, and on June 9, 2016, the Amendment to the Discounting Regulations was published in the official gazette, adopting the recommendations of the Vinograd Committee .

On September 13, 2016, an amendment to the Amendment of the Discounting Regulations was published in the official gazette, postponing the coming into effect of the Amendment to the Discounting Regulations to September 2017. The Amendment to the Discounting Regulations may result with a decrease in the rate of the discounting interest used in the settlement of bodily damage claims, which may lead to an increase in the premiums of compulsory vehicle insurance.

e. In January 2018, a government decision was published regarding a change in the accounting mechanism between the National Insurance Institute ("the NII") and the insurance companies ("the new subrogation arrangement"). The purpose of the change is, inter alia, to increase the efficiency of the existing accounting arrangements between the institution and the insurance companies in all matters relating to the payment of compensation under the Compensation Law, while reducing the legal litigation between the parties. As part of the change, it was decided to amend the arrangement set forth in Section 328 (a) of the National Insurance Law regarding the settling of accounts between the Institute and the insurance companies in respect of payment of compensation for the benefit paid or to be paid by the Institute for Victims of Road Accidents pursuant to the Compensation Law, in order to Cover their liability. According to the Government's decision, the new subrogation arrangement will apply to road accidents that occur as of January 1, 2019.
The new subrogation arrangement has no effect on the Company's financial statements for 2017. The Company is examining the future effect of the new subrogation arrangement on the Company.

f. I do not use capitalization interest in the actuary assessment to assess the provisions for pending claims or indirect expenses. It is possible to measure the extent of conservativeness of using a 0% real interest compared with using a risk free capitalization interest including non-liquidity premium:

Effect of risk free interest on capitalization/non-capitalization of provisions for pending claims - gross

Sectors	Best estimate provision before capitalization	Best estimate provision after capitalization	Provision in books	Increment (%)
	ILS in thousands			
Compulsory motor	485,816	487,885	533,947	9.44%
Motor property	69,657	69,761	73,837	5.84%
Comprehensive home insurance	19,564	19,683	21,363	8.54%
Engineering insurance	28,542	28,725	30,198	5.13%
Property	40,459	40,736	42,806	5.08%
Employers' liability	53,392	53,668	58,732	9.43%
Other	2,670	2,641	3,110	17.76%
Product liability	51,209	51,528	61,707	19.75%
Professional liability	155,105	152,435	180,698	18.54%
Third-party liability	132,613	133,554	144,946	8.53%
Total	**1,039,028**	**1,040,615**	**1,151,343**	**10.64%**

Effect of risk free interest on capitalization/non-capitalization of provisions for pending claims - retention

Sectors	Best estimate provision before capitalization	Best estimate provision after capitalization	Provision in books	Increment (%)
	ILS in thousands			
Compulsory motor	366,960	369,331	401,303	8.66%
Motor property	69,657	69,761	73,837	5.84%
Comprehensive home insurance	16,098	16,189	17,579	8.58%
Engineering insurance	547	552	579	4.78%
Property	1,808	1,820	1,913	5.09%
Employers' liability	6,799	6,831	7,479	9.49%
Other	336	332	392	17.95%
Product liability	9,781	9,843	11,787	19.75%
Professional liability	30,682	30,301	35,745	17.98%
Third party liability	11,695	11,770	12,783	8.60%
Total	**514,363**	**516,730**	**563,394**	**9.03%**

g. The sensitivity of the conservative amounts is reflected by changing the risk free interest rate used for capitalization (including non-liquidity premium) by 0.5% or 1.0%.

Sensitivity analysis of conservative amounts without capitalization to the risk free interest – ILS in thousands

Amounts in thousands of ILS	Provision in books without capitalization	Best estimate capitalization: Risk free interest less 1.0%	Best estimate capitalization: Risk free interest less 0.5%	Best estimate capitalization: Risk free interest	Best estimate capitalization: Risk free interest plus 0.5%	Best estimate capitalization: Risk free interest plus 1.0%
All sectors (gross)	1,151,343	1,088,559	1,064,105	1,040,615	1,018,040	996,333
Difference in ILS compared with provision without capitalization	0	62,784	87,238	110,728	133,303,	155,010
Difference in % compared with provision without capitalization	0.0%	5.5%	7.6%	9.6%	11.6%	13.5%
All sectors (retention)	563,394	536,367	526,376	516,730	507,412	498,408
Difference in ILS compared with provision without capitalization	0	27,027	37,019	46,665	55,982	64,986
Difference in % compared with provision without capitalization	0.0%	4.8%	6.6%	8.3%	9.9%	11.5%

h. The process of assessing the various actuarial provisions involves statistical uncertainty. These assessments are based on certain assumptions which best reflect the information currently available to us. There may be future changes, which will have an effect on these assumptions in terms of legislation, legal rulings and economic and social environments. It is impossible to predict these factors and they may affect the final cost of the claims thus affecting actuarial estimate of the provisions.

