AIG Israel Insurance Company Ltd

Interim Financial Report

(Unaudited)

As of September 30, 2016

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Directors' report
AIG Israel Insurance Company Ltd ("the Company")
for the period ended September 30, 2016

The directors' report on the business of the Company as of September 30, 2016 ("**the directors' report**"), reviews the Company and developments in its business in the first three quarters of 2016 ("**the reported period**"). The information in this report are as of September 30, 2016 ("**the date of report**") unless otherwise is indicated explicitly.

The Company is an "insurer" as this term is defined in the Supervision of Financial Services Law (Insurance), 1981. Therefore, this report is prepared based on Regulations 68-69 and the Second Addendum to the Insurance Business Supervision Regulations (Report Information), 1998 ("the Reporting Regulations") and according to the guidance issued by the Supervisor of Capital Markets, Insurance and Savings in the Israel Ministry of Finance ("the **Supervisor of Insurance**" or "**the Supervisor**"). This directors' report was prepared assuming that the user is also holding the Company's 2015 periodic report.

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

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

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

Forward looking information

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

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1. Condensed description of the Company:

1.1 Organizational structure

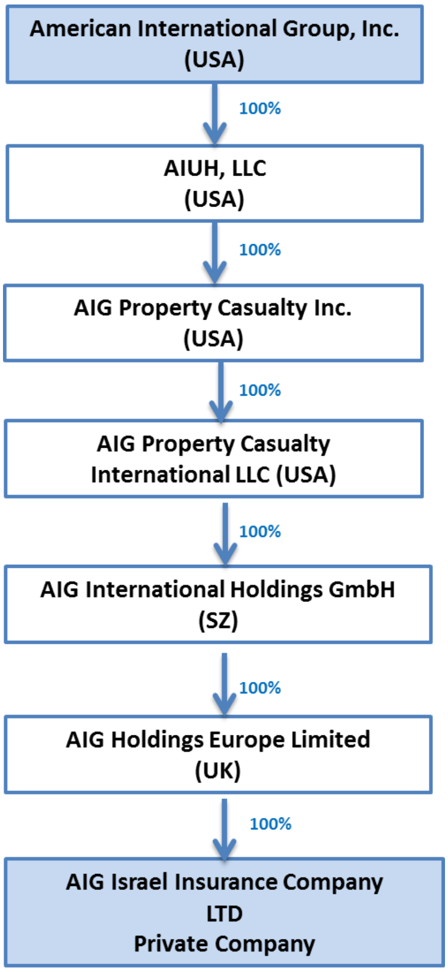
AIG Israel Insurance Company Ltd ("**the Company**") was incorporated in Israel on March 27, 1996, as a private limited liability company. The Company began its insurance activity in May 1997. The company does not hold any subsidiaries or related companies. The Company has no activity outside of Israel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

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

On June 1, 2016, as part of organizational restructuring in the AIG corporation, all shares of the Company that were held by AIG Europe Holdings Limited ("**AEHL**") were transferred to AIG Holdings Europe Limited ("**AHEL**").

As of the date of this report, the sole shareholder of the Company is AHEL, which holds the entire issued share capital of the Company. AHEL is a company in the global AIG corporation.

The following is the undated holding structure of the Company:



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

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

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

1.2 Areas of activity

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

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

1.3 Dependency on customers or marketing entities

The Company has no dependency on any single customer in most business activities. For more information see Sections 2.1.3, 2.2.3, 2.3.3, 2.4.3, 2.5.3 and 2.6.3 in Chapter A (description of company's business) in the company's 2015 periodic report.

1.4 Developments or material changes in reinsurance agreements

For information about reinsurance see Section 4.5 in Chapter A (description of company's business) in the company's 2015 periodic report.

1.5 Exceptional events since last financial statements

In October 2015, the Company began to fully provide international travel insurance coverage to customers of Isracard Ltd ("**Isracard**"), under an agreement signed between the Company and Isracard in the second quarter of 2016.

For information about a one-year deferral of the amendment to the discounting regulations that were issued following the recommendations by the Vinograd Committee, see Section 2 below, and note 3 to the condensed interim financial information of the Company.

2. Description of business environment:

General

In accordance with data published by the Israel Authority of Capital Market, Insurance and Savings, there are more than 20 Israeli insurance companies currently active in Israel; most of these companies are engaged in general insurance. In accordance with these data, as of June 30, 2016, insurance fees from the general insurance business amounted to NIS 12,116 million (excluding Karnit); the share of the 5 largest insurance companies – Harel, Migdal, Phoenix, Menorah and Ayalon – was NIS 7,169 million, or 59% 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 2015 periodic report.

Developments in the company's macro-economic environment

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

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

	Jan-Sep 2016	**Jan-Sep 2015**	**Jul-Sep 2016**	**Jul-Sep 2015**	**2015**
Government bonds indexes					
General government bonds	2.2%	1.4%	(0.5%)	0.9%	1.6%
Linked government bonds	2.5%	(0.2%)	(0.9%)	(0.2%)	(0.2%)
NIS government bonds	2.1%	2.4%	(0.1%)	1.7%	2.8%
Corporate bonds indexes					
Tel Bond 60	2.1%	(0.3%)	(0.0%)	(0.2%)	(0.4%)
Tel Bond NIS	1.9%	2.8%	(0.3%)	(2.0%)	4.7%
Shares indexes					
Tel-Aviv 100	(4.1%)	0.9%	4.2%	(8.3%)	2.0%

For information regarding the composition of the Company's investments see financial investment asset list in note 7 to the condensed interim financial information of the Company.

For information on general trends in the insurance sector and their effect on company's business, see Section 4.3 in Chapter A (description of company's business) in the Company's 2015 periodic report.

Characteristics and developments in principal insurance lines of business

For information about characteristics and developments in principal insurance lines of business of the Company, see Sections 2.1.2, 2.2.2, 2.3.2, 2.4.2, 2.5.2, 2.6.2, 4.1, 4.5 and 4.7 in Chapter A (description of company's business) in the Company's 2015 periodic report.

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

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

Legislation

- The Compensation to Office Holders of Financial Institutions (Special Approval and Non-Deductibility for Tax Purposes of Excessive Compensation), 2016 was published in the official gazette in April 2016. The law caps the salary to office holders of financial institutions at NIS 2.5 million. Any amount paid in salaries to such office holders in excess of the NIS 2.5 million cap will not be deductible for tax purposes. The law also determines that the salary of any employee of a financial institution will not exceed an amount equal to 35 times the salary of the lowest-paid employee of that financial institution. To the best of the Company's knowledge, as at the end of September 2016, the Supreme Court, sitting as the High Court of Justice, rejected the petitions by the Israel Insurance Association and the Association of Banks in Israel against the said law.

- In April 2016, the Compensations for Victims of Road Accidents Law (Amendment No. 25), 2016 was published in the official gazette. The amendment, among other things, introduces a provision that if the Supervisor finds an amount in the Karnit account in excess of what is necessary for financing its activity and ensuring its stability, she may, with agreement of the Minister of Justice, to instruct Karnit to refund those amounts to motor vehicle insurance customers, either directly or through any other way that will be determined.

  In this regard, note that in September 2016, the Supervisor issued a circular on refunding amounts from Karnit to the compulsory insurance customer population. The circular indicates that it appeared from the 2015 financial statements of Karnit that Karnit has an excess amount of NIS 1.2 billion, which is more than required to finance its operations and ensure its stability. As such, the circular contained provisions for refunding the excess amount in Karnit to the motor vehicle insurance population.

- On August 3, 2016, the Supervision of Financial Services Law (Legislative Amendments), 2016 was passed by the Knesset. That law provided, among other things, the creation of the Capital Market, Insurance and Savings Authority, which will have independent powers to fulfill its mandate, and that the Minister of Finance, with approval by the Government, will appoint a Supervisor of Capital Markets, Insurance and Savings for one, five-year term. Additionally, the law defined the duties of the new Authority as follows: representing the interest of insurance and regulated financial institution customers; ensuring the stability and appropriate management of regulated entities; promoting competition in the capital, insurance and savings markets and in the financial sector at large; promoting technology and business innovation; and that the Authority will perform its duties while taking into consideration the economic policy of the government; and that the Authority will act in relation to retirement savings, health insurance and nursing care insurance according to the policy of the government as reflected in its resolutions.

Circulars

- In July 2016, the Supervisor issued a Financial Institutions Circular titled "Clarification and Settlement of Claims and Handling Customer Complaints". The purpose of the circular is to set out a clear framework and rules for claims settlement by financial institutions, given the impact on customers' ability to exercise their rights and their ability to understand the options available to them in different stages of the procedure.

- In July 2016, the Supervisor issued an opinion paper titled "Audit Findings on Business Continuity – October 2015 Exercise". The opinion paper presents the findings of that exercise, and especially the gap between deficient implementation by financial institutions and best practices.

- In August 2016, the Supervisor issued a circular, titled "Engagement of Financial Institutions with License Holders". The purpose of that circular is to apply the procedures that govern premiums paid to insurers through insurance agents, as established by Insurance Circular 2004/14 "Engagement of Insurer with Insurance Agent", to any engagement between a license holder and a financial institution.

- In August 2016, the Supervisor issued a circular titled "Amendment of Provisions of the Uniform Circular in Compulsory vehicle Insurance Sector". The Circular updated residual premiums for three-wheeled motorcycles and adds 5 safety systems for motorcycles that provide discounted premiums. In addition, on that same date, a circular listing factors for pricing compulsory vehicle insurance premiums was issued. The circular revises the factors in the compulsory insurance sector and its provisions apply to premiums in policies that has entered into force beginning on October 1, 2016. Further, in September 2016, the Supervisor issued another circular that amends the provisions of the Uniform Circular Compulsory vehicle Insurance Sector. The circular revises premiums for private vehicles that are insured by the Pool and sets the Pool rates as from January 1, 2017.

- In August 2016, the Supervisor issued provisions on business continuity management and emergency preparedness. The document includes instruction for a business continuity exercise in November 2016, simulating a war on all fronts.

- In August 2016, the Supervisor issued a letter titled "Dividend Distribution by an Insurance Company". The purpose of the letter was to set rules for dividend distribution by insurance companies as part of preparations ahead of implementing the Solvency II regimen. For more information, see note 6b to the condensed interim financial information.

- In August 2016, the Supervisor issued a circular titled "E-Signatures". The purpose of the circular was to allow validation of customer identity and secure the contents of documents transferred from the customer to the financial institution via technological means, and that in order to make work processes more efficient and improve reliability of information in the market. The provisions of the circular apply to all license holders and all financial institutions.

- In August 2016, the Supervisor issued a circular titled "Management of Cyber Risks in Financial Institutions". The purpose of the circular is to set out principles for the protection of the assets of financial institutions in order to ensure securing the rights of insurance customers by maintaining confidentiality, completeness and availability of information assets, information technology systems, business processes and proper functioning of the financial institution. The circular defines, among other things, the principles for management of cyber risks in a financial institution and the duty of financial institutions to manage those risks, based on cyber protection principles.

- In September 2016, the Supervisor issued an amendment to a circular that was issued in February, titled "Investment Rules Applicable to Financial Institutions". Under that amendment, the provisions governing provision of loans by financial institutions, securities loan and investment in non-marketable debt assets were revised.

- In September 2016, the Supervisor issued a circular titled "Fixed-Premium Life Insurance Plans". The purpose of the circular is to set principles for refunds to customers in the event of cancellation or reduction of fixed-premium in risk life insurance policies.

