AIG Israel Insurance Company Ltd

Financial Report for Year Ended 2015

Contents

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

Chapter A: Description of corporate business
For the year ended December 31, 2015

March 15, 2016

Description of corporate business for the year ended December 31, 2015

This report constitutes a description of the Company's business as of December 31, 2015, and reviews the Company and the development of its business as occurred in 2015 ("the reported period"). The information in this report as updated as of December 31, 2015 ("the report date"), unless otherwise is explicitly indicated.

Under Regulation 8C of the Israel Securities Regulations (Periodic and Immediate Reports), 1970, the guidance in regulations 8(b), 8A and 8B of the regulations as above do not apply to the information in the periodic report of an insurer.

The Company is an insurer as this term is defined in the Supervision of Financial Services Law (Insurance), 1981 ("the Supervision Law"). Therefore, this report is prepared based on 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"), including Insurance Circular 2014-1-3 dated January 20, 2014, and Insurance Circular 2015-1-4 dated January 26, 2015.

Forward looking information

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

The financial information included in this report is reported amounts. All information in this report are in thousands NIS unless otherwise is indicated.

The business of the Company is in fields that require considerable professional knowhow that involves many professional terms that are essential for understanding the business of the Company. To present a description of the corporation that is as clear as possible, those professional terms are used along with an explanation, to the extent possible. The description in this report on insurance products and coverage types is for the purpose of this report only, and may not serve for the interpretation of the products and coverage, and the full and binding terms in the insurance programs.

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

Table of Contents:

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

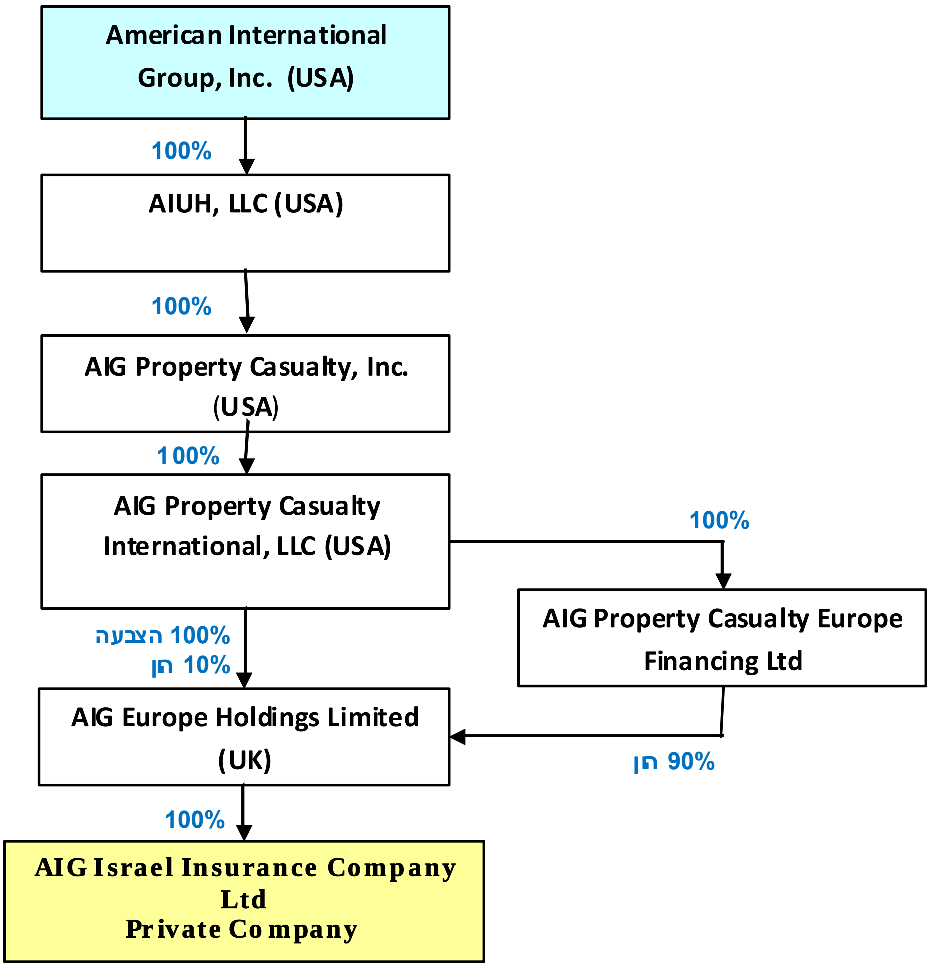
1.1 The activity of the Company and the development of its business

AIG Israel Insurance Company Ltd ("**the Company**") was incorporated in Israel on March 27, 1996, as a private limited liability company. The company 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**" or "**AIG**"). The global AIG corporation is a leading global insurance and financial services corporation, rated A- as of report date by leading rating agencies Moody's, Fitch and Standard & Poor's ("**the rating agencies**").

The shareholder of the Company is AIG Europe Holdings Limited ("**AEHL**"), which holds directly the entire issued share capital of the Company, and is part of the global AIG corporation.

The following is the 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, health insurance (disease, hospitalization and personal injury coverage), commercial insurance (property loss, business comprehensive insurance, engineering insurance, employers' liability insurance, third-party liability insurance and product liability insurance), cargo in transit insurance, other risk insurance (limited to crime and fraud damages), comprehensive life insurance, and foreign business insurance for different insurance types.

The Company is operating in three business divisions (individual insurance, life and health insurance and commercial insurance), headquarters, distribution, 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 and being serviced mainly through a central service call center. Most business of the Company in commercial insurance, and some of the retail insurance business, is done through mediation of insurance agents. As a result of the above marketing methods, the organizational structure of the Company is based on activity through a head office in Petach Tikva.

1.2 Areas of activity

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

1.2.1 General insurance - property vehicle

General

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

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

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

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

Property vehicle insurance is divided into two main categories:

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

Differential rates

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

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

1.2.2 **General insurance - compulsory vehicle**

General

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

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

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

Reserves

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

Differential rates – information and supervision

A database of compulsory vehicle insurance rates is maintained for information and supervision purposes, and is authorized by law to collect information about compulsory vehicle insurance. Under the Motor Vehicle Insurance Regulations (Creation and Management of Databases), 2004, insurance companies are legally obligated to transfer to the database and regulators information about premium rates, payments and pending claims in scale and dates specified in those regulations.

The Supervisor of Insurance gave a franchise to a service provider to manage that database, to issue reports that will be used, among other things, to assess the risks in the compulsory vehicle insurance sector, and determine the pure cost of risk that underlies the rate, known as the base rate, the serves as basis to derive compulsory insurance rates.

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

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

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

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

On January 7, 2016 the Supervisor published circular 2016-1-1 "Amendment of the Consolidated Circular in the Compulsory Vehicle Insurance Sector" ("The Amendment to Codex – Compulsory Vehicle Sector"). As part of the said amendment, the Supervisor regulated the following issues: (1) updating the insurance fees of private vehicles in residual insurance; (2) An identical risk premium shall be set to drivers of the same risk regardless of whether the person is insured under a collective insurance policy or not. (3) Allowing insurance companies to refund premiums to careful drivers at the end of the insurance period; and (4) cancellation of the automatic linkage of compulsory vehicle insurance premiums to the CPI. The provisions of the Amendment shall apply to insurance policies, the insurance period of which commences on March 1, 2016.

The Company is currently studying the provisions of the "Amendment to the Codex – Compulsory Vehicle Sector"; the Company estimates that the provisions of the said amendment may have a material effect on compulsory vehicle insurance premiums. Company's estimation constitutes forward looking information, which is based on information available to the Company at the time of publication of this report. Actual results may be different than the estimated results, and may vary, among other things, as a result of the behavior of competing insurers and Company clients after the coming into effect of the Amendment.

<u>Residual insurance ("the Pool")</u>

The Israeli Vehicle Insurance Pool is an entity that insures the risks of vehicles that are rejected by compulsory vehicle insurers (residual insurance). This arrangement is provided by Motor Vehicle Insurance Regulations (Residual Insurance Arrangements and Mechanism for Setting Rate), 2001 ("the Pool Regulations"). The Pool operates as a normal insurance company and its rates are higher than that of other insurers in the market. All insurance companies active in compulsory vehicle insurance are partners in the Pool, and each bears losses and gains from its income proportionally to its share in the compulsory vehicle insurance market. The share of the Company in residual insurance in 2013 was 3% and in 2014 and 2015- 3.1%.

In January 2016 the Supervisor published a draft circular titled "The Amendment of the Provisions of the Consolidated Circular in the Compulsory Vehicle Insurance Sector". The draft circular aims to update the premiums in residual insurance, which are applicable to private and commercial vehicles in order to increase competition in the compulsory vehicle insurance sector. The draft also aims to create better correlation between the insurance premiums collected by the Pool and the risk of the insured person and of the vehicles, based on the safety systems installed in the vehicle.

The Company estimates that the provisions of the Amendment to the Codex – Compulsory Vehicle Sector and the draft circular (should it come into effect) may have a material effect on the Pool's losses. Company's estimation constitutes forward looking information, which is based on information available to the Company at the time of publication of this report. Actual results may be different than the estimated results, and will vary, among other things, as a result of the final wording of the draft circular and the behavior of competing insurers and Company clients after the coming into effect of the Amendment and of the draft circular.

The Road Accident Victims Compensation Fund ("Karnit")

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

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

Arrangements for distributing the compensation burden among insurance companies

According to CVRAL, in a multiple-vehicle accident, each driver will be liable to bodily damages caused to passengers of the vehicle which was insured through that driver.

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

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

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

1.2.3 **General insurance – home insurance**

General

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

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

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

On January 27, 2015, Insurance Business Supervision Regulations (Terms of Home Insurance Contracts) (Amendment), 2015 was published. The amendment includes, among other things, provisions on premium details for recovery of the insured asset, water and other liquid damages, method for calculation of indemnification, additional-amount insurance in an apartment building and third-party liability insurance.

In the opinion of the Company, the said amendment will reduce the variations between insurance policies offered to clients by insurance companies in Israel in the home insurance sector, which, in turn, will cause clients to focus on price and service when selecting an insurer. This will increase competition in the sector and will have an effect on the Company's profits from this sector.

1.2.4 **General insurance – commercial insurance**

General

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

The Company manages this insurance business in two main categories:

Liabilities insurance

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

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

This has two main consequences:

- Impact of capital market and presence of capital gain from investing reserves and of pending claims on the capital of the Company.
- Impact of legal presence and case law on the exposure of the Company in every individual claim.

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

In professional and directors and officers liability insurance products, coverage is based on the date of filing the claim. That is, coverage is given to claims that are filed during the insurance term, even if the reason to the coverage was created before the beginning of the insurance period.

According to the Insurance Contract Law, 1981 (hereafter – "the Insurance Contract Law"), the statute of limitations on insurance compensation is three years after the occurrence of the insured event. However, in liability insurance, claiming for compensation is not subject to statute of limitations as long as a third-party claim against the insurer is not subject to statute of limitations.

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

Property loss and engineering insurance

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

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

1.2.5 **<u>Health insurance</u>**

<u>General</u>

The Company began its activity in this segment in 1998. Healthcare insurance in the Company includes the following sub-segments: personal injury insurance, disease and hospitalization insurance and travel insurance.

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

In July 2015, the Supervision Regulations on Financial Services (Insurance) (Collective Health Insurance) were published in the official gazette. These regulations amend, among other things, certain aspects of the Collective Health Insurance Regulations, as follows: the manner of adding new policy holders, setting a ceiling to the increase in insurance premium in the course of the insurance period or at the time of renewal of the policy, issuing notices to the clients regarding renewal of the policy or changes in the terms of the policy in the course of the insurance period and limiting the insurance period of a collective health insurance policy to five years.

The Economic Plan (Legislative Amendments for Implementation of the Economic Policy for Budget Years 2015 and 2016), 2015, Law came into effect in November 2015. The health chapter of the law is aimed, among other things, to tackle the failures of the health insurance sector and cause reduction of households' spending on private health services. The law stipulates, among other things, that the insurance companies shall not refund or compensate a patient for surgery he/she underwent; the insurance companies will no longer be able to offer a service whereby a patient is refunded where he/she selected a surgeon (except for surgeons included in a closed list of the insurance company where this list includes up to 50 surgeons with unique specialization or in areas with a limited number of specialist surgeons; insurance companies will only be allowed to offer an arrangement which is based on an agreement between the insurance companies and the specialist or the medical institution. The provisions of the health chapter shall come into effect in July 2016.

Also, as from February 2016 the wording of the insurance policies covering surgery (policies covering surgery and surgery-alternative procedures in Israel, including consultations) is subject to the standard policy terms set in the Supervision Regulations on Financial Services (Insurance) (Terms included in Insurance Contract on Surgery, Surgery-Alternative Procedures and Consultations in Israel), 2015 (hereafter – "Standard Policy Covering Surgery). The standard policy covering surgery covers in Israel surgery expenses, expenses relating to surgery-alternative procedures, surgeon fees and consultations with specialists; the Company is not allowed to change the wording of the standard surgeries policy or to add or remove coverage that is available under the standard surgeries policy, unless the Supervisor approved such change in advance and in writing.

Upon publication of the regulations as above, the Supervisor issued a circular on the "provisions for implementation of the Supervision Regulations on Financial Services (Insurance) (Terms included in Insurance Contract on Surgery, Surgery-Alternative Procedures and Consultations in Israel)". The circular sets out provisions whereby insurers are to contact those who were insured in policies covering surgery prior to the coming into effect of the said regulations and offer them to be insured under a policy that complies with the provisions of the regulations; the circular also set requirements as to information insurers are to provide the Supervisor in connection with policies as above.

The Company is one of the first insurance companies that had its health insurance products approved by the Supervisor in accordance with the health insurance reform. It was given approval to market all its health insurance products at the beginning of February. The Company estimates that as of the date of publication of the report it is not possible to estimate the full consequences of the health insurance reform, since those consequences depend, among other things, on the intensity of the competition between insurance companies.

The Company manages segment in three main categories:

Personal injury insurance

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

Disease and hospitalization insurance

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

Travel insurance

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

1.2.6 **Life insurance – risk only**

General

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

Life insurance

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

Mortgage life insurance

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

Complementary health insurance

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

In addition, on November 29, 2014, a draft circular was published titled "Provisions for Implementation of Financial Services Supervision Regulation (Insurance) (Terms in Insurance Contract for Surgery, Surgery-Alternative Procedures, and Consultation in Israel). The draft circular introduces provisions requiring insurers to contact those who were covered by surgery policy prior to the implementation of the new regulation to allow those customers to move to policies that comply with the regulations and specifies information that must be provided to the Supervisor of Insurance regarding those policies.

1.3 Investments in capital and share transactions

In 2014 and 2015, no investments have been made in the capital of the Company and no transactions in its shares were made.

1.4 Dividend distribution

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

According to the minimum capital regulations, the Company is prohibited from distributing dividend if their capital is lower than the capital established in those regulations. In addition, there is an additional restriction on dividend distribution in the Companies Law, 1999 ("**the Companies Law**") and in letters of the Supervisor to insurance companies dated March 3, 2010 and December 29, 2011 that list the criteria for, and limits on dividend distributions by an insurer and the terms required by the Supervisor for approving a dividend distribution.

For more information about regulatory guidance on dividend distribution, see note 12 to the financial statements.

In accordance with the Company's capital management policy, which also includes its dividend payout policy, the Company has to hold capital that is 120% more than the minimum regulatory capital. Subject to certain conditions, the Company will pay dividend above that threshold.

On October 27, 2015, the Company announced a NIS 35 million dividend to AEHL. The dividend was paid on November 19, 2015.

In 2014 the Company distributed a dividend of NIS 35 million to AEHL. In 2013, the Company did not distribute dividend to its shareholders.

As of December 31, 2015, the Company has surplus equity over the level of equity required by the minimum capital regulation 1998, by a total of NIS 311.9 million.

The Company's equity increased by NIS 81,688 thousands in the reported year. This amount was classified to retained earnings due to adoption of the circular regarding the calculation of general insurance reserves. For details see note 2r(1) to the financial statements.

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

2.1 Activity segment 1 – Property vehicle insurance

2.1.1 Products and services

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

In 2015, the Company did not develop material new products and services in this segment.

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

2.1.2 Competition

According to data made public by insurance regulators, 13 companies are active in this segment, and the market is highly competitive. According to the financial statements for the first nine months of 2015, the main competition in this segment, by premium turnover are Menorah Insurance Company Ltd ("**Menorah**") (13.1%), Harel Insurance Company Ltd ("**Harel**") (12.0%), the Phoenix Insurance Company Ltd ("**the Phoenix**") (12.0%), IDI Insurance Company Ltd ("**Direct Insurance**") (11.3%) and Migdal Insurance Company Ltd. ("**Migdal**") (9.2%). The market share of the Company in this segment in total premiums during that period is 3.9%.

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

In that context note that the insurance company service index for 2014 was published in May 2015 ("the service index"). The service index enables clients to compare between different insurance products and it may increase the competition in the insurance market since it reflects the level of service provided by insurance companies by principal insurance products. For each insurance product a service index is calculated, which his based on three components: 1) payment of claims – the percentage of claims approved and paid and how quickly these claims were handled. 2) Handling clients' queries – clients' satisfaction of insurers' handling their queries. 3) Public complaints – weighting of complains which were lodged and assessed by the Capital Market Division. Data published by the Ministry of Finance show that the Company leads in the payment of claims category and in handling clients' queries regarding property vehicle insurance.

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

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

2.1.3 Customers

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

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

	2015	2014	2013
Private customers	226,806	202,952	177,287
Through agent mediation	57,371	53,620	50,351
Total	284,177	256,572	227,638

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

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

e. Renewals rate in 2015 in terms of premiums for policies that were in effect in the previous year is 77.5%.

f. The rate of customers who are also insured in compulsory vehicle insurance in 2015 is 83.1%.

g. The following information shows customers in property vehicle insurance in terms of premium in 2015 in percentage terms by years of first engagement:

First year of the first policy with the Company:	%
2015	%35
2014	%16
2013	%10
Through 2012	%39
Total	%100

2.2 Activity segment 2 – Vehicle compulsory insurance

2.2.1 Products and services

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

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

Those claims are characterized by a long claims tail.

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

2.2.2 Competition

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

The largest insurance companies in the segment, by premium base are: Migdal, Clal Insurance Company Ltd ("Clal"), Harel, Menorah and the Phoenix. According to the information for the first nine months of 2015, the total share of those companies in gross insurance premiums in this segment is 51.1%. The share of the Company of the gross total insurance premiums in the reported period is 3.0%.

Since the insurance coverage offered by all insurance companies is identical, and since it is possible to compare the insurance rates charged by insurance companies on the website of the Supervisor of Insurance, customers are very sensitive to change in insurance premiums. The approach taken by the Company to address this fierce competition in this segment is using advanced pricing and actuary methods, marketing campaigns, operating restructuring and ongoing improvement of customer service. Data published by the Ministry of Finance show that the Company leads the category of handling clients' queries in the compulsory vehicle insurance sector.

Also, the Company estimates that the annual publication of the service index shall increase competition in the compulsory vehicle insurance sector.

2.2.3 Customers

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

	2015	**2014**	**2013**
Direct marketing	130,371	121,499	111,563
Through insurance agents	16,411	24,773	23,452
Total	146,782	146,272	135,015

c. The Company is not dependent on any single customer.
d. No single customer represents 10% or more from company revenue.
e. Renewals rate in 2015 in terms of premiums for policies that were in effect in the previous year is 73.4%.
f. The rate of customers who are also insured in property vehicle insurance in 2015 is 90.5%.
g. The following information shows customers in compulsory vehicle insurance in terms of premium in 2015 in percent by years of first engagement:

First year of the first policy with the Company:	**%**
2015	%31
2014	%17
2013	%11
Through 2012	%41
Total	**%100**

2.3 Activity segment 3 - Home insurance

2.3.1 Products and services

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

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

In 2015, the Company did not develop any material new products in this insurance segment.

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

2.3.2 Competition

According to information released by insurance regulators, 13 insurance companies are active in this segment, resulting in fierce competition. According to data in the financial statements for the first nine months of 2015, the main competitors in this segment, by premium turnover are Clal (16.2%), the Phoenix (14.4%), Harel (13.3%), Menorah (12.4%) and Migdal (11.3%). The share of the Company in the total premium turnover in the reported period is 6.4%.

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

Also, in the opinion of the Company the home insurance calculator may increase competition in the home insurance sector and affect the premium paid by clients and the profitability of the insurance companies. At this stage, it is not possible to estimate the effect of the publication of the calculator on the Company, since actual effects depend on the way clients and competing insurers will behave.

Also, the Company estimates that the annual publication of the service index shall increase competition in the home insurance sector. The Company estimates that the service index may help the Company to become the lead player in this insurance sector.

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

2.3.3 Customers

a. The Company sells its products in this segment mainly to private customers through direct marketing.
b. The Company is not dependent on any single customer.
c. Renewals rate in 2015 in terms of premiums for policies that were in effect in the previous year is 88.5%.
d. The following information shows customers in home insurance in terms of premium in 2015 in percent by years of first engagement:

First year of the first policy with the Company	**%**
2014	%17
2013	%14
2012	%10
Through 2011	%59
Total	**%100**

AIG

2.4 Activity segment e - Commercial insurance

2.4.1 Products and services

a. Liability insurance

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

Directors and officers insurance – Coverage for directors and officers for an action, a failure or illegal action they performed while in office. Generally, the policy covers the liability of an officer under the Companies Law and other legislation (in Israel and overseas), which impose a duty of care and fiduciary duty and other duties that apply to directors and/or officers that impose personal responsibility.

- Professional liability insurance – Coverage to professionals to protect them against claims filed against them for damages caused to third parties as a result of mistakes and professional negligence.
- Employers' liability insurance – Covers employees from bodily injury claims (accident or illness) caused to an employee during work due to negligence of the employer. Usually, the policy covers the liability of the employee under the Torts Ordinance [New Version], 1968 ("**the Torts Ordinance**") in any amount not covered by the Israel National Insurance Institute.
- Third-party liability insurance – Coverage against bodily injury or property damage caused to a third party, excluding vehicle coverage and employers' insurance. The liability covered by this insurance is for the most part pursuant to the Torts Ordinance.
- Defective products liability insurance – Insurance coverage against injury or damage resulting from a defect in a product that was manufactured, marketed, assembled or maintained by the customer. Such policy is pursuant to two main pieces of legislation: (1) Warranty for Defected Products Law, 1980 which imposes liability on the manufacturer (as defined by the law) and apples to bodily injury only; (2) the Torts Ordinance, which makes a manufacturer liable to bodily injuries and property damages.

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

- Property insurance – coverage to customers in case of damage to property as a result of fire or lightning. Customers can buy additional coverage such as break-in, natural disasters, earthquake, explosion and insurance for loss income as a result of the insurance event.
- Contractors insurance – Coverage against unexpected damage to the insured assets during the construction of projects and buildings. The customer buys under the policy coverage for liability to third parties and employees as part of performing the construction works.
- Mechanical breakage – Coverage of damages caused by breakage in machines and other engineering equipment.
- Electronic equipment – Coverage against loss of or damage to electronic equipment, including external information storage equipment.

In 2015, the Company did not develop new material products in this insurance segment.

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

2.4.2 Competition

This segment is characterized by intense competition from leading companies in this market. According to information in the financial statements for the first nine months of 2015, the main competitors in this segment by premium turnover are Harel (21.1%), the Phoenix (12.8%), Clal (11.9%), Migdal (11.6%) and Menorah (10.4%). The share of the company in the professional liability and other liability from total premium turnover in the reported period is 4%, and the share of the Company in the property and engineering insurance by premium turnover in that period is 1.5%.
The Company addresses this competition by utilizing the expertise and financial robustness of the global AIG corporation, which is a global leader in this segment. In addition, the Company is constantly aspiring to align coverage to customers' needs and develop customized new products.

2.4.3 Customers

The company is not dependent on any single customer.

2.5 **Activity segment 5 – Health insurance**

2.5.1 Products and services

Health insurance is designed to compensate or indemnify customers for medical expenses in case of injury and/or medical conditions and to provide various healthcare services through contracted providers. The Company sells a variety of personal injury products, both to individual and collective customers. Health insurance products include personal accident policy, personal accident insurance to people over 50, serious illness policy, overseas travel and group accident insurance.

2.5.2 Competition

This segment is characterized by intense competition from the leading insurance companies in the segment. According to the financial statements for the first nine months of 2015, the leading insurers in this segment by premium turnover are Harel (26.9%), the Phoenix (18.2%) and Clal (18.0%). The share of the Company of total segment premium turnover in the reported period is 2.3%.

The share of the Company in personal accident segment of the total premium turnover in the segment in the reported period is 14.9% and the share of the Company in the serious illness and overseas travel of total premium turnover in this segment is negligible.

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

Data published by the Ministry of Finance show that the Company leads the service category in the field of personal accident, injury and disability insurance.

Also, the Company estimates that the annual publication of the service index shall increase competition in the health insurance sector. The Company estimates that the service index may help the Company to become the lead player in this insurance sector.

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

In 2015, the Company did not develop material new products in this segment.

2.5.3 Customers

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

	2015	2014	2013
Private customer – personal accidents insurance	172,613	169,880	164,980
Private customers – serious illness insurance	24,342	19,506	18,810
Overseas travel insurance	16,428	15,119	14,356
Group policies	2,213	3,273	5,476
Total	215,596	207,778	203,622

b. The Company mainly sells its products to privates customers through direct marketing. The sale of personal accident insurance policies is mainly done through insurance agents.
c. The Company is not dependent on any single customer.
d. The sale of overseas travel policies is done through a special call center at the Company's offices and serves mainly Leumi Card credit card customers. Maintaining the present level of this activity in the segment is dependent on this contract, which was renewed in 2013 for a 5-year period.
e. The rate of cancelations in 2015 in health policies that were in effect during the year in terms of premium was 16.6% of gross premiums.