2. **Material changes in actuarial assumptions and methods compared with last year's actuarial assessment**

   a. There were no significant changes in the assumptions and methodology this year compared to last year.

3. **Material changes to provisions described in Chapter B compared to provisions described for the previous reporting period and the reasons for those changes, by sectors**

Below is information about provisions by insurance segment as of the 2015 and 2016 year-end and changes in provisions.

The main drivers of change in compulsory motor reserves is the Vinograd Committee, as discussed above, and the impact of this factor on the Company's share in the "Pool", along with an increase of pending claims in the portfolio, including IBNR reserves. The changes in professional liability and product liability lines are mostly due to a negative development in claims in 2016, in respect of previous years.

Comparison of annual actuarial estimate compared with previous years' actuarial estimate - gross			
Sectors	**Reserve as of 31.12.2016**	**Addition as of 31.12.2017**	**Change in reserve**
Compulsory motor	481,222	533,947	52,725
Property motor	64,063	73,837	9,774
Comprehensive home	22,409	21,363	-1,046
Engineering insurance	28,900	30,198	1,298
Property	36,996	42,806	5,810
Employers' liability	56,928	58,732	1,804
Other	3,879	3,110	-769
Product liability	73,933	61,707	-12,226
Professional liability	189,366	180,698	-8,668
Third party liability	138,116	144,946	6,830
Total	**1,095,811**	**1,151,343**	**55,531**

Comparison of annual actuarial estimate compared with previous years' actuarial estimate - retention			
Sectors	**Reserve as of 31.12.2016**	**Addition as of 31.12.2017**	**Change in reserve**
Compulsory motor	365,286	401,303	36,016
Property motor	64,063	73,837	9,774
Comprehensive home	18,005	17,579	-426
Engineering insurance	636	579	-58
Property	1,673	1,913	240
Employers' liability	7,460	7,479	19
Other	397	392	-5
Product liability	14,165	11,787	-2,378
Professional liability	33,654	35,745	2,091
Third party liability	12,280	12,783	503
Total	**517,620**	**563,394**	**45,775**

March 21, 2017	General Insurance Actuary Director	Ernest Segal	
Date	Position	Name of Actuary	Signature

HEALTH INSURANCE SECTOR – ACTUARY STATEMENT

AS OF DECEMBER 31, 2017

AIG ISRAEL INSURANCE CO. LTD.

Chapter A - Identity of the actuary

I was requested by AIG Israel Insurance Co. Ltd. to evaluate the provisions listed in Chapter B hereafter in the health insurance sector for the financial statements ("the provisions") of the insurer AIG Israel Insurance Co. Ltd. at December 31, 2017, as detailed below.

I am a salaried employee of AIG Israel Insurance Co. Ltd. ("the insurer"). I am not an interested party in the insurer nor am I a relative of an interested party of the insurer.

I was appointed to this position on 31.12.2015.

Chapter B - Scope of the actuarial opinion

1. Scope of the actuarial opinion section

a. For the purpose of calculating the insurer's provisions, I relied on data that I received from the insurer. My requests for information and data were satisfied adequately for the purpose of evaluating the provisions for financial statements purposes. I reviewed the reasonability and adequacy of the data, including comparing the said data with the data for the year to which the statement refers and the data for previous years.

b. Where necessary, my evaluation also relied on data received from other reliable sources. I reviewed the consistency and adequacy of the data and their relevance.

c. The actuarial assumptions that I used in my work, as well as the methods for evaluating the provisions specified in section 2 below were determined by me, to the best of my professional judgment, and subject to the instructions, directives and principles specified in section 1 to Chapter C, below.

d. To calculate the retention, I asked the entities responsible for the insurer's reinsurance for information concerning the insurer's reinsurance arrangements, the ability to collect claims, and problems with the reinsurers' payment policy. Based on the information that I received, I reviewed the effect and implications of the reinsurance arrangements on the provisions.

e. The following matters were also taken into account in my opinion:

   1) The provision calculated in respect of incoming businesses (in that regard "**incoming businesses**" as defined in Insurance Business Supervision Regulations (Methods of Calculating Provisions for Future Claims in General Insurance), 1984): an estimate was not calculated since the company does not have business of this type.

   2) The provision that was calculated for co-insurance where the company is not the leading insurer: the company does not have business of this type.