- In September 2016, the Supervisor issued an amendment to a circular titled "Annual and Quarterly Reports to Plan Members and Policyholders of Financial Institutions". The objective of the circular is to set an annual and quarterly reporting format for life insurance products and expand disclosure requirements of financial institutions so that the report serves in the future as an efficient tool for allowing customer to control and monitoring such products.

- In October 2016, the Supervisor issued a circular titled "Annual Reporting of Premiums, Policies and Fees of Financial Institutions". The provisions of the circular indicate the reports that financial institutions are required to file to the Supervisor as to the scale of their activity in the distribution market, including the amount of premiums that are transferred to them, brokerage fees and distribution fees that are registered in the systems of the financial institution as payable to insurance agents.

- In October 2016, an opinion of the Supervisor was published titled "Supervision of Investment Activity". The purpose of the opinion paper is to present best practices and inadequate practices that were found in audits of financial institutions. The opinion paper mainly focuses on activities of investment committees, but also refers to other organs of financial institutions.

Drafts

- In July 2016, the Supervisor issued draft Supervision of Financial Services Regulations (Insurance) (Collective Health Insurance) (Amendment), 2016. The draft proposes, among other things, to allow different entities to provide health insurance policies, even if they are not affiliated to the insured group, and provides guidance to ensure that those entities will act in the benefit of the group of insurance customers vis-à-vis the insurer, including empowering the Supervisor to publish complementary provisions on this matter.

- In August 2016, the Supervisor issued draft Supervision of Financial Services Regulations (Insurance) (Maximum Commission in Reinsurance for Mortgages) (Amendment), 2016. The proposed amendment states that the maximum commission that is paid to agents for life insurance purchased to secure a mortgage loan may not exceed 20% of current premium paid for the insurance. In addition, in the first year of the life insurance policy for securing mortgage loans, it will be possible to pay scale commission of up to 60% of the premium paid in that year, and provided that the policy is not cancelled within 6 years from its start date. If the policy is cancelled, as above, part of the scale commission will be refunded for the remaining period up until 6 years from start date.

- In August 2016, the Supervisor issued draft circular titled "Web Interface for Viewing Insurance Portfolio". The purpose of the circular is to allow insurance customers to easily and quickly find information about their insurance portfolio with all insurance companies and view the terms of such insurance products.

- In August, 2016, the Supervisor issued draft provisions in the Uniform Circular for Reporting to the Supervisor. The circular is designed to update the provisions in Chapter 3 in Part 4 of Title 5 of the Uniform Circular concerning reporting by insurance companies to the Supervisor of Capital Markets.

- In August 2016, the Supervisor issued a draft circular titled "Amendment of Provisions of the Uniform Circular – Title 5, Part 4 as to Healthcare Reporting. The purpose of the draft amendment is to obtain more information from insurance companies through a new form that will be added to existing reporting by companies, in which they will be required to provide more details on existing coverage, which are currently grouped together under "medical expenses".

- In August 2016, the Supervisor issued draft guidance for Solvency II disclosure in the financial statements of insurance companies. The draft guidance sets rules on the required disclosure in financial statements of insurance companies in a Solvency II regimen, and including solvency under IQIS 5. For solvency disclosure of the Company, see section 3 below.

- For information about a number of letters to managers of insurance companies that the Supervisor issued in September 2016, and which update the provisions of the new Solvency II regimen, and the corresponding disclosure requirements in the financial statement of insurance companies – see note 6(d) to the condensed interim financial information.

- In September 2016, the Supervisor issued a draft circular on required practices by insurers throughout the life of a policy. The purpose of the draft circular is to consolidate into one document the provisions that guide the conduct of insurers at points of interaction with insurance customers.

- In September 2016, the Supervisor issued a draft circular titled "Inquiring and Settlement of Claims and Complaints." The draft contains amendments to the provisions of the circular on inquiring and settlement of claims and handling complaints, such that a financial institution will be required to perform investigative procedures, produce lessons learned and resolve issues detected while implementing the provisions of the circular.

- In September 2016, the Supervisor issued a circular titled "Provisions for Compiling and Marketing of International Travel insurance Plan". The purpose of the circular is to establish a framework with provisions on issues relating to coverage amounts and terms, and the way policies are marketed to customers.

- In October 2016, the Supervisor issued a draft circular titled "Financing Construction Projects". The purpose of the draft is to set rules that will apply to financial institutions when providing continuous secured financing to a construction project, i.e. a mechanism whereby a project has a dedicated bank account, in which all home buyer payments are deposited, and from which the financial institution releases funding to the contractor for construction activities. This mechanism prevents funds from leaking out of the project and allows for providing home buyers with bank guarantees or another collateral for the payments they made to the contractor.

- In October 2016, the Supervisor issued a draft circular titled "Update of Guidance on Required Disclosure Structure in Financial Statements of Insurance Companies under IFRS". The purpose of the draft is to revise the provisions in a circular titled Required Disclosure Structure in Financial Statements of Insurance Companies under IFRS, and its appendix.

<u>Vinograd Committee</u>

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

On May 17, 2016, National Insurance Regulations (Discounting) (Amendment), 2016 ("the amendment to the Discounting Regulations") was signed by the Minister of Social Affairs, adopting the recommendations of the Vinograd Committee, and on June 9, 2016, the amendment was published in the official gazette.

In this context, on August 9, 2016, it was announced on the website of the Ministry of Finance that the Minister of Finance decided, with agreement of the Minister of Social Affairs, that the above Discounting Regulations, which was supposed to lower the discount rate and thus increase compulsory vehicle insurance premiums, will be cancelled. As of September 30, 2016, the amendment to the Discounting Regulations has yet to be cancelled following the above announcement.

Note further that on September 13, 2016, an additional amendment was published in the official gazette, deferring the amendment to the Discounting Regulations to September 1, 2017 ("**effective date**"), such that its provisions will apply to the calculation of discounted value from the effective date and thereafter. As indicated above, the amendment to the Discounting Regulations is supposed to lower the discount rate, and as a result, to increase compulsory vehicle insurance rates. As of the date of preparing this interim financial information, the Company did not change the provisions in its financial statements following the additional amendment.

As of September 30, 2016, management estimates that implementation of the Vinograd Committee by the Company under the amended Discounting Regulation, will cause an increase of insurance contract liability in the compulsory vehicle segment by a gross amount of NIS 21.0 million and NIS 11.5 million in retention. Additionally, the share of the Company in the liabilities of the Pool arising from the impact of the Vinograd Committee recommendations as of that date, as obtained from the Pool, is NIS 3.5 million before tax.

For more information about the impact of the Vinograd Committee on the results of the Company, see section 4 below and note 3 to the condensed interim financial information.

Note that given the above, it is still uncertain what impact the Vinograd Committee recommendations will have on the liabilities of the Company, and therefore it is possible that the development in future claims will be substantially different than estimated and the Company may be required to later update its estimates.

Entry into and marketing of new lines of business

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

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

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

	September 30 2016	September 30 2015	December 31, 2015
Other assets	309,627	335,817	291,454
Deferred acquisition expenses	148,421	153,439	149,675
Financial investments and cash	1,572,845	1,696,885	1,633,451
Reinsurance assets	631,675	665,406	548,150
Total assets	**2,662,568**	**2,851,547**	**2,622,730**
Shareholders' equity	741,611	739,214	827,686
Liabilities in respect of insurance	1,619,056	1,718,615	1,417,989
Other liabilities	301,901	393,718	377,055
Total equity and liabilities	**2,662,568**	**2,851,547**	**2,622,730**

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

	Jan-Sep 2016	Jan-Sep 2015	Jul-Sep 2016	Jul-Sep 2015	2015
Gross earned premiums	775,004	737,020	268,148	256,184	988,885
Premiums earned by reinsurers	(127,133)	(118,917)	(44,018)	(39,007)	(160,623)
Premiums earned in retention	**647,871**	**618,103**	**224,130**	**217,177**	**828,262**
Net investment income (loss) and financing revenue	15,375	14,319	5,172	(3,759)	18,616
Fee revenue	33,664	31,495	10,653	10,138	37,061
Total revenue	**696,910**	**663,917**	**239,955**	**223,556**	**883,939**
Payments and change in liability for insurance contracts, in retention	(430,361)	(348,768)	(142,982)	(108,895)	(420,867)
Total other expenses	(238,177)	(237,284)	(83,242)	(80,393)	(319,010)
Income before income taxes	**28,372**	**77,865**	**13,731**	**34,268**	**144,062**
Taxes on income	(9,447)	(29,558)	(4,859)	(12,990)	(53,971)
Income for the period and total comprehensive income for the period	**18,925**	**48,307**	**8,872**	**21,278**	**90,091**

Shareholders' equity and capital requirements

As of September 30, 2016, the Company's shareholders' equity exceeds the shareholders' equity required as of that date under the Insurance Business Regulations (Minimum Capital Required from an Insurer), 1998 by NIS 219.9 million.

For more information about the capital required from the Company and existing amounts according to minimum equity regulations, and about a distribution of NIS 105 million dividend to AEHL, see note 6 to the financial statements.

According to IQIS 5 results, capital surplus of the Company increased as of December 31, 2015, under the Solvency II regimen relative to capital surplus under the existing Israeli regimen. The solvency ratio of the Company as calculated in IQIS 5 using the December 31, 2015 information was 182% before the above dividend distribution and 165% after that payout.

For more information about the IQIS 5 exercise as performed by the Company, see note 6b to the condensed interim financial information.

4. Results of operations

The Company continued during the reported period to increase gross premiums, by 4.4% y/y. Total gross premiums in the reported period amounted to NIS 802.5 million compared with NIS 768.7 million in the corresponding period in 2015.

In the reported period, total premiums earned in retention amounted to NIS 679.1 million compared with NIS 644.3 million in the corresponding period in 2015 (a 5.4% increase).

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

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

Jan-Sep 2015	Life insurance	Health insurance	General insurance	Total
Gross	91,681	162,291	514,750	768,722
In retention	74,309	160,662	409,281	644,252
% of total gross	11.9	21.1	67.0	100.0
% of retention	11.6	24.9	63.5	100.0

Jan-December 2015	Life insurance	Health insurance	General insurance	Total
Gross	123,116	215,596	674,376	1,013,388
In retention	100,026	213,188	532,461	845,675
% of total gross	12.2	21.3	66.5	100.0
% of retention	11.8	25.2	63.0	100.0

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

	Jan-Sep 2016	Jan-Sep 2015	Jul-Sep 2016	Jul-Sep 2015	2015
Income (loss) from compulsory vehicle activity	(4,103)	25,509	3,311	16,160	59,882
Income (loss) from property vehicle activity	(7,531)	3,182	(4,110)	2,463	(11,742)
Income from home insurance activity	13,664	7,458	4,456	2,426	9,419
Income (loss) from commercial insurance activity	(6,516)	(103)	(590)	(329)	5,795
Income from health insurance activity	23,361	36,788	4,809	20,431	58,356
Income from life insurance activity	5,100	2,375	882	308	11,607
Other - Income (loss) not attributed to any line of business	4,397	2,656	4,973	(7,191)	10,745
Income before taxes	**28,372**	**77,865**	**13,731**	**34,268**	**144,062**
Taxes on income	(9,447)	(29,558)	(4,859)	(12,990)	(53,971)
Income and comprehensive income for the year	**18,925**	**48,307**	**8,872**	**21,278**	**90,091**

Additional information on key segments – see note 5 to the condensed interim financial information.