2.6 Activity segment 6 – Life insurance

2.6.1 Products and services

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

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

In November 2015, the Supervisor published insurance circular 2015-1-24 "Report to the Supervisor on Rates in Life Insurance Plans". The purpose of the circular is to regulate the manner in which insurance companies will disclose the insurance rates in order to present them in an online calculator for life insurance rates. The circular determines the maximal premium that can be collected from a new client; it also stipulates that the insurance companies shall report to the Supervisor on actual insurance premiums collected in the life insurance sector; this report will be filed on a quarterly basis.

In the opinion of the Company, the future publication of the life insurance index in the Supervisor's website will enable clients to compare the rates offered by insurers; this, in turn, will intensify the competition in the market and may have an effect on Company's market share. The information included in this section constitutes forward looking information, which is based, among other things, on the current results of the Company. Actual results may be different than the estimated results since they depend, among other things, on the way clients and competing insurers will behave after the publication of the calculator.

In 2015, the Company did not develop any new material products in this insurance segment.

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

2.6.2 Competition

The life insurance segment is characterized by fierce competition. Most insurance companies are active in this insurance segment and 93.2% of the life insurance market is dominated by the five large insurance companies: Migdal, Clal, Harel, the Phoenix and Menorah. The share of the Company in the life insurance segment out of total premium turnover in the reported period is 0.5%.

Since clients can compare the life insurance premiums charged by all insurance companies by using the life insurance calculators available in various websites, clients are very sensitive to the issue of insurance premiums. The Company faces this competition by ongoing improvement of customer service, branding and highlighting unique features of the Company, and increasing operating efficiency.

Also, in the opinion of the Company, the annual publication of the service index will intensify the competition in the life insurance sector.

2.6.3 Customers

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

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

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

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

4.1 Restrictions and regulation applicable to the activity of the Company

Restrictions and regulation applicable to the activity of the Company

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

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

b. **The Supervision Law** – Defines the function of the Supervisor of Insurance and the Supervisor's powers of regulating insurance companies. On January 1, 2015, an amendment came into effect of Section 40 to the Supervision of Financial Services Law (Insurance), 1981. The amendment provides guidance on the introduction or change of an insurance plan, and requires the insurer to provide the Supervisor an advance notice 30 business days before the insurer plans to implement the new or changed insurance plan. The amendment also states that the Supervisor will be entitled to oppose the introduction or change of insurance plan, and also to impose different provisions on certain insurance segments, insurance plans or changes. In addition, the Supervisor will be authorized to direct an insurer to stop an insurance plan or change of plan after considering potential risk to the insurer. In addition, the amendment states that the supervisor is entitled (for special purposes that will be provided in writing, and after considering the potential risk to the insurer) to order an insurance to stop an insurance plan or plan change even for policies that were issued under an insurance plan before the amendment came into force, after finding that the insurance plan or some of its terms and conditions are depriving or cause serious or real damage to the interest of insurance customers.

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

- Minimum Capital Regulations – Indicate the minimum capital required by an insurer and the mechanism for computation.

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

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

- Details of Report Regulations – Those regulations govern all provisions concerning the contents, information and accounting principles for preparing financial statements of insurance companies.

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

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

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

d. **Circulars, clarifications, decisions and opinions of the Supervisor:**

Circulars and letter

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

- On February 3, 2015, the Supervisor issued Financial Institution Circular 2015-9-5, titled "Introduction of Insurance Plan and Provident Fund Bylaws". The purpose of this circular is to define procedures for filing a notice on a new insurance plan or bylaws or change thereof. The circular includes provisions about the information that needs to appear in a notice on a new insurance plan, a new collective insurance plan, reporting to the Supervisor on discontinued marketing, the way to file an insurance plan for personal injury insurance of not more than one year, and the basis for pricing the insurance plan.

- On February 26, 2015, the Supervisor issued Financial Institution Circular 2015-9-9, titled "Monthly Report of Provident Funds, Pension Funds and Insurance Companies". The circular is intended to update and consolidated the guidance on monthly reporting of financial institutions and improve the quality of reports filed to the Supervisor.

- In March 2015, the Supervisor issued Financial Institutions Circular 2015-9-11 titled "Required Information on the Website of a Financial Institution." The purpose of the circular is to set requirements for minimum information that a financial institution needs to provide the public on its website.

- In March, 2015, the Supervisor issued Insurance Circular 2015-1-5 titled "Change of Insurance Amount in Mortgage-related life insurance." The purpose of the circular is to determine the way in which an insurance company needs to act in cases of change in flow of payment in a mortgage recycling transaction, when the terms and amount of insurance do not deviate from the term and amount of insurance in existing policies.

- On April 1, 2015, the Supervisor issued Insurance Circular 2015-9-15 titled "Internal Control over Financial Reporting – Declarations, Reports and Disclosures and Management Responsibility for Financial Reporting, Amendment". The purpose of this circular is to amend Financial Institutions Circular 2010-9-7 titled "Internal Control over Financial Reporting – Declarations, Reports and Disclosures".

- On April 1, 2015, the Supervisor issued Financial Institution Circular 2015-9-14, titled "Financial Institution Circular at the Individual Asset Level". The purpose of the circular is to update and consolidate guidance on the quarterly list of individual assets that financial institutions file to the Supervisor, in order to improve the quality and availability of the report.

- On May 3, 2015, the Supervisor issued a directive titled "Business Continuity Management and Preparation for Emergencies". The document includes guidance for performing business continuity drills to assess readiness of financial institutions for consequences of a severe earthquake in Israel.

- On May 10, 2015 the Supervisor issued Insurance Circular 2015-9-21 regarding the "Amendment of the Provisions of the Consolidated Circular – Chapter 4 – Management of Investment Assets (Coordinated Loan to a Company and a Controlling Shareholder Who Experienced Financial Difficulties)". The objective of the circular is to determine the conditions applicable to financial institutions when extending a coordinated loan to a controlling shareholder or a company controlled by the controlling shareholder who experienced financial difficulties in the years preceding the grant of the loan.

- On May 10, 2015 the Supervisor issued Insurance Circular 2015-9-20 regarding the "Amendment of the Provisions of the Consolidated Circular – Chapter 4 – Management of Investment Assets (Rules under which Financial Institutions May Provide Credit)". The objective of the circular is to set provisions regarding the introduction of internal restrictions on providing credit to borrowers, setting another tier of underwriting procedures and analysis of coordinated loans and defining cases where a financial institution may rely on collaterals received. The circular also defines general guidance on the actions to be taken when a condition for immediate recall is breached and a duty to disclose credit taken to finance the purchase of controlling shares in a corporation.

- On May 10, 2015, the Supervisor issued Insurance Circular 2015-9-19 regarding "Reports to be Filed to the Supervisor about Debt Arrangements that Financial Institutions have Undertaken". The circular prescribes the manner in which entities that participate in debt arrangements are required to on report their participation in such arrangements to the Supervisor.

- On May 12, 2015 the Supervisor issued Insurance Circular 2015-9-203 regarding the "Amendment of the Provisions of the Consolidated Circular – Chapter 4 – Management of Investment Assets (Rules Regarding Participation in Consortium Transactions)". The objective of the circular is to set provisions regarding the participation of financial institutes in consortium and syndication transactions.

- On May 12, 2015 the Supervisor issued Insurance Circular 2015-9-24 regarding the Amendment of the Provisions of the Consolidated Circular – Chapter 4 – Management of Investment Assets (Holding more than 20% of the Means of Control in a Corporation)". The objective of the circular is to implement one of the recommendations made by the Goldschmidt Committee in connection with a financial institution's holding means of control in a corporation in a case where it receives such means of controls after they served as collateral for a debt owed to that financial institution and the collateral was realized.

- On June 14 2015 the Supervisor issued Insurance Circular 2015-9-25 regarding the "Annual Report on Compliance by Financial Institutions – Amendment". The purpose of this circular is to amend Circular 2013-9-12 "Annual Report on Compliance by Financial Institutions". The circular includes, among other things, reporting requirements on internal audit, compliance plan, internal enforcement and money laundering.

- On July 15, 2015 the Supervisor issued Insurance Circular 2015-1-12 regarding "Joining an Insurance Plan". The purpose of the circular is to set principles for formalizing the practices by insurance companies and insurance agents when adding candidates to insurance policies.

- On July 29, 2015 the Supervisor issued Insurance Circular 2015-1-13 regarding "Amendments and Clarifications on General Insurance Reporting". The purpose of the circular is to add information to the mandatory reporting format set in Insurance Circular 2009-1-6 "Required Disclosure Format in Accompanying Reports of Insurance Companies" including accompanying reports to appraiser reports issued in the property home and vehicle sectors.

- On August 2, 2015 the Supervisor issued Insurance Circular 2015-1-14 regarding the" Liability Adequacy Test (LAT) in Financial Statements of Insurance Companies". The purpose of the circular is to determine the manner of calculation of the adequacy of reserves and the disclosure provided in financial statements of insurance companies, with reference to the different characteristics of the future cash flows, including non-liquidity (through the non-liquidity premium) and cost of non-hedgeable risks.

- On August 10, 2015 the Supervisor issued Circular 2015-1-15 regarding "Required Disclosure Format in (Interim) Financial Statements of Insurance Companies under International Financial Reporting Standards (IFRS)". The purpose of the circular is to set the required disclosure format in interim financial statements of insurance companies. Among other things the circular includes the following changes: making changes in the disclosure requirements so that they comply with the provisions of IFRS, making changes to the disclosure requirements so that comply with the provisions regarding annual financial statements and adding a requirement that a material misstatement is reported to the Supervisor.

- On August 24, 2015, the Supervisor issued Circular 2015-1-16 titled "Guidance for Drafting Insurance Plans". The circular is designed to provide a list of terms and conditions that need to be included in an insurance plan and terms and conditions that should not be included in an insurance plan, such that insurance plans will not include depriving conditions and will be simple and clear.

- On August 25, 2015, the Supervisor issued Circular 2015-9-28, titled "Principles for Medical Underwriting". The circular is designed to set guidelines for medical underwriting by financial institutions. An appendix to the circular lists practices that can and cannot be used in healthcare underwriting.

- On September 6, 2015, the Supervisor issued Chapter 3 of Part 4 Heading 5 of the codex titled "Provisions of Consolidated Circular on Reporting to the Supervisor of Capital Markets". The provision is designed to serve as a collection of all provisions that require reporting by financial institutions to the Supervisor of Capital Markets, either if reporting duty is directly to the Supervisor or through the institution's website.

- On October 6, 2015, the Supervisor issued Circular 2015-1-22, titled "Principles for Change of Healthcare Insurance Rates to Existing Customers". The purpose of the circular is to present the principles underlying the review of applications that insurance companies will file to the Supervisor for changing rates paid by existing customers. That circular includes, among other things, provisions that will guide the change of rate paid by existing insurance customers, claim history and calculation of damages and additional actuarial consideration in determining insurance rates.

- On October 6, 2015, the Supervisor issued Circular 2015-1-20, titled "Independence between Individual Health Insurance Coverages". The purpose of the circular is to set provisions for marketing various individual healthcare insurance coverages, and the provisions for the purpose of cancelling such insurance coverages that were sold together.

- On October 6, 2015, the Supervisor issued Circular 2015-1-19, titled "Preparing Individual Health Insurance Plan". The purpose of the circular is to set provisions for preparing individual health insurance plans, and it includes, among other things, provisions on the following issues: the term of insurance and renewal, notifications to insurance customer about renewal of policy, change in premiums and other insurance terms and notification on the option to transition to a new policy and uniformity of changes in insurance plans.

- On October 6, 2015, the Supervisor issued Circular 2015-1-18, titled "Provisions on Insurance Coverage in Medication Insurance Plans". The purpose of the circular is to set updated provisions about insurance coverage in medication insurance plans.

- On October 6, 2015, the Supervisor issued Circular 2015-1-17 titled "Preparation of Critical Illness Insurance Plans." The purpose of the circular is to set provisions for developing insurance plans that cover critical illness and update the definition of critical illness that are covered by such policies to correspond with up-to-date medical definitions.

- On October 7, 2015, the Supervisor issued Circular 2015-9-31 titled "Employee Compensation Policy in Financial Institutions – Amendment". The amendment stated, among other things, that the compensation to a director in a financial institution, including chairman must be fixed and not conditioned on performance, and that in order to improve the oversight ability of the chairman of the board and increase its independence, and also that remuneration of chairmen of the board will be based on the remuneration mechanism of external directors. In addition, the circular provides for claw back of variable compensation paid to key officers in a financial institution in exceptional cases. In addition, the circular set rules regarding key officers in a financial institution who have additional duties in the group, and it was determined that a financial institution will not bear the costs of employing the officer with regards to its service as officer of another company in the group, and that an officer in the group of a financial institution will be prohibited from receiving compensation from another entity, including from the controlling shareholder of the financial institution or a significant shareholder that has no control over the financial institution.

- On October 8, 2015, the Supervisor issued Circular 2015-1-23, titled "Amendment of Provisions of the Consolidated Circular – Chapter 1 in Part 2 Heading 5 – Measurement". The purpose of the circular is to postpone the commencement of the application of the provision to the 2015 annual financial statements and to correct a typo found in the measurement chapter.

- On December 13, 2015, the Supervisor issued the institutional entities circular 2015-9-33 on "Management of Credit Risk of Investment Activities – Amendment". The objective of this circular is increase the involvement and accountability of the board of directors and the investments committee with regard to customized loans extended by a financial institution, in accordance with the recommendations of the Goldschmidt Committee.

- On December 13, 2015 the Supervisor issued Institutional Entities Circular 2015-9-34 regarding "Amendment of the Consolidated Circular – Chapter 4 – Management of Investment Assets (Internal Audit Committee, Investment Control and Handling of Problematic Debts)". The objective of the circular is to amend the provisions of Chapter 4 of the Consolidated Circular which deal with corporate governance in order to implement the recommendations of the Goldschmidt Committee, including the appointment and functions of the internal audit committee, credit control and handling of problematic debts.

- On December 21, 2015 the Supervisor issued Insurance Circular 2015-1-27 on "The Introduction of Service Statements and Marketing thereof". The objective of the circular is the set rules for the introduction of service statements and the marketing thereof. The circular will become effective on June 30, 2016.

- On December 21, 2015, the Supervisor issued a circular on "Involvement of Entity without Marketing License and Sale of Insurance Product that is not Collective Insurance - Amendment." The objective of the circular is to defer the coming into effect of circular 2014-10-2 from December 31, 2015 to May 15 2016. Circular 2014-10-2 deals with marketing of travel insurance solely by travel agents.

- On January 7, 2016 the Supervisor issued Institutional Entities Circular 2016-9-2 on "Annual and Quarterly Reports to Members and Policyholders of Institutional Entities". The objective of the circular is to set an annual and quarterly reporting format regarding life insurance products, among other things; it aims to extend the disclosure obligations that apply to institutional entities and to simplify the information to be presented in the report so that members and policyholders can use the reports as a control and monitoring tool.

Rulings

- On February 12, 2015, the Supervisor issued an In-Principle Ruling for the purpose of the People with Disabilities Law. This decision prescribes that an insurance company that gives a customer with disabilities a "different treatment", as defined by the Law, or rejected a person with disability, must provide explanations in a letter. The notice needs to indicate that the decision by the insurance company is due to the higher insurance risk of that person relative to a person without a disability. In addition, the notice needs to include a summary of actuarial, statistical, medical or other information that served as basis for the decision by the insurance company, and a summary of the information relevant to that person.

- On May 20, 2015 the Supervisor issued In-Principle ruling 2015-18127 regarding "Joining Collective Life Insurance". The objective of the resolution is to verify that insurance companies receive the written consent of people who join collective life insurance policies.

- On June 30, 2015, the Supervisor issued In-Principle Ruling 2015-214438 titled "In-Principle Ruling on Payment of VAT and Depreciation of Unrepaired Vehicle". This in-principle ruling states that when an insurance customer or a third party claims direct damages from repairing a vehicle and the insurer does not reject that claim, the insurer must pay the customer insurance benefits including, among other things, vehicle depreciation (if any such depreciation arises) and VAT applicable in this matter, even if the customer did not repair the vehicle in practice. This also applies in a case where an insurer elected to compensate the insurance customer and pay him the amount of the damage as well as in a case where a third party claims direct damages relating to the repair of his vehicle.

Drafts

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

- On June 17, 2015 the Supervisor issued draft "Financial Services Supervision Regulations (Insurance) (Maximum Life Insurance Commissions and Structure of Housing Loan (Amendment), 2015 – Draft". The draft includes, among other things, amendments which apply the said regulations also to mortgage-related life insurance.

- On July 7, 2015 the Supervisor issued Draft Insurance Circular 2015-95 regarding "Life Insurance Plans at Fixed Premium – Draft". The draft stipulates that companies should not market life insurance policies with a term of more than 5 years at fixed premiums, including mortgage life insurance.

- On August 5, 2015 the Supervisor issued Draft Insurance Circular 2015-85 regarding "Controls on the Monthly Report– Update". The purpose of the draft is to update circular no. 2009-9-27 of December 27, 2009, which deals with the "Controls on Monthly Report" issued to the Supervisor, and to adjust Circular 2009-9-27 to the changes made in the monthly report circular.

- On August 31, 2015, the Supervisor issued a draft titled "Decree on Compensation to Road Accident Victims (Financing of the Fund) (Amendment), 2015". The purpose of the amendment is to revise the frequency of reporting to the Road Accident Victims Compensation Fund in relation to vehicle compulsory insurance policies issued by an insurer under the Motor Vehicle Insurance Ordinance [New Version], 1970.

- On September 2, 2015, the Supervisor issued an explanatory memorandum for a legislative amendment of the Motor Vehicle Insurance Ordinance [New Version] (Amendment), 2015". The memorandum suggests to eliminate the requirement to have one original insurance certificate and permit insurers to issue insurance certificate electronically, since existing technologies on the market can provide current and accurate referencing and validation in relation to existence of insurance under the ordinance, in place of printing and holding a physical insurance certificate.

- On September 16, 2015, the Supervisor issued Draft 2015-34838, titled "Appendix to Circular on Processing and Settlement of Claims and Handling Communications from the Public – Draft". The draft includes provisions that are apply generally to all insurance sectors and provisions that apply specifically to insurance sectors. The draft is designed to establish a detailed set of rules to guide settlement of claims.

- On October 11, 2015, the Supervisor issued Draft 2014-117, titled "Management of Information Security Risks in Financial Institutions". The purpose of the draft is to ensure securing the rights of insurance customers by maintaining confidentiality, completeness and availability of information assets, information technology systems and business processes of a financial institution. In addition, the draft defines and increases the responsibility of financial institutions' boards and managements in the ongoing management of information security and cyber risks, to guide and oversee the implementation of information security, and continuous involvement of information security personnel in all activities of the financial institutions. In addition, the draft introduces a duty of financial institutions to manage the overall cyber and information security risks, based on information protection principles.

- On October 26, 2015, the Supervisor issued Draft 2015-38514, titled "Provisions for Correction of Irregularities – Marketing of Personal Injury Policies – Draft". The draft is designed to set provisions for correction of irregularities in marketing of personal injury policies.

- On November 10, 2015 the Supervisor issued Draft Insurance Circular 2015-160 regarding "Retrieval of Personal Information – Draft". The objective of the draft is to set provisions for the retrieval of customers' personal information and making necessary data regarding existing insurance products accessible to the customers in accordance with the specifications set out in the draft. Retrieval of the information as above will be effected using technological tools which will allow access to various insurance products and the settlement of the claim.

- On November 20, 2015 the Supervisor issued Draft Financial Institutions Circular 2015-153 on "Investment Rules Applicable to Financial Institutions". The objective of the draft is to set detailed provisions on the following issues: (a) Exceeding investment rates, (b) Appointment of a member of a board of directors by virtue of the financial institution holding the means of control in the corporation (c) Specialized investment track; (d) specialized index tracking investment; (e) investment in a partnership and in in real-estate right through a corporation which is not a partnership (f) providing loans, lending of securities and investment in non-marketable debt assets; (g) transaction with or through a related party; (h) investment in a related party and in an interested party; (i) control and holding means of control by an insurer.

- On November 30, 2015 the Supervisor issued Draft "Amendment of the Provisions of the Consolidated Circular Chapter 4 – Management of Investment Assets". The provisions of the following final circulars were included in the draft: (a) Circular 2015-9-20 regarding "Rules under which Financial Institutions May Provide Credit"; (b) Circular 2015-9-21 regarding " Coordinated Loan to a Company and a Controlling Shareholder Who Experienced Financial Difficulties)"; (c) Circular 2015-9-23 "Rules Regarding Participation in Consortium Transactions"; and (d) Circular 2015-9-24 regarding "Holding more than 20% of the Means of Control in a Corporation".

- On December 2, 2015 the Supervisor issued Draft Financial Institutions Circular 2015-154 titled "Outsourcing in Financial Institutions – Draft". The objective of the circular is to set out rules for outsourcing by financial institutions, including the process of outsourcing and management of outsourced activities. This draft cancels Financial Institutions Circular 2013-9-16 on "Outsourcing in Financial Institutions".

- On December 9, 2015 the Supervisor issued Draft Insurance Circular 2015-168 titled "Joining an Insurance Policy". The draft sets provisions for formalizing the practices by insurance companies and insurance agents when adding candidates to insurance policies. These include provisions regarding the suitability of the insurance policy to the needs of the candidate, outbound insurance marketing and the duties of an insurance company or insurance agent in the run up to entering an insurance contract.

AIG

- On December 20, 2015 the Supervisor issued Draft Agents and Advisors Circular 2015-172 regarding "Engagement of a Financial Institution with a License Holder". The objective of the circular is to achieve correlation between the work procedures set in Insurance Circular 2004/14 – "Engagement of an Insurer with an Insurance Agent" and the handling of insurance premium paid to insurers through insurance agents in each and every engagement between a financial institution and a license holder.

- On January 6, 2016 the Supervisor issued Draft Insurance Circular 2015-181 titled "Amendment of the Consolidated Circular – Heading 6 Part 2 – Provisions Applicable to the Home Insurance Sector". The draft seeks to regulate home insurance issues related to water damage in order to improve the service provided to the clients upon the occurrence of an insurance evet. Among other things, it is suggested in the draft that the client will elect the manner in which service will be provided to him if a water damage insurance event takes place. The alternatives suggested in the draft are: selecting any plumber or selecting a plumber who works on behalf of the insurance company where selection will be made from an extended list, which will also include plumbers who are not employed by a plumbing company.

4.2 Entry and exit barriers

4.2.1 Key entry barriers

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

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

b. Capital: An insurer has to comply with capital requirements in the Minimum Capital Regulations.

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

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

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

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

4.2.2 Key exit barriers

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

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

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

4.2.3 Limitations in control permit

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

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

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

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

d. Interested party transactions: AIG, the entities it controls and companies in the control chain of the Company are entitled to management fee from the Company only under a written management agreement that is submitted to the Supervisor of Insurance at least sixty days prior to its effective date, provided that

   the Supervisor of Insurance has not opposed that agreement prior to its effective date. The above limitation does not apply to providing services in the ordinary course of business and at arm's length by such companies.

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

4.3 Key success criteria

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

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

c. The Israeli insurance market is competitive, especially so in retail insurance, which is the main activity of the Company. Raising rates given the competition in this market may impact profitability of the Company. For more information about the competition in the Company's different areas of activity and measures that the Company is taking to deal with this competition, see paragraphs 2.1., 2.2.2, 2.3.2, 2.42, 2.5.2 and 2.6.2 in this report.

d. Frequent changes in regulatory require3ments and case law may have material impact on the business results of the Company.

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

Those success factors have not materially changed in 2015 except for the financial situation that changes frequently and impacts the Company in much the same way as it impacts the entire insurance market.

4.4 **Investments**

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

- Investment in listed government bonds
- Investment in high-rated corporate bonds
- Investment in bonds with short to long average term to maturity
- Investment in listed shares on leading indices

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

For more information about the investment management policy of the Company, please go to: http://www.aig.co.il-אודות/aigמדיניות-השקעות/

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

For more information about the composition of net investment income and net financing income, see note 21 to the financial statements. For information about the distribution of assets that are aligned with the liabilities of the Company, see note 4 to the financial statements.

4.5 **Reinsurance**

a. **General**

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

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

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

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

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

b. **American International Overseas Association companies**:

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

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

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

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

For more information about total premiums transferred in 2015 to reinsurers, see note 27 and 5 to the financial statements. For more information about balances and transactions with interested and related parties, see note 28 to the financial statements.

c. **Property vehicle insurance**

The Company engaged in the reported period in this sector in an XOL reinsurance contract with AIOA. The premiums recorded in favor of AIOA in the reported period were NIS 116 thousand. No fees are paid under this contract.

d. **Compulsory vehicle insurance**

The Company engaged in the reported year in this insurance segment in an XOL reinsurance contract with AIOA. The premiums recorded in favor of that company in the reported year was NIS 2,051 thousand. No fees are paid under this contract.

e. **Home insurance**

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

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

As of December 31, 2015, the insurance amount covered by proportional reinsurance in relation to earthquakes is NIS 7,988 million, while amounts covered in non-proportional reinsurance amount to NIS 39,974 million.

As of the date of this report, the Company acquired a coverage of NIS 520 million over the Company's retention, which is NIS 40 million for catastrophe. The reinsurer is AIG Europe Limited ("**AEL**"), which is a company in the global AIG corporation and a related party of the Company, rated A+ by rating agencies as of the date of issuing this report.

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

Home reinsurance premium:	**2015**	**2014**	**2013**
Proportional	7,513	7,686	6,282
Proportional - earthquake	4,078	7,645	6,120
Non-proportional - earthquake	5,400	8,639	9,033
Total	16,991	23,970	21,435

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

The premium recorded in favor of the AIOA companies in the reported year is NIS 11,100 thousand, and fees amount to NIS 3,415 thousand. The premiums recorded in favor of AIG Europe in the reported year was NIS 5,037 thousand.

f. **Health insurance**

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

- A surplus reinsurance contract, with fee as a fixed percent of premium (35%). Reinsurers in this contract are AIOA.
- A Quota Share reinsurance contract in a certain critical illness sector. The reinsurer in this contract is Swiss Re, which is rated AA- by S&P.
- In 2015 the Company entered into XOL reinsurance contracts from the amount of Company retention with AIOA companies, which covers from the amount of retention of the Company and up to $70,000,000 in the reported year and up to NIS 245 million in 2016.