2. Data included in the section on the scope of the actuarial opinion

1) Provision for pending Claims

a) Sectors for which an actuary provision for pending claims was calculated:

Sub-sector- general insurance	Gross provision	Provision in Retention
	ILS in thousands	
Personal injury – individual	80,122	79,215
Personal injury – group	7,832	7,831
Travel abroad – individual	16,457	16,457
Travel abroad – group	151	151
Critical illness – individual	11,839	10,673
Total reported in life insurance	**116,401**	**114,327**

2) Provision for indirect expenses for settlement of claims

Provision for indirect expenses for settlement of claims (gross and retention)		
ILS in thousands		
Type of activity	Health insurance	Life insurance
Individual	7,467	-
Group	570	-
Total	**8,037**	-

3) Provision deriving from conditions of insurance contracts (contract reserve)

In some of the products available in the personal accidents – individual sub-sector, we found that a provision needs to be made which arises from the conditions of the insurance contract.

Sub-sector	Gross provision	Provision in retention
	ILS in thousands	
Personal injury - individual	3,074	3,074

Sub sector	Gross premium deficiency provision	Premium deficiency provision in retention
	ILS in thousands	
Personal injury - group	-	-

4) Provision in respect of profit sharing

No provision was calculated since the company does not have business of this type.

Chapter C – the Opinion

"I hereby declare and confirm that in the following subsectors of health insurance, personal accidents individual and group, critical illness, travel abroad individual and group and medical expenses:

1. I evaluated the insurer's provisions listed in Chapter B in accordance with the instructions, directives and principles set forth below, and in effect as of the date of the financial statements:

    a. The provisions of the Control of Financial Services (Insurance) Law, -1981, and regulations promulgated thereunder.
    b. Instructions and directives issued by the Supervisor of Insurance;
    c. Acceptable actuarial principles.

2. After reviewing the data mentioned in Chapter B, I concluded that the data are reasonable and adequate, and that they can be relied on for the purpose of my evaluation.

3. I determined the assumptions and methods used to assess the provisions, to the best of my professional judgment, and in accordance with the instructions, directives and principles specified above.

4. To the best of my knowledge, the provisions specified in Chapter B form an adequate reserve for covering the insurer's commitments in respect of its liability arising from health insurance contracts included in the health insurance subsectors listed above, in effect as of the date of the financial statements."

Chapter D – Comments and Clarifications

1. A product of group injury - the student product is in run off for over 10 years. This means that the company no longer receives premiums for those insurances but continues to settle claims in respect of past exposure.

2. Position of the Supervisor – As per the circular issued by the Supervisor, dated January 15, 2015, beginning on the 2015 year-end, testing that it is fairly likely that reserves in the compulsory and liability sectors will be sufficient to cover insurer liabilities will be based on an estimate of at least 75% probability.

    The position of the Supervisor does not specifically refer to health insurance segments, but we believe that it should be also applied to those segments.

3. Discount interest rate was used only for calculating provisions arising from insurance contracts. Discount interest was only used to compute the provision deriving from the insurance contract. The interest rate is the ILS risk free interest (linked to the CPI) which was published as of December 31, 2017.

4. I do not discount the reserves; or in other words, I discount them at a real interest of 0%. For comparison purposes, I apply to the reserves a discounting of risk free linked interest, plus illiquidity premium. The comparison makes it possible to measure a further margin for conservatism included in the reserves for pending claims.

    The risk-free, fixed-interest discount rate was set in light of the fact that a considerable portion of the Company's investments are made in government bonds or high-rate corporate bonds.

Effect of risk free interest on discounting/non-discounting of provisions for pending claims – gross				
Sectors	Best estimate provision before discounting	Best estimate provision after discounting	Provision made in practice	Increment (%)
	ILS in thousands			
Personal injury – individual	73,913	74,340	80,122	7.78%
Personal injury – group	7,224	7,720	7,831	7.71%
Travel abroad – individual	15,182	14,816	16,457	11.08%
Travel abroad – group	140	137	151	10.90%
Serious illness	10,922	10,981	11,839	7.82%
Total - in health insurance	107,381	107,543	116,401	8.24%

Effect of risk-free interest on discounting/non-discounting of provisions for pending claims – retention				
Sectors	Best estimate provision before discounting	Best estimate provision after discounting	Provision made in practice	Increment (%)
	ILS in thousands			
Personal injury – individual	73,076	73,500	79,215	7.77%
Personal injury – group	7,224	7,270	7,831	7.71%
Travel abroad – individual	15,182	14,816	16,457	11.08%
Travel abroad – group	140	137	151	10.90%
Serious illness	9,846	9,895	10,673	7.86%
Total – in health insurance	105,467	105,618	114,327	8.25%