The following is explanation on the development in some items:

a. Net investment income and financing income was NIS 15.4 million, compared with NIS 14.3 million in the corresponding period of 2015. The increase in investment income resulted from higher bond yields in the Israel capital market compared with the corresponding period in 2015. On the other hand, lower share prices in the Israeli equity market offset most of the gains from bonds.

b. The loss of the Company from compulsory vehicle insurance in the reported period was NIS 4.1 million compared with NIS 25.5 million in the corresponding period in 2015. The decrease in income mainly resulted from a significant increase in the claims item. The main factors that contributed to this increase are as follows:
   - A provision following the Vinograd Committee conclusions (see section 2 above) at a gross amount of NIS 21 million and NIS 11.5 million in retention.
   - An increase in the share of the Company in pending claims of the Pool at NIS 8.1 million. This increase included NIS 3.5 million in impact of the Vinograd Committee.
   - In the corresponding period of 2015, IBNR was significantly reduced due to closed years.

   Note that the reported period is the first reporting period in which business results in the compulsory vehicle sector are calculated without calculating the reserve for excess of income over expenses "accrual".

c. Company's loss from property vehicle insurance in the reported period was NIS 7.5 million, compared with a profit of NIS 3.2 million in the corresponding period in 2015. The transition from profit to loss started in 2015 and this trend continued in the reported period as well. The main reason for the loss from this activity is a significant increase in the average amount of paid claim both in the case of property vehicle insurance products sold directly to clients and with such products sold through insurance agents. As a result of the transition to loss, the Company recorded for the first time a reserve for premium deficiency at the total amount of NIS 11.3 million in its 2015 periodic report. The Company made an in-depth assessment of the factors that led to this increase in average claim and has taken a number of available steps to reduce the claims ratio. As a result of those findings, claim ratio seems to trend lower, which allowed releasing NIS 5.5 million in the second quarter of 2016 from the reserve for premium deficiency, which amounted as of September 30, 2016 to NIS 5.8 million.

d. The income of the Company from home insurance in the reported period was NIS 13.7 million compared with NIS 7.5 million in the corresponding period in 2015. The increase in profitability is mainly a result of an improvement in claim ratio due to the fact that no significant natural damage events occurred in the reported period, as opposed to the corresponding period, which was impacted by natural damages.

e. The loss of the Company from professional liability insurance in the reported period was NIS 10.0 million compared with an income of NIS 1.3 million in the corresponding period in 2015. The decrease in this item was mainly due to the development of a certain claim in directors' liability insurance at NIS 8 million in retention.

f. The income of the Company from other property liability insurance in the reported period was NIS 1.8 million compared with a loss of NIS 49 thousand in the corresponding period in 2015. The increase in income is mainly a result of improved claim ratio and expense ratio.

g. The income of the Company from other liability insurance in the reported period was NIS 1.8 million compared with an income of NIS 1.3 million in the corresponding period in 2015. The increase in this item is mainly a result of an improved expense ratio.

h. The income of the Company from health insurance in the reported period was NIS 23.4 million compared with NIS 36.8 million in income in the corresponding period in 2015. The decrease in income mainly resulted from an increase in claims ratio. This increase is attributed to a specific healthcare product, and the Company is taking measures to reduce the claims ratio.

i. The income of the Company from life insurance in the reported period was NIS 5.1 million compared with NIS 2.4 million in the corresponding period in 2015. This increase mainly resulted from improvement in expense ratio.

5. Cash flows and liquidity

Net cash provided by operating activities in the reported period was NIS 164.8 million, compared with NIS 21.9 million provided by operating activities in the corresponding period in 2015.

Net cash used in investing activities in the reported period amounted to NIS 16.1 million, compared with NIS 10.8 million in the corresponding period in 2015.

Net cash used in financing activity of the Company in the reported period (dividend paid) was NIS 105 million.

As a result of the above, the balance of cash and cash equivalents in the reported period increased by NIS 43.8 million and amounted NIS 103.8 million as of September 30, 2016.

6. Sources of funding

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

7. The effect of external factors

For more information, see section 2 above.

8. Material subsequent events

No material events occurred after balance sheet date.

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

Controls and procedures applied to disclosure

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

Internal controls over financial reporting

In the course of the quarter ending on September 30, 2016, no change has occurred in the internal control of the Company over financial reporting that materially affected or is reasonably expected to materially affect the Company’s internal control on financial reporting.

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

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

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

__________________	____________________
Ralph Mucerino Chairman of the Board of Directors	Shay Feldman CEO

November 22, 2016

AIG Israel Insurance Company Ltd

Declarations relating to the Financial Statements

Declaration

I, Shay Feldman hereby declare that:

1. I reviewed the interim report of AIG Israel Insurance Company Ltd. (hereafter – "the insurance company") for the quarter ended September 30, 2016 (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

November 22, 2016

Declaration

I, David Rothstein hereby declare that:

1. I reviewed the interim report of AIG Israel Insurance Company Ltd. (hereafter – "the insurance company") for the quarter ended September 30, 2016 (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

November 22, 2016

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

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

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

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

The Insurance Company's management with the supervision of its Board of Directors evaluates the effectiveness of the internal control of the Insurance Company over financial reporting as at September 30, 2016, based on criteria set in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation management believes that as at September 30, 2016 the internal control of the Insurance Company over financial reporting is effective.

________________	________________	________________
Mr. Ralph Mucerino	Mr. Shay Feldman	Mr. David Rothstein
Chairman of the Board	CEO	CFO

Date of approval of financial statements: November 22, 2016

AIG ISRAEL INSURANCE COMPANY LTD.

FINANCIAL INFORMATION FOR INTERIM PERIOD
(Unaudited)

SEPTEMBER 30, 2016

AIG ISRAEL INSURANCE COMPANY LTD.

FINANCIAL INFORMATION FOR INTERIM PERIOD
(Unaudited)

SEPTEMBER 30, 2016

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

Introduction

We have reviewed the attached financial information of AIG Israel Insurance Company Ltd ("the Company"), which is comprised of the condensed statement of financial position as of September 30, 2016 and the condensed statements of comprehensive income, changes in equity and cash flows for the nine and three months periods ended on that date. The Board of Directors and management are responsible for the preparation and presentation of the financial information for this interim period in accordance with the provisions of International Accounting Standard No. 34, 'Interim Financial Reporting'(hereafter "IAS 34"), and they are also responsible for the preparation of the financial information for this interim period in accordance with the disclosure requirements of the Supervision of Financial Services (Insurance) Law, 1981 and the regulations promulgated thereunder. Our responsibility is to express a conclusion with respect to the financial information for this interim period, based on our review.

Scope of review

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

Conclusion

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

In addition, based on our review, no matter has come to our attention that causes us to believe that the above financial information does not comply, in all material respects, with the disclosure provisions of the Supervision of Financial Services (Insurance) Law, 1981 and the regulations promulgated thereunder.

Tel-Aviv, Israel	Kesselman & Kesselman
November 22, 2016	Certified Public Accountants (Isr.)
	A member firm of PricewaterhouseCoopers International Limited

AIG ISRAEL INSURANCE COMPANY LTD.

CONDENSED STATEMENTS OF FINANCIAL POSITION

AS OF SEPTEMBER 30, 2016

	September 30 2016	September 30 2015	December 31, 2015
	(Unaudited)		(Audited)
	NIS in thousands		
Assets			
Intangible assets	30,623	22,742	26,397
Deferred acquisition costs	148,421	153,439	149,675
Property and equipment	11,793	9,747	11,469
Reinsurance assets	631,675	665,406	548,150
Premiums collectible	216,345	202,508	206,867
Current tax assets	-	61,484	3,250
Other receivables	50,866	39,336	43,471
	1,089,723	1,154,662	989,279
Financial investments:			
Marketable debt instruments	1,192,227	1,233,925	1,200,998
Non-marketable debt instruments	160,219	204,112	203,935
Marketable shares	-	92,146	92,851
Other	116,583	72,129	73,424
TOTAL FINANCIAL INVESTMENTS	1,469,029	1,602,312	1,571,208
CASH AND CASH EQUIVALENTS	103,816	94,573	62,243
TOTAL ASSETS	2,662,568	2,851,547	2,622,730

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

Date of approval of financial information for interim period by the Board of Directors of the Company: November 22, 2016

AIG ISRAEL INSURANCE COMPANY LTD.

CONDENSED STATEMENTS OF FINANCIAL POSITION

AS OF SEPTEMBER 30, 2016

	September 30		December 31,
	2016	**2015**	**2015**
	(Unaudited)		**(Audited)**
	NIS in thousands		
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	6	6	6
Share premium	250,601	250,601	250,601
Equity reserves	11,084	11,084	11,084
Retained earning	479,920	477,523	565,995
TOTAL EQUITY ATTRIBUTABLE TO COMPANY SHAREHOLDERS	741,611	739,214	827,686
LIABILITIES:			
Liabilities in respect of insurance contracts and investment contracts that are not yield dependent	1,619,056	1,718,615	1,417,989
Liabilities in respect of deferred taxes, net	3,511	1,929	8,141
Retirement benefit obligation, net	1,704	3,001	2,781
Liabilities to reinsurers	219,524	317,201	279,347
Liabilities for current taxes	1,068	-	-
Payables	76,094	71,587	86,786
TOTAL LIABILITIES	1,920,957	2,112,333	1,795,044
TOTAL EQUITY AND LIABILITIES	2,662,568	2,851,547	2,622,730

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

AIG ISRAEL INSURANCE COMPANY LTD.

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE NINE AND THREE-MONTHS PERIODS ENDED SEPTEMBER 30, 2016

	Nine months ended September 30		Three months ended September 30		Year ended December 31,
	2016	**2015**	**2016**	**2015**	**2015**
	(Unaudited)				**(Audited)**
	NIS in thousands				
Gross earned premiums	775,004	737,020	268,148	256,184	988,885
Premiums earned by reinsurers	(127,133)	(118,917)	(44,018)	(39,007)	(160,623)
Premiums earned in retention	647,871	618,103	224,130	217,177	828,262
Investment income (loss), net and financing income	15,375	14,319	5,172	(3,759)	18,616
Commission income	33,664	31,495	10,653	10,138	37,061
TOTAL INCOME	696,910	663,917	239,955	223,556	883,939
Payments and change in liabilities with respect to insurance contracts, gross	(577,342)	(476,622)	(186,954)	(94,707)	(480,825)
Share of reinsurers in change in insurance liabilities and in payments for insurance contracts	146,981	127,854	43,972	(14,188)	59,958
Payments and change in liabilities for insurance contracts, retention	(430,361)	(348,768)	(142,982)	(108,895)	(420,867)
Commission, marketing expenses and other acquisition costs	(178,492)	* (180,389)	(61,629)	* (61,394)	(239,888)
General and administrative expenses	(62,226)	* (56,209)	(21,541)	* (19,976)	(82,884)
Finance income (expenses)	2,541	(686)	(72)	977	3,762
TOTAL EXPENSES	(668,538)	(586,052)	(226,224)	(189,288)	(739,877)
INCOME BEFORE TAXES ON INCOME	28,372	77,865	13,731	34,268	144,062
Taxes on income	(9,447)	(29,558)	(4,859)	(12,990)	(53,971)
INCOME FOR THE PERIOD AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	18,925	48,307	8,872	21,278	90,091
BASIC EARNINGS PER SHARE:					
Basic income per share (in thousands of NIS)	3.3	8.43	1.55	3.71	15.72
Number of shares used in calculating basic income per share	5,730	5,730	5,730	5,730	5,730

* After reclassification due to change in accounting policy – see note 2u to the 2015 annual financial statements of the Company.