The premiums recorded in favor of AIOA companies in the reported year are NIS 399 thousand. Commissions from reinsurance amounted to NIS 140 thousand.

g. **Commercial insurance**

The Company engaged in the reported year in quota share and surplus reinsurance contracts in liabilities, property, contractors, mechanical breakage and electronic insurance contract with AIOA. The premiums recorded in the reported year to the related companies amounted to NIS 110,443 thousand. The Company received fees on those contracts at a fixed rate of 25% to 35% from premium.

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

h. **Life insurance**

Through 2011, the Company engaged in surplus reinsurance contracts with Swiss Re, which is rated AA- by S&P and Gen Re, which is rated AA+ by S&P. In early 2011, the Company engaged in a reinsurance contract with Partner Re, which is rated A+ by S&P, instead, the above engagement with Gen Re.

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

In 2015 the Company engaged in a XOL insurance contract to cover catastrophe events with AIG Reinsurance Company Ltd, which is a company in the AIG global corporation, a related party of the Company and rated +A by S&P. The contract will be renewed in 2016. The Company did not achieve the ceilings set in the contract in the reported period and it does not have pending claims at a scope that approximates the limits set in the contract.

The following is information about premiums transferred to those companies:

Reinsurer name	Total reinsurance premiums (NIS in thousands)	% of total reinsurance premiums
Swiss Re	17,619	%76
Partner Re	3,637	%16
Gen Re	1,464	%6
AIRCO	375	%2
Total	23,095	%100

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

	Property vehicle			Compulsory vehicle			Home insurance		
	2015	2014	2013	2015	2014	2013	2015	2014	2013
Reinsurance premiums	116	108	108	2,051	2,040	1,895	16,991	23,970	21,435
Income / (loss)	116	108	108	60,623	(11,420)	(15,445)	6,462	13,649	12,066

	Health			Commercial (*)			Total		
	2015	2014	2013	2015	2014	2013	2015	2014	2013
Reinsurance premiums	2,408	5,606	14,234	122,757	106,577	103,815	144,323	138,301	141,487
Income / (loss)	(962)	(460)	(1,032)	(9,886)	(48,405)	(40,442)	56,353	(46,528)	(44,745)

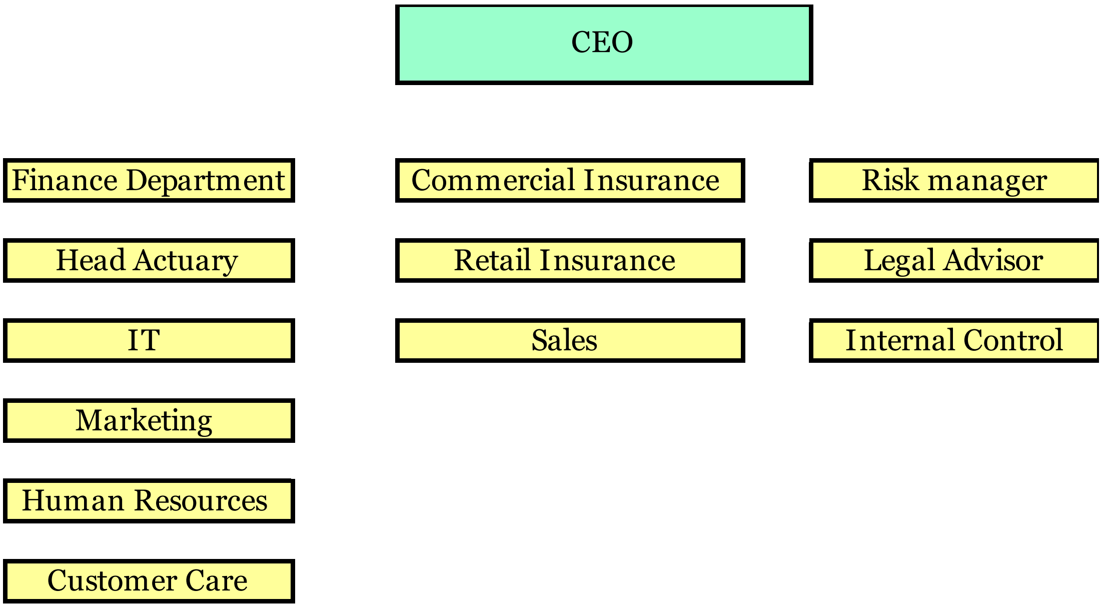
(*) Reinsurance premiums in commercial insurance are proportional contracts only, and include earthquake premium of NIS 6,190 thousand and NIS 6,084 thousand in 2015 and 2014, respectively.

For more information on reinsurance results, see note 27 f 5. 3. to the financial statements.

4.6 **Human capital**

a. General

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



All Company units are located in Company offices in Petach Tikva, and in one smaller branch in the Haifa region.

As of December 31, 2015, the Company had 904 employees, compared with 888 employees at the end of 2014. Some 72% of employees work in sales and services and in 2014 a similar percentage of the employees worked in sales and services.

The Company has no dependence on any single employee.

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

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

The weighted number of employees in the Company based on full-employment equivalent as of December 31, 2015 and 2014, based on the organizational structure if as follows:

Activity area:	**2015**	**2014**
Sales and services centres	558	544
Claims	72	67
Headquarters - business divisions	48	58
IT	47	51
Administrative and general	20	18
HR	19	20
Finance	21	22
Marketing	8	10
Total	793	790

b. Executives:

Senior management, including the CEO, comprised on the date of issuing this report 14 executives compared to 15 at the end of 2014.

- For more information about management – see Regulation 26A in Chapter D to the report "Additional Information on the Corporation".
- The board of the Company includes 7 directors, 2 of them are independent directors. For more information see Regulation 26 in Chapter D of the "Additional Information on the Corporation" chapter.

c. Compensation policy of the Company

Company's employees may be eligible to an annual bonus. The bonus shall be paid based on the Company's financial position and its meeting of its business targets; payment of the bonus is subject to the approval of the Company's board of directors. The amount of the potential annual bonus is set based on the rank of employees as a range of several salaries up to a maximal ceiling of 3 monthly salaries. This range is based on the level of performance of the employees compared to other employees in the relevant department in the Company or in the Group.

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

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

Employees engaged in investments management – normally bonuses to those employees are based on the yields from the Company's investment portfolio taking into account the level of risk of the investment portfolio in relation to targets set in that regard over the 3-year period preceding the date of assessment of performances.

The compensation policy of the Company's office holders (who are not directors) is comprised of two main elements:

1. An annual bonus – Granted to all employees as mentioned above, including officers, subject to achieving their annual personal goals, which include a personal review, initiative, management skills, personal development and work relations, and subject to the business results of the Company.

2. Long-term compensation – the following are the key terms of the plan:

   - The Company includes officer compensation based on a number of criteria that relate to the performance of the Company and is a long-term compensation plan for three-year bonus periods.

   - In each three-year bonus periods, a number of different targets are computed for each of the three calendar years in that bonus period. Each annual target for a calendar year is set and approved by the Board of Directors of the Company.

   - At the end of each calendar year, Company officers are presented with their performance relative to the targets set for that year. Additionally, at the end of each three-year bonus period, performance is compared to targets for the bonus period, i.e. for three years.

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

   - Officers in the Company are entitled to compensation for the bonus period only if they actively worked for the Company for at least one calendar year during the three-year bonus period.

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

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

For more information about the compensation policy of the Company, go to: https://www.aig.co.il/%D7%90%D7%95%D7%93%D7%95%D7%AA-AIG

For further details regarding the collective agreement which was signed between the Company's management, employees' representatives and the Histadrut in the reported period, see section 4.13 below.

4.7 Marketing and distribution

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

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

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

The main marketing channels of the Company are as follows:

- Media advertising (TV and radio) – main channel
- Advertising and selling online, billboards and print
- Insurance agents
- Cooperation with companies
- Use of databases of the company for cross-sales and up-sales.

a. Property vehicle insurance

Policies in this segment are marketed mainly through direct marketing. The average commission paid to agents (before VAT) is 16.0% of gross premium.

b. Compulsory vehicle insurance

Policies in this segment are marketed mainly through direct marketing. The average commission paid to agents (before VAT) is 5.4% of gross premium.

c. Home insurance

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

d. Health insurance

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

Part of shares of group personal injury policies is done through insurance agents. The average commission paid to agents (before VAT) is 18.8% of gross premium.

e. Commercial insurance

Policies in this segment are marketed exclusively through insurance agents. As of the date of this report, the average commission paid to agents (before VAT) in the liability business is 16% of gross premium, in professional liability 18.7% and in property and engineering 11%.

f. Life insurance

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

For information about material changes in the reported period that relate to commissions or payments to marketing channels, se section 4.1(d) to the report.

4.8 **Suppliers and services providers**

a. General

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

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

b. Compulsory vehicle insurance

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

c. Compulsory vehicle insurance

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

d. Home insurance

The Company engaged in agreements with different service providers, rendering maintenance and repair services to home appliances and buildings as well as providing healthcare services. A customer holding an extended policy with additional types of coverage is serviced by the relevant provider according to the relevant service contract. A significant part of the cost of those purchases is carried to the cost of claims. The Company is not materially dependent on any supplier or services providers.

e. Health insurance

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

f. Commercial insurance

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

g. Life insurance

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

h. Non-segment specific service providers

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

  The total payment to those suppliers in NIS millions are as follows:

Provider	2015	2014
Dortel	3.2	3.5
Comtech	3.5	3.6

- **Marketing and advertising service providers** – The Company sells most of its products through direct marketing to customers and therefore its marketing and advertising purchases are material relative to other insurance companies. The primary advertising service providers of the Company in this area in 2015 were the advertising agencies McCann Erikson Ltd. and Reuveni Pridan Ltd. For more information about the scope of expenses in this area, see note 25 to the financial statements.

4.9 Property, plant and equipment

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

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

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

In 2015, the Company invested NIS 19.0 million in hardware and software. The balance of depreciated cost of computer systems (including computer software) in the Company as of December 31, 2015 was NIS 33.6 million.

4.10 Seasonality

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

2015

Quarter	**1**	**2**	**3**	**4**	**Total**
Property vehicle insurance	74,860	67,936	74,705	66,676	284,177
Compulsory vehicle insurance	41,297	35,612	37,002	32,871	146,782
Home insurance	29,131	22,750	28,083	22,282	102,246
Commercial insurance	36,781	30,585	36,008	37,797	141,171
Health insurance	52,355	52,494	57,442	53,305	215,596
Life insurance	30,307	30,356	31,018	31,435	123,116
Total	264,731	239,733	264,258	244,366	1,013,088

2014

Quarter	**1**	**2**	**3**	**4**	**Total**
Property vehicle insurance	70,362	60,514	67,497	58,199	256,572
Compulsory vehicle insurance	40,619	34,385	37,798	33,470	146,272
Home insurance	28,841	22,897	28,840	23,545	104,123
Commercial insurance	36,359	26,354	31,267	28,415	122,395
Health insurance	50,275	51,334	54,460	51,709	207,778
Life insurance	28,001	28,677	29,324	29,882	115,884
Total	254,457	224,161	249,186	225,220	953,024

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

4.11 Intangible assets

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

b. The Company has permission to use the eight registered trademarks of the AIG – trademarks number 143541, 249430, 143544, 148118, 148119, 148120, 151905, 184361, 249429.

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

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

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

4.12 **Risk factors**

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

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

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

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

4.13 Material agreements and cooperation agreement

In April 2015 Company's management, the employees' representatives and the Histadrut signed a collective agreement, which settles the work relations, employment conditions and other related conditions of Company's employees to whom the agreement applies.

4.14 Other forecasts and assessments on the business of the Company

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

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

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

5. Part E – Corporate governance information

5.1 Information about independent directors

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

On February 27, 2015 Mr. Jules Polak – Chairman of the Audit Committee and an independent director – ended his tenure in the Company due to legal restrictions on the maximum service periods of independent directors.

Ms. Aliza Rotbard passed away on 29.11.15. The Company, members of the board of directors, managers and employees of the company mourn her loss.

In January 2016, Mr. Arie Nachmias commenced his tenure as an intendent director in the Company.

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

5.2 Internal auditor

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

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

b. Securities holding and conflict of interest:
   The internal auditor has no business relations with the Company or a related entity. The internal auditor holds two ordinary shares in a related AIG company. This shareholding may not affect his work in any way.

c. Work relations and additional roles
   The internal auditor is a Company employee who has no other rolls outside the Company. The internal auditor is assisted by 2 internal audit employees of the Company, and when necessary, uses external service providers and the internal audit resources of AIG.

d. Scale of employment

   The internal auditor' scope of employment is derived from the work plan approved by the Audit Committee and is subject to changes as a result of the business activity. In 2015, the internal auditor invested 3,950 hours in his work. In 2016, the scope of employment was set to 4,750 hours.

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

e. Compensation

The internal auditor is compensated by a monthly salary under a personal work contract, at amounts that reflect his position and responsibility. In 2015, the compensation of the internal auditor and his team was NIS 1.4 million. Total compensation to the internal auditor in 2014 was NIS 1.7 million.

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

5.3 Independent auditors

The independent auditors of the Company are Kesselman & Kesselman Certified Public Accountant. The partner responsible for the internal audit services is Noam Hadar CPA.

The date of being appointed as independent auditor is March 1996.

The following is the independent auditors' fee in NIS (excluding VAT) for services provided in 2015 and 2014 and the number of hours invested:

2015

	Fee for audit and tax services	Audit related services	Special tax services	Other services	Total
NIS thousand	735	149	167	94	1,145
Hours	4,547	550	239	363	5,699

2014

	Fee for audit and tax services	Audit related services	Special tax services	Other services[1]	Total
NIS thousand	755	149	80	129	1,113
Hours	4,616	550	190	600	5,956

5.4 Effectiveness of internal controls and the procedures over financial reporting and disclosure of the Company

Controls and procedures related to disclosure:
A financial institution management, in cooperation with CEO and CFO of that financial institution assessed as of the end of the reported period the effectiveness of the controls and procedures in relation to the disclosure of the financial institution. Based on this assessment, CEO and CFO of the financial institution concluded that as of the end of that period, the controls and procedures related to disclosure of the financial institution are effective in order to record, process, summarize and report the information that the financial institution is require to disclose in the annual financial statements according to the provisions of the law and the reporting requirements set by the Supervisor of Capital Markets, Insurance and Savings and on the times indicated in such regulations.

[1] Other services include translation and consulting services.

Internal control over financial reporting:
During the covered period ended December 31, 2015, no change has occurred in the internal control of the financial institutions over financial reporting that has had a material impact, or is likely to have a material impact on the internal control of the financial institutions over financial reporting.

5.5 Preparation to implement Solvency II

The following is a disclosure on the preparations made by the Company to implement the Solvency II directive ("**the directive**").

In April 2015, the Supervisor issued Insurance Circular 2015-1-9 on the requirement to perform IQIS in 2014. The circular provides guidance on performance of IQIS4, including a number of changes and updates compared to IQIS2. The main changes in the circular relate to cancelations, longevity, interest rate, shares, spreads, risk margin and liquidity premium.

In July 2015, the Supervisor issued a letter addressed to insurance companies' managers; which outlines the "transitional provisions regarding the implementation of a solvency regime based on "Solvency II". The transitional provisions relate, among other things, to gradual implementation of parameters pertaining to capital adequacy requirements in respect of shareholding, which may be one of the significant components of the capital adequacy requirements set as part of the solvency regime; other provisions set out in the letter pertain to the filing of a plan for improvement of the capital ratio for the purpose of compliance with the capital adequacy requirements through the date of issuance of the 2018 financial statements for companies, which fail to meet the required capital ratio upon coming into effect of the solvency regime.

An IQIS4 exercise performed by the Company using data from the financial statements as of December 31, 2014 shows that if the model introduced by the directive was effective on the said date, the Company would have had capital surplus of NIS 671 million (based on the new capital adequacy requirements), including full recognition of EPIEP.

It should be emphasized that the model in its present form is highly sensitive to changes in market variable as well as other variables; therefore, the capital adequacy requirements arising from this model are vulnerable to high volatility.

The information provided above regarding Company's capital surplus constitutes forward looking information, which is based on the provisions of the law and the Company's results at the time of publication of this report. Actual results may be different than the estimated results, and may vary significantly, among other things, as a result of various factors, principally regulatory changes applicable to the Company and the realization of all of some of the risk factors described in section 4.12 above.

AIG Israel Insurance Company Ltd

Shay Feldman	Ralph Mucerino
CEO	Chairman of the Board

March 15, 2016

Chapter B: Directors Report of Company's Business for the Year Ended December 31, 2015

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Chapter B: Directors Report

1. **Condensed description of the company:**

Organizational structure

The company is a private insurance company and does not hold any subsidiaries or related companies. The company has no activities abroad which are conducted through branches and investees

For further details as to the organizational structure of the company, including its holdings structure, its operations and the description of the development of its business – see Section 1.1 in Chapter A (description of company's business) in the company's periodic report.

Lines of business

For details regarding the company's lines of business and changes therein in the course of the reported period, see Section 1.2 and 2.1-2.6 in Chapter A (description of company's business) in the company's periodic report.

For details regarding the composition of premiums in the lines of business, see Section 4 below.

Dependence on clients or marketing entities

For details regarding dependence on clients or marketing entities, see Sections 2.1.3, 2.2.3,. 2.3.3, 2.4.3, 2.5.3, 2.6.3, and 4.7 in Chapter A (description of company's business) in the company's periodic report.

Developments or material changes in agreements with reinsurers

For details regarding developments or material changes in agreements with reinsurers see Section4.5 in Chapter A (description of company's business) in the company's periodic report.

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

For details regarding the collective agreement, which was signed in 2015 ("the reported period" or "the reported year") between the Company's management, the employees' representatives and the Histadrut, see Section 4.13 to Chapter A (Description of the Corporate's Business) of the Periodic Report.

Chapter B: Directors Report

2. Description of business environment:

Trends in the insurance sector, their effect on company's business in the reported period and on its financial statements data

General

In accordance with data published by the division of Capital Market, Insurance and Savings at the Israel Ministry of Finance, there are more than 15 Israeli insurance companies currently active in Israel; most of these companies are engaged in general insurance. In accordance with these data, as of September 30, 2015, insurance fees arising from the general insurance business amounted to NIS 15,697 million (excluding Karnit); the share of the 5 largest insurance companies – Harel, Clal, Phoenix, Migdal and Menorah – amounted to NIS 9,328 million, which constituted 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 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:

	2015	2014	2013
Government bonds indexes:			
General government bonds	1.6%	6.6%	3.5%
Linked government bonds	(0.2%)	5.8%	3.0%
NIS government bonds	2.8%	7.2%	4.0%
Corporate bonds indexes:			
Tel Bond 60	(0.4%)	0.9%	6.4%
Tel Bond NIS	4.7%	4.0%	5.9%
Shares indexes -			
Tel-Aviv 100	2.0%	6.8%	15.1%

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

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

Chapter B: Directors Report

Characteristics and developments in principal insurance lines of the company

For details about characteristics and developments in principal insurance lines 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 periodic report.

The effect of new laws, regulations and provisions on company's business in the reported period and on financial statements data

For details about the effect of the provisions of the law on company's business, Section 4.1 in Chapter A (description of company's business) in the company's periodic report.

Penetration into new fields of operation and marketing thereof

In the course of the reported period, the company did not penetrate into new fields of operations.

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

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

	2015	2014	2013
Gross premiums earned	988,885	923,251	882,315
Premiums earned by reinsurers	(160,623)	(149,576)	(173,387)
Premiums earned – retained amount	828,262	773,675	708,928
Investment income, net and financial income	18,616	49,127	75,241
Income from commissions	37,061	38,427	42,617
Total income	883,939	861,229	826,786
Payments and changes in liabilities in respect of insurance contracts – gross	(480,825)	(577,858)	(587,544)
Share of reinsurers in increase in insurance liabilities and payments with respect to insurance contracts	59,958	148,974	170,053
Payments and changes in liabilities in respect of insurance contracts – retained amount	(420,867)	(428,884)	(417,491)
Total other expenses	(319,010)	(301,548)	(302,392)
Income before taxes on income	144,062	130,797	106,903
Taxes on income	(53,971)	(47,894)	(41,003)
Income for the year and total comprehensive income for the year	90,091	82,903	65,900

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

	December 31	
	2015	2014
Other assets	291,454	349,256
Deferred acquisition expenses	149,675	148,214
Financial investments and cash	1,633,451	1,576,565
Reinsurance assets	548,150	718,971
Total assets	2,622,730	2,793,006
Shareholders' equity	827,686	690,907
Liabilities in respect of insurance contracts	1,417,989	1,715,261
Other liabilities	377,055	386,838
Total equity and assets	2,622,730	2,793,006

Shareholders' equity and capital requirements

As of December 31, 2015, company's shareholders' equity exceeds the shareholders' equity required as of that date under the Minimum Equity Regulations NIS 311.9 million.

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

In the reported year, the company's shareholders' equity increased by NIS 81,688 thousands. This amount was classified into retained earnings due to adoption of the circular regarding the calculation of general insurance reserves. For details see note 2r1 to the financial statements.

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

4. Results of operations

In 2015 the company continued to increase its gross premiums (an increase of 6.3% compared with gross premiums in 2014. Total gross premiums in the reported period amounted to NIS 1,013.1 million compared to NIS 953.0 million, in 2014.

Chapter B: Directors Report

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

2015	Auto Property insurance	Compulsory motor vehicle insurance	Personal property insurance	Health insurance	Commercial insurance	Life insurance	Total
Gross premiums	284,177	146,782	102,246	215,596	141,171	123,116	1,013,088
Premiums – retained amount	284,061	144,731	85,255	213,188	18,414	100,026	845,675
Total gross as % of total	28.0	14.5	10.1	21.3	13.9	12.2	100.0
Total net as % of total	33.6	17.1	10.1	25.2	2.2	11.8	100.0
2014							
Gross premiums	256,572	146,272	104,123	207,778	122,395	115,884	953,024
Premiums – retained amount	256,464	144,232	80,153	202,172	15,818	92,553	791,392
Total gross as % of total	27.0	15.3	10.9	21.8	12.8	12.2	100.0
Total net as % of total	32.5	18.2	10.1	25.5	2.0	11.7	100.0
2013							
Gross premiums	227,638	135,015	101,852	203,622	118,258	102,494	888,879
Premiums – retained amount	227,530	133,120	80,417	189,388	14,443	80,598	725,496
Total gross as % of total	25.6	15.2	11.5	22.9	13.3	11.5	100.0
Total net as % of total	31.4	18.3	11.1	26.1	2.0	11.1	100.0

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

	2015	2014	2013
Income (loss) from the Auto Property insurance line	(11,742)	26,643	15,911
Income from the compulsory motor vehicle line	59,882	17,750	18,341
Income from the personal property insurance line	9,419	14,479	12,416
Loss from the commercial insurance line	5,795	2,159	(10,657)
Income from the health insurance line	58,356	38,783	40,284
Income (loss) from the life insurance line	11,607	4,951	(3,849)
Other – income (loss) not charged to insurance lines	10,745	26,032	34,457
Income before taxes	144,062	130,797	106,903
Taxes on income	(53,971)	(47,894)	(41,003)
Income for the year and total comprehensive income for the year	90,091	82,903	65,900

The following are explanations of the development of some of the above presented data:

a. Income before tax in the reported period was NIS 144.1 million compared to NIS 130.8 million in 2014. The increase in income resulted from a marked improvement in underwriting results of the Company.

b. Income from net investment in the reported period was NIS 18.6 million compared to a NIS 49.1 million in 2014. The decrease in income from investments is attributed to significant decrease in yields on Israeli capital market investments in 2015 compared with 2014 mainly with respect to government bonds and shares (see section 2 above).

c. Loss from property motor vehicle insurance was NIS 11.7 million compared to a NIS 26.6 million in income in 2014. The significant decrease in income is mainly attributed to an increase in the claims ratio.

d. Income from compulsory vehicle insurance was NIS 59.9 million in the reported period compared to a NIS 17.8 million in 2014. The increase in profit was mainly attributed to an increase in the claims ratio.

e. Income from home insurance in the reported period was NIS 9.4 million from NIS 14.5 million in 2014. The decrease in income was mainly due to an increase in claims ratio.

f. Income from professional liability insurance in the reported period was NIS 3.5 million compared with an income of NIS 1.2 million in 2014. The increase in income was mainly due to an improvement in claims ratio.

g. Income from other property lines was NIS 0.7 million during the reported period, compared with a profit of NIS 0.2 million in 2014.

h. Income from other liabilities business was NIS 1.6 thousands in the reported period compared with an income of NIS 0.7 million in 2014. The increase in income was mainly due to an increase in claims ratio.

i. Income from health insurance was NIS 58.4 million in the reported period compared to a NIS 38.8 million in 2014. The increase in income is mainly due to an increase in claims ratio.

j. Income from life insurance was NIS 11.6 million in the reported period compared to a NIS 5.0 million income in the 2014. The increase in income was mainly due to an increase in the claims ratio.

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

a. Underwriting profits (in thousands of NIS)

	2015	2014	2013
Auto Property	(13,644)	22,527	10,795
Personal property	7,802	11,626	8,921
Other Property lines	576	(208)	805

b. Principal data regarding the loss ratio ("LR")[1] and the combined ratio ("CR")

	2015		2014		2013	
	LR%	CR%	LR%	CR%	LR%	CR%
Property motor vehicles:						
Gross	81%	105%	69%	91%	71%	95%
Retained amount	81%	105%	69%	91%	71%	95%
Personal Property:						
Gross	47%	86%	36%	76%	41%	79%
Retained amount	48%	91%	40%	85%	45%	89%
Other insurance lines:						
Gross	6%	29%	208%	236%	123%	151%
Retained amount	118%	67%	212%	119%	84%	59%

c. Compulsory vehicle insurance

The "pool" losses in open years are offset against the "accumulation' amount and had no effect on income in the reported period. "The Pool" losses in closed years reduced the reported income for 2015 by NIS 7.8 million compared with a decrease of NIS 7.0 million in 2014.