5. The sensitivity of the conservative amounts is reflected by changing the interest rate used for discounting by 0.5% or 1.0%:

Sensitivity analysis of conservativism regarding provisions in the books vs. the best estimate after being discounted based on changes in risk-fee interest – ILS in thousands

Amounts in thousands of ILS	Best estimate provision in books without discounting	Best estimate discounting: Risk free interest less 1.0%	Best estimate discounting: Risk free interest less 0.5%	Best estimate discounting: Risk free interest	Best estimate discounting: Risk free interest plus 0.5%	Best estimate discounting: Risk free interest plus 1.0%
All sectors (gross)	116,401	109,565	108,544	107,543	106,559	105,594
Difference in ILS compared with provision without discounting	0	6,835	7,856	8,858	9,841	10,806
Difference in % compared with provision without discounting	0.00%	5.9%	6.7%	7.6%	8.5%	9.3%
All sectors (retention)	114,327	107,600	106,600	105,618	104,655	103,709
Difference in ILS compared with provision without discounting	0	6,726	7,727	8,708	9,672	10,618
Difference in % compared with provision without discounting	0.00%	5.9%	6.8%	7.6%	8.5%	9.3%

6. The process of assessing the various actuarial provisions involves statistical uncertainty. These assessments are based on certain assumptions which reflect the information currently available to us. There may be future changes, which will have an effect on these assumptions in terms of legislation, legal rulings and economic and social environments. It is impossible to predict these factors and they may affect the final cost of the claims thus affecting actuarial estimate of the provisions.

March 27, 2018	Health Insurance Actuary Director	Ernest Segal	
Date	Position	Name of Actuary	Signature

LIFE INSURANCE SECTOR – ACTUARY STATEMENT

As of December 31, 2017

AIG INSURANCE CO. LTD.

Section A.1 - Identity of the actuary

I am a self-employed actuary for AIG Israel Insurance Co. Ltd. I am a full member of the Israel Association of Actuaries (F.IL.A.A) since 1998.

I am not an interested party in the insurer nor am a relative of an interested party.

I was requested by AIG Israel Insurance Co. to evaluate the provisions listed in Chapter B below in the life insurance sector for the financial statements ("the provisions") of the insurer AIG Israel Insurance Co. Ltd. at December 31, 2017, as detailed below.

Section A.2 - Scope of the actuarial opinion

1. The actuarial opinion

1.1 For the purpose of calculating the insurer's provisions, I relied on data that I received from the insurer. My requests for information and data were satisfied adequately for the purpose of evaluating the provisions for financial statements purposes. I reviewed the reasonability and adequacy of the data, including comparing the said data with the data for the year to which the statement refers and the data for previous years.

1.2 Where necessary, my evaluation also relied on data received from other reliable sources. I reviewed the consistency and adequacy of the data and their relevance.

1.3 The actuarial assumptions that I used in my work, as well as the methods for evaluating the provisions specified below were determined by me, to the best of my professional judgment, and subject to the instructions, directives and principles specified in section A.3 below.

1.4 To calculate the retention, I asked the entities responsible for the insurer's reinsurance for information concerning the insurer's reinsurance arrangements, the ability to collect claims, and problems with the reinsurers' payment policy. Based on the information that I received, I reviewed the effect and implications of the reinsurance arrangements on the provisions. I would like to indicate that the AIG Israel's life insurance proportional reinsurers are not part of the global AIG Corporation.

1.5 The following matters were also taken into account in my opinion:

1) The provision calculated in respect of incoming businesses was calculated by the actuary (in that regard "incoming businesses" as defined in Insurance Business Supervision Regulations (Methods of Calculating Provisions for Future Claims in General Insurance), 1984.

2) As of the date of this report, in segments relevant to this opinion, no joint insurance policies exist where the Company is the leading insurer.

2. Amounts of provisions

1. Provisions for pending claims (claims which have taken place buy have not yet been fully paid, whether approved or not) as well as the direct and indirect expenses arising there from (including provision for claims which have not yet been reported to the insurer):

Sector	Gross provision (NIS thousands)*	Retention provision (NIS thousands)*
Life insurance	28,097	22,845
Disability permanently	11,714	9,091
Disability from accident	20,050	13,473
Unemployment	180	90
Mortality from accident	0	0
Serious illness	4,669	4,343
Medical expenses	1,814	1,058
Total life individual	66,524	50,901
Total life group	0	0