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

AIG ISRAEL INSURANCE COMPANY LTD.

CONDENSED STATEMENTS OF CHANGES IN EQUITY

FOR THE NINE AND THREE-MONTHS PERIODS ENDED SEPTEMBER 30, 2016

	Share capital	Share premium	Other reserves	Retained earnings	Total
	NIS in thousands				
BALANCE AS OF JANUARY 1, 2016 (audited)	6	250,601	11,084	565,995	827,686
CHANGE IN THE 9 MONTHS ENDED SEPTEMBER 30, 2016 (unaudited) -					
Total income and comprehensive income in the 9 months ended September 30, 2016				18,925	18,925
Transactions with owners carried directly to equity - dividend				(105,000)	(105,000)
BALANCE AS OF SEPTEMBER 30, 2016 (unaudited)	6	250,601	11,084	479,920	741,611
BALANCE AS OF JANUARY 1, 2015 (audited)	6	250,601	11,084	429,216	690,907
CHANGES IN THE 9 MONTHS ENDED SEPTEMBER 30, 2015 (unaudited) -					
total income and comprehensive income in the 9 months ended September 30, 2015				48,307	48,307
BALANCE AS OF SEPTEMBER 30, 2015 (unaudited)	6	250,601	11,084	477,523	739,214
BALANCE AS OF JULY 1, 2016 (unaudited)	6	250,601	11,084	471,048	732,739
CHANGES IN THE 3 MONTHS ENDED SEPTEMBER 30, 2016 (audited)					
total income and comprehensive income in the 3 months ended September 30, 2016				8,872	8,872
BALANCE AS OF SEPTEMBER 30, 2016 (unaudited)	6	250,601	11,084	479,920	741,611
BALANCE AS OF JULY 1, 2015 (unaudited)	6	250,601	11,084	456,245	717,936
CHANGES IN THE 3 MONTHS ENDED SEPTEMBER 30, 2015 (audited) **-**					
total income and comprehensive income in the 3 months ended September 30, 2015				21,278	21,278
BALANCE AS OF SEPTEMBER 30, 2015 (unaudited)	6	250,601	11,084	477,523	739,214
BALANCE AS OF JANUARY 1, 2015 (audited)	6	250,601	11,084	429,216	690,907
CHANGES IN THE YEAR ENDED DECEMBER 31, 2015 (audited):					
Accumulated net tax impact, at December 31, 2015, of elimination of retention and first-time implementation of the "best practice"*				81,688	81,688
Total income and comprehensive income				90,091	90,091
Transaction with shareholders, recognized directly in equity – dividend				(35,000)	(35,000)
BALANCE AS OF DECEMBER 31, 2015 (audited)	6	250,601	11,084	565,995	827,686

* For more information on this change in accounting policy, whose accumulated impact fully arise from elimination of accumulation in vehicle and liabilities business - see note 2r(1)(d)(5) to the 2015 annual financial statements.

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

AIG ISRAEL INSURANCE COMPANY LTD.

CONDENSED STATEMENTS OF CASH FLOWS

FOR THE NINE AND THREE-MONTHS PERIODS ENDED SEPTEMBER 30, 2016

	Nine months ended September 30		Three months ended September 30		Year ended December 31,
	2016	2015	2016	2015	2015
	(Unaudited)				(Audited)
	NIS in thousands				
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net cash provided by (used in) operations (Appendix A)	140,070	(1,357)	26,504	23,279	10,261
Interest received	34,267	36,210	9,626	10,202	44,813
Dividend received	222	1,769	44	536	2,480
Income taxes paid, net	(9,716)	(14,683)	(18,013)	(24,676)	(22,941)
Net cash provided by operating activities	164,843	21,939	18,161	9,341	34,613
CASH FLOWS FROM INVESTING ACTIVITIES:					
Changes in assets covering equity and non-insurance liabilities:					
Acquisition of property and equipment	(5,426)	*(2,479)	(1,902)	*(1,579)	(6,019)
Acquisition of intangible assets	(10,637)	(8,290)	(4,282)	(2,925)	(13,423)
Net cash used in investing activities	(16,063)	(10,769)	(6,184)	(4,504)	(19,442)
CASH FLOWS FROM FINANCING ACTIVITIES -					
dividend paid to shareholders	(105,000)	-	-	-	(35,000)
Net cash used in financing activities	(105,000)	-	-	-	(35,000)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	43,780	11,170	11,977	4,837	(19,829)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	62,243	83,087	91,350	89,740	83,087
IMPACT OF FLUCTUATION IN EXCHANGE RATE ON CASH AND CASH EQUIVALENTS	(2,207)	316	489	(4)	(1,015)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	103,816	94,573	103,816	94,573	62,243

* Immaterial reclassification of comparative information.

AIG ISRAEL INSURANCE COMPANY LTD.

CONDENSED STATEMENTS OF CASH FLOWS

FOR THE NINE AND THREE-MONTHS PERIODS ENDED SEPTEMBER 30, 2016

	Nine months ended September 30		Three months ended September 30		Year ended December 31,
	2016	2015	2016	2015	2015
	(Unaudited)				(Audited)
	NIS in thousands				
APPENDIX A - CASH FLOWS FROM OPERATIONS -					
Income before taxes on income	28,372	77,865	13,731	34,268	144,062
Adjustments for- Income and expenses not involving cash flows:					
Change in liabilities with respect to insurance contracts that are not yield dependent	201,067	3,354	52,156	(22,228)	(134,592)
Change in reinsurance assets	(83,525)	53,565	(15,911)	30,111	139,009
Chang in deferred acquisition costs	1,254	(5,225)	994	(1,618)	(1,461)
Change in retirement benefits obligation, net	(1,077)	(68)	(383)	(146)	(288)
Depreciation of property and equipment	5,102	*3,869	2,305	*1,198	5,213
Amortization of intangible asset	6,411	5,485	2,287	1,946	7,436
Losses (gains), net, on financial investments:					
Marketable debt instruments	11,254	21,306	9,308	6,196	26,506
Non-marketable debt instruments	2,532	4,984	(333)	(2,281)	7,154
Marketable shares	4,162	231	-	8,619	(825)
Marketable index fund certificates	(766)	966	(4,892)	1,409	(329)
Impact of fluctuation in exchange rate on cash and cash equivalents	2,207	(316)	(489)	4	1,015
	148,621	88,151	45,042	23,210	48,838
Changes in operating assets and liabilities:					
Liabilities to reinsurers	(59,823)	36,603	(16,365)	44,970	(1,251)
Investments in financial assets, net	84,997	(136,320)	(6,841)	(65,257)	(110,236)
Premiums collectible	(9,478)	(9,171)	(2,664)	(1,226)	(13,530)
Receivables	(7,395)	812	1,122	801	(3,322)
Payables	(10,692)	(21,318)	2,159	(2,749)	(6,118)
Current tax assets	(43)	-	(10)	-	(889)
	(2,434)	(129,394)	(22,599)	(23,461)	(135,346)
Adjustments for interest and dividend:					
Interest received	(34,267)	(36,210)	(9,626)	(10,202)	(44,813)
Dividend received	(222)	(1,769)	(44)	(536)	(2,480)
	(34,489)	(37,979)	(9,670)	(10,738)	(47,293)
Net cash provided by (used in) operations	140,070	(1,357)	26,504	23,279	10,261

Cash flows from operating activities include those purchases and sales (net) of financial investments, arising from activity relating to insurance contracts.

* Immaterial reclassified of comparative information

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

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS

NOTE 1 - GENERAL

AIG Israel Insurance Company Ltd. ("the Company") was incorporated in Israel on March 27, 1996 as a private company in which the shareholders have limited responsibility. The Company commenced its insurance operations in May 1997. The Company does not hold any subsidiaries or related companies. The Company has no foreign operations through branches or investees.

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

On June 1, 2016, as part of an organizational restructuring of the AIG corporation, all shares of the Company that were owned by AIG Europe Holdings Limited ("**AEHL**") were transferred to AIG Holdings Europe Limited ("**AHEL**"). As of the date of this report, the sole shareholder of the Company is AHEL, which holds the entire issued share capital of the Company. AHEL is a company in the global AIG corporation.

DEFINITIONS:

1) The Company – AIG Israel Insurance Company Ltd.

2) The parent company – AIG Holdings Europe Limited

3) Supervisor - Supervisor of Insurance (Commissioner of the Capital Market, Insurance and Savings).

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

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

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

7) CPI - The Consumer Price Index published by the Israeli Central Bureau of Statistics.

8) Known CPI - The CPI known at the end of the month.

9) Related parties - as defined in IAS 24 "Related Party Disclosures".

10) Interested party - as defined in the Israeli Securities (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.

NOTE 1 - GENERAL (continued):

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

14) Details of account regulations - Supervision of Insurance Businesses (Details of account) Regulations, 1998.

15) The Investment Regulations – The Supervision of Financial Services (Provident Funds) (Investment Rules Applicable to Financial Institutions) Regulations, 2012.

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

17) Account Segregation Regulations in Life Insurance - The Supervision of Insurance Regulations (Method of Segregation of Accounts and Assets of Insurer in Life Insurance), 1984.

18) Regulations for Calculation of General Insurance Funds - The Supervision of Insurance Businesses Regulations (Method of Calculation of Provisions for Future Claims in General Insurance) 1984, and amendments as amended.

19) Exposure to reinsurers - debit balances with the company's reinsurers, including the reinsurer's share in the company's outstanding claims and unexpired risks fund, all being net of the reinsurer's deposits with the company and the amount of documentary credits granted against the debt of the reinsurer.

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

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

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

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

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS:

a. The Company's condensed financial information as of September 30, 2016 and for the nine- and three-month periods ended on that date ("the interim financial information") has been prepared in accordance with the provisions of IAS 34 'Interim Financial Reporting" (hereafter – "IAS 34") and is in compliance with the disclosure requirements of the Supervision of Financial Services (Insurance) Law, 1981 ("the supervision law") and the regulations promulgated there under. The interim financial information should be read in conjunction with the Company's annual financial statements as of December 31, 2015 and for the year ended thereon including the accompanying notes (hereinafter - the 2015 annual financial statements), which are in compliance with International Financial Reporting Standards, which are standards and interpretations published by the International Accounting Standards Board (hereafter – "IFRS").

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

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

b. Estimates

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

Significant judgments exercised by management in preparation of these condensed interim financial statements as well as the uncertainty involved in the key sources of those estimates were identical to the ones used in the Company's annual financial statements for the year ended December 31, 2015.

For information about the impact of the Vinograd Committee on updating the interest rate used for discounting occupational accident victims, see note 3 below.

NOTE 3 - IMPLICATIONS OF THE VINOGRAD COMMITTEE RECOMMENDATIONS

On June 8, 2014, the Vinograd Committee was appointed, with the mandate to examine whether the data used by the Israel National Insurance Institute (NII) to calculate benefits for workplace injuries are up-to-date, and whether modifications are needed in life expectancy tables and interest rates used in discounting NII workplace injury benefits. Recommendations of the committee were published in March 2016, and 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.

NOTE 3 - IMPLICATIONS OF THE VINOGRAD COMMITTEE RECOMMENDATIONS (continued):

As of September 30, 2016, management estimated that the Amendment to the Discounting Regulations is expected to increase the amounts, which the Company will be required to pay in settlement of insurance contracts of the Company in the vehicle compulsory sector, by a total of NIS 11.5 million pre-tax (NIS 7.4 million after tax). In addition, the Company's share of the Pool's liabilities resulting from the effects of the Amendment to the Discounting Regulations as of the said date, is NIS 3.5 million pre-tax (NIS 2.3 million after tax). Accordingly, insurance liability
Note that, in light of the above, there is uncertainty, at this stage, regarding the impact of the Amendment to the Discounting Regulations on liabilities of the Company, and therefore, it is possible that future claims will unfold significantly differently than Company estimates, and that the Company will later be required to update its estimates.