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

5. Cash flows and liquidity

Net cash provided by operating activities in 2015 amounted to NIS 34,613 thousand, compared with NIS 65,565 thousand in 2014.

Net cash used in investing activities in 2015 was NIS 19,442 thousand, compared with NIS 13,987 thousand in 2014.

Net cash used for financing activity in the Company in 2015 was NIS 35,000 thousand compared with NIS 35,000 in 2014.

As a result of the above, the balance of cash and cash equivalents in the reported period decreased by NIS 20,844 thousand and amounted to NIS 62,243 thousand as of December 31, 2015.

6. Sources of funding

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

7. The effect of external factors

For details see section 2 above.

8. Material events subsequent to balance sheet date

No material events occurred subsequent to balances sheet rate.

Shay Feldman
CEO

Ralph Mucerino
Chairman of the Board

March 15, 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 year ended December 31, 2015 (hereafter – "the report").

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

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

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

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

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

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

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

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

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

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

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

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

____

Shay Feldman - CEO

March 15, 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 year ended December 31, 2015 (hereafter – "the report").

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

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

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

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

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

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

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

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

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

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

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

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

____

David Rothstein - CFO

March 15, 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 December 31, 2015, based on criteria set in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation management believes that as at December 31, 2015 the internal control of the Insurance Company over financial reporting is effective.

Chairman of the Board: Mr. Ralph Mucerino ________________

CEO: Mr. Shay Feldman ________________

CFO: Mr. David Rothstein ________________

Date of approval of financial statements: March 15, 2016

This translation is for convenience purposes only.

AIG ISRAEL INSURANCE COMPANY LTD.

2015 ANNUAL REPORT

AIG ISRAEL INSURANCE COMPANY LTD.

2015 ANNUAL REPORT

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AUDITORS' REPORT

To the shareholders of

AIG ISRAEL INSURANCE COMPANY LTD

ON INTERNAL CONTROL OVER FINANCIAL REPORTING

We have audited the internal control over financial reporting of AIG Israel Insurance Company Ltd (hereinafter - the Company) as of December 31, 2015 based on criteria established in Internal Control— Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's board of directors and management are responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying directors' report on internal control over financial reporting. Our responsibility is to express opinions on the internal control over financial reporting based on our audit.

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

The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards (IFRS) and the disclosure requirements in the Supervision of Financial Services Law (Insurance), 1981 and the regulations thereunder. Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with International Financial Reporting Standards (IFRS) and the disclosure requirements set by the Supervisor of Insurance pursuant to the Supervision of Financial Services Law (Insurance), 1981 and the regulations thereunder, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control — Integrated Framework issued by the COSO.

We have also audited, in accordance with generally accepted financial principles, the financial statements of the Company as of December 31, 2015 and 2014, and for each of the three year in the period ended December 31, 2015, and our report, dated March 15, 2016, included an unqualified opinion on those financial statements.

Tel Aviv, Israel
March 15, 2016

Kesselman & Kesselman
Certified Public Accountants
Member of PricewaterhouseCoopers International Limited

AUDITORS' REPORT

To the shareholders of

AIG ISRAEL INSURANCE COMPANY LTD.

We have audited the attached statements of financial position of AIG Israel Insurance Company Ltd. ("the Company") as of December 31, 2015 and 2014 and the statements of comprehensive income, changes in equity and cash flows for each of the three-year period ended December 31, 2015. These financial statements are the responsibility of the Board of Directors and management of the Company. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, formulated on the basis of our audits, the financial statements referred to above present fairly, in all material respects and in accordance with the provisions of international financial reporting standards and the disclosure requirements set by the Supervisor of Insurance pursuant to the Supervision of Financial Services (Insurance) Law, 1981 and the regulations promulgated thereunder, the financial position of the Company as of December 31, 2015 and 2014 and the results of its operations, the changes in its equity and its cash flows for each of the three years in the three-year period ended December 31, 2015.

We have also audited in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB) of the United States on auditing internal control over financial reporting as adopted by the Institute of Certified Public Accountants in Israel, the internal control over financial reporting of the company as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). And our report dated March 15, 2016 expressed an unqualified opinion on the Company's effectiveness of internal control over financial reporting.

Tel-Aviv, Israel
March 15, 2016

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

AIG ISRAEL INSURANCE COMPANY LTD.

STATEMENTS OF FINANCIAL POSITION

	Note	December 31 2015	December 31 2014
		ILS in thousands	
A s s e t s			
Intangible assets	5	26,397	20,410
Deferred acquisition costs	6	149,675	148,214
Fixed assets	7	11,469	10,663
Reinsurance assets	13, 28	548,150	718,971
Premiums collectible	9	206,867	193,337
Current tax assets		3,250	84,697
Other receivables	8	43,471	40,149
		989,279	1,216,441
Financial investments:	10		
Marketable debt instruments		1,200,998	1,183,798
Non-marketable debt instruments		203,935	164,461
Marketable shares		92,851	87,300
Other		73,424	57,919
TOTAL FINANCIAL INVESTMENTS		1,571,208	1,493,478
Cash and cash equivalents	11	62,243	83,087
TOTAL ASSETS		2,622,730	2,793,006

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

Date of approval of financial statements by Board of Directors March 15, 2016.

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

AIG ISRAEL INSURANCE COMPANY LTD.

STATEMENTS OF FINANCIAL POSITION

	Note	December 31 2015	December 31 2014
		ILS in thousands	
Equity and liabilities			
EQUITY:	12		
Share capital		6	6
Share premium		250,601	250,601
Other capital reserves		11,084	11,084
Retained earnings		565,995	429,216
TOTAL EQUITY ATTRIBUTABLE TO COMPANY SHAREHOLDERS		827,686	690,907
LIABILITIES:			
Liabilities with respect to insurance contracts and investment contracts that are not yield dependent	13	1,417,989	1,715,261
Liabilities with respect to deferred taxes, net	18	8,141	10,267
Liabilities with respect to employee rights upon retirement, net		2,781	3,069
Liabilities towards reinsurers	29	279,347	280,598
Payables	19	86,786	92,904
TOTAL LIABILITIES		1,795,044	2,102,099
TOTAL EQUITY AND LIABILITIES		2,622,730	2,793,006

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

AIG ISRAEL INSURANCE COMPANY LTD.

STATEMENTS OF COMPREHENSIVE INCOME

	Note	Year ended December 31 2015	2014	2013
		ILS in thousands		
Gross premiums earned	20	988,885	923,251	882,315
Premiums earned by reinsurers		(160,623)	(149,576)	(173,387)
Premiums earned - retained amount	20	828,262	773,675	708,928
Investment income, net and financing income	21	18,616	49,127	75,241
Commission income	22	37,061	38,427	42,617
TOTAL INCOME		883,939	861,229	826,786
Payments and changes in liabilities with respect to insurance contracts, gross		(480,825)	(577,858)	(587,544)
Share of reinsurers in increase in insurance liabilities and payments with respect to insurance contracts		59,958	148,974	170,053
Payments and changes in liabilities with respect to insurance contracts, in retention	23	(420,867)	(428,884)	(417,491)
Commission, marketing expenses and other acquisition costs	24	(239,888)	* (230,090)	* (227,975)
General and administrative expenses	25	(82,884)	* (76,971)	* (73,392)
Financing (income) expenses	26	3,762	5,513	(1,025)
TOTAL EXPENSES		(739,877)	(730,432)	(719,883)
INCOME BEFORE TAXES ON INCOME		144,062	130,797	106,903
Taxes on income	18	(53,971)	(47,894)	(41,003)
INCOME FOR YEAR AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		90,091	82,903	65.900
BASIC EARNINGS PER SHARE:				
Basic earnings per share		15.72	14.47	11.71
Number of shares used in computation of basic earnings per share		5,730	5,730	5,630

* After reclassification due to change in accounting policy, see note 2u.

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

AIG ISRAEL INSURANCE COMPANY LTD.

STATEMENTS OF CHANGES IN EQUITY

	Share capital	Share premium	Other surplus	Retained earnings	Total
	ILS in thousands				
BALANCE AS OF JANUARY 1, 2015	6	250,601	11,084	429,216	690,907
CHANGES DURING THE YEAR ENDED DECEMBER 31, 2015:					
Net aggregate impact, as of December 31, 2015, of the accumulation and first-time implementation of the "best practice" (see note 2r (d) (5))				81,688	81,688
Total comprehensive income for the period				90,091	90,091
Dividend, (see note 12c3))				(35,000)	(35,000)
BALANCE AS OF DECEMBER 31, 2015	6	250,601	11,084	565,995	827,686
BALANCE AS OF JANUARY 1, 2014	6	250,601	11,084	381,313	643,004
CHANGES DURING THE YEAR ENDED DECEMBER 31, 2014:					
Total comprehensive income for the period				82,903	82,903
Dividend, (see note 12c3))				(35,000)	(35,000)
BALANCE AS OF DECEMBER 31, 2014	6	250,601	11,084	429,216	690,907
BALANCE AS OF JANUARY 1, 2013	6	250,601	11,084	315,413	577,104
CHANGES DURING THE YEAR ENDED DECEMBER 31, 2013 - TOTAL COMPREHENSIVE INCOME FOR THE PERIOD				65,900	65,900
BALANCE AS OF DECEMBER 31, 2013	6	250,601	11,084	381,313	643,004

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

AIG ISRAEL INSURANCE COMPANY LTD.

STATEMENTS OF CASH FLOWS

	Year ended December 31		
	2015	2014	2013
	ILS in thousands		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net cash provided by operating (Appendix A)	10,261	96,078	84,298
Interest received	44,813	45,484	39,693
Dividend received	2,480	2,337	2,234
Income taxes paid	(22,941)	(78,334)	(143,050)
Net cash (used in) provided by operating activities	34,613	65,565	(16,825)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Changes in asset covering equity and noninsurance liabilities:			
Acquisition of property and equipment	(6,019)	(1,769)	(4,516)
Acquisition of intangible assets	(13,423)	(12,218)	(4,871)
Net cash used in investing activities	(19,442)	(13,987)	(9,387)
CASH FLOWS FROM FINANCING ACTIVITIES -			
dividend paid by Company shareholders	(35,000)	(35,000)	-
Net cash used in financing activities	(35,000)	(35,000)	-
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(19,829)	16,578	(26,212)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	83,087	67,616	93,540
EFFECT OF CHANGES IN EXCHANGE RATE ON CASH AND CASH EQUIVALENTS	(1,015)	(1,107)	288
CASH AND CASH EQUIVALENTS AT END OF YEAR	62,243	83,087	67,616

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

AIG ISRAEL INSURANCE COMPANY LTD.

STATEMENTS OF CASH FLOWS

	Year ended December 31		
	2015	**2014**	**2013**
	ILS in thousands		
APPENDIX A - CASH FLOWS FROM OPERATING:			
Income before taxes on income	144,062	130,797	106,903
Adjustments with respect to:			
Items not involving cash flows:			
Change in liability with respect to insurance contracts that are not yield dependent	(134,592)	145,539*	160,382*
Change in Reinsurance assets	139,009	(71,305)*	(62,134)*
Increase in deferred acquisition costs	(1,461)	(7,694)	(10,329)
Change in liability for employee rights upon retirement, net	(288)	624	119
Depreciation of Fixed assets	5,213	6,354	6,153
Depreciation of intangible assets	7,436	6,607	5,804
Losses (gains), net on financial investments:			
Marketable debt instruments	26,506	4,057	(14,121)
Non marketable debt instruments	7,154	(3,525)	(939)
Marketable shares	(825)	(3,313)	(10,062)
Marketable index linked certificates	(329)	(675)	(9,511)
Influence of fluctuation in exchange rate on cash and cash equivalents	1,015	1,107	(288)
	48,838	77,776	65,074
Changes in other balance sheet items:			
Liabilities towards reinsurers	(1,251)	24,413	1,701
Investments in financial assets net	(110,236)	(85,158)	(30,891)
Premiums collectible	(13,530)	(6,923)	(12,259)
Receivables	(3,322)	(1,106)	(5,375)
Payables	(6,118)	4,100	437
Current tax assets	(889)	-	635
	(135,346)	(64,674)	(45,752)
ADJUSTMENTS WITH RESPECT TO INTEREST AND DIVIDEND:			
Interest received	(44,813)	(45,484)	(39,693)
Dividend received	(2,480)	(2,337)	(2,234)
	(47,293)	(47,821)	(41,927)
Net cash provided by operations	10,261	96,078	84,298

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

* Reclassified

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

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - GENERAL

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

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

The Company's shareholder is AIG Europe Holdings Limited which holds all the issued share capital of the Company. AIG Europe Holdings Limited is a member of AIG Global Corporation.

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

Definitions:

1) The Company – AIG Israel Insurance Company Ltd.

2) The parent company – AIG Europe Holdings Limited

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

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

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

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

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

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

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

10) Interested party - as defined in the Israeli Securities (Financial Statements) Regulations, 2010.

11) Life insurance fund - Actuarial fund calculated in accordance with the principles generally accepted for this purpose in Israel.

12) Unexpired risks fund - Funds calculated in accordance with the Regulations for Calculation of General Insurance Funds.

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

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.

NOTE 1 - GENERAL (continued):

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

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

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

19) Exposure to reinsurers - Debit balances with the company’s reinsurers, including the reinsurer’s share in the company’s outstanding claims and unexpired risks fund, all being net of the reinsurer’s deposits with the company.

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

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

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

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

a. Basis of presentation of financial statements

The Company's financial statements as of December 31, 2015 and 2014 and for each of the three years in the period ended December 31, 2015, are in compliance with International Financial Reporting Standards, which are standards and interpretations issued by the International Financial Reporting Interpretations Committee (IASB) (hereafter – "IFRS") and include the disclosure requirements set in accordance with the Supervision Law and regulations promulgated thereunder.

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

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

2) The financial statements have been prepared under the historical cost convention subject to such adjustments as were required with respect to the revaluation of severance pay plan assets and financial assets at fair value through profit or loss for the purpose of presenting those assets and liabilities at fair value.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

a. Basis of presentation of financial statements (continued):

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

b. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker in the Group who is responsible for allocating resources and assessing performance of the operating segments.

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

1) Functional currency and presentation currency

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

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

	Exchange rate of dollar	Consumer price index (last known index)	Consumer price index (index for particular month
		%	
Year ended December 31, 2015	0.3	(0.9)	(1.0)
Year ended December 31, 2014	12.0	(0.1)	(0.2)

As of December 31, 2015, the exchange rate of the U.S. dollar was $1 = ILS 3.902.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

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

2) Transactions and balances

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

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

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

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

d. **Fixed assets**

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

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

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

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

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

d. Fixed assets (continued):

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

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

Should the carrying value of an asset be greater than its estimated recoverable value, the resultant impairment of value stemming from the reduction of the carrying value to the level of the recoverable value is recognized immediately (see paragraph (f) below).

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

e. Intangible assets (software)

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

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

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

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

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

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

f. Impairment in value of nonmonetary assets

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

g. Financial assets:

1) Classification

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

a) Financial assets at fair value through profit or loss

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

b) Loans and receivables

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

2) Recognition and measurement

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

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

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

As to the fair value of financial assets measured at fair value, see note 10.

3) Offsetting financial instruments

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

4) Impairment of assets presented at amortized cost

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

g. **Financial assets** (continued):

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

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated income statement. If a loan or held to maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

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

h. **Premiums collectible**

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

Premiums collectible are initially recognized at fair value and subsequently measured at amortized cost as computed by means of the effective interest method after deduction of the provision for impairment of accounts receivables. A provision for impairment of accounts receivables is created when objective evidence exists to the effect that the Company is unable to collect all the outstanding debts receivable under the original terms. For more information about criteria that the Company is using to determine whether such objective evidence exists – see g(4) above. The carrying value of the debt is reduced by means of a provision account, with the amount of the loss being recognized in the statement of income. When the debt of a customer is not collectible, that debt is written off against the provision for imapairment of accounts receivables. Reversal of previously write offs in a subsequent period is credited to the statement of income.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

i. Cash and cash equivalents

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

j. Share capital

Ordinary shares and preferred shares of the company are classified as share capital.

k. Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less.

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

l. Liabilities towards reinsurers and payables

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

m. Current and deferred taxes

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

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

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

m. Current and deferred taxes (continued)

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

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

Deferred income tax assets and liabilities are offset only if:

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

n. Employee benefits:

1) Liability for severance and pension payments

A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

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

The company operates various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered pension funds. In accordance with their terms, the said pension schemes qualify as defined contribution plans.

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

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

n. Employee benefits (continued):

1) Liability for severance and pension payments

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

The present value of the defined benefit liability is computed by discounting expected future cash flows, after taking into consideration the expected rate of salary increases. The computation is based on the prevailing interest rates for government debentures denominated in the currency in which the benefits are to be paid, insofar as the period prior to the date of repayment of those debentures resembles the period remaining before actual payment of the severance pay liability is due.

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

2) Vacation and rest and recreation pay

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

The company expects that the vacation benefit shall be fully settled in the course of the 12 months period after the end of the reporting period in which the employees provide the relating services. Accordingly, the liability in respect of this benefit is measured in accordance with the additional amount the company expects to be required to pay for the unutilized entitlement accrued as of the end of the reporting period.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

n. Employee benefits (continued):

3) Bonus schemes

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

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

o. Provisions

Provisions are made for legal claims that are not recognized insurance claims when the Company has an existing legal or constructive obligation arising out of past events, when it is expected that Company resources will be required in order to settle the obligation, and when the amount of the obligation can be reliably estimated. The Company does not recognize provisions for future operational losses.

Should a number of similar obligations exist, the likelihood that Company resources will be required in order to settle the obligations is assessed by means of a consideration of the group of obligations as a whole. A provision is recognized even if the likelihood of Company resources being required to settle each of the individual obligations in the group is low.

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

As to insurance claims, see r below.

p. Revenue recognition:

1) Premiums

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

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

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

p. Revenue recognition (continued):

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

Premiums, commission and claims arising from underwriting pools and joint insurance are recorded on a proportionate basis in accordance with the rate of the Company's participation in the relevant contracts. Compulsory vehicle insurance premiums are recognized upon paying the premium since coverage is conditioned on paying the premium.

2) Income from commissions

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

3) Income from investments, net and financing income:

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

q. General and administrative expenses

General and administrative expenses are classified into overheads to settle claims (which are included in the "payments and movement in liabilities with respect to insurance contracts, gross"), into acquisition related expenses (included under "commission, marketing expenses and other acquisition costs") and into a balance of other general and administrative costs included in this item. The classification is carried out in accordance with internal models of the Company which are based on direct expenses charged and overheads loaded. For more information about change in accounting policies of the Company on this issue, see u. below.

r. Insurance contracts

International Financial Reporting Standard No.4, 'Insurance Contracts' ("IFRS 4"), exempts an insurer from the requirement to apply the provisions of International Accounting Standard No. 8, 'Accounting Policies, Changes in Accounting Estimates and Errors' ("IAS 8"), with five exceptions, when formulating its accounting policy with respect to insurance contracts. IAS 8 determines, inter alia, the manner in which accounting policy shall be formulated in relation to transactions or events not covered by specific provisions of international financial reporting standards.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

r. Insurance contracts (continued):

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

1) General insurance:

a) As to revenue recognition, see p above.

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

c) Liabilities for insurance contracts and deferred acquisition costs

Insurance reserves and pending claims included in liabilities in respect of insurance contracts, and the reinsurers' share in the reserve and in the pending claims under reinsurance assets, are computed in accordance with the Control of Financial Services Regulations (Insurance) (Calculation of General Insurance Reserves), 2013 ("the Calculation of Reserves Regulations), the Supervisor's directives, and standard actuarial methods for computing pending claims, which are applied according to the chief actuary's discretion. As of December 31, 2015, the "best practice" was implemented for the first-time, as discussed in (d)(5) above.

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

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

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

3) Insurance reserves and pending claims:

a. In accordance with the instructions of the Supervisor of Insurance, the pending claims reflected in the financial statements in relation to the general insurance sector are valued by an actuary, Mr. Ernst Segal (2014 - Ms. Avital Kohler), who has reported that she has valued the pending claims in accordance with the provisions of the supervision law, the instructions of the Supervisor of Insurance, and generally accepted actuarial principles as of the date of the financial statements, and that, to the best of her knowledge and in accord with her best assessment, the provision for pending claims constitutes a provision that is sufficiently adequate for the purpose of covering the Company's liabilities with respect to the claims pending in the abovementioned sectors, both in total and in relation to each sector considered separately.

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

r. Insurance contracts (continued):

b. In sectors and claim types where is no statistical significance, IBNR and IBNER provisions have been computed on an actuarial basis. The use of actuarial methods that rely on the claim development is most suitable when stable and sufficient information is available on claim payments and/or individual estimates of the expected total claim cost. When information available from claim experience is insufficient, the actual may sometimes use a calculation that weighs between a known estimate (of the company and/or sector), such as loss ratio, and actual claim development. Greater weight is given to estimations that are based on experience, as time passes and additional claim information is accumulated.

In January 2015, Supervisor Position "Best Practice for Calculation of General Insurance Reserves for Financial Reporting" (hereinafter - "the best practice"). The position of the Supervisor includes, among other things, explanations to several principles: professionalism, consistency, and care, which were not previously defined by the actuarial appraisal circular. The principle of care requires from an actuary to examine that it is fairly likely that reserves in retention is sufficient to cover liabilities of the insurer. For compulsory vehicle and liability insurance, the "fairly likely" test will be a probability of at least 75%. In addition, the Supervisor position also refers to the discount rate of liability flow for optimal estimation. The Supervisor position applies to the financial statements as of December 31, 2015 and thereafter.

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

4) Excess of income over expenses

Through December 31, 2015 – the date of first-time implementation of the "best practice" (see 5. Above), liabilities in compulsory vehicle and liabilities sectors had been calculated in accordance with the "excess of revenue over expenses method", as follows:

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

The accumulation was calculated in accordance with the Calculation of Reserves Regulations and in accordance with the directives of the Supervisor of Insurance, on the basis of revenue from premiums net of acquisition costs and claims plus investment income at a fixed annual real rate of 3%, without reference to the actual returns obtained, net of reinsurers' share in accordance with the insurance sectors and the relating underwriting year. The accumulation accrued until its release from the year insurance started, as calculated above, was included in liabilities in respect of insurance contracts and the deficit is recognized as an expense.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

r. Insurance contracts (continued):

In accordance with instructions received from the Supervisor of Insurance, if, in any particular sector, the balance of the accumulation before the share thereof attributable to reinsurers was lower than the above accumulation balance after adjustment with respect to the share thereof attributable to reinsurers, then the share of the above accumulation attributable to reinsurers was reflected in the balance sheet under ‘liabilities with respect to insurance contracts and nonprofit participating investment contracts’ instead of under ‘reinsurance assets.

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

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

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

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

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

2. Refers to the discount rate for liabilities.

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

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

r. Insurance contracts (continued):

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

6) The Company's management believes that the pending claims are sufficient, given that the pending claims are calculated mainly on an actuarial basis and their balance includes appropriate provisions required for IBNR.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

r. Insurance contracts (continued):

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

f) The acquisition costs of policies, the underwriting periods for which have not yet commenced, are recognized in the statement of income for the year in which their underwriting period commences and not in the statement of income for the year under review.

g) The unexpired risk reserve, presented under 'liabilities with respect to insurance contracts and nonprofit participating investment contracts, is comprised of unearned premiums which are not actuarially computed and which are not subject to any assumptions whatsoever. This reserve reflects insurance premiums relating to the period of insurance commencing after the date of the balance sheet.

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

2) Life assurance:

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

b) As to revenue recognition, see p above.

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

d) Deferred acquisition costs:

1) In accordance with the provisions of the 'details of report' regulations, the deferred acquisition costs of new life assurance policies (hereafter- "DAC") include those general and administrative expenses that relate to the acquisition of new policies. Under these provisions, the deferred acquisition costs are amortized in equal annual installments over the shorter of fifteen years and the period of the policy. In addition, a special amortization expense is recorded in order to ensure that the deferred acquisition costs do not exceed the amount that may be covered by future income. In accordance with the Company's actuarial declaration, the deferred acquisition costs for policies issued since May 1999, treated as an asset in the Company's accounting records, are expected to be covered by future income.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

r. Insurance contracts (continued):

2) The Company's actuary assesses the recoverability of the DAC every year in order to verify that the liabilities for insurance policies, net of the DAC for policies sold since 1999 is sufficient, and that the policies are expected to generate future income to cover the DAC deduction and the insurance liabilities, operating expenses and commissions in respect of those policies.

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

e) Liability adequacy testing for life insurance contracts

The Company tests the adequacy of the liabilities arising from life insurance contracts. If the test indicates that the premiums received are not sufficient to cover the expected claims, a special reserve is recorded for the deficiency. The test is made at the level of each product.

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

3) Health insurance:

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

b) Liabilities in respect of health insurance contracts

As prescribed by the directives of the Supervisor, pending claims included in the financial statements in respect of health insurance are evaluated by the actuary – Mr. Ernst Segal (2014 - Ms. Avital Koler) – who declared that she evaluated the pending claims in accordance with Supervision Law, the instructions and directives issued by the Supervisor and acceptable actuarial principles. Ms. Koler declared that to the best of her knowledge and assessment, the reserve for pending claims forms an adequate reserve for covering the insurer's commitments in respect of its liability arising from the said sectors of insurance, both aggregately and separately at their value as of the date of the financial statements. The actuary's valuations apply to gross and retention amounts.