*** Excluding health insurance**

2. Provision (reserve) arising from terms of a separate life insurance contract:

a. The Company does not have plans on accrual basis.
b. The Company does not have claims that are paid as allowances/annuities
c. The Company does not have policies that provide profit sharing.
d. Complementary amount arising from testing reserve appropriateness – no need was identified for such complementary amount.
e. The company has insurance policies where some of the premium collected in the early years of the contract is designed to provide coverage at a later date – set forth below are the provisions in respect of fixed premium:

Sector	Gross provision (thousands of NIS)	Retention provision (thousands of NIS)
Life individual	700	700

f. Additional provisions for policies with non-monthly premium install installments, for which unearned premium reserve is calculated:

Sector	Gross provision (thousands of NIS)	Retention provision (thousands of NIS)
Life individual	58	47

3. Details on changes in provisions

Below is the amount of changes in provisions (in thousands of NIS) at both gross and retention levels, as follows:

1) For policies that came into effect after the end of the reported period of the last financial statements – the adjustment amount of the provisions – arising from the difference between the premium basic assumptions and the provision basic assumptions – no such adjustment was required.

2) For policies which came into effect before the end of the reported period of the last financial statements – the adjustment amount of the provisions – arising from changes in premiums, methods or the level of premium that is expected to be collected and other adjustments – no such adjustments were required.

Section A.3 – the Opinion

I hereby declare and confirm that in the life insurance sector:

1. I evaluated the insurer's provisions listed in Section A.2 above in accordance with the instructions, directives and principles set forth below, and in effect as of the date of the financial statements:

    a. The provisions of the Control of Financial Services (Insurance) Law, -1981, and regulations promulgated thereunder.
    b. Instructions and directives issued by the Supervisor of Insurance;
    c. Acceptable actuarial principles.

2. After reviewing the data mentioned in Chapter A.2, I concluded that the data are reasonable and adequate, and that they can be relied on for the purpose of my evaluation.

3. I determined the assumptions and methods used to assess the provisions, to the best of my professional judgment, and in accordance with the instructions, directives and principles specified above.

4. To the best of my knowledge, the provisions specified in Section A.2 form an adequate reserve for covering the insurer's commitments in respect of its liability arising from life insurance contracts, in effect as of the date of the financial statements.

Section A.4 – Comments and Clarifications

a. The types of coverage included in this report

1) Coverage for the event of death (risk, mortgage risk)
2) Coverage for total and permanent disability
3) Coverage for accident-caused disability
4) Coverage for accident-caused death
5) Coverage for unemployment
5) Coverage for serious illness
5) Coverage for medical expenses

Coverage for serious illness and health services not covered by basic government services are included in the actuarial report for the general segment.

b. Types of reserves and assumptions

In terms of pending claims, the company's life insurance portfolio is very similar to the personal accidents insurance portfolio. All payments made to the insured are compensation where an insurance event takes place. The insurance amounts are paid as a one-off payment except for unemployment allowance insurance under which an allowance is paid for a period of up to a year. Therefore, it is required to validate that the claims experience is examined in accordance with generally acceptable actuarial principles, if the claims experience allows it.

IBNR provisions in life insurance for insurance events outstanding in the Company, as is usually common in insurance companies, is based on holding a rate of premium according to reporting gaps between the insurance event and opening a claim. The amount of premium is irrelevant. If the premium is not priced correctly, then the provision is deficient. If the premium is priced correctly, then this premium method is too conservative, because it also includes expenses and profit factors, and additionally, it does not account for claims that have already been reported. This method totally disregard a number of basic factors such as incidence of claims, claim severity, claims already reported in practice (reported earlier than the average).

In light of the above I decided to adopt the "triangles methods", which are methods that follow up the development of claims over time and which make it possible to estimate pending and unreported claims in accordance with past rates of paid claims or known claims (paid+pending).

c. Statistical and actuarial uncertainty

There is statistical uncertainty in the process of estimating the various actuarial reserves. These estimates are based on certain assumptions and these assumptions best reflect the things that are currently known to us. There may be future changes in the legal, judicial, social and economic environment that will have an effect on these assumptions. These changes may have an unpredictable effect on the total future actuarial reserves.

d. Exposure to future developments and changes

Changes and developments may occur in conditions in the Israeli life insurance market, following regulatory changes, court rulings, technological developments and changes in social and environmental conditions. Those factors may not be predicted in advance, and may have impact on final cost of claims, as well as the actuarial estimate for provisions.

e. Reconciliation of appendix data to the financial statements

The tables in the above appendices were prepared according to the guidelines of the Supervisor, and the composition of the data therein may not necessarily correspond to the information in the Company's financial statements and notes.

March 27, 2018	Life Insurance Actuary Director	Dafna Kaufman F.IL.A.A	
Date	Position	Name of Actuary	Signature