NOTE 4 - SIGNIFICANT ACCOUNTING POLICIES:

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

a. Taxes on income for the reported interim period are accounted for on the basis on management's best estimate of the average tax rate applicable to the projected annual profits.

b. New accounting standards applied for the first time:

1) New IFRS and amendments to existing standards that came into effect and are mandatory for reporting periods commencing on January 1, 2016:

Amendment to IAS 1 "Financial Statements Presentation" (hereinafter - IAS 1 Amendment):

IAS 1 Amendment deals with the following topics: materiality and its impact on disclosures in the financial statements, presentation of subtotals, order of note presentation in the financial statements and disclosure of accounting policies.

IAS 1 Amendment did not have material impact on the financial statements of the Company.

NOTE 4 - SIGNIFICANT ACCOUNTING POLICIES (continued):

2) New IFRS and amendments to existing standards, which have not yet become effective and have not been early adopted by the Company.

In its annual 2015 financial statements, the Company specified new IFRS and additional amendments to existing IFRS, which have not yet become effective and have not been early adopted by the Company.

Since the date of issuance of the Company's annual financial statements through the date of approval of these interim financial statements, no new standards of amendments to existing standards were issued that may have material impact on the Company's financial statements.

NOTE 5 - SEGMENT INFORMATION

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

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

1) Life insurance segment

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

2) Health insurance segment

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

3) General insurance segment

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

- **Compulsory motor vehicle sector**

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

NOTE 5 - SEGMENT INFORMATION (continued):

- **Motor vehicle property sector**

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

- **Home insurance sector**

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

- **Professional liability sector**

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

- **Other property sectors**

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

- **Other liability sectors**

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

NOTE 5 - SEGMENT INFORMATION (continued):

	For 9-months period ended September 30, 2016 (unaudited)				
	Life insurance	Health insurance	General insurance	Not attributed to operating segments	Total
	NIS in thousands				
Gross earned premiums	94,342	163,006	517,656		775,004
Premiums earned by reinsurers	(15,902)	(2,245)	(108,986)		(127,133)
Premiums earned in retention	78,440	160,761	408,670		647,871
Investment income, net and financing income	2	1,469	10,768	3,136	15,375
Commission income	2,542	320	30,802		33,664
Total income	80,984	162,550	450,240	3,136	696,910
Payments and change in liabilities for insurance contracts, gross	(40,215)	(80,400)	(456,727)		(577,342)
Share of reinsurers in change of insurance liabilities and payments for insurance contracts	10,271	2,607	134,103		146,981
Payments and change in liabilities for insurance contracts, in retention	(29,944)	(77,793)	(322,624)		(430,361)
Commissions and other acquisition costs	(36,235)	(39,549)	(102,708)		(178,492)
General and administrative expenses	(9,705)	(21,847)	(30,674)		(62,226)
Finance income	-	-	1,280	1,261	2,541
Total comprehensive income (loss) before taxes on income	5,100	23,361	(4,486)	4,397	28,372
Liabilities for insurance contracts, gross, as of September 30, 2016	64,323	124,245	1,430,488		1,619,056

NOTE 5 - SEGMENT INFORMATION (continued):

	For 9-months period ended September 30, 2015 (unaudited)				
	Life insurance	**Health insurance**	**General insurance**	**Not attributed to operating segments**	**Total**
	NIS in thousands				
Gross earned premiums	91,571	161,786	483,663		737,020
Premiums earned by reinsurers	(17,372)	(1,632)	(99,913)		(118,917)
Premiums earned in retention	74,199	160,154	383,750		618,103
Investment income (loss), net and finance income	(1)	1,196	8,391	4,733	14,319
Commission income	2,911	418	28,166		31,495
Total income	77,109	161,768	420,307	4,733	663,917
Payments and change in liabilities for insurance contracts, gross	(39,622)	(63,924)	(373,076)		(476,622)
Share of reinsurers in change in insurance liabilities and payments for insurance contracts	13,057	2,229	112,568		127,854
Payments and change in liabilities for insurance contracts, in retention	(26,565)	(61,695)	(260,508)		(348,768)
Commission and other acquisition costs *	(38,433)	(43,613)	(98,343)		(180,389)
General and administrative expenses *	(9,736)	(19,672)	(26,801)		(56,209)
Finance income (expenses), net	-	-	1,391	(2,077)	(686)
Total comprehensive income before taxes on income	2,375	36,788	36,046	2,656	77,865
Liabilities for insurance contracts, gross, as of September 30, 2015	57,823	133,757	1,527,035		1,718,615

* After reclassification due to change in accounting policy – see note 2u to the 2015 annual financial statements of the Company.

NOTE 5 - SEGMENT INFORMATION (continued):

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

NOTE 5 - SEGMENT INFORMATION (continued):

	For 3-months period ended September 30, 2015 (unaudited)				
	Life Insurance	Health insurance	General insurance	Not attributed to operating segments	Total
	NIS in thousands				
Gross earned premiums	30,977	57,083	168,124		256,184
Premiums earned by reinsurers	(5,713)	(327)	(32,967)		(39,007)
Premiums earned in retention	25,264	56,756	135,157		217,177
Investment income (loss), net and finance income	-	525	3,421	(7,705)	(3,759)
Commission income	987	154	8,997		10,138
Total income	26,251	57,435	147,575	(7,705)	223,556
Payments and change in liabilities for insurance contracts, gross	(14,057)	(15,687)	(64,963)		(94,707)
Share of reinsurers in change in insurance liabilities and payments for insurance contracts	3,732	398	(18,318)		(14,188)
Payments and change in liabilities for insurance contracts, in retention	(10,325)	(15,289)	(83,281)		(108,895)
Commission and other acquisition costs *	(13,026)	(15,553)	(32,815)		(61,394)
General and administrative expenses *	(2,592)	(6,162)	(11,222)		(19,976)
Finance income	-	-	463	514	977
Total comprehensive income (loss) before taxes on income	308	20,431	20,720	(7,191)	34,268

* After reclassification due to change in accounting policy – see note 2u to the 2015 annual financial statements of the Company.

NOTE 5 - SEGMENT INFORMATION (continued):

	For the year ended December 31, 2015 (audited)				
	Life insurance	**Health insurance**	**General insurance**	**Not attributed to operating segments**	**Total**
	NIS 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 in retention	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
Payments and change in liabilities with respect to insurance contracts, gross	(40,010)	(76,333)	(364,482)		(480,825)
Share of reinsurers in change in insurance liabilities and payments for insurance contracts	11,939	2,805	45,214		59,958
Payments and change in liabilities with respect to insurance contracts in retention	(28,071)	(73,528)	(319,268)		(420,867)
Commission and other acquisition costs	(44,998)	(53,411)	(141,479)		(239,888)
General and administrative expenses	(19,182)	(30,519)	(33,183)		(82,884)
Financing income (expenses)	-	-	1,780	1,982	3,762
Total comprehensive income before taxes on income	11,607	58,356	63,354	10,745	144,062
Liabilities with respect to insurance contracts, gross, as of December 31, 2015	49,140	115,230	1,253,619	-	1,417,989

NOTE 5 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment:

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

* The results of other property sectors reflect mainly the results of engineering insurance sectors with 82% of the total premiums attributable to these sectors. The results of other liability sectors reflect mainly the results of the third party liability insurance sector, with 34% of the total premiums attributable to these sectors.

NOTE 5 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment:

	For the 9-months period ended September 30, 2015 (unaudited)						
	Compulsory Motor Vehicle	Motor vehicle property	Personal Property	Professional liability	Property and others sectors*	Other liability sectors*	Total
	NIS in thousands						
Gross premiums	113,911	217,501	79,964	46,917	27,567	28,890	514,750
Reinsurance premiums	(1,592)	(87)	(14,027)	(40,246)	(26,175)	(23,342)	(105,469)
Premiums in retention	112,319	217,414	65,937	6,671	1,392	5,548	409,281
Change in balance of unearned premiums, in retention	(3,564)	(17,734)	(3,877)	239	(43)	(552)	(25,531)
Premiums earned in retention	108,755	199,680	62,060	6,910	1,349	4,996	383,750
Investment income, net, and financing income	4,089	1,239	474	1,170	151	1,268	8,391
Commission income	-	-	3,174	12,027	6,390	6,575	28,166
Total income	112,844	200,919	65,708	20,107	7,890	12,839	420,307
Payments and change in liabilities for insurance contracts, gross	(53,189)	(154,486)	(37,591)	(103,093)	3,738	(28,455)	(373,076)
Share of reinsurers in change in insurance liabilities and payments for insurance contracts	(9,597)	-	5,253	97,643	(5,357)	24,626	112,568
Share of reinsurers in change in insurance liabilities and payments for insurance contracts	(62,786)	(154,486)	(32,338)	(5,450)	(1,619)	(3,829)	(260,508)
Commissions, marketing expenses and other acquisition costs **	(19,597)	(38,690)	(16,684)	(12,078)	(4,946)	(6,348)	(98,343)
General and administrative expenses **	(4,952)	(5,066)	(10,113)	(3,884)	(1,374)	(1,412)	(26,801)
Finance expenses, net	-	505	885	-	-	1	1,391
Total expenses	(87,335)	(197,737)	(58,250)	(21,412)	(7,939)	(11,588)	(384,261)
Total comprehensive income (loss) before taxes on income	25,509	3,182	7,458	(1,305)	(49)	1,251	36,046
Gross liabilities for insurance contracts as of September 30, 2015	662,800	198,544	74,483	236,909	74,241	280,058	1,527,035
Liabilities with respect to insurance contracts as of September 30, 2015 (retention)	521,537	198,544	66,259	47,839	3,561	42,491	880,231

* The results of other property sectors reflect mainly the results of the property insurance sectors with 80% of the total premiums attributable to these sectors.
The results of other liability sectors reflect mainly the results of the third party liability insurance sector, with 44% of the total premiums attributable to these sectors.

** After reclassification due to change in accounting policy – see note 2u to the 2015 annual financial statements of the Company.

NOTE 5 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment (continued):

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

* The results of other property sectors reflect mainly the results of the property insurance sectors with 82% of the total premiums attributable to these sectors. Other liabilities mainly reflect the results of product liability insurance, which represents 34% of premium in those sectors.