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

s. Earnings per share

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

t. Dividend distribution

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

u. Proactive change in accounting policy in relation to cost allocation

In late 2015, the Company proactively changed its accounting policy in relation to attribution of costs between cost presented in "administrative and general expenses" and costs presented within "commissions, marketing expenses and other acquisition expenses" in the income statement. As part of this policy change, the Company changed haw it classifies marketing expenses and other acquisition costs from "administrative and general expenses" to "commissions, marketing expenses and other acquisition expenses" (see also notes 24 and 25; hereinafter - "the cost loading") and from using the loading model commonly used by the global AIG group to using a loading model that is more in line with the model used by the Company when performing other cost loadings in its financial statements.

Management believes that this change in accounting policy reflected in the financial statements, which provide more reliable and relevant information to financial statements users.

According to the provisions of IAS 8, the Company retroactively implemented this change in its accounting policy.

This change of accounting policy had no impact on items in the statement of financial position, statement of changes in equity, statement of cash flows and even not on pre-tax income and comprehensive income in the reported years.
Moreover, this change in accounting policy did not have any impact on compliance by the Company with regulatory guidance applicable to it.

The following are impacts of change in accounting policy:

Statements of income and other comprehensive income:

	As was previously reported (2015 - as would be reported if accounting policy has not been changed	The change	As presented in these financial statements
	ILS in thousands		
For the year ended December 31, 2015:			
Commissions, marketing expenses and other acquisition expenses	(178,743)	(61,145)	(239,888)
Administrative and general expenses	(144,029)	61,145	(82,884)
Income before taxes on income	144,062	-	144,062
Comprehensive income for the period	90,091	-	90,091

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

u. Proactive change in accounting policy in relation to cost allocation (continued):

	As was previously reported (2015 - as would be reported if accounting policy has not been changed	The change	As presented in these financial statements
	ILS in thousands		
For the year ended December 31, 2014:			
Commissions, marketing expenses and other acquisition expenses	(166,902)	(63,188)	(230,090)
Administrative and general expenses	(140,159)	63,188	(76,971)
Income before taxes on income	130,797	-	130,797
Comprehensive income for the period	82,903	-	82,903
For the year ended December 31, 2013:			
Commissions, marketing expenses and other acquisition expenses	(167,520)	(60,455)	(227,975)
Administrative and general expenses	(133,847)	60,455	(73,392)
Income before taxes on income	106,903	-	106,903
Comprehensive income for the period	65,900	-	65,900

v. Change in accounting policy due to changes in regulations and Supervisor directives on calculation of general insurance reserves, which were implemented for the first time in these financial statements

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

w. New standards, amendments and interpretations of existing standards, which have not yet become effective and not been early adopted by the Company:

1) Amendment to IFRS 9 – " Financial Instruments" (hereafter – "IFRS 9" or "the standard")

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling.

There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39.

For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss.

IFRS 9 was applied retrospectively for annual reporting periods beginning on or after January 1, 2018. Early adoption is permitted. The Company is yet to assess IFRS 9's full impact.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

w. New standards, amendments and interpretations of existing standards, which have not yet become effective and not been early adopted by the Company (continued):

2) IFRS 16 "Leases"

IFRS 16 will replace upon first-time implementation the existing guidance in IAS 17 - "Leases". The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases, and is expected to have material impact mainly on the accounting applied by the lessee-side of a lease transaction.

IFRS 16 changes the existing guidance in IAS 17 and require lessees to recognize a lease liability that reflects future lease payments and a "right-of-use asset" in all lease contracts (except for the following), with no distinction between financing and capital leases. IFRS 16 exempts lessees in short-term leases or the when underlying asset has a low value.

IFRS 16 changes the definition of a "lease" and whether a contract contains a lease.

IFRS 16 will be effective retrospectively for annual periods beginning on or after January 1, 2019, except as otherwise is prescribed by transitional provisions. Under the provisions of IFRS 16, early adoption is permitted subject to meeting certain conditions. The Company is assessing the expected impact of IFRS 16 on the financial statements.

3) Amendment to IAS 1 – "Presentation of Financial Statements" (hereafter – "amendment to IAS 1")

The amendment to IAS 1 deals with the following issues: materiality and the impact thereof on the disclosures provided in the financial statements, presentation of subtotals, order of presentation of the notes to the financial statements and disclosure of accounting policies.

The said amendment shall be effective for annual reporting periods beginning on January 1, 2016 or thereafter. Early adoption is permitted.

NOTE 3 - SIGNIFICANT ACCOUNTING ESTIMATES AND AREAS OF DISCRETION

Estimates and areas of discretion are subject to constant reassessment on the basis of past experience and a consideration of the manner in which they are affected by the influence of other factors, these factors including expectations with regard to future events that are deemed to be reasonable in the light of existing circumstances.

Significant accounting estimates and assumptions

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

1) Actuarial estimates with respect to insurance liabilities

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

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

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

Had the actuarial results been different by 10% compared with the estimates of the Company's actuary, the amount of the gross insurance liabilities would have been higher or lower by app. ILS 97 million.

2) Provisions for lawsuits

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

3) Testing for impairment of deferred purchase expenses in life insurance

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

4) Deferred taxes

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

NOTE 4 - OPERATING SEGMENTS

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

a. Life assurance sector

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

b. Health insurance sector

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

NOTE 4 - OPERATING SEGMENTS (continued):

c. General insurance sector

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

- Compulsory car insurance branch

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

- Car damages insurance branch

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

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

- Professional liability branch

  The professional liability branch provides cover to practitioners of the various liberal professions for any claims that may be made against them in relation to injury occasioned to a third party as a result of a mistake or professional negligence, as well as cover to company directors and officers in relation to any unlawful act or omission committed or occurring whilst they were carrying out their duties, and embezzlement loss coverage.

- Property branches and miscellaneous

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

- Other liability branches

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

NOTE 4 - OPERATING SEGMENTS (continued):

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

NOTE 4 - OPERATING SEGMENTS (continued):

	For year ended December 31, 2014				
	Life assurance	**Health insurance**	**General insurance**	**Not allocated to operating segments**	**Total**
	ILS in thousands				
Gross earned premiums	115,500	208,762	598,989		923,251
Premiums earned by reinsurers	(23,354)	(5,607)	(120,615)		(149,576)
Premiums earned retained amount	92,146	203,155	478,374		773,675
Investment income, net and financing income	51	4,193	24,957	19,926	49,127
Commission income	3,457	1,278	33,692		38,427
Total income	95,654	208,626	537,023	19,926	861,229
Change in insurance liabilities and payments with respect to insurance contracts, gross	(42,011)	(91,717)	(444,130)		(577,858)
Share of reinsurers in increase in insurance liabilities and payments with respect to insurance contracts	10,601	4,799	133,574		148,974
Change in insurance liabilities and payments with respect to insurance contracts relating to nonceded business	(31,410)	(86,918)	(310,556)		(428,884)
Commissions and other acquisition expenses *	(42,984)	(56,418)	(130,688)		(230,090)
General and administrative expenses *	(16,309)	(26,497)	(34,165)		(76,971)
Financing income (expenses)	-	(10)	(583)	6,106	5,513
Total comprehensive income (loss) before tax	4,951	38,783	61,031	26,032	130,797

* After reclassification due to change in accounting policy, see note 2u.

NOTE 4 - OPERATING SEGMENTS (continued):

	For year ended December 31, 2013				
	Life assurance	**Health insurance**	**General insurance**	**Not allocated to operating segments**	**Total**
	ILS in thousands				
Gross earned premiums	102,738	204,204	575,373		882,315
Premiums earned by reinsurers	(22,094)	(14,234)	(137,059)		(173,387)
Premiums earned retained amount	80,644	189,970	438,314		708,928
Investment income, net and financing income	104	6,619	35,212	33,306	75,241
Commission income	3,335	4,417	34,865		42,617
Total income	84,083	201,006	508,391	33,306	826,786
Change in insurance liabilities and payments with respect to insurance contracts, gross	(42,978)	(91,795)	(452,771)		(587,544)
Share of reinsurers in increase in insurance liabilities and payments with respect to insurance contracts	11,121	10,935	147,997		170,053
Change in insurance liabilities and payments with respect to insurance contracts relating to nonceded business	(31,857)	(80,860)	(304,774)		(417,491)
Commissions and other acquisition expenses *	(40,547)	(59,733)	(127,695)		(227,975)
General and administrative expenses *	(15,528)	(20,044)	(37,820)		(73,392)
Financing income (expenses)	-	(85)	(2,091)	1,151	(1,025)
Total income (loss) before tax	(3,849)	40,284	36,011	34,457	106,903

* After reclassification due to change in accounting policy, see note 2u.

NOTE 4 - OPERATING SEGMENTS (continued):

	December 31, 2015				
	Life Assurance	Health insurance	General insurance	Equity and other liabilities	Total
	ILS in thousands				
Assets					
Intangible assets	-	-	-	26,397	26,397
Deferred acquisition costs	-	673	64,550	84,452	149,675
Financial investments:					
Marketable debt instruments	-	127,681	669,246	404,071	1,200,998
Nonmarketable debt instruments	-	-	96,519	107,416	203,935
Shares	-	-	-	92,851	92,851
Other	-	-	-	73,424	73,424
Total financial investments	-	127,681	765,765	677,762	1,571,208
Cash and cash equivalents	8,264	10,116	8,116	35,747	62,243
Reinsurance assets	12,202	2,818	533,130	-	548,150
Premiums collectible	115	8,120	198,632	-	206,867
Other assets	2,016	-	44,705	11,469	58,190
Total assets	22,597	149,408	1,614,898	835,827	2,622,730
Liabilities					
Liabilities for insurance contracts and nonprofit participating investment contracts	49,140	115,230	1,253,619	-	1,417,989
Other liabilities	12,606	265	356,043	8,141	377,055
Total liabilities	61,746	115,495	1,609,662	8,141	1,795,044

NOTE 4 - OPERATING SEGMENTS (continued):

	December 31, 2014				
	Life assurance	Health insurance	General insurance	Equity and other liabilities	Total
	ILS in thousands				
Assets					
Intangible assets	-	-	-	20,410	20,410
Deferred acquisition costs	-	962	61,747	85,505	148,214
Financial investments:					
Marketable debt instruments	-	119,404	713,355	351,039	1,183,798
Nonmarketable debt instruments	-	-	108,623	55,838	164,461
Shares	-	-	-	87,300	87,300
Other	-	-	-	57,919	57,919
Total financial investments	-	119,404	821,978	552,096	1,493,478
Cash and cash equivalents	14,949	13,286	22,852	32,000	83,087
Reinsurance assets	13,055	5,241	700,675	-	718,971
Premiums collectible	291	21,553	171,493	-	193,337
Other assets	1,479	-	123,367	10,663	135,509
Total assets	29,774	160,446	1,902,112	700,674	2,793,006
Liabilities					
Liabilities with respect to insurance contracts and nonprofit participating investment contracts	51,791	137,135	1,526,335	-	1,715,261
Other liabilities	12,056	8,302	356,213	10,267	386,838
Total liabilities	63,847	145,437	1,882,548	10,267	2,102,099

NOTE 4 - OPERATING SEGMENTS (continued):

Additional information relating to general insurance segment (continued):

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

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

NOTE 4 - OPERATING SEGMENTS (continued):

Additional information relating to general insurance segment(continued):

	For year ended December 31, 2014						
	Compulsory car insurance	Car damages insurance	Apartments	Professional liability	Property branches and Miscellaneous*	Other liability branches*	Total
	ILS in thousands						
Gross premiums	146,272	256,572	104,123	56,414	32,036	33,945	629,362
Reinsurance premiums	(2,040)	(108)	(23,970)	(47,675)	(30,777)	(28,125)	(132,695)
Premiums relating to nonceded business	144,232	256,464	80,153	8,739	1,259	5,820	496,667
Change in balance of unearned premiums relating to nonceded business	(4,733)	(11,461)	(82)	(1,364)	(136)	(517)	(18,293)
Premiums earned on nonceded business	139,499	245,003	80,071	7,375	1,123	5,303	478,374
Investment income, net and financing income	10,951	4,116	2,873	3,200	479	3,338	24,957
Commission income	-	-	4,870	13,233	8,212	7,377	33,692
Total income	150,450	249,119	87,814	23,808	9,814	16,018	537,023
Change in insurance liabilities and payments with respect to insurance contracts	(109,602)	(168,861)	(36,945)	(30,731)	(52,706)	(45,285)	(444,130)
Share of reinsurers of increase in insurance l liabilities and payments with respect to insurance contracts	13,460	-	4,592	25,395	50,327	39,800	133,574
Change in insurance liabilities and payments with respect to insurance contracts relating to nonceded business	(96,142)	(168,861)	(32,353)	(5,336)	(2,379)	(5,485)	(310,556)
Commission, marketing expenses and other acquisition expenses **	(26,181)	(48,238)	(29,742)	(12,911)	(5,854)	(7,762)	(130,688)
General and administrative expenses **	(10,377)	(5,377)	(11,220)	(4,128)	(1,310)	(1,753)	(34,165)
Financing expenses	-	-	(20)	(253)	(37)	(273)	(583)
Total expenses	(132,700)	(222,476)	(73,335)	(22,628)	(9,580)	(15,273)	(475,992)
Total comprehensive income before taxes on income	17,750	26,643	14,479	1,180	234	745	61,031
Gross liabilities with respect to insurance contracts as of December 31, 2014	666,500	168,599	64,517	262,359	96,557	267,803	1,526,335
Liability for retention insurance contracts as of December 31, 2014	506,731	168,599	56,140	49,839	3,591	40,760	825,660

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

** After reclassification due to change in accounting policy, see note 2u.

NOTE 4 - OPERATING SEGMENTS (continued):

Additional information relating to general insurance segment (continued):

	For year ended December 31, 2013						
	Compulsory car insurance	Car damages insurance	Apartments	Professional liability	Property branches and Miscellaneous*	Other liability branches*	Total
	ILS in thousands						
Gross premiums	135,015	227,638	101.852	43,007	39,552	35,699	582,763
Reinsurance premiums	(1,895)	(108)	(21,435)	(35,842)	(37,650)	(30,323)	(127,253)
Premiums relating to nonceded business	133,120	227,530	80,417	7,165	1,902	5,376	455,510
Change in balance of unearned premiums relating to nonceded business	(7,609)	(10,582)	(546)	155	73	1,313	(17,196)
Premiums earned on nonceded business	125,511	216,948	79,871	7,320	1,975	6,689	438,314
Investment income, net and financing income	16,359	5,116	3,555	4,198	831	5,153	35,212
Commission income	-	-	3,180	10,838	10,881	9,966	34,865
Total income	141,870	222,064	86,606	22,356	13,687	21,808	508,391
Increase in insurance liabilities and payments with respect to insurance contracts	(107,786)	(155,018)	(40,439)	(64,945)	(46,115)	(38,468)	(452,771)
Share of reinsurers of increase in insurance l liabilities and payments with respect to insurance contracts	17,340	-	4,559	52,925	44,453	28,720	147,997
Increase in insurance liabilities and payments with respect to insurance contracts relating to non ceded business	(90,446)	(155,018)	(35,880)	(12,020)	(1,662)	(9,748)	(304,774)
Commission, marketing expenses and other acquisition expenses **	(25,884)	(43,343)	(26,929)	(12,902)	(8,245)	(10,392)	(127,695)
General and administrative expenses **	(7,199)	(7,792)	(11,321)	(5,913)	(2,144)	(3,451)	(37,820)
Financing Expenses	-	-	(60)	(827)	(169)	(1,035)	(2,091)
Total expenses	(123,529)	(206,153)	(74,190)	(31,662)	(12,220)	(24,626)	(472,380)
Total comprehensive income (loss) before taxes on income	18,341	15,911	12,416	(9,306)	1,467	(2,818)	36,011
Gross liabilities with respect to insurance contracts as of December 31, 2013	632,567	146,404	62,622	234,943	65,438	254,386	1,396,360
Liability for retention insurance contracts as of December 31, 2013	477,611	146,404	55,283	45,546	2,946	40,320	768,110

* Property lines and other include mainly results from the property insurance sector, the operations of which constitute 84% of total premiums in these sectors. Other liability sectors include mainly results from the product liability insurance sector, the operations of which constitute 40% of total premiums in these sectors.

** After reclassification due to change in accounting policy, see note 2u.

NOTE 5 - INTANGIBLE ASSETS (SOFTWARE):

	Software
	ILS in thousands
Cost:	
Balance as of January 1, 2014	44,445
Additions in 2014*	12,218
Retirements in 2014	-
Balance as of December 31, 2014	56,663
Additions in 2015*	13,423
Retirements in 2015	(647)
Balance as of December 31, 2015	69,439
Accumulated amortization:	
Balance as of January 1, 2014	29,646
Additions in 2014	6,607
Retirements in 2014	-
Balance as of December 31, 2014	36,253
Additions in 2015	7,436
Retirements in 2015	(647)
Balance as of December 31, 2015	43,042
Depreciated balance:	
At December 31, 2015	26,397
At December 31, 2014	20,410

* Additions in respect of computer software include mainly additions in respect of proprietary development: in 2015 - ILS 12,366 thousand and in 2014 – ILS 9,629 thousand.

NOTE 6 - DEFERRED ACQUISITION COSTS:

a. Composition

	December 31	
	2015	2014
	ILS in thousands	
Life assurance (see section b.)	84,452	85,505
Health insurance (see section b.)	673	962
General insurance	64,550	61,747
Total	149,675	148,214

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

	Life Assurance	Health insurance	Total
	ILS in thousands		
Balance as of January 1, 2014	81,818	1,306	83,124
Additions (acquisition expenses)	28,774	962	29,736
Current amortization	(6,716)	(1,306)	(8,022)
Amortization relating to cancellations	(18,371)	-	(18,371)
Balance as of December 31, 2014	85,505	962	86,467
Additions (acquisition expenses)	26,160	673	26,833
Current amortization	(6,790)	(962)	(7,752)
Amortization relating to cancellations	(20,423)	-	(20,423)
Balance as of December 31, 2015	84,452	673	85,125

NOTE 7 - PROPERTY AND EQUIPMENT:

a. Composition of assets and accumulated depreciation thereon, grouped by major classifications, and changes therein in 2015, are as follows:

	Computers and communications equipment	Office furniture and equipment	Leasehold improvements	Total
	ILS in thousands			
Cost:				
Balance at beginning of year	23,285	6,569	12,887	42,741
Additions during year	5,559	302	158	6,019
Retirements during year	(2,523)	-	(1,011)	(3,534)
Balance at end of year	26,321	6,871	12,034	45,226
Accumulated depreciation:				
Balance at beginning of year	18,127	3,666	10,285	32,078
Additions during year	3,523	479	1,211	5,213
Retirements during year	(2,523)	-	(1,011)	(3,534)
Balance at end of year	19,127	4,145	10,485	33,757
Depreciated balance at end of year	7,194	2,726	1,549	11,469

b. Composition of assets and accumulated depreciation thereon, grouped by major classifications, and changes therein in 2014, are as follows:

	Computers and communications equipment	Office furniture and equipment	Leasehold improvements	Total
	ILS in thousands			
Cost:				
Balance at beginning of year	22,521	6,292	15,721	44,534
Additions during year	1,319	340	110	1,769
Retirements during year	(555)	(63)	(2,944)	(3,562)
Balance at end of year	23,285	6,569	12,887	42,741
Accumulated depreciation:				
Balance at beginning of year	15,068	3,261	10,957	29,286
Additions during year	3,614	468	2,272	6,354
Retirements during year	(555)	(63)	(2,944)	(3,562)
Balance at end of year	18,127	3,666	10,285	32,078
Depreciated balance at end of year	5,158	2,903	2,602	10,663

NOTE 8 - OTHER RECEIVABLES:

	December 31	
	2015	**2014**
	ILS in thousands	
Prepayment of expenses:		
Expenses accompanying insurance Transactions	18,643	18,462
Other expenses	1,475	858
Total prepaid expenses	20,118	19,320
Employees	269	45
Postdated checks	240	183
Insurance companies, mainly subrogation claims	16,079	14,038
Related parties (see note 28a)	4,534	3,422
Other	2,231	3,141
Total other receivables	43,471	40,149

As of December 31, 2015 and December 31, 2014, no provision for impairment of accounts receivables was required.

NOTE 9 - PREMIUMS COLLECTIBLE:

a. Composition:

	December 31	
	2015	**2014**
	ILS in thousands	
Linked to Consumer Price Index	64,500	37,596
Linked to dollar	22,389	17,519
Unlinked	128,085	146,178
	214,974	201,293
Less - provision for impairment of accounts receivables	(8,107)	(7,956)
Total*	206,867	193,337
* Includes backdated checks, payments by standing order and payments though credit card companies	183,851	177,636

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

The Company has a balance of premium collectible from related parties, see note 28a.

NOTE 9 - PREMIUMS COLLECTIBLE (continued):

b. Aging:

	December 31	
	2015	**2014**
	ILS in thousands	
Unimpaired premiums collectible:		
Not overdue	205,305	191,031
Overdue*:		
Less than 90 days	738	829
Between 90 and 180 days	824	1,477
Total unimpaired premiums collectible	206,867	193,337
Impaired premiums collectible	8,107	7,956
	214,974	201,293
Less - provision for impairment of accounts receivables	(8,107)	(7,956)
Total premiums collectible	206,867	193,337

As of December 31, 2015 and December 31, 2014, the Company had no unimpaired premiums collectible that are 180 days or more overdue.

* Including an amount as of December 31, 2015 of ILS 49 thousand (as of December 31, 2014 - ILS 43 thousand) for overdue life insurance receivables.

c. The change in the provision for impairment of accounts receivables is set out below:

	Year ended December 31	
	2015	**2014**
	ILS in thousands	
Balance at January 1	(7,956)	(6,897)
Change in provision during year through profit and loss	(151)	(1,059)
Balance at December 31	(8,107)	(7,956)

NOTE 10 - FINANCIAL INVESTMENTS:

Financial investments composition:

	As of December 31, 2015		
	At fair value through profit or loss	Loans and receivables	Total
	ILS in thousands		
Marketable debt assets(a)	1,200,998	-	1,200,998
Nonmarketable debt assets(b)	-	203,935	203,935
Listed shares (d)	92,851	-	92,851
Other(e)	73,424	-	73,424
Total	1,367,273	203,935	1,571,208

	As of December 31, 2014		
	At fair value through profit or loss	Loans and receivables	Total
	ILS in thousands		
Marketable debt assets(a)	1,183,798	-	1,183,798
Nonmarketable debt assets(b)	-	164,461	164,461
Listed shares (d)	87,300	-	87,300
Other(e)	57,919	-	57,919
Total	1,329,017	164,461	1,493,478

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

	December 31	
	2015	2014
	ILS in thousands	
Government bonds	589,845	629,992
Other non-convertible marketable debt instruments	611,153	62
Other convertible marketable debt assets	-	553,744
Total marketable debt instruments	1,200,998	1,183,798

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

	Carrying amount		Fair value	
	2015	2014	2015	2014
	ILS in thousands			
Non-marketable bonds	106,221	60,808	108,560	60,893
Bank deposits	97,714	103,653	97,661	103,559
Total non-convertible debt assets	203,935	164,461	206,221	164,452

As of December 31, 2015 and December 31, 2014, ass non-marketable debt assets are not overdue and not impaired.

NOTE 10 - FINANCIAL INVESTMENTS (continued):

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

	Effective interest*	
	2015	2014
	Percentages	
Linkage basis:		
Linked to CPI	3.30%	3.58%
Linked to USD	-	-
ILS denominated	3.40%	3.80%
Linkage basis:	-	
Linked to CPI	1.91%	1.47%
Linked to USD	5.42%	5.19%
ILS denominated	8.5%	-

* Weighted average

d. Shares:

	December 31	
	2015	2014
	ILS in thousands	
Marketable shares - designated upon initial recognition at fair value through profit or loss	92,851	87,300

e. Other financial investments:

Marketable shares* - designated upon initial recognition at fair value through profit or loss	73,424	57,919

* Other financial investments mainly include investments in exchange traded funds.

f. Interest rates used in determining fair value

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

	December 31	
	2015	2014
	Percentages	
AA rating or more	1.86%	1.79%
A rating	4.12%	6.46%
Lower than BBB rating	18.24%	13.5%

NOTE 10 - FINANCIAL INVESTMENTS (continued):

g. Hierarchy of fair value of financial assets

Fair value hierarchy is determined as follows:

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

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

NOTE 11 - CASH AND CASH EQUIVALENTS:

	December 31	
	2015	**2014**
	ILS in thousands	
Cash and deposits available for withdrawal on demand:		
Denominated in New Israel Shekels	55,999	74,897
Denominated in dollars	5,981	7,821
Denominated in other currencies	263	369
Cash and cash equivalents	62,243	83,087

As of the date of the balance sheet, cash and cash equivalents deposited with banks were credited with interest at rates based upon the daily bank deposit rate (0.03%).

NOTE 12 - SHAREHOLDERS' EQUITY AND EQUITY REQUIREMENTS:

a. Composition of share capital:

	Number of shares			
	Authorized		**Issued and fully paid**	
	December 31			
	2015	**2014**	**2015**	**2014**
Ordinary ILS 1 shares	45,000,100	45,000,100	5,730	5,730

b. Rights attached to shares

The rights attached to ordinary shares are the right to vote in shareholders meetings, the right to receive dividends, rights attendant upon the liquidation or winding up of the Company, and the right to appoint the directors of the Company.

In the past, the Company had also 100 preferred shares that granted their holders rights to vote in shareholders' meetings. On April 29, 2014, the rights attached to the preferred shares were changed, and their turned into ordinary shares for all intents and purposes.

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

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

c. Capital management and requirements:

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

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

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

	December 31	
	2015	**2014**
	ILS in thousands	
The amount required by the Supervisor's regulations and the directives of the Supervisor (a)	515,769	546,550
The existing amount computed under the capital regulations:		
Initial basic capital	827,686	690,907
Total existing capital, computed according the capital regulations	827,686	690,907
Surplus as of the date of this report	**311,917**	**144,357**
Aside from the general requirements of the Companies' Law, the payment of a dividend out of the equity surpluses of insurance companies is also subject to compliance with liquidity requirements and the provisions of the investment regulations. The investments for which it is obligatory to set against equity surplus in accordance with the Supervisor's instructions constitute detained surplus.		
Surplus net of detained surplus		
(a) The required equity includes, inter alia, capital requirements with respect to the following:		
Operations related to general insurance	106,236	123,599
Exceptional life assurance risks	36,790	31,756
Deferred acquisition costs in relation to life assurance	84,452	85,505
Investment assets and other assets	44,547	73,831
Catastrophe risk related to general insurance	218,294	200,903
Operating risks	25,450	30,956
Total	515,769	546,550

3) On October 27, 2015, the board of directors of the Company resolved to distribute dividend of ILS 35 million, or ILS 6.11 per share. The dividend was paid on November 19, 2015.

   On October 28, 2014, the Company's Board of Directors resolved to distribute a dividend in the total amount of ILS 35 million (ILS 6.11 per share). The dividend was paid on December 30, 2014.

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

d. Solvency II

In November 2014, the Supervisor issued a letter to insurance companies' managers ("the letter") about an outline for implementing Solvency II capital adequacy directive (hereinafter - the directive). In her letter, the Supervisor wrote that the European parliament has voted to implement the directive in the European Union beginning in 2016 and a timeline was set for final implementation of the guidelines. Given that the final guidance are scheduled for publication by June 2015, the Supervisor announced she intends to publish in 2016 guidance for adjusting the first tier of the directive to the local market, which will replace the present directive, and that insurance companies will be required to meet those directives beginning in the 2016 annual financial statements. As part of preparations for model implementation, the Ministry of Finance requires insurance companies to perform IQISs that are designed to calibrate the model (simulation of the impact of the directive on the capital of an insurer provided the existing business mix and present balance sheet). Under this guidance, it was noted that a number of IQISs have been conducted in the past and that it is planned to conduct two more IQISs in 2014 and 2015. (For more information about IQIS in 2014, see below).

It was noted further, that beginning in 2016, prior to the new regimen coming into effect, it is intended to apply quarterly reporting according to the new framework, concurrently to the equity requirements under present regulations.

The change of capital requirement is subject, among other things, to a change in Supervision of Financial Services Regulations (Insurance) (Minimum Capital Required by an Insurer), 1998.

In addition, the Supervisor intends to publish directives on capital management and setting internal capital target, on gap analysis that companies will be required to perform under risk management analysis, controls and governance and a consultation paper for advancing a Own Risk and Solvency Assessment (ORSA) process.

In April 2015, the Supervisor issued a circular on the performance of IQIS for 2014 (hereinafter - IQIS4). Under the accompanying letter of the circular, since publication of the outline for directive implementation last year, the European Commission has issued final regulations on Solvency, and technical guidance for implementation.

The accompanying letter on IQIS4 stated, among other things, that the study reflects a decision by the Supervisors staff on required adjustments for the Israeli market, and they will be reflected in the new guidance. In addition, note that ahead of IQIS5, the Supervisor's staff will continue to follow up on any developments in the EU guidance, and will discuss adjustments that may be required for Israel.

Insurance companies will be required to comply with the new capital guidance beginning in their 2016 annual financial statements.

The requirements to perform IQIS4 includes a number of changes and revisions versus IQIS2. Key changes relate to scenarios of cancellations, longevity, interest, shares, spreads, risk margin and liquidity premiums. The Company completed IQIS4 in June 2015, and issued study results to the Supervisor by August 31, 2015, in accordance with the outline.

According to IQIS4 results of the Company, capital surplus of the Company as of December 31, 2014 increased under Solvency II relative to capital surplus under existing Israeli solvency regimen (see c. above).

Note that the model, in its present format, is highly sensitive to changes in market and other factors, and therefore, capital requirements it reflects may be very volatile.

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

	As of December 31					
	Gross		Reinsurance		Retained amount	
	2015	2014	2015	2014	2015	2014
	ILS in thousands					
Insurance contracts in life assurance sector	49,140	51,791	12,202	13,055	36,938	38,736
Insurance contracts in health insurance sector	115,230	137,135	2,818	5,241	112,412	131,894
Insurance contracts in general insurance sector	1,253,619	1,526,335	533,130	700,675	720,489	825,660
Total liabilities with respect non-profit Participating insurance contracts and investment contracts	1,417,989	1,715,261	* 548,150	* 718,971	869,839	996,290

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

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

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

	As of December 31					
	Gross		Reinsurance		Retained amount	
	2015	2014	2015	2014	2015	2014
	ILS in thousands					
Compulsory car insurance and liability sectors:						
Provision for unearned premiums	117,050	112,895	42,835	39,747	74,215	73,148
Excess of income over expenses (accumulation) *	-	105,186	-	12,181	-	93,005
Pending claims	781,832	978,581	407,267	547,401	374,565	431,180
Total liabilities in compulsory car insurance and liability sectors **	898,882	1,196,662	450,102	599,329	448,780	597,333
Property and miscellaneous sectors:						
Provision for unearned premiums	195,220	174,415	25,831	22,122	169,389	152,293
premium deficiency reserve	11,321	-	-	-	11,321	-
Pending claims	148,196	155,258	57,197	79,224	90,999	76,034
Total liabilities in property and miscellaneous sectors	354,737	329,673	83,028	101,346	271,709	228,327
Total liabilities with respect to insurance contracts in general insurance sector	1,253,619	1,526,335	533,130	700,675	720,489	825,660

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

	As of December 31					
	Gross		Reinsurance		Retained amount	
	2015	2014	2015	2014	2015	2014
Deferred acquisition costs:	ILS in thousands					
Compulsory car insurance and liability sectors	22,093	18,787	11,963	7,446	10,130	11,341
Property and miscellaneous sectors	42,457	42,960	6,699	4,763	35,758	38,197
Total	64,550	61,747	18,662	12,209	45,888	49,538
Liabilities with respect to general insurance contracts, after deduction of deferred acquisition costs:						
Compulsory car insurance and liability sectors (see 14b(1) below)	876,789	1,177,875	438,139	591,883	438,650	585,992
Property and miscellaneous sectors (see b(2) below)	312,280	286,713	76,329	96,583	235,951	190,130
Total liabilities with respect to general insurance contracts, after deduction of deferred acquisition costs	1,189,069	1,464,588	514,468	688,466	674,601	776,122
* For information about elimination of the accumulation and implementation of the "best practice" to calculation of general insurance reserves - see note 2r(d)(5).						
** Of that amount, liability for compulsory vehicle	475,386	666,500	90,717	159,769	384,669	506,731

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

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

	As of December 31					
	Gross		Reinsurance		Retained earnings	
	2015	2014	2015	2014	2015	2014
	ILS in thousands					
Actuarial valuations:						
Mr. Ernst Segal**	915,441	-	464,473	-	450,968	-
Ms. Avital Koler	-	1,122,786	-	626,709	-	496,077
Total actuarial valuations	915,441	1,122,786	464,473	626,709	450,968	496,077
Additional liability with respect to difference between actuarial valuation and amount reflected in financial statements	14,587	11,053	(9)	(83)	14,596	11,136
Provision for unearned premiums	312,270	287,310	68,666	61,869	243,604	225,441
Premium deficiency reserve	11,321	-	-	-	11,321	-
Excess of income over expenses (accumulation) *	-	105,186	-	12,180	-	93,006
Total insurance liabilities with respect to insurance contracts in general insurance sector	1,253,619	1,526,335	533,130	700,675	720,489	825,660

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

** For more information about a change in accounting estimate on the degree of conservativism required in general insurance sectors – see note 27 (e)(3).

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

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

b1. Compulsory car insurance and liability sectors:

	As of December 31					
	Gross		**Reinsurance**		**Retained amounts**	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**
	ILS in thousands					
Balance as of beginning of year	1,177,875	1,106,157	591,883	552,935	585,992	553,222
Ultimate cost of claims with respect to current underwriting year	185,706	195,972	67,107	72,298	118,599	123,674
Change in balances as of beginning of year as result of linkage to Consumer Price Index and investment income in accordance with capitalization discount reflected in liabilities	10,842	14,807	-	492	10,842	14,315
Change in estimate of ultimate cost of claims with respect to previous underwriting years	(155,632)	(15,364)	(50,923)	15,484	(104,709)	(30,848)
Total change in ultimate cost of claims	40,916	195,415	16,184	88,274	24,732	107,141
Payments in settlement of claims during course of year:						
With respect to current underwriting year	(2,243)	(2,316)	(944)	(177)	(1,299)	(2,139)
With respect to previous underwriting years	(234,573)	(125,542)	(156,803)	(47,957)	(77,770)	(77,585)
Total payments for period	(236,816)	(127,858)	(157,747)	(48,134)	(79,069)	(79,724)
Accumulation with respect to current underwriting year	-	24,671	-	278	-	24,393
Accumulation added to profits on closing of underwriting year	(14,695)	(11,048)	(5,489)	(5,796)	(9,206)	(5,252)
Remaining change in accumulation	(90,491)	(9,462)	(6,692)	4,326	(83,799)	(13,788)
Total change in accumulation for period	(105,186)	4,161	(12,181)	(1,192)	(93,005)	5,353
Balance as of end of year	876,789	1,177,875	438,139	591,883	438,650	585,992

1. The opening and closing balances include pending claims, accumulation and unearned premium, net of deferred acquisition costs.
2. The ultimate cost of claims includes the balance of outstanding pending claims (without accumulation), provision for premium shortfall, unearned premium net of deferred acquisition costs together with the total of payments made in respect of claims including direct and indirect expenses incurred in the settlement of claims.
3. Payment for settlement of claims during the year includes direct and indirect general and administrative costs incurred in, and attributable to, the settlement of claims; the costs are allocated between the various underwriting years.

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

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

b2. Property and miscellaneous sectors:

	As of December 31					
	Gross		Reinsurance		Retained amount	
	2015	2014	2015	2014	2015	2014
	ILS in thousands					
Balance as of beginning of year	286,714	232,807	96,583	65,340	190,131	167,467
Ultimate cost of claims with respect to events occurring in year under review	297,080	233,997	38,957	31,986	258,123	202,011
Change in ultimate cost of claims with respect to events in prior years	(41,484)	24,514	(30,990)	22,934	(10,494)	1,580
Payments made in course of year in settlement of claims:						
With respect to events occurring in year under review	(193,603)	(152,956)	(8,592)	(6,074)	(185,011)	(146,882)
With respect to events occurring in prior years	(69,056)	(63,710)	(21,403)	(19,017)	(47,653)	(44,693)
Total payments	(262,659)	(216,666)	(29,995)	(25,091)	(232,664)	(191,575)
Change in provision for unearned premiums, after deduction of deferred acquisition costs	21,308	12,062	1,774	1,414	19,534	10,648
Premium deficiency reserve	11,321	-	-	-	11,321	-
Balance as of end of year	312,280	286,714	76,329	96,583	235,951	190,131

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

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

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

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

c1. Review of development of gross liabilities with respect to insurance contracts, after deduction of deferred acquisition costs, in compulsory motor insurance and liability sectors as of December 31, 2015 according to underwriting year in ILS thousands (CPI-adjusted):

Paid claims (accumulated) at end of year	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**Total**
After one year	2,893	2,503	3,408	3,518	2,674	2,064	2,901	2,400	2,296	2,244	
After two years	17,818	17,165	14,069	16,267	12,808	20,047	11,002	14,573	13,282		
After three years	30,082	32,786	29,769	34,911	23,464	42,527	28,126	31,893			
After four years	40,688	44,767	42,817	72,587	36,149	72,617	45,246				
After five years	49,627	56,587	58,090	90,587	51,954	82,741					
After six years	56,434	63,143	77,380	103,770	65,294						
After seven years	62,215	73,747	86,701	245,354							
After eight years	68,374	85,395	92,203								
After nine years	73,325	91,325									
After ten years	74,893										

Assessment of accumulated claims (including payments) at end of year	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**Total**
After one year (**)	174,906	191,227	179,532	233,676	205,390	209,286	210,362	213,485	237,182	185,460	
After two years	187,721	201,277	185,373	240,005	200,916	229,282	217,078	232,409	168,882		
After three years	190,339	206,542	187,271	242,622	211,646	231,595	223,310	170,721			
After four years	152,955	172,919	174,904	194,772	160,921	189,136	162,287				
After five years	155,110	182,893	139,264	187,513	160,726	160,725					
After six years	115,326	142,310	139,779	184,062	131,956						
After seven years	114,529	156,691	138,889	292,641							
After eight years	129,135	147,157	125,834								
After nine years	127,351	117,122									
After ten years	81,878										
Excess (deficit) relative to first year, excluding accumulation (***)	**71,076**	**55,797**	**49,069**	**-97,870**	**28,965**	**28,411**					**135,449**
Rate of deviation relative to first year, excluding accumulation %	46.0%	32.3%	28.1%	-50.2%	18.0%	15.0%					17.9%
Cost of accumulated claims as of December 31, 2015	**81,878**	**117,122**	**125,834**	**292,641**	**131,956**	**160,725**	**162,287**	**170,721**	**168,882**	**185,460**	**1,597,506**
Accumulated payments through December 31, 2015	74,893	91,325	92,203	245,354	65,294	82,741	45,246	31,893	13,282	2,244	744,475
Balance of pending claims	6,985	25,797	33,631	47,287	66,662	77,984	117,041	138,828	155,600	183,216	853,031
Pending claims through underwriting year 2005											**23,756**
Total liabilities in respect of insurance contracts in compulsory vehicle and liabilities sectors, net of deferred acquisition costs as of December 31, 2015											876,787

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

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

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

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

c2. Review of development of retained amounts of liabilities with respect to insurance contracts, after deduction of deferred acquisition costs, in compulsory motor insurance and liability sectors as of December 31, 2015 according to underwriting year in ILS thousands (CPI-adjusted):

Paid claims (accumulated) at end of year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
After one year	2,774	2,336	3,382	2,534	2,160	1,543	2,087	2,053	2,120	1,299	
After two years	15,760	14,209	12,467	13,489	9,079	9,054	8,001	10,251	10,233		
After three years	26,629	27,527	25,619	24,671	18,485	19,781	22,551	23,561			
After four years	35,398	38,899	37,281	37,769	28,553	32,470	35,573				
After five years	42,122	47,278	45,164	47,505	36,981	40,400					
After six years	48,252	53,259	52,352	56,545	45,478						
After seven years	53,761	58,565	58,592	71,169							
After eight years	59,227	65,358	62,360								
After nine years	62,161	69,121									
After ten years	63,609										

Assessment of accumulated claims (including payments) at end of year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
After one year (**)	108,980	113,572	114,242	123,968	121,739	121,097	129,616	143,570	157,957	118,584	
After two years	111,061	115,800	117,395	127,344	114,606	119,801	123,986	136,372	104,326		
After three years	112,666	118,244	120,514	130,545	118,470	123,528	127,613	85,603			
After four years	112,968	119,034	121,078	85,926	83,352	88,020	82,981				
After five years	114,662	121,241	78,459	86,788	81,398	78,549					
After six years	77,435	84,958	80,216	89,052	73,904						
After seven years	76,050	86,111	79,285	91,259							
After eight years	74,944	81,425	75,227								
After nine years	74,820	76,869									
After ten years	66,959										
Excess (deficit) relative to first year, excluding accumulation (***)	**46,010**	**42,165**	**45,852**	**-5,333**	**9,448**	**9,471**					**147,612**
Rate of deviation relative to first year, excluding accumulation %	40.7%	35.4%	37.9%	-6.2%	11.3%	10.8%					35.8%
Cost of accumulated claims as of December 31, 2015	**66,959**	**76,869**	**75,227**	**91,259**	**73,904**	**78,549**	**82,981**	**85,603**	**104,326**	**118,584**	**854,260**
Accumulated payments through December 31, 2015	63,609	69,121	62,360	71,169	45,478	40,400	35,573	23,561	10,233	1,299	422,803
Balance of pending claims	**3,350**	**7,748**	**12,867**	**20,090**	**28,426**	**38,149**	**47,408**	**62,042**	**94,093**	**117,284**	**431,457**
Pending claims through underwriting year 2005											**7,193**
Total liabilities in respect of insurance contracts in compulsory vehicle and liabilities sectors, net of deferred acquisition costs as of December 31, 2015											**438,650**

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

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

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

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

c3. Review of development of gross liabilities with respect to insurance contracts, after deduction of deferred acquisition costs, in compulsory motor insurance sector as of December 31, 2015 according to underwriting year in ILS thousands (CPI-adjusted):

Paid claims (accumulated) at end of year	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**Total**
After one year	2,755	2,290	3,379	2,444	1,873	1,305	1,771	1,857	1,931	1,161	
After two years	15,374	13,880	12,206	12,854	8,250	5,804	7,020	9,439	9,558		
After three years	26,739	26,922	25,613	23,332	17,310	13,776	20,601	22,478			
After four years	35,231	38,390	37,055	34,622	26,934	22,948	32,908				
After five years	43,199	46,323	49,205	48,674	38,038	30,379					
After six years	49,250	52,202	54,784	57,495	45,425						
After seven years	54,742	57,240	61,199	65,992							
After eight years	60,629	63,414	65,288								
After nine years	65,486	67,286									
After ten years	67,006										

Assessment of accumulated claims (including payments) at end of year	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**Total**
After one year (**)	116,023	118,632	118,973	124,926	122,650	118,071	120,273	138,880	151,366	112,120	
After two years	118,595	122,157	120,938	134,212	116,485	114,540	124,243	141,242	108,841		
After three years	119,735	125,116	123,196	135,777	121,669	116,582	125,676	88,378			
After four years	122,258	127,964	131,385	95,563	88,461	84,865	78,559				
After five years	127,654	131,088	88,411	95,584	86,000	72,001					
After six years	88,777	94,510	87,244	93,346	73,736						
After seven years	88,360	91,939	86,793	87,563							
After eight years	85,646	87,868	79,804								
After nine years	85,616	79,216									
After ten years	72,078										
Excess (deficit) relative to first year, excluding accumulation (***)	**50,180**	**48,748**	**51,581**	**8,000**	**14,724**	**12,865**					**186,098**
Rate of deviation relative to first year, excluding accumulation %	41.0%	38.1%	39.3%	8.4%	16.6%	15.2%					41.7%
Cost of accumulated claims as of December 31, 2015	**72,078**	**79,216**	**79,804**	**87,563**	**73,736**	**72,001**	**78,559**	**88,378**	**108,841**	**112,120**	**852,296**
Accumulated payments through December 31, 2015	67,006	67,286	65,288	65,992	45,425	30,379	32,908	22,478	9,558	1,161	407,481
Balance of pending claims	5,072	11,930	14,516	21,571	28,311	41,622	45,651	65,900	99,283	110,959	444,815
Pending claims through underwriting year 2005											**20,553**
Total liabilities in respect of insurance contracts in compulsory vehicle and liabilities sectors, net of deferred acquisition costs as of December 31, 2015											**465,368**

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

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

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

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

c4. Review of development of retained amounts of liabilities with respect to insurance contracts, after deduction of deferred acquisition costs, in compulsory vehicle insurance sector as of December 31, 2015 according to underwriting year in ILS thousands (CPI-adjusted):

Paid claims (accumulated) at end of year	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**Total**
After one year	2,755	2,292	3,379	2,444	1,873	1,305	1,771	1,857	1,931	1,161	
After two years	15,374	13,882	12,206	12,854	8,250	5,804	7,020	9,439	9,558		
After three years	26,145	26,924	24,886	23,332	17,310	13,776	20,601	21,995			
After four years	34,637	38,246	36,134	34,622	26,934	22,758	32,908				
After five years	41,252	46,154	43,545	43,611	34,856	30,190					
After six years	47,302	52,034	49,073	51,771	42,243						
After seven years	52,794	57,072	54,938	58,831							
After eight years	58,229	63,245	58,427								
After nine years	61,148	66,680									
After ten years	62,590										

Assessment of accumulated claims (including payments) at end of year	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**Total**
After one year (**)	103,853	107,681	107,442	114,227	107,834	102,382	110,927	127,661	139,325	104,961	
After two years	105,486	109,267	109,285	116,582	101,380	96,953	104,525	120,685	94,363		
After three years	107,076	111,261	112,086	118,938	104,101	99,352	107,160	76,065			
After four years	109,025	113,723	114,012	75,163	71,149	68,643	69,173				
After five years	111,255	115,439	70,000	75,997	69,759	62,096					
After six years	73,940	80,091	72,603	77,832	63,887						
After seven years	72,693	79,367	72,212	75,020							
After eight years	69,234	75,579	68,557								
After nine years	69,367	72,477									
After ten years	65,830										
Excess (deficit) relative to first year, excluding accumulation (***)	**43,195**	**41,246**	**45,455**	**143**	**7,261**	**6,547**					**143,847**
Rate of deviation relative to first year, excluding accumulation %	39.6%	36.3%	39.9%	0.2%	10.2%	9.5%					38.7%
Cost of accumulated claims as of December 31, 2015	**65,830**	**72,477**	**68,557**	**75,020**	**63,887**	**62,096**	**69,173**	**76,065**	**94,363**	**104,961**	**752,429**
Accumulated payments through December 31, 2015	62,590	66,680	58,427	58,831	42,243	30,190	32,908	21,995	9,558	1,161	384,583
Balance of pending claims	3,240	5,797	10,130	16,189	21,644	31,906	36,265	54,070	84,805	103800	367,846
Pending claims through underwriting year 2005											**6,805**
Total liabilities in respect of insurance contracts in compulsory vehicle and liabilities sectors, net of deferred acquisition costs as of December 31, 2015											**374,651**

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

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

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

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

c.5. Accrued information for underwriting years in compulsory vehicle insurance:

	Underwriting year						
	2015	2014	2013	2012	2011	2010	2009
	ILS in thousands						
Gross premium	148,103	146,145	134,862	115,160	104,494	107,202	120,280
Gain in retention for underwriting year - accumulated	24,424	56,885	89,714	40,397	41,185	44,908	48,557
Excess income over expenses in retention*	-	-	-	-	-	-	-
Effect of investment revenue on retained income in retention for the underwriting year	1,271	4,272	8,075	11,137	13,736	16,883	20,808

c.6 Accrued information for underwriting years in liability and miscellaneous insurance:

	Underwriting year						
	2015	2014	2013	2012	2011	2010	2009
	ILS in thousands						
Gross premium	66,317	62,423	76,999	97,852	94,436	88,563	92,010
Gain (loss) in retention for underwriting year - accumulated	4,150	5,163	5,440	7,334	257	3,542	(4,916)
Excess income over expenses in retention*	-	-	-	-	-	-	-
Effect of investment revenue on retained income in retention for the underwriting year	190	572	1,039	2,075	2,639	2,576	2,227

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

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

c.7. Composition of income (loss) in retention in compulsory vehicle and liability insurance:

	Gain (loss) in respect of open years	Income in respect of underwriting year which was released in the reported year	Adjustments in respect of underwriting years which were released in previous years	Activity not included in calculation of reserves	Comprehensive income
	ILS in thousands				
Year Ended:					
2015*	-	40,397	41,776	(22,291)	59,882
2014	-	33,370	8,481	(24,101)	17,750
2013	-	35,546	5,659	(22,864)	18,341

c.8. Composition of income (loss) in retention in liabilities and miscellaneous insurance:

	Gain (loss) in respect of open years	Income in respect of underwriting year which was released in the reported year	Adjustments in respect of underwriting years which were released in previous years	Activity not included in calculation of reserves	Comprehensive income
	ILS in thousands				
Year ended:					
2015*	-	7,720	6,907	(9,570)	5,057
2014	(1,467)	5,326	3,888	(5,822)	1,925
2013	(3,517)	2,580	(1,611)	(9,576)	(12,124)

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

NOTE 15 - ADDITIONAL DATA CONCERNING LIFE ASSURANCE SECTOR:

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

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

	Policies not containing savings element		Total
	Risk sold as individual policy		
	Private	Group	
Insurance reserves	925	-	925
Pending claims	48,215	-	48,215
Total	49,140	-	49,140

Data pertaining to year ended December 31, 2014:

	Policies not containing savings element		Total
	Risk sold as individual policy		
	Private	Group	
Insurance reserves	855	-	855
Pending claims	50,936	-	50,936
Total	51,791	-	51,791

b. Details of results by type of policy

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

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

NOTE 15 - ADDITIONAL DATA CONCERNING LIFE ASSURANCE SECTOR (continued):

Data pertaining to year ended December 31, 2014 (ILS in thousands):

	Policies not containing savings element		Total
	Risk sold as single policy		
	Private	Group	
Gross risk premiums	115,884	-	115,884
Gain from life assurance business	4,915	36	4,951
New annualized premium	41,585	-	41,585
Payments and change in liabilities for gross insurance contracts	42,032	(21)	42,011

Data pertaining to year ended December 31, 2013 (ILS in thousands):

	Policies not containing savings element		Total
	Risk sold as single policy		
	Private	Group	
Gross risk premiums	102,222	272	102,494
Profits (loss) from life assurance business	(4,038)	189	(3,849)
New annualized premium	35,640	-	35,640
Payments and change in liabilities for gross insurance contracts	42,978	-	42,978

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

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

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

	Long-term	Short-term	Total
By insurance exposure insurance reserves	-	1,923	1,923
Pending claims	85,726	27,581	113,307
Total	85,726	29,504	115,230

Personal injuries is the most significant item in long-term healthcare coverage, and travel insurance and collective injury insurance in the short-term.

No difference exists between actuary assessments in healthcare business and overall liability in the financial statements.

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

Data pertaining to year ended December 31, 2014 (ILS in thousands):

	Long-term	Short-term	Total
By insurance exposure insurance reserves	-	2,748	2,748
Pending claims	96,384	38,003	134,387
Total	96,384	40,751	137,135

Personal injuries is the most significant item in long-term healthcare coverage, and travel insurance and collective injury insurance in the short-term.

No difference exists between actuary assessments in healthcare business and overall liability in the financial statements.

b. Breakdown of results by type of policy in the healthcare sector

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

	Long-term	Short-term	Total
Gross premiums	172,613	42,983	* 215,596
Income from healthcare insurance business	37,373	20,983	58,356
Annualized premium - new	35,825	6,976	42,801

* Of which individual premiums at ILS 212,714 thousand and collective premiums at ILS 2,882 thousand. The most significant coverage in long-term healthcare insurance is personal injuries and travel insurance and collective personal injuries in short-term.