NOTE 5 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment (continued):

	Compulsory Motor Vehicle	Motor vehicle property	Personal Property	Professional liability	Property and others sectors*	Other liability sectors*	Total
	For the 3-months period ended September 30, 2015 (unaudited)						
	NIS in thousands						
Gross premiums	37,002	74,705	28,083	15,822	11,118	9,068	175,798
Reinsurance premiums	(514)	(29)	(3,986)	(13,667)	(10,636)	(7,346)	(36,178)
Premiums in retention	36,488	74,676	24,097	2,155	482	1,722	139,620
Change in balance of unearned premiums, in retention	2,186	(4,089)	(2,677)	255	(29)	(109)	(4,463)
Premiums earned in retention	38,674	70,587	21,420	2,410	453	1,613	135,157
Investment income, net, and finance income	1,718	532	212	358	62	539	3,421
Commission income	-	-	776	3,857	2,161	2,203	8,997
Total income	40,392	71,119	22,408	6,625	2,676	4,355	147,575
Payments and change in liabilities for insurance contracts, gross	16,080	(53,322)	(12,572)	(7,092)	(3,967)	(4,090)	(64,963)
Share of reinsurers in change in liabilities for insurance contracts and payments for insurance contracts	(30,900)	-	1,517	4,701	3,347	3,017	(18,318)
Payments and change in liabilities for insurance contracts in retention	(14,820)	(53,322)	(11,055)	(2,391)	(620)	(1,073)	(83,281)
Commission, marketing expenses and other acquisition costs **	(7,033)	(12,757)	(5,192)	(4,068)	(1,531)	(2,234)	(32,815)
General and administrative expenses **	(2,379)	(2,755)	(4,032)	(1,221)	(418)	(417)	(11,222)
Finance income (expenses), net	-	178	297	(4)	-	(8)	463
Total expenses	(24,232)	(68,656)	(19,982)	(7,684)	(2,569)	(3,732)	(126,855)
Total comprehensive income (loss) before taxes on income	16,160	2,463	2,426	(1,059)	107	623	20,720

* The results of other property sectors reflect mainly the results of the property insurance sectors with 75% of the total premiums attributable to these sectors.
The results of other liability sectors reflect mainly the results of product liability insurance sector, with 39% of the total premiums attributable to these sectors.

** After reclassification due to change in accounting policy – see note 2u to the 2015 annual financial statements of the Company.

NOTE 5 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment (continued):

	For the year ended December 31, 2015 (audited)						
	Compulsory motor vehicle	Motor vehicle property	Personal Property	Professional liability	Other property sectors *	Other liability sectors *	Total
	NIS 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 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 liabilities with respect to insurance contracts (gross)	4,888	(216,420)	(48,644)	(72,636)	(1,855)	(29,815)	(364,482)
Share of reinsurers in change in insurance liabilities and payments for insurance contracts	(58,572)	-	8,177	70,834	(207)	24,982	45,214
Payments and change in liabilities with respect to insurance contracts in retention	(53,684)	(216,420)	(40,467)	(1,802)	(2,062)	(4,833)	(319,268)
Commissions, marketing expenses and other acquisition costs	(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)
Finance 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 for insurance contracts as of December 31,2015	475,386	206,560	70,551	155,586	77,626	267,910	1,253,619
Liabilities with respect to insurance contracts as of December 31, 2015 (retention)	384,669	206,560	61,654	27,338	3,496	36,772	720,489

* The results of other property sectors reflect mainly the results of the property insurance sector, with 83% of the total premiums attributable to these sectors.
The results of other liability sectors reflect mainly the results of the product liability insurance sector, with 44% of the total premiums attributable to these sectors.

NOTE 5 - SEGMENT INFORMATION (continued):

5.1 Additional information relating to life insurance segment:

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

	Policies without savings element		Total
	Risk sold as single policy		
	Private	Group	
Gross risk premiums	94,235	-	94,235
Payments and change in liabilities for gross insurance contracts	40,215	-	40,215

For the 9-months period ended September 30, 2015 (unaudited) (NIS in thousands):

	Policies without savings element		Total
	Risk sold as single policy		
	Private	Group	
Gross risk premiums	91,681	-	91,681
Payments and change in liabilities for gross insurance contracts	39,622	-	39,622

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

	Policies without savings element		Total
	Risk sold as single policy		
	Private	Group	
Gross risk premiums	31,670	-	31,670
Payments and change in liabilities for gross insurance contracts	16,414	-	16,414

For the 3-months period ended September 30, 2015 (unaudited) (NIS in thousands):

	Policies without savings element		Total
	Risk sold as single policy		
	Private	Group	
Gross risk premiums	31,018	-	31,018
Payments and change in liabilities for gross insurance contracts	14,057	-	14,057

NOTE 5 - SEGMENT INFORMATION (continued):

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

For the year ended December 31, 2015 (audited) (NIS in thousands):

	Policies not containing savings element		Total
	Risk sold as single policy		
	Private	Group	
Gross risk premiums	123,116	-	123,116
Payments and change in liabilities for gross insurance contracts	40,010	-	40,010

5.2 Additional information relating to healthcare segment:

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

	Long-term	Short-term	Total
Gross premiums	128,642	34,816	* 163,458
Payments and change in liabilities for gross insurance contracts	61,783	18,617	80,400

* Includes mainly policies issued to individuals

For the 9-months period ended September 30, 2015 (unaudited) (NIS in thousands):

	Long-term	Short-term	Total
Gross premiums	129,177	33,114	* 162,291
Payments and change in liabilities for gross insurance contracts	51,404	12,520	63,924

* Includes mainly policies issued to individuals

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

	Long-term	Short-term	Total
Gross premiums	42,602	14,221	* 56,823
Payments and change in liabilities for gross insurance contracts	22,783	7,479	30,262

* Includes mainly policies issued to individuals

NOTE 5 - SEGMENT INFORMATION (continued):

5.2 Additional information relating to healthcare segment (continued):

For the 3-months period ended September 30, 2015 (unaudited) (NIS in thousands):

	Long-term	Short-term	Total
Gross premiums	43,786	13,656	* 57,442
Payments and change in liabilities for gross insurance contracts	12,682	3,005	15,687

* Includes mainly policies issued to individuals

For the year ended December 31, 2015 (audited) (NIS in thousands):

	Long-term	Short-term	Total
Gross premiums	172,613	42,983	* 215,596
Payments and change in liabilities for gross insurance contracts	65,506	10,827	76,333

* Includes mainly policies issued to individuals

NOTE 6 - SHAREHOLDERS' EQUITY AND CAPITAL REQUIREMENTS:

a. Capital management and requirements

1) The policy of management is to maintain strong capital base to enable the Company to continue its business to allow it provide return to its shareholders and to support future business activity. The Company is subject to capital requirements of the Supervisor of Insurance.
2) The table below provides information on required and existing capital of the Company, pursuant to the Supervision of Financial Services (Insurance) (Minimum Required Capital by Insurers), 1998 (hereinafter - the capital regulations), and the guidance of the Supervisor.

	September 30		December 31,
	2016	2015	2015
	(Unaudited)		(Audited)
	NIS in thousands		
The amount required under capital regulations and supervisor guidelines (a)	521,715	553,523	515,769
Existing amount calculated under capital regulations:			
Primary basic capital	741,611	739,214	827,686
Total existing capital calculated under capital regulations	741,611	739,214	827,686
Surplus	219,896	185,691	311,917
Events taking place subsequent to balance sheet date:			
Declared dividend	-	(35,000)	-
Surplus net of detained surplus	219,896	150,691	311,917
Amount of investments that is required to be provided against capital surplus, under the Supervisor guidance, and therefore represent detained surplus.	219,896	150,691	311,917

NOTE 6 - SHAREHOLDERS' EQUITY AND CAPITAL REQUIREMENTS (continued):

	September 30		December 31,
	2016	**2015**	**2015**
	(Unaudited)		**(Audited)**
	NIS in thousands		
(a) The required amount including capital requirements for:			
Operations in general insurance	115,320	126,793	106,236
Exceptional life insurance risks	40,383	35,516	36,790
Deferred acquisition costs related to life insurance	81,149	83,352	84,452
Investment assets and other assets	50,864	66,768	44,547
Catastrophe risks related to general insurance	204,947	210,112	218,294
Operating risks	29,052	30,982	25,450
Total	521,715	553,523	515,769

3) On April 19, 2016, the Board of Directors of the Company approved a NIS 105 million dividend, representing approx. 42% of the issued capital (share capital and premium) of the Company as of March 31, 2016. The dividend amount per share is NIS 18,325. The dividend was paid on May 24, 2016.

b. Solvency II

For information about the Solvency II (hereinafter - the directive) - based regimen (hereinafter - the directive), as issued by the Supervisor, and the IQIS exercises, which are designed to calibrate the model (simulations of the effect of the directive on the insurer's equity given its existing business mix and balance sheet) - see note 12(d) to the 2015 annual financial statements. According to the guidance issued as above by the Supervisor, insurance companies will be required to comply with the new capital requirements, which will replace the existing ones beginning from the 2016 annual financial statements.

On April 21, 2016, the Supervisor issued guidance for performing an IQIS regarding 2015 (hereinafter - IQIS 5).

The guidance to perform IQIS 5 includes several changes and updates relative to IQIS 4. Those mainly include, among other things, stabilization of risk-free interest curves through extrapolation up to the Ultimate Forward Rate, recognized capital composition, lower capital requirement when investing in infrastructures (capital and debt), update of formula for calculating capital requirement for general insurance premiums and reserves risk, and update of guidelines on special auditor's special report focusing on Best Estimate and risk margin.

NOTE 6 - SHAREHOLDERS' EQUITY AND CAPITAL REQUIREMENTS (continued):

b. Solvency II (continued)

The guidance further indicates that IQIS 5 calculation, will contribute to compliance preparations by insurance companies and the drafting of final guidance. It also indicates that the boards of insurance company will be required to discuss the findings of IQIS 5 as would be reflected in reports to be submitted by management to the board, according to the guidance, prior to filing to the Supervisor.

According to the directive, insurance companies are required to file the results of the planned exercise to the Supervision. The Company completed IQIS 5 in July 2016.

According to IQIS 5 results, capital surplus of the Company increased as of December 31, 2015, under the Solvency II regimen relative to capital surplus under the existing Israeli regimen (see a. above). The solvency ratio of the Company as calculated in IQIS 5 using the December 31, 2015 information was 182% before the above dividend distribution and 165% after that payout.

Note that the model, in its present version, has very high sensitivity to changes in market and other variables and therefore capital requirements it reflects may be highly volatile.

c. In August 2016, the Supervisor issued a letter about dividend distributions by insurance companies (hereinafter - "the letter"), which replaces an earlier letter from December 2011. According to the letter, an insurance company will not be allowed to pay dividends unless it has, after the distribution, a solvency ratio of at least 115% according to existing capital regulations, and solvency ratio at the rates indicated below according to the updated quantitative assessment for the implementation of the new solvency regimen (IQIS 5), or according to the guidance for implementing the first tier of the new solvency regimen, calculated without factoring in transitional provisions. The required solvency ratios post-distribution will be at least:

- Financial statements as of December 31, 2017 – 115%
- Through the financial statements as of December 31, 2018 – 120%
- From the financial statements as of December 31, 2019 – 130%

Insurance companies are required to provide the Supervisor within ten business days from the date of distribution an income forecast of the company for the subsequent two years from the date of dividend distribution, an updated debt service plan for the Company as approved by the Board of Directors of the holding company, a capital management plan as approved by the Board of Directors of the company, minutes of the discussion in the Board of Directors that approved the dividend distribution and background information for the discussion.

d. On September 1, 2016, the Supervisor published several letters, which are addressed to insurance companies and which update the provisions of the Solvency II-based regimen and the guidance relating to disclosure thereof in the financial statements of the insurance companies. Set forth below is a summary of the said provisions and guidance:

1) Provisions of the Solvency II-based regime:

- The solvency required capital of an insurance company as of January 1, 2017 shall be 60% of the solvency required capital as per the guidance for application of a new solvency regime (hereafter – "SCR").
- The solvency required capital of an insurance company as of December 31, 2017 shall be 80% of the SCR.
- The solvency required capital of an insurance company as from December 31, 2018 shall be 100% the SCR.

NOTE 6 - SHAREHOLDERS' EQUITY AND CAPITAL REQUIREMENTS (continued):

2) Application and disclosure – the Supervisor intends to change the date for commencement of compliance with solvency ratio in accordance with the provisions to 1.1.2017. However, the insurance companies shall be required to provide disclosure regarding economic capital, solvency required capital and "SCR" as of December 31, 2016 in their financial statements for Q1 2017.