Data pertaining to year ended December 31, 2014 (ILS in thousands):

	Long-term	Short-term	Total
Gross premiums	169,880	37,898	* 207,778
Income from healthcare insurance business	33,758	5,025	38,783
Annualized premium - new	33,431	4,769	38,200

* Of which individual premiums at ILS 203,496 thousand and group premiums at ILS 4,282 thousand.

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

Data pertaining to year ended December 31, 2013 (ILS in thousands):

	Long-term	Short-term	Total
Gross premiums	164,980	38,642	* 203,622
Income from healthcare insurance business	33,115	7,169	40,284
Annualized premium - new	35,198	1,164	36,362

* Of which individual premiums at ILS 196,968 thousand and group premiums at ILS 6,654 thousand. Personal injuries insurance is the most significant item in long term healthcare coverage; the most significant items in short term healthcare coverage are travel insurance and collective personal injuries.

NOTE 17 - CHANGES IN LIABILITIES WITH RESPECT TO LIFE ASSURANCE CONTRACTS AND HEALTH INSURANCE CONTRACTS:

	Life assurance	Health insurance
	ILS in thousands	
Balance as of December 31, 2014	37,566	135,796
Decrease in premiums accounted for as liabilities	383	(272)
Changes in pending and IBNR claims	13,842	1,611
Balance as of December 31, 2014	51,791	137,135
Decrease (increase(in premiums accounted for as liabilities	70	439
Changes in pending and IBNR claims	(2,721)	* (22,344)
Balance as of December 31, 2015	49,140	115,230

* For more information about a change in accounting estimate on the degree of conservativism required in health insurance sectors – see note 27 (e)(2).

NOTE 18 - TAXES ON INCOME:

a. Taxing statutes applicable to Company:

1) General

AIG Israel Insurance Company Ltd. is a financial institution, as that term is defined in the Value Added Tax Law, 1975. The tax chargeable on the income of financial institutions is comprised of company tax and profits tax.

2) Special tax arrangements for insurance industry - Arrangement with tax authorities

The Association of Life Insurance Companies Ltd and the Income Tax Authority have entered into a special arrangement (“the tax arrangement”). The arrangement, which is subject to renewal and revision from time to time, deals with unique tax issues. As of December 31, 2015, tax agreements have been signed, as above, for tax years up to and including the 2012 tax year. The arrangement deals, inter alia, with the following issues:

- Direct expenses of insurance companies for the purpose of acquiring life insurance contracts - (DAC) - deductible deferred policy acquisition costs shall be deductible for tax purposes in equal portions spread over 4 years (compared to deduction over the term of policy but not more than 15 years as performed in the financial statements - see note 2r(2)(d)(1)).

- Allocation of expenses to preferred income – allocation of expenses shall be applied to income which is subject to reduced tax rates and to tax exempt income received by the insurance companies ("preferred income"). The allocation of expenses means that some of the preferred income is turned into income taxable at the normal tax rate, in accordance with the rate of allocation. The rate of allocation set in the agreement is dependent on the source of the funds from which the preferred income is derived.

- Taxation of marketable securities – income and/or expenses from securities are reported for tax purposes on realization basis. The said income/expenses do not include linkage differences, interest and amortization of discount in respect of marketable securities that will be reported on accrual basis. Also, the said income/expenses do not include material impairment which is carried directly to income. Such impairment will only be considered as loss for tax purposes on realization basis.

- The effect of transition to IFRS reporting – it was agreed that the one-off effect on the date of transition to IFRS reporting shall be deducted for tax purposes over three years (from 2008 through 2010). Nevertheless, it was agreed that if the tax authority's position shall not be in agreement with the principles of the agreement, the parties shall discuss the related tax implications; (as to the tax implications of the application of IFRS, see also section 3 below).

The Company is not member of the Association of Life Insurance Companies Ltd, but understandings exist between the company and the Israel Tax Authority (ITA) that those agreement will also apply to the Company. On March 1, 2016, those understandings were set in writing in an agreement signed between the Company and the ITA.

The financial statements were prepared based on principles in those agreements.

NOTE 18 - TAXES ON INCOME (continued)**:**

a. Taxing statutes applicable to Company (continued)**:**

After the date of the statement of financial position, on January 13, 2016, industry agreements were signed between the Association of Life Insurance Company and the ITA for the 2013 to 2015 tax years. Under the industry agreement for 2014, some changes were set in reference rates between preferred expenses and income. Under the industry agreement for the 2015 tax year, it was agreed that beginning in 2015, DAC expenses will be tax deductible for a 10-year period (instead of 4 years until now). The Company examines those changes, but does not expect it to have material impact on tax expenses reported in these financial statements for those tax years, which have been reported, as said above, based on agreements that were in effect as of December 31, 2015.

3) Effect of adoption of IFRS in Israel on tax liability

The Company prepares its financial statements in accordance with IFRS. IFRS vary from Accounting Principles Generally Accepted in Israel and accordingly, preparation of financial statements in accordance with IFRS may reflect a financial position, results of operations and cash flows that are materially different from the ones presented in financial statements presented in accordance with accounting principles generally accepted in Israel.

In accordance with the provisions of amendments to the Income Tax Ordinance published in 2010, 2012 and 2014 (hereafter – the temporary orders), Accounting Standard No. 29 issued by the Israel Accounting Standard Board would not apply upon determining the taxable income for tax purposes in respect of tax years 2007-2013; this would be the case even if the said accounting standard was applied for the said tax years in the financial statements. The meaning of the temporary orders is that IFRS shall not apply in actual fact at the time of calculation of the taxable income for tax purposes of the said tax years.

On October 30, 2011 the Government of Israel published a law memorandum in connection with the amendment to the Income Tax Ordinance (hereafter – the law memorandum) resulting from application of IFRS in the financial statements. Generally, the law memorandum adopts IFRS. Nevertheless, the law memorandum suggests making several amendments to the Income Tax Ordinance, which will serve to clarify and determine the manner of computation of taxable income for tax purposes in cases where the manner of computation is not clear and IFRS do not comply with the principles of the tax method applied in Israel. The legislation procedures relating to the law memorandum have not yet been completed and it is doubtful whether they shall be completed in the near future.

Since the legislation procedures relating to the law memorandum have not yet been completed the Company estimates that the term of the temporary order which applies to the years 2007 to 2013 shall be extended to 2014 and 2015 as well. Therefore Company's management expects that at this stage the new legislation shall not apply to tax years preceding 2016.

Taking into consideration the temporary order which applies to tax years 2007 to 2013 and the Company's estimate regarding the potential extension of the term of the temporary order to 2014 and 2015 as above, the Company computed its taxable income for tax years 2007 to 2015 based on Israeli accounting standards applicable prior to adoption of IFRS in Israel, subject to certain adjustments.

NOTE 18 - TAXES ON INCOME (continued)**:**

b. Tax rates applicable to the company

The statutory tax applicable to financial institutions, including the company, is comprised of corporate tax and profit tax.

Under the "Tax Burden Distribution Law" Legislation Amendments (2011) which was published in the official gazette on December 6, 2011, the corporate tax rate will be 25% as from 2012.

On August 5, 2013, the Law for Change of National Priorities (Legislative Amendments for the Achievement of Budgetary Objectives for 2013 and 2014), 2013 was published in the official gazette, stating among other things, that the above change in corporate tax rate will be 26.5% (instead of 25%) in 2014 and thereafter.

In January 2016, the Law for the Amendment of the Income Tax Ordinance (No. 216) was published, enacting a reduction of corporate tax rate beginning in 2016 and thereafter, from 26.5% to 25%. As a result of the lower rate, deferred tax assets of the Company are expected to be reduced at the beginning of 2016 by ILS 281 thousand.

In addition to corporate tax, as a financial institution, the Company is required to pay profit tax, which through June 1, 2013 was 17% of annual income.

According to Value Added Tax Order (Tax Rate of Non-Profits and Financial Institutions) (Amendment), 2013, profit tax rate was raised on June 2, 2013 to 18% of annual income. The change in profit tax was applied in 2013 on a linear basis, such that the annual income will be taxed at 17.58% profit tax.

According to Value Added Tax Order (Tax Rate on Non-Profits and Financial Institutions) (Amendment), 2015, beginning on October 1, 2015, profit tax applicable to annual income was reduced back to 17%. The change in tax rate for 2015 applies on a linear basis, such that annual profit is liable to profit tax at 17.75%.

Note that under Amendment No. 35 to the Value Added Tax Law, 1975, beginning in 2008, the entire profit tax paid by a financial institution is deductible from the income used for profit tax purposes.

In light of the changes in corporate tax and profit tax rates as above, set forth below are the applicable tax rate; (as to the difference between the theoretical tax and taxes on income as per statement of income - see f. below):

	Rate of corporate tax	**Rate of profit tax**	**Overall tax rate for financial institutions**
		%	
Year:			
2013	25.0	17.58	36.22
2014	26.5	18.00	37.71
2015	26.5	17.75	37.58
2016 and thereafter	25.0	17.00	35.90

c. Final tax assessments

As of the date of these financial statements, the Company has been issued final tax assessments through tax year 2013.

NOTE 18 - TAXES ON INCOME (continued):

d. Taxes on income included in the income statements:

	For the year ended December 31		
	2015	2014	2013
	ILS in thousands		
For the reported year:			
Current	(56,210)	(59,552)	(38,397)
Creation and reversal of deferred taxes in respect of the reported year	6,047	10,891	(1,951)
Creation and reversal of deferred taxes in respect of previous years	(3,921)	5,731	-
In respect of previous years	113	(4,964)	(655)
	(53,971)	(47,894)	(41,003)

e. Taxes on income relating to equity items:

	For the year ended December 31		
	2015	2014	2013
	ILS in thousands		
Tax element for net accumulated impact as of December 31, 2015 of elimination of the accumulation and first-time implementation of the "best practice" - see note 2r(1)(d)(5)	49,180	-	-

f. Deferred taxes

Deferred assets and liabilities are offset when there is an enforceable legal right to offset current tax assets against current tax liabilities and when the deferred taxes are in respect of taxes on income levied by the same tax authority. The offset amounts are as follows:

Composition:

	Deferred acquisition costs	Vacation recreation pay	Profit From securities	Provision for doubtful accounts	Property and equipment	Other	Total
				ILS in thousands			
Balance of tax asset (liability) as of January 1, 2014	(17,313)	1,549	(15,149)	2,601	234	1,189	(26,889)
Changes charged to income	(1,950)	380	12,654	399	23	5,116	16,622
Balance of tax asset (liability) as of December 31, 2014	(19,263)	1,929	(2495)	3,000	257	6,305	(10,267)
Changes charged to income	(1,017)	521	7,639	57	49	(5,238)	2,011
Impact of change in tax rate (see b. above)	286	(35)	(73)	(43)	(4)	(16)	115
Balance of deferred tax asset (liability) as of December 31, 2015	(19,994)	2,415	5,071	3,014	302	1,051	(8,141)

The deferred taxes are presented in the balance sheet among deferred tax liabilities.

NOTE 18 - TAXES ON INCOME (continued):

	December 31	
	2015	2014
	ILS in thousands	
Deferred tax assets:		
Deferred tax assets to be recovered after more than 12 months from date of statement of financial position	1,335	1,415
Deferred tax assets to be recovered within 12 months from date of statement of financial position	10,518	10,076
	11,853	11,491
Deferred tax liabilities:		
Deferred tax liabilities to be recovered after more than 12 months from date of statement of financial position	(19,994)	(19,263)
Deferred tax liabilities to be recovered within 12 months from date of statement of financial position	-	(2495)
	(19,994)	(21,758)
Deferred tax liabilities/ assets (Net)	(8,141)	(10,267)

g. Theoretical tax

Following is a reconciliation of the theoretical tax expense, assuming all income and expenses, profits and losses in the statement of income are taxed at the statutory tax rates, and the tax expense charged in the taxes of income (loss):

	Year ended December 31		
	2015	2014	2013
	ILS in thousands		
Income before taxes on income	144,062	130,797	106,903
Overall statutory tax rate applicable to financial institutions (see b. above)	37.58%	37.71%	36.22%
Taxes computed based on the statutory tax rate	54,138	49,324	38,715
Increase (decrease) in taxes arising from:			
Expenses (income) which is not deductible for tax purposes	14	(651)	326
Updating of deferred tax balances in respect of change in tax rates	(115)	-	1,310
Taxes in respect of previous years	(113)	(767)	655
Other	47	(12)	(3)
Taxes on income	53,971	47,894	41,003
Average effective tax rate	37.46%	36.62%	38.36%

NOTE 19 - OTHER PAYABLES AND SURPLUS RESERVES:

	December 31	
	2015	2014
	ILS in thousands	
Employees and other payroll related liabilities	23,325	21,698
Suppliers and service providers	32,205	35,072
Premiums paid in advance (compulsory vehicle insurance)	11,912	15,975
Commissions payable	9,604	8,169
Related parties (see note 28a)	3,772	5,747
Other	5,968	6,243
	86,786	92,904

NOTE 20 - PREMIUMS - RETAINED:

	Year ended December 31, 2015		
	Gross	Reinsurance	Retained amount
	ILS in thousands		
Life insurance premiums	123,116	23,090	100,026
Health insurance premiums	215,596	2,408	213,188
General insurance premiums	674,376	141,915	532,461
Total premiums gross	1,013,088	167,413	845,675
Less - change in balance of unearned Premium	(24,203)	(6,790)	(17,413)
Total earned premiums	988,885	* 160,623	828,262

	Year ended December 31, 2014		
	Gross	Reinsurance	Retained amount
	ILS in thousands		
Life insurance premiums	115,884	23,331	92,553
Health insurance premiums	207,778	5,606	202,172
General insurance premiums	629,362	132,695	496,667
Total premiums gross	953,024	161,632	791,392
Less - change in balance of unearned premium	(29,773)	(12,056)	(17,717)
Total earned premiums	923,251	* 149,576	773,675

	Year ended December 31, 2013		
	Gross	Reinsurance	Retained amount
	ILS in thousands		
Life insurance premiums	102,494	21,896	80,598
Health insurance premiums	203,622	14,234	189,388
General insurance premiums	582,763	127,253	455,510
Total premiums gross	888,879	163,383	725,496
Less - change in balance of unearned premium	(6,564)	10,004	(16,568)
Total earned premiums	882,315	* 173,387	708,928

* For information about reinsurance premiums with related parties, see note 28b below.

NOTE 21 - NET REVNEUES FROM INVESTMENTS AND FINANCING INCOME:

	Year ended December 31		
	2015	2014	2013
	ILS in thousands		
Income from assets held against non profit participating liabilities, shareholders' equity and others:			
Income (loss) from financial investments excluding interest, linkage differences, exchange differences and dividends on assets at fair value through profit or loss	(28,648)	84	30,210
Income from interest, linkage differences and exchange differences, exchange differences, on financial assets through profit or loss	40,688	43,251	37,910
Income from interest on deposits and cash and nonmarketable securities	4,074	3,453	4,898
Income from dividends	2,502	2,339	2,223
Total revenues from net investments and Financing income	18,616	49,127	75,241

NOTE 22 - REVNEUES FROM COMMISSIONS:

	Year ended December 31		
	2015	2014	2013
	ILS in thousands		
Reinsurance commissions, net of change in deferred acquisition costs relating to reinsurance	37,061	38,427	42,617

* For information about reinsurance premiums with related parties, see note 28b below.

NOTE 23 - PAYMENTS AND CHANGES IN LIABILITIES IN RESPECT OF RETAINED INSURANCE CONTRACTS:

	Year ended December 31		
	2015	2014	2013
	ILS in thousands		
Total payments and changes in liabilities in respect of life insurance contracts:			
Gross	40,010	42,011	42,978
Reinsurance	(11,939)	(10,601)	(11,121)
Life insurance contracts - retained	28,071	31,410	31,857
total payments and changes in liabilities in respect of general insurance contracts:			
Gross	364,482	444,130	452,771
Reinsurance*	(45,214)	(133,574)	(147,997)
General insurance contracts retained	319,268	310,556	304,774

NOTE 23 - PAYMENTS AND CHANGES IN LIABILITIES IN RESPECT OF RETAINED INSURANCE CONTRACTS (continued):

	Year ended December 31		
	2015	2014	2013
	ILS in thousands		
Total payments and changes in liabilities in respect of health insurance contracts:			
Gross	76,333	91,717	91,795
Reinsurance*	(2,805)	(4,799)	(10,935)
Health insurance contracts retained	73,528	86,918	80,860
Total payments and changes in liabilities in respect of retained insurance contracts	420,867	428,884	417,491

Total payments and changes in liabilities in respect of insurance contracts of related-party reinsurers see note 28b below.

NOTE 24 - COMMISSIONS, MARKETING EXPENSES AND OTHER ACQUISITION COSTS:

	Year ended December 31		
	2015	2014	2013
	ILS in thousands		
Acquisition costs:			
Acquisition commissions	42,399	38,935	39,381
Marketing and other expenses (reclassified from general and administrative expenses)	198,950	* 198,849	* 198,923
Change in Acquisition costs	(1,461)	(7,694)	(10,329)
Total commissions and other marketing and acquisitions expenses	239,888	230,090	227,975

* After reclassification following a change in accounting policy, see note 2u.

NOTE 25 - GENERAL AND ADMINISTRATIVE EXPENSES:

	Year ended December 31		
	2015	2014	2013
	ILS in thousands		
Payroll and related expenses	193,237	183,990	167,843
Depreciation and amortization	12,650	12,966	11,948
Maintenance of offices and communication	24,392	24,781	24,402
Marketing and advertisement	46,750	45,928	54,070
Professional and legal consultation	6,139	7,478	7,354
Other	24,800	27,452	23,632
Total*	307,968	302,595	289,249
Less:			
Amounts classified to changes in liabilities and payments in respect of insurance contracts	(26,134)	(26,775)	(16,934)
Amounts classified to commissions, marketing expenses and other acquisition expenses	(198,950)	** (198,849)	** (198,923)
General and administrative expenses	82,884	76,971	73,392
* Management and general expenses include expenses relating to mechanization in the total amount of	45,824	46,022	41,296

** After reclassification due to change in accounting policy, see note 2u.

NOTE 26 - FINANCING EXPENSES:

	Year ended December 31		
	2015	**2014**	**2013**
	ILS in thousands		
Interest and exchange differences income (expenses)	3,762	6,106	1,152
Interest expense to reinsurers	-	(593)	(2,177)
Total financing income (expenses)	3,762	5,513	(1,025)

NOTE 27 - RISK MANAGEMENT:

General

The Company operates in the following operative segments: general insurance, health insurance and life insurance (only risk component). The Company's operations expose it to the following risks:

Insurance risks
Market risks
Liquidity risks
Credit risks
Operative risks

Other risks beyond those listed above include: reputational risk, legal risk and information security risk.

a. Description of risk management procedures and methods:

1) The Company manages risk based on the risk management policy approved by the board, which is aligned with rules and guidance of local regulations and the enterprise risk management policies of the AIG global corporation.

2) The risk management policy is designed to support achieving business objectives of the Company and ensure controlled exposure to risks, in tune with changes in the business environment. Monitoring and reporting on the implementation of the policy, including compliance with limits and restrictions are performed according to regulatory requirements and a reporting escalation procedure established by the board and its committees.

3) The risk management process includes an ongoing process of identifying and mapping exposures in different processes, assessment and measurement of exposures and controls, reporting and assessing the alignment to the Company's risk appetite.

4) Risk management in the Company is based on three protection levels:

- First line of defense – business units – responsible for the risks in the scope of their activity.

- Second line of defense – support functions – risk management, actuary, control units, accounting, etc. The role of those functions is, among other things, to ensure that consistent processes are in place to detect, control, track and report risks.

- Third line of defense – internal audit which is in charge of conducting independent audits of the first and second line of defense.

NOTE 27 - RISK MANAGEMENT (continued)**:**

5) The Company has committees and forums that deal with professional and insurance matters, led by the CEO and senior managers in different Company units, discussing various business matters, and that leads to making management decisions. Those include the risk and capital management committee; operating risk management committee; insurance risk management committee and new product development committee.

6) The Company is active in applying the principles of Solvency II in Israel, serving as a basis for assessing the economic capital required for the activity of the Company. The Company develops risk assessment processes that can have impact on economic capital. In addition, the Company adopted risk appetite at 120% of statutory capital. Risk appetite is based on the main risk assessments of the Company and risk appetite scenarios. Risk appetite serves as basis for developing capital management policy and dividend distribution policy of the Company.

b. Legal requirements

The Supervisor's guidance on risk management are included, among other things, in the consolidated circular (Title 5, Part 1, Chapter 10) which replaces the sections in Insurance Circular No. 14-1-2006 on the duties of the risk manager and the relationships he/she has with other officers in the Company. Under the consolidated circular, the main duties of the risk manager are:

1) To ensure that high-quality processes are in place for detection of insurance risks, market risks, cash flow risks and counterparty risks that are material and embedded in assets and liabilities and may have impact on the financial stability of the entity.

2) To quantify and assess the potential impact of material risks identified on the financial stability of the entity and on its liability towards insurance clients.

3) To assess risks that are embedded in new activities or product.

4) To present to the board and investment committee existing and potential risks in investment assets for establishing an investment policy and updating it.

5) To periodically report to the board, investment committee and CEO on exposures to risks and their potential impact on the financial stability of the entity.

There are other circulars that enact guidance on managing specific exposures on: readiness for disaster recovery, management of exposure to reinsurers, fraud prevention, management of IT security risks, financial reporting control (SOX) and credit risk management. In addition, circulars have been distributed on Solvency II readiness.

The Company appointed a risk manager who work to implement regulatory requirements in this area.

NOTE 27 - RISK MANAGEMENT (continued)**:**

c. Market risks

The Company's market risks relate to financial assets and liabilities or insurance liabilities. The Company's assets' portfolio arises mainly from its insurance activity. Management of nostro investments is carried out in compliance with the provisions of the law, Company's investment policy, its credit policy and its risk management policy set out by the Board of Directors and the Investment Committee. Most of the Company's funds are invested in Israel.

Market risk is the risk that the fair value or future cash flows of financial assets, financial liabilities, or insurance liabilities will change as a result of unexpected changes in market prices. Market risk includes, inter alia, risks arising from changes in interest rates, share prices, the CPI, and foreign currencies.

1) Market Risk Sensitivity Tests

The following is a sensitivity analysis in relation to the impact of change in those factors on profit (loss) for the year and overall income (capital). The sensitivity test refers to financial risks, financial liabilities and liabilities for insurance contracts and investment contracts for the relevant risk factor as of each balance sheet date, assuming that all other factors remain constant. For example, the change in interest rate is under the assumption that all other variables remain unchanged. The sensitivity analysis does not consider the impact of yield-dependent contracts, as indicated below. In addition, it is assumed that those changes do not reflect permanent impairment of assets that are presented at depreciated cost or available-for-sale assets, and thus, the above sensitivity analysis does not include impairment losses for those assets.

The sensitivity analysis reflects direct impacts only, without secondary impacts. Note also that sensitivity is not necessarily linear, and that the impact of larger or smaller changes or larger changes than those described below may not necessarily be derived through a simple extrapolation.

Data as of December 31, 2015:

	Rate of interest (1)		**Investments in capital instruments (2)**		**Rate of change in the consumer price index**		**The rate of change in the exchange rate of the foreign currency**	
	+1%	**-1%**	**+10%**	**-10%**	**+1%**	**-1%**	**+10%**	**-10%**
	ILS in thousands							
Profit (loss)(3)	(25,884)	25,787	10,379	(10,379)	2,990	(2,990)	3,083	(3,083)
Comprehensive income (shareholders' equity)(4)	(25,884)	25,787	10,379	(10,379)	2990	(2,990)	3,083	(3,083)

NOTE 27 - RISK MANAGEMENT (continued)**:**

Data as of December 31, 2014:

	Rate of interest (1)		**Investments in capital instruments (2)**		**Rate of change in the consumer price index**		**The rate of change in the exchange rate of the foreign currency**	
	+1%	**-1%**	**+10%**	**-10%**	**+1%**	**-1%**	**+10%**	**-10%**
	ILS in thousands							
Profit (loss)(3)	(33,454)	33,337	9,045	(9,045)	2,514	(2,514)	3,002	(3,002)
Comprehensive income (shareholders' equity)(4)	(33,454)	33,337	9,045	(9,045)	2514	(2,514)	3,002	(3,002)

1) The sensitivity test of the change in interest was made both in respect of fixed interest rates and in respect of variable interest instruments. As to fixed interest instruments - the exposure is in respect of the book value of the instrument; as to variable interest instruments, the exposure is in respect of the cash flow arising from the financial instrument. The calculation of the sensitivity analysis considers interest changes since the beginning of the year also for assets acquired during the year.

   The impact of 1% increase/decrease in interest rate on comprehensive income for the insurance liability in the sensitivity analysis is estimated at ILS 217 / (232) thousand (2014 - ILS 240/(271) thousand).

   The sensitivity analysis is based on the carrying amount and not the economic value. This sensitivity analysis does not consider asset and liability items with direct interest risk, as discussed in note 27c(2).

   Note that the portion of liabilities that was subject to the sensitivity analysis of total liability for non-yield-dependent insurance contracts is 0.48%.

2) Investments in instruments that do not have a fixed cash flow or alternatively, the Company does not have data regarding this cash flow.

3) The sensitivity tests are presented net of taxes in accordance with the tax rate applicable in the reported year.

4) The sensitivity tests regarding the comprehensive income also reflect the effect on the income (loss) for the reported period.

NOTE 27 - RISK MANAGEMENT (continued)**:**

2) Direct interest risk

The direct interest risk is the risk that a change in the market interest rate will cause a change in the value of the financial assets or liability. This risk relates to assets that are paid off in cash. The addition of the word “direct” underscores the fact that change of interest can also affect other types of assets but not directly, such as the impact of a change in the interest rate on share prices.