3) Reporting to the Supervisor – the Supervisor's intention is to require from insurance companies to provide her with reports relating to the calculation of the new solvency ratio commencing in their report in respect of the year 2017.

4) Minimum Capital Requirement (MCR) – the Supervisor's intention is to require that the MCR shall be equal to the amount required under the capital regulations. However:

- If the amount required under the current capital regulations is higher than 60% of the SCR, then the MCR shall be equal to 60% of the SCR.

- If the amount required under the current capital regulations is lower than 40% of the SCR, the MCR shall be equal to 40% of the SCR.

5) Guidance regarding Solvency II disclosure in financial statements of insurance companies:

- Disclosure regarding the Company's solvency ratio, which was calculated as part of IQIS5, will be provided in the financial statements for Q3 2016.

- Furthermore, where the results of the IQIS5 show that a significant capital deficit, the directors report shall include a disclosure relating to certain matters specified in one of the abovementioned letters.

- Insurance companies shall be required to provide disclosure relating to economic capital, solvency required capital and "SCR" commencing in their financial statements for Q1 2017 in accordance with the relevant provisions to be published by the Supervisor. Disclosure on economic capital, solvency required capital and "SCR" as of 31.12.2016 shall be provided in the financial statements for Q1 2017.

NOTE 7 - FINANCIAL INSTRUMENTS AND FINANCIAL RISKS:

a. Fair value disclosure

Following the discussion in note 10(g) to the Company's 2015 annual financial statements, during the 9-month period ended September 30, 2016, no transfers were made between level 1 and level 2. As of balance sheet dates, all marketable financial investments of the Company, which are measured at fair value through profit or loss are included in level 1. As of balance sheet dates, the Company does not have any financial liabilities, which are measured at fair value.

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

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

c. In the 9-months period ended September 30, 2016, no material changes have occurred in the financial risk management policy of the Company, compared to the policy it reported in its 2015 annual financial statements.

NOTE 7 - FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued):

d. Composition of financial investments:

	As of September 30, 2016 (unaudited)		
	Measured at fair value through profit or loss	Loans and receivables	Total
	NIS in thousands		
Marketable debt instruments(1)	1,192,227	-	1,192,227
Non-marketable debt instruments(2)	-	160,219	160,219
Marketable shares(3)	-	-	-
Other(4)	116,583	-	116,583
Total	1,308,810	160,219	1,469,029

	As of September 30, 2015 (unaudited)		
	Measured at fair value through profit or loss	Loans and receivables	Total
	NIS in thousands		
Marketable debt instruments(1)	1,233,925	-	1,233,925
Non-marketable debt instruments(2)	-	204,112	204,112
Marketable shares(3)	92,146	-	92,146
Other(4)	72,129	-	72,129
Total	1,398,200	204,112	1,602,312

	As of December 31, 2015 (audited)		
	Measured at fair value through profit or loss	Loans and receivables	Total
	NIS in thousands		
Marketable debt instruments(1)	1,200,998	-	1,200,998
Non-marketable debt instruments(2)	-	203,935	203,935
Marketable shares(3)	92,851	-	92,851
Other(4)	73,424	-	73,424
Total	1,367,273	203,935	1,571,208

NOTE 7 - FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued):

d. Composition of financial investments (continued):

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

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

	As of September 30, 2015 (unaudited)	
	Carrying amount	Amortized cost
	NIS in thousands	
Government bonds	628,681	627,863
Other debt assets:		
Other non-convertible debt assets	605,244	614,624
Other convertible debt assets	-	-
Total marketable debt assets	1,233,925	1,242,487

	As of December 31, 2015 (audited)	
	Carrying amount	Amortized cost
	NIS in thousands	
Government bonds	589,845	587,667
Other debt assets:		
Other non-convertible debt assets	611,153	615,487
Other convertible debt assets	-	-
Total marketable debt assets	1,200,998	1,203,154

NOTE 7 - FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued):

d. Composition of financial investments (continued):

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

Loans and receivables:

	As of September 30, 2016 (unaudited)	
	Carrying amount	Fair value
	NIS in thousands	
Bank deposits	97,756	98,230
Other non-convertible debt assets	62,463	65,168
Total non-marketable debt assets	160,219	163,398

Loans and receivables:

	As of September 30, 2015 (unaudited)	
	Carrying amount	Fair value
	NIS in thousands	
Bank deposits	98,089	98,186
Other non-convertible debt assets	106,023	107,752
Total non-marketable debt assets	204,112	205,938

Loans and receivables:

	As of December 31, 2015 (unaudited)	
	Carrying amount	Fair value
	NIS in thousands	
Bank deposits	97,714	97,661
Other non-convertible debt assets	106,221	108,560
Total non-marketable debt assets	203,935	206,221

NOTE 7 - FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued):

d. Composition of financial investments (continued):

3) **Shares** (designated upon initial recognition to the fair value through profit or loss category):

	As of September 30, 2016 (unaudited)	
	Carrying amount	Cost
	NIS in thousands	
Marketable shares	-	-

	As of September 30, 2015 (unaudited)	
	Carrying amount	Cost
	NIS in thousands	
Marketable shares	92,146	89,358

	As December 31, 2015 (audited)	
	Carrying amount	Cost
	NIS in thousands	
Marketable shares	92,851	88,989

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

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

	As of September 30, 2015 (unaudited)	
	Carrying amount	Cost
	NIS in thousands	
Marketable financial investments	72,129	73,867

	As December 31, 2015 (audited)	
	Carrying amount	Cost
	NIS in thousands	
Marketable financial investments	73,424	73,867

NOTE 8 - TAXES ON INCOME:

a. Calculating the income tax for the interim period is based on the best estimate of the weighted income tax rate expected for the full fiscal year. The expected weighted average annual tax rate, as above, for the year ending December 31, 2016 is 35.90%, see also b below (2015 - 37.58%).

b. Changes in corporate tax rate that came into effect on January 1, 2016:

In January 2016, the Law for the Amendment of the Income Tax Ordinance (No. 216), 2016 was passed into law and published, enacting a reduction of corporate tax in 2016 and thereafter from 26.5% to 25%. As a result of lowering the tax rate as above, which was reflected for the first time in the financial statements of the Company for the 3-months period ended on March 31, 2016, the liability for deferred taxes decreased in the 9-months period ended September 30, 2016 by a negligible amount, which was recognized in deferred tax income.

c. Industry specific tax agreements for 2013-2015 signed on January 13, 2016:

On January 13, 2016, the Insurance Companies Association and the Israel Tax Authority signed industry-specific agreements regarding the 2013-2015 tax years. Under the industry-specific agreement referring to the 2014 tax year, some changes were made in the allocation rates of expense to preferred income and a mechanism was established for spreading out some of the movement in the provision for indirect expenses for claim settlement in subsequent years to the one in which the expense is registered. Under the industry-specific agreement for the 2015 tax year, commencing 2015, DAC expenses in life insurance are deductible for tax purposes over a 10-year period (instead of 4 years previously).

Since those agreements were signed during the course of January 2016, their implementation (including for previous tax years) was reflected for the first time in the financial statements of the Company for the 3-months period ended March 31, 2016.

Following the implementation of those agreements in the financial statements of the Company, the financial information for the nine months ended September 30, 2016 included net tax income for previous years amounting to NIS 0.9 million.

NOTE 9 - CONTINGENT LIABILITIES - CLAIMS:

1. In December 2012, a lawsuit and a motion for certification as a class action were filed against the Company and 7 other insurance companies. According to the plaintiffs, in 2007 the Transportation Ordinance was changed to the effect that the classification of the plaintiffs' vehicle was changed from a commercial vehicle to a private vehicle. Despite the change in classification as above, the insurance companies allegedly continued to classify the plaintiffs' vehicles as commercial vehicles for purposes of collection of comprehensive insurance/third party insurance and compulsory vehicle insurance, thereby collecting a higher premium. The premium was only collected in respect of vehicles through 2007, whereas for vehicles from 2008 and thereafter a lower premium was collected.

   According to the legal claim, the insurance companies are required to price the premium in accordance with the classification set in the Transportation Ordinance and since they have not done so they should refund the insured persons and entities with the amounts collected in excess of the lawful premiums. The class includes individual and entities the classification of the vehicles of which was changed in the last seven years.

NOTE 9 - CONTINGENT LIABILITIES - CLAIMS (continued)**:**

Total damages claimed from the Company in respect of property insurance amount to NIS 22,296,660. The legal claim does not provide an estimate of the amount collected in excess of the amount legally due for compulsory vehicle insurance.

The Company filed its reply to the motion to certify the claim as a class action on June 2, 2013; the claimant filed its reply to the said application on July 7, 2013.

On July 10, 2013, a pretrial hearing was held, resulting in a court decision that the Company and all other defendants may file complementary responses to the motion for class action certification through October 6, 2013. The court also ruled that to the extent the plaintiffs are interested to file a specific discovery, they will have to do so within 30 days, with a response to the motion filed within 14 days and the counter-response within 7 days (court holiday are counted). In addition, a cross-examination of declarants was scheduled for February 24, 2014 and March 6, 2014. The plaintiffs filed a motion for discovery and a motion to respond to a questionnaire. The Company filed its objection to the motion and the court has not given a decision.

Cross-examinations of the parties' witnesses took place on February 24, 2014 March 6, 2014 and March 25, 2014. At the end of the examinations, the court recommended the claimant to consider whether to continue pursuing the case.

On June 8, 2014, the plaintiffs filed a notice to the effect that they maintain their position that the motion to certify the claim as a class action shall be heard by the court. In accordance with the plaintiffs' notice, the court set a date for a summary hearing. Recently, summaries by the plaintiffs and the insurance companies were filed. After receiving an extension, the plaintiffs filed their response summaries on February 1, 2016. The court has yet to hand down a decision.

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

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

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

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

NOTE 9 - CONTINGENT LIABILITIES - CLAIMS (continued)**:**

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

The amount of the individual claim filed by the plaintiffs against the Company is NIS 272 thousand and the amount claimed by the class from the Company amounts to NIS 5,784,187.

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

On April 19, 2015, the plaintiffs filed their response to the motion to certify. The plaintiffs reject the claims raised in the response to the application. A preliminary hearing to discuss the application was held on June 14, 2015. In the course of this hearing, the Court informed the parties that it intends to address questions arising from the motion to certify the claim as a class action to the Supervisor of Insurance; the Court asked the parties to provide it, by July 16, 2015, with questions that will be addressed to the Supervisor of Insurance. On July 16, 2015, the parties filed the Court some questions they wish to refer to the Supervisor of Insurance as above.

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

NOTE 9 - CONTINGENT LIABILITIES - CLAIMS (continued)**:**

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

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

On April 7, 2016, the respondents filed their comments to the Supervisor's position, in which they argued, among other things, that the Supervisor's position supports their own arguments to the motions to certify, and that given the Supervisor's position, the plaintiffs should withdraw their motion to certify and the claim against the Company. The plaintiffs also filed their comments to the Supervisor's position and contended that it does not impact their argument in the motion to certify.

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

On May 11, 2016, the plaintiffs notified the court that at this stage they decided to withdraw their arguments raised in the motion to certify ("the plaintiffs' notice").

On May 19, 2016, the company filed a motion to dismiss the plaintiffs' notice. On May 24, 2016, an additional pretrial hearing was held, in which the plaintiffs agreed to the court's proposal to focus the action on extent of informing customer pre-contract and during preparing the contract (in distinction from the life of the policy). The court offered the parties to seek arbitration on the issues that remained disputed. The plaintiffs agreed to the proposal.

On June 5, 2016, the Company notified the court that it agreed to refer the remaining limited issues to arbitration, provided that the arbitration will be focused only on the option to provide more clarification in any of the insurance documents. On June 13, 2016, the plaintiffs notified that they agree to limit the claims in the arbitration process. On June 29, 2016, the Company notified the court that in those circumstance and given the response of the plaintiffs, it sees no point in referral to arbitration process, and asked the court to give its decision based on the written arguments that were filed and the position of the Supervisor.

On July 12, 2016, an additional pretrial hearing was held, in which the parties agreed to the court's proposal to refer the remaining disputed issues to an arbitration process. On August 4, 2016 the parties informed the Court of the identity of a mutually-agreed arbitrator.

An arbitration meeting was scheduled to November 23, 2016. A further pretrial hearing was set for December 18, 2016.

Based on information and data that was received, at this preliminary stage, the Company's management believes, based on the opinion of its legal advisors, that it is more likely than not that the court will not certify a class action.

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

NOTE 9 - CONTINGENT LIABILITIES - CLAIMS (continued)**:**

The plaintiffs rely in their legal claim on the Supreme Court's ruling in the Zlutzin vs. Diur La-Olle case (civil appeal 17229/99) according to which even where repairs were not carried out in practice, the defendant (who caused the damage in the said case) should bear the VAT component. The plaintiffs also rely on In-Principle Ruling 2014-46025 titled "In-Principle Ruling on Payment of VAT and Depreciation of Unrepaired Vehicle". This in-principle ruling states that even if the customer did not repair the vehicle in practice the insurer must pay the customer insurance benefits including, among other things, VAT applicable in this matter. At this stage it is not yet clear whether the claim shall be heard in its current form since the class action plaintiff also filed an individual claim against the Company (including in connection with the VAT component) at the same time the class action motion was filed; the class action plaintiff requested the Court which hears the plaintiff's individual claim against the Company to allow him to withdraw the VAT component from this individual claim and to file a motion to certify a class action in respect of this component. On January 2, 2016, a decision was handed down, rejecting the motion by the plaintiff. The plaintiff issued a request for filing an appeal. The appeal application was rejected on September 4, 2016.

In view of the Court's decision, the plaintiffs filed an application to be replaced by other plaintiffs. The Company filed an objection to this application.

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

On November 17, 2016, another hearing was held, in which the plaintiffs repeated their arguments. No decision has been yet handed down by the court. During the hearing, an option to consolidate the case with other similar cases that are now under court review was considered. It was agreed that this option will be discussed only after written arguments are filed in all those cases. The next hearing on this case was scheduled to June 4, 2017.

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

4. A legal claim and a motion to certify a class action were filed on October 19, 2015 against the Company and another insurance company. The plaintiffs claim that in many cases the defendants breach the provisions of Insurance Circular 2007-1-8 "Vehicle Appraisal (Property and Third Party)" by ignoring or reducing the repair quotes or appraisals carried out by external appraisers and using appraisals issued by appraisers, who work on behalf of the Company, rather than by issuing notice and referring the case to a deciding appraiser at the dates specified in the Insurance Circular.

   The class includes any insurance customer or third party whose car was damaged in a car accident in the course of the last seven years, to whom the defendants are required by law to pay damages and where an external appraiser, who is included in the list of external appraisers as specified in the Insurance Circular, prepared a repair quote or appraisal and the case was not referred to a deciding appraiser but rather, the appraisal of repairs and/or insurance compensation was carried out in practice by appraisers, who worked on behalf of the defendants, and those repair quotes and/or appraisals specified lower amounts and varied from the quotes and/or appraisals of the external appraisers; this group of plaintiffs includes insured, who signed statements of waiver as a condition for receipt of compensation from the defendants.

NOTE 9 - CONTINGENT LIABILITIES - CLAIMS (continued)**:**

In the motion to certify, the plaintiffs ask the Court to order the defendants to refund the difference between the compensation received by members of the above group – whether this compensation was in the form of insurance funds, repairs made to the car or any other compensation to which members of the group were eligible under a repair quote and/or appraisal of the external appraiser; the plaintiffs also asked the Court to issue a mandatory injunction ordering the defendants to follow the provisions of the Insurance Circular by the letter, including honoring any repair quote and/or appraisal, which was prepared by an external appraiser, and which was not referred to a deciding appraiser in accordance with the provisions of the Insurance Circular; the plaintiffs also asked the Court to set measures for the enforce the said injunction. The plaintiffs also asked the Court to order the defendants to pay them individual compensation as well as the fees of their attorneys, as determined by the Court.

The Company negotiated with the attorney of the plaintiffs out of court in attempt to reach agreements that will make a redundant a court proceeding or decide on the disputes underlying the motion to certify. However, the parties reached agreements as above. The Company is required to file its response to the motion by May 31, 2016.

On July 12, 2016, an additional pretrial hearing was held, in which the court proposed the plaintiffs to withdraw their motion to certify. On September 11, 2016, the plaintiffs filed an application to withdraw the said motion and reject their personal claim against the Company without issuance of a Court's expenses order; this application was filed at the agreement of the Company. On September 14, 2016 the Court issued a ruling approving the withdrawal application.

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

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

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

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

   In January 27, 2016, the Central District Court approved the consolidation of cases.

   On June 23, 2016, the respondents filed to the Central District Court a mutually agreed motion to extend the deadline for filing response for the motion to certify by additional ten days.

   On that same day, the District Court approved the respondents' motion, and the date for filing their responses was set to July 11, 2016.

NOTE 9 - CONTINGENT LIABILITIES - CLAIMS (continued)**:**

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

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

A preliminary hearing was held on September 18, 2016. At the conclusion of this hearing, the Court explained to the applicant that it may face some obstacles if it still wishes to certify the claim as a class action; the Court advised the applicant to consider whether it insists on the pursuing the application any further. The applicant is to inform the Court of its decision by December 15, 2016.

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.

6. A legal claim and a motion to certify a class action were filed against the Company on December 17, 2015. The applicant claimed that the Company breaches the provisions of its comprehensive car insurance policy, which includes the AIG EXTRA compensation clause since it does not pay the insured an extra compensation of up to 15% of the value of the insured car. The applicant claimed that the causes of action are breach of agreement, breach of disclosure obligations, misleading and unjust enrichment.

   The class includes any insurance customer of the Company who has a comprehensive car insurance policy, which includes an AIG EXTRA clause, but when the conditions of the clause were met did not receive the AIG EXTRA compensation.

   On April 3, 2016, the Court rejected a motion to dismiss outright that was filed by the Company.

   On April 13, 2016, the Company and the applicant reached a settlement, whereby the Company will pay the applicant NIS 1,500 and legal fee of NIS 11,500 within 15 days from the date a court decision, the lawsuit will be rejected and the motion to certify will be withdrawn ("recompense and fee").

   On May 5, 2016, the applicant and the Company issued an agreed motion to withdraw the class action in which they presented settlement details.

   On May 8, 2016, the court rejected the agreed motion for withdrawal and ruled that the parties are required to respond by May 16, 2016 whether they ask the applicant to withdraw the motion under Section 16 to the Class Action Law, 2006 ("the Law") or, alternatively, ask to settle the dispute under Section 18 to the Law ("the ruling").

   On May 17, 2016, the parties filed an amended joint motion to withdraw the motion to certify based on the court's decision dated May 8, 2016.

NOTE 9 - CONTINGENT LIABILITIES - CLAIMS (continued)**:**

On May 18, 2016, the court ordered the Company to provide detailed information and documents in relation to the facts in respect of which it asked withdrawal. The court ordered to file the information relating to its procedures and insurance customer data ("the data").

On May 19, 2016, the Company filed a response to the motion to certify. On May 22, the court accepted the request of the Company and ordered to file the data to the court in a sealed envelope, and that the court will later decide on the confidentiality of the data, through May 24, 2016. On May 24, 2016, the Company filed a motion for confidentiality of the data, along with a motion for a 24-hour extension for filing the data. On May 25, 2016, a deposition was filed in a sealed envelope, accompanied by the data, according to the court decision.

On May 26, 2016, the court ruled that the procedures filed by the Company are not commercial secrets. The court ruled that prior to making the procedures an open exhibit in the case, the Company will be allowed to argue about the confidentiality of the procedures and about the motion to withdraw, and therefore, a hearing was scheduled for May 30, 2016. On May 30, 2016, a hearing was held with attendance of the plaintiff's attorney, in which the court allowed making the procedures public. In addition, the court rejected the motion to withdraw, in order to allow file a motion for settlement approval.

The court ordered both parties to file motions for settlement through June 13, 2016.

On June 13, 2016, the parties filed a joint motion for settlement approval, according to which, the Company will improve its internal procedures, such that Company will seek internal audit annually, and will examine annually cases of diminished value relating to its Extra policies. In addition, the Company will consider an alternative of underwriting automation for Extra policies. The parties recommended on recompense and legal fees (as defined above).

On June 14, 2016, the court ordered to place an advertisement announcing the settlement arrangement and to send notices on the settlement arrangement to the Attorney General, Director of Courts and Supervisor of Insurance in the Ministry of Finance. In addition, the court decided that at that stage there was no place to appoint an examiner pursuant to Section 19 to the law.

On June 17, 2016, the Company published advertisements in two newspapers, according to the court decision.

The last date for filing objections to the settlement arrangement was scheduled to September 21, 2016.

On September 19, 2016, the Court approved the settlement arrangement and ordered the case closed.

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

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

   According to the assessment of the Company, based on its legal counsel, it seems that a settlement may be on the horizon.

NOTE 9 - CONTINGENT LIABILITIES - CLAIMS (continued)**:**

In a hearing on November 20, 2016, the court asked for a number of clarification as to the settlement agreement, and it is expected to hand down its decision after those clarifications are received.

8. On June 9, 2016, a motion for certification of a class action was filed against the Company. The plaintiff claims that the Company did not pay salary and statutory employee benefits as legally required. The class action seeks a total of NIS 9,769 thousand. A pretrial hearing was scheduled to February 6, 2017.

   At this preliminary stage of the claim, management and its legal counsel are still studying the matter. 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.

9. On August 8, 2016, a motion for class action certification was filed against a number of insurance companies, including the Company. The motion concerns the impact of customer age on pricing premiums in vehicle compulsory and property insurance. The overall amount of damages sought is NIS 100 million. The amount of personal damages sought is negligible.

   The Company is required to file its response to the certification motion by December 25, 2016. A pretrial hearing was set to February 23, 2017.

   At this preliminary stage of the claim, management and its legal counsel are still studying the matter. Management believes, based on its legal counsel, and it is not possible to assess the likelihood of the motion being accepted at this preliminary stage.

10. On November 2, 2016, a motion to certify a class action was filed against a number of insurance companies, including the Company. 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 (also known as balloon loans). The amount of the claim against all defendants is NIS 75 million. The claim does not specify the amount of personal damage to the plaintiff. The Company is required to file its response to the motion.

    At this preliminary stage of the claim, management and its legal counsel are still studying the matter. Management believes, based on its legal counsel, and it is not possible to assess the likelihood of the motion being accepted at this preliminary stage.

Set forth below are the details of the applications for approval of legal claims as class actions:

	Number of claims	The amount claimed NIS in thousands
Pending applications for approval of legal claims as class actions - an amount relating to the Company was specified	10	* 78,061

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

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