Set forth below is a breakdown of the assets and liabilities by exposure to interest risks:

	Nonprofit participating assets and liabilities as of December 31	
	2015	**2014**
	ILS in thousands	
Assets with direct interest risk:		
Marketable debt instruments	1,200,998	1,183,798
Cash and cash equivalents	62,243	83,087
Non-marketable debt asset:		
Non-marketable bonds	106,221	* 60,808
Bank deposits	97,714	* 103,653
Total assets with direct interest risk	1,467,176	1,431,346
Total assets without direct interest risk	1,155,554	1,361,660
Total assets	2,622,730	2,793,006
Liabilities with direct interest risk:		
Liabilities in respect of insurance contracts non depending yield	6,806	5,739
Liabilities for employee rights upon retirements	2,781	3,069
Liabilities in respect of reinsurers	246,604	263,435
Total liabilities with direct interest risk	256,191	272,243
Total liabilities without direct interest risk	1,538,853	1,829,856
Shareholders' equity	827,686	690,907
Total equity and liabilities	2,622,730	2,793,006
Total assets, net of liabilities	827,686	690,907

Assets without direct interest risk include shares, property and equipment, deferred acquisition costs and other assets as well as groups of balance sheet financial assets whose interest risk is relatively low; (collectible premiums, current balances of insurance companies and accounts receivables).

Liabilities without a direct interest risk include liabilities in respect of nonprofit participating insurance contracts and investment contracts, liabilities in respect of deferred taxes, net, liabilities in respect of current taxes and other accounts payable.

* Given the increased interest risk in 2015 from non-marketable debt instruments, as estimated by the Company, the Company decided to present them beginning in that year among assets with direct interest risk and the comparative information was reclassified accordingly.

NOTE 27 - RISK MANAGEMENT (continued)**:**

3) Breakdown of assets and liabilities of the Company by linkage bases:

	As of December 31, 2015				
	In ILS unlinked	**In ILS linked to the CPI**	**In foreign currency (Dollar, Euro and other) or linked thereto**	**Non-monetary items and others**	**Total**
	ILS in thousands				
Intangible assets				26,397	26,397
Deferred acquisition costs				149,675	149,675
Property and equipment				11,469	11,469
Reinsurance assets	24,667	479,464	44,019		548,150
Premiums collectible	120,929	64,500	21,438		206,867
Current tax assets		3,250			3,250
Other accounts receivables	17,730		4,619	21,122	43,471
Other financial investments:					
Marketable debt instruments	344,848	856,150			1,200,998
Non-marketable debt instruments	28,802	136,600	38,533		203,935
Shares				92,851	92,851
Other			6,298	67,126	73,424
Total other financial investments	373,650	992,750	44,831	159,977	1,571,208
Other cash and cash equivalents	55,999		6,244		62,243
Total assets	592,975	1,539,964	121,151	368,640	2,622,730
Total shareholders' equity				827,686	827,686
Liabilities:					
Liabilities for non-yield dependent insurance contracts and investment contracts that are nonprofit participating contracts	299,952	1,060,908	57,129		1,417,989
Liabilities for deferred taxes - net				8,141	8,141
Liabilities for employee rights upon retirement	2,781				2,781
Other accounts payable and surplus reserves	332,834	-	14,636	18,663	366,133
Total liabilities	635,567	1,060,908	71,765	26,804	1,795,044
Total liabilities and Shareholders' equity	635,567	1,060,908	71,765	854,490	2,622,730
Total balance sheet exposure	(42,592)	479,056	49,386	(485,850)	

NOTE 27 - RISK MANAGEMENT (continued):

c. Market risks (continued):

	As of December 31, 2014				
	In ILS unlinked	**In ILS linked to the CPI**	**In foreign currency (Dollar, Euro and other) or linked thereto**	**Nonmonetary items and others**	**Total**
	ILS in thousands				
Intangible assets				20,410	20,410
Deferred acquisition costs				148,214	148,214
Property and equipment				10,663	10,663
Reinsurance assets	18,279	657,077	43,615		718,971
Premiums to be collected	139,411	37,596	16,330		193,337
Current tax assets		84,839			84,839
Other accounts receivables	12,518	142	8,169	19,320	40,149
Other financial investments:					
Marketable debt instruments	309,706	874,092			1,183,798
Nonmarketable debt instruments		134,074	30,387		164,461
Shares				87,300	87,300
Other			6,431	51,488	57,919
Total other financial investments	309,706	1,008,166	36,818	138,788	1,493,478
Other cash and cash equivalents	74,897		8,190		83,087
Total assets	554,811	1,787,678	113,122	337,395	2,793,006
Total shareholders' equity				690,907	690,907
Liabilities:					
Liabilities for non-yield dependent insurance contracts and investment contracts that are nonprofit participating contracts	271,277	1,383,938	60,046		1,715,261
Liabilities in respect of deferred taxes - net				10,267	10,267
Liabilities for employee rights upon retirement	3,069				3,069
Other accounts payable and surplus reserves	356,421	-	4,869	12,212	373,502
Total liabilities	630,767	1,383,938	64,915	22,479	2,102,099
Total liabilities and Shareholders' equity	630,767	1,383,938	64,915	713,386	2,793,006
Total balance sheet exposure	(75,956)	403,740	48,207	(375,991)	

NOTE 27 - RISK MANAGEMENT (continued):

c. Market risks (continued):

4) Breakdown of exposure of economic sectors to investments in equity instruments:

	As of December 31, 2015 (ILS in thousands)				
	Listed on TA100 index	**Listed on TA MidCap index**	**Abroad**	**Total**	**% of total**
Economic sector:					
Production industry	30,047	79	-	30,126	32.5
High-tech	21,851	252	-	22,103	23.8
Banks	17,487	-	-	17,487	18.8
Construction and real estate	7,822	185	-	8,007	8.6
Investment and holdings	5,688	48	-	5,736	6.2
Oil and gas	5,508	-	-	5,508	5.9
Insurance	2,379	-	-	2,379	2.6
Commerce	1,021	-	-	1,021	1.1
Other business services	484	-	-	484	0.5
Total	92,287	564	-	92,851	100.0

	As of December 31, 2014 (ILS in thousands)				
	Listed on TA100 index	**Listed on TA MidCap index**	**Abroad**	**Total**	**% of total**
Economic sector:					
Production industry	27,422	95	-	27,517	31.7
High-tech	20,092	167	124	20,383	23.3
Banks	16,694	-	-	16,694	19.1
Construction and real estate	7,528	19	-	7,547	8.6
Investment and holdings	5,248	-	-	5,248	6.0
Oil and gas	5,315	-	-	5,315	6.1
Insurance	2,823	-	-	2,823	3.2
Commerce	1,097	124	-	1,221	1.4
Other business services	552	-	-	552	0.6
Total	86,771	405	124	87,300	100.0

d. Liquidity risk

The Company is exposed to risks stemming from the uncertainty as to the dates in which it would be required to pay insured entities or individual the amounts their claims in proportion to the scope of funds that will be available for that purpose on that date. A potential need to recruit funds unexpectedly and during a short term period may require significant disposal of assets over a short term period and the sale thereof at prices that would not necessarily reflect their market prices. The scale of liquid assets is according to a rate established in the relevant Company policy. In 2015, a liquidity model was approved based on the AIG corporate methodology, with necessary local adjustments. The model presents the required level of liquidity based on different scenarios.

NOTE 27 - RISK MANAGEMENT (continued):

Management of assets and liabilities

The Company manages its assets and liabilities in accordance with the requirements of regulatory provisions and based on the approved ALM policy.

The tables presented below include the estimated repayment dates of the amounts of the undiscounted insurance liabilities of the Company.

The estimated repayment dates of the liabilities in respect of general insurance contracts were included in the table as follows:

Insurance liabilities estimated by an actuary - on the basis of an actuarial estimate. Insurance liabilities in sectors, which are not assessed by an actuary, as well as excess of income over expenses (accumulation), are reported in the column "without definite fixed repayment date".

The estimated repayment dates of the liabilities in respect of life and health insurance contracts were included in the tables on the basis of an actuarial estimate.

Liabilities in respect of life insurance contracts and health insurance contracts*:

	Less than one year	Between 1 and 5 years	Between 5 and 10 years	Between 10 and 15 years	More than 15 years	Without fixed repayment date	Total
	ILS in thousands						
As of December 31, 2015	86,145	64,154	7,335	32	6,704	-	164,370
As of December 31, 2014	80,280	93,488	9,602	264	5,292	-	188,926

Liabilities in respect of general insurance contracts:

	Less than one year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years	Without fixed repayment date	Total
	ILS in thousands					
As of December 31, 2015	571,949	214,177	170,191	282,715	14,587	1,253,619
As of December 31, 2014	520,402	281,105	227,177	381,412	116,239	1,526,335

* Liabilities for reinsurers would be repaid within 18 months from the end of the current year. Financial liabilities in respect of accounts payable are expected to be repaid during the year.

NOTE 27 - RISK MANAGEMENT (continued):

e. Insurance risks

The insurance risks include, inter alia, the following:

Underwriting risks: The risk that erroneous pricing would be used as a result of deficiencies in the underwriting process and from the differences between the risk upon pricing and determining the premium and actual events so that the premiums that are collected are not sufficient to cover future claims and expenses. The differences may arise from incidental changes in the business results and from changes in the cost of the average claim and/or the frequency of the claims due to various factors.

Reserve risks: The risk for an erroneous estimation of the insurance liabilities that may bring about a situation where the actuarial reserves are insufficient to cover all the liabilities and claims. The actuarial models in accordance with which the Company assesses its insurance liabilities are based on the assumption that the pattern of behavior and claims in the past represents future events. The Company's exposure is composed of the following risks:

1. Model Risk the risk of electing an erroneous model of pricing and/or for assessment of the insurance liabilities.
2. Parameter risk – the risk for usage of erroneous parameters, including the risk that the amount to be paid for settlement of the insurance liabilities of the Company or that the date of the settlement of the insurance liabilities would be different from the expected amount or date.

Catastrophe risk: Exposure to the risk that a single event of extensive effect (a catastrophe) such as natural catastrophe, war, terrorism, would cause an accumulation of damages of extensive scope. The material catastrophic event to which the Company is exposed to in Israel is and earthquake

The amount of the loss expected in the general insurance business as a result from the exposure to a single large damage or accumulation of damages due to a very big event at a maximal possible loss (MPL) probability of 1.15%is ILS 878.2 million (gross) and ILS 66.9 million (retained). This rate is computed in accordance with Company's internal models

The expected damage for catastrophe risk in general insurance as part of the required minimum capital computation is 1.75%. The expected loss in the general insurance business from exposure to a large single damage or accumulation of damages for an especially large event at the maximum possible loss (MPL) of 1.75% is NIS 1,345.7 million in gross terms and NIS 200.1 million in self-retention.

As to the data regarding the various insurance products in respect of which the insurer is exposed to an insurance risk, see the breakdown of the insurance liabilities by insurance risk in note 4 - additional data as to the general insurance segment and breakdown of assets and liabilities in respect of life insurance contracts by insurance exposure and in note 16 - the breakdown of insurance liabilities arising from health insurance.

NOTE 27 - RISK MANAGEMENT (continued):

e1. Insurance risk embedded in life insurance contracts

General

Set forth below is the description of the various insurance contracts and the assumptions used for computation of the liabilities related to those products, based on the type of the product. In general, based on the supervisor's instructions, the insurance liabilities are computed by an actuary, based on accepted actuarial methods and consistently with previous year. The liabilities are computed in accordance with the relevant coverage data, such as age and sex of the insured person, the period of insurance, the date of commencement of the insurance, the type of the insurance, periodic premium and the amount of insurance.

Actuarial methods used for computation of the insurance liabilities:

1) The "individual personal accidents" plans include pure risk products (death as a result of an accident, disability as a result of accident) that are sold as independent policies. For those plans the liability is computed on an actuarial basis. The computation is made using the "Gross Premium Reserve" method that includes in the expected proceeds all the premium components and reduces the expected expenses and commissions.

2) The liability in respect of pending claims related to health and personal accidents include mainly provisions for pending claims for risks of death and disability from accident, and a provision for IBNR.

3) The computation is made on a gross basis. Some of reinsurance is computed based on the agreements.

The main assumptions used for computation of insurance liabilities:

1) Rate of discount

   In the life insurance sector that includes pure risk products with fixed premium the discount rate used is of 0.68%.

2) The rates of mortality and illness:

   a) The mortality rates used to compute the insurance liabilities under life insurance policies in respect of mortality of insured individuals are identical to the rates used to determine the tariff.

   b) The rates of illness refer to the frequency of claims in respect of serious illnesses. These rates were determined based on researches made by reinsurers. The higher the assumption regarding rate of illness will be, the higher the insurance liability as a result of serious illnesses.

NOTE 27 - RISK MANAGEMENT (continued):

Sensitivity analyses in life insurance:

As of December 31, 2015 (in thousands of ILS):

	Rate of illness and mortality	
	+10%	**-10%**
Profit (loss)	(3,648)	3,648

e2. Insurance risk embedded in health insurance contracts and personal insurance contracts

General

Set forth below is the description of the various insurance contracts and the assumptions used for computation of the liabilities related to those products, based on the type of the product. In general, based on the supervisor's instructions, the insurance liabilities are computed by an actuary, based on accepted actuarial methods and consistently with previous year. The liabilities are computed in accordance with the relevant coverage data, such as age and sex of the insured person, the period of insurance, the date of commencement of the insurance, the type of the insurance, periodic premium and the amount of insurance.

Actuarial methods used for computation of the insurance liabilities:

1) The "individual personal accidents" plans include pure risk products (death as a result of an accident, disability as a result of accident) that are sold as independent policies. For those plans the liability is computed on an actuarial basis. The computation is made using the "Gross Premium Reserve" method that includes in the expected proceeds all the premium components and reduces the expected expenses and commissions.

2) The liability in respect of pending claims related to health and personal accidents include mainly provisions for pending claims for risks of death from accident, serious illnesses and disability from an accidents and a provision for IBNR - Incurred by not Reported Losses. For the personal accidents sectors - both individual and group - the Link Ration models were set up on the basis of accumulated cost of the claims (payments of the claims with the addition of individual assessments and - Average Cost per Claim. The models are settled at the level of quarterly damage. Cost drivers were calculated to optimize the estimation. This estimate includes a conservativism factor to bring the provision in the account to a level of prudence of 75%.

3) The computation is made on a gross basis. Some of the reinsurance is computed based on the agreements.

NOTE 27 - RISK MANAGEMENT (continued):

The main assumptions used for computation of the insurance liabilities:

As of December 31, 2015, simultaneously with the implementation of the Supervisor's position about the best practice for calculating general insurance reserves, in which, as noted above, the prudence principle requires to maintain a minimum threshold of reserve (in order to meet the "fairly likely" principle, which is the 75 percentile for compulsory vehicle and liability insurance), the actuary of the Company reconsidered the degree of conservativism that the Company needs to maintain for its health insurance reserves, given accumulated experience of the Company with this sector.

Following this process, the Company actuary concluded that as of December 31, 2015, the accumulated experience of the Company makes actuary calculations that are performed in this sector to be more reliable than in the past, and allow a reduction of reserves (relative to reserves that were kept in the past) to the 75th percentile. Note that in this regard, even as it is not required by the best practice, the Company actuary uses the 75th percentile in other sectors, beyond compulsory vehicle and liabilities.

That reduction of the reserves is not part of implementing the change in accounting policy resulting from the position of the Supervisor, which refers to general insurance, and does not require the reduction of reserves but only sets a minimum threshold (along with the elimination of the accumulation in compulsory vehicle and liabilities). Instead, the reduction is a change in an accounting estimate of the Company as to the degree of conservativism required from the actuarial standpoint in the health insurance sector, based on accumulated experience of the Company, as indicated above. Accordingly, this change is accounted for by the Company as a change of accounting estimate, which is recognized in income or loss.

1) Rate of discount

In the Personal accidents – individual sector the gross premium reserve is computed on the basis of a risk free interest.

2) The rates of mortality and illness

The rates of illness refer to the frequency of claims in respect of serious illnesses, disability as a result of accidents and death as a result of an accident. These rates were determined based on the Company's past experience. The higher the assumption regarding rate of illness will be, the higher the insurance liability as a result of serious illnesses and disability as a result of an accident.

3) Rates of cancellations

The rates of cancellations affect the insurance liabilities in respect of part of some of the health insurances. Insurance contracts can be cancelled by the Company due to unpaid premiums or at the request of the owner of the policy. The assumptions as to the rates of cancellations are based on the company's past experience based on the type of the products, the estimated useful life of the product and sales trends. A 10% increase or decrease in the cancellations assumption is immaterial for the profit item since the gross premium reserve is relatively small.

Sensitivity analysis for health insurance and personal injury insurance as of December 31, 2015 (ILS in thousands):

	Rate of the cancellation (withdrawals, settlements and reductions)		**Morbidity and mortality rate**	
	+10%	**-10%**	**+10%**	**-10%**
Profit (loss)	241	(258)	(12,751)	11,741

NOTE 27 - RISK MANAGEMENT (continued):

e3. Insurance risk in general insurance contracts

A summary of the main insurance sectors in which the Company operates

The Company writes insurance contracts in the field of general insurance, mainly in the compulsory car insurance sector, liabilities, car damages insurance and property insurance

Compulsory car insurance covers the owner of the policy and the driver for any liability they may incur as a result of the provisions of the Road Accidents Victims Compensation Law, 1975, for bodily damage caused as a result of usage of motor vehicle to the driver, the passengers or pedestrians hit by the car. Compulsory car insurance claims are characterized by a long tail, i.e., sometimes a long period of time elapses from the date the event takes place to the final settlement of the claim.

The liability insurances are designed to cover the liability of an insured person for any damage he may cause to a third party. The two main types of insurance are: liability to a third party, liability of employers, other liability insurances such as professional responsibility, liability arising due to products and directors and office holders' responsibility. The timing of the filing of the claims and the settlement thereof is influenced from several factors, such as the type of coverage, the terms of the policy and legislation and legal precedents. Normally, the claims in the liability insurance are characterized by a long tail. i.e., sometimes a long period of time elapses from the date the event takes place to the final settlement of the claim.

Policy for insurance of car damages and third party car damages entitle the insured person with property damage coverage. The coverage is usually limited to the value of the damaged car. The tariff for vehicle damage insurance requires the approval of the supervisor and the same applies for the approval of the policy as a whole; the said tariff is an actuarial tariff and partially differential (varies in accordance with the risk). The said tariff is based on several parameters, both parameters that are related to the vehicle insured under the policy (such as the type of the vehicle, year of manufacture etc.) and parameters related to characters of the person insured (age of the drivers, claims history etc.). The underwriting procedure is partially performed through the tariff itself and partly based on a system of procedures that are designed to examine the claims history of the person insured that include presentation a no claim certificate from a previous insurer (for the last three years), presentation of up to date certificate of defense, etc. The implementation of the procedures is mechanically combined into procedure of issuance of the policies.

NOTE 27 - RISK MANAGEMENT (continued):

e3. Insurance risk in general insurance contracts (continued):

In most of the cases the car damages insurance policies are issued for a one year period. Also, in most cases, claims in respect of these policies are settled close to the time in which the insurance event happened.

Property insurance policies are intended to provide the insured person coverage against physical damage to his property and loss of profits due to the damage caused to his property.

The main risks covered by property insurance policies are fire risks, explosion, burglary, earthquake and natural catastrophe. The property insurance policies sometimes include coverage for loss of profits originating in physical damage to property. Property insurance constitutes an important part of apartments insurance, business insurance, engineering insurances, freight (sea freight, land freight, air freight) etc.). In most cases, claims regarding those policies are settled close to the time in which the insurance event happened.

Principles of computation the actuarial assessment in general insurance:

General:

a) The liabilities in respect of general insurance contracts include the following components:
- Optimized estimation of pending claims
- Conservativism addition to the 75% quartile
- Reserve for premium that has not yet been earned.
- Provision for indirect expenses

b) In January 2015, Insurance Circular "Actuarial Assessment in General Insurance" was published. The provisions of this circular are intended to improve the quality of assessing the general insurance liability (hereinafter - insurance reserves), which are a central tier in assessing the liabilities of the insurer, and regulate the inclusion in the financial statements of a professional opinion by an appointed actuary (hereinafter - actuary) in relation to the assessment of those insurance liabilities. This circular states the scope of actuarial assessment that the general insurance actuary needs to perform, the actuarial report the actuary needs to prepare and a declaration that the actuary is required to sign, which will be attached to the financial statements.

c) In January 2015, a Supervisor position, titled "Best Practice for Calculation of General Insurance Reserves for Financial Reporting" (hereinafter - "the Supervisor's opinion"). The Supervisor's opinion includes, among other things, explanations for the principles: professionalism, consistency, and prudence, which have not been defined in General Insurance Actuarial Assessment Circular 2015-1-1. The principle of prudence requires an actuary to examine that assessments in liabilities sectors are tuned to a probability of at least 75%. In addition, the Supervisor's opinion also refers to the issue to liabilities cash flow discount rates for optimal assessments.

d) In accordance with the instructions of the supervisor, the pending claims are computed by an actuary based on accepted actuarial methods, initially according to the optimal assessment and later with necessary addition to the 75th quartile. The election of the actuarial method appropriate for each insurance sector and for each year of event/underwriting is being made using discretion in accordance with the extent to which the method is suitable for the sector and sometimes the various methods are combined. The assessments are based mainly on past experience of the development of payments regarding claims and/or developments in the amount of payments and specific assessments. The assessments include assumptions regarding the cost of an average claims, costs of handling of claims and the frequency of the claims. Further assumptions may be in respect of changes in rates of interest, exchange rates and the timing of payments. The payments of the claims include direct and indirect claims for settlement of claims, net of subrogation and excess insurance.

NOTE 27 - RISK MANAGEMENT (continued):

e3. Insurance risk in general insurance contracts (continued):

e) The usage in actuarial methods that are based on developments of claims is mainly appropriate when there is stable and satisfactory information regarding payments of claims and/or specific assessments used in order to assess the total expected cost of claim. Where the information available regarding the actual experience regarding the claims is insufficient the actuary sometime uses a computation weighting a known estimate (made by the Company and/or the sector) such as loss ratio and the development of actual claims. A greater importance is given to the assessment that is based on experience as time elapses and further data is accumulated regarding the claims.

f) Also included are quantitative assessments and discretion is used as to the extent that past trends would not continue in the future. For example, due to one-off event, internal changes, such as a change in the mix of the portfolio, the underwriting policy and procedures and due to the effects of external factors such as legal rulings, legislation, etc. When changes as above are not fully reflected in the past experience the actuary updates the models and/or makes specific provisions based on statistical and/or legal assessments as appropriate.

g) In cases of large claims of non-statistical characters, the provision is determined (gross and retained) based on an opinion issued by Company's experts and in accordance with the recommendations of its legal advisors.

h) The share of the reinsurers in the pending claims is estimated taking into account the type of the agreement (proportionate/disproportionate), actual experience in the claims and the premium transferred to reinsurer.

i) The assessment of the pending claims in respect of the Company's share in the pool was based on a computation performed by the pool.

j) The provision for unearned premiums is also calculated using a 75% probability, pursuant to the new guidance in the Supervisor's opinion. We examine that it is possible to return deferred acquisition cost and the cost of future claims, including other expenses related to the treatment of the policy and claims.

NOTE 27 - RISK MANAGEMENT (continued):

e3. Insurance risk in general insurance contracts (continued):

Breakdown of actuarial methods in the principal insurance sectors:

a) The vehicle damage insurance

In the vehicle damage sector, the liabilities are computed based on the development of the claims payments and the development of the payments amounts and the specific assessment, while referring to the types of coverage such as comprehensive/third party coverage and the types of damages such as self-damage/third party/theft/total loss. For the last months of damage in respect of which there are not enough data the average method is also used when determining the cost of claim.

As of December 31, 2015, the premium deficiency reserve in this sector is ILS 11.3 million.

b) Compulsory vehicle insurance

In the compulsory vehicle liabilities insurance, reserves are computed based on the development of payments and pending amounts in respect of smaller claims (up to the excess point). The liabilities above the excess point are computed using actuarial models that are based on development of frequency multiplied by severity. The share of the reinsurers in the excess of loss claims is calculated using a model for larger claims and based on actual larger claims.

c) Liabilities insurance

In the liabilities insurance the liabilities are computed based on the development of identified claims. For periods in respect of which there are not enough data, the cost of claims is computed using the loss ratio method. In large claims the specific assessments of the claims department are also taken into account.

d) Property insurance and other

In property insurance and other insurance, the liabilities are computed based on the development of the claims payments and/or development of the payments and pending claims.

e) Estimation of indirect claim processing expenses

In late 2015, the model for estimation of indirect claim settlement expenses was reconsidered. The new method calculates a ULAE factor based on the historical ratio of paid ULAE to paid losses for the latest calendar years. The ULAE reserve was computed assuming one half the cost of settling a claim is incurred upon opening a file and the remainder upon closing it, however in allocating the ULAE reserves by line, some weight was given to consider the length of time until claims are initially reported and ultimately settled.

The ULAE reserve was allocated by accident year proportional to the unpaid indemnity reserves held by accident year.
Calendar year paid ULAE is available only in aggregate for all lines combined. The paid ULAE by line was estimated based on an allocation, by accident year, proportional to the paid indemnity losses during the calendar year.

This change of model had no material impact on reported results.

NOTE 27 - RISK MANAGEMENT (continued):

The principal assumptions that were taken into account for purpose of actuarial assessment:

As of December 31, 2015, simultaneously with the implementation of the Supervisor's position about the best practice for calculating general insurance reserves, in which, as noted above, the prudence principle requires to maintain a minimum threshold of reserve (in order to meet the "fairly likely" principle, which is the 75 percentile for compulsory vehicle and liability insurance), the actuary of the Company reconsidered the degree of conservativism that the Company needs to maintain for its different general insurance reserves, given accumulated experience of the Company with those sectors.

Following this process, the Company actuary concluded that as of December 31, 2015, the accumulated experience of the Company makes actuary calculations that are performed in those sectors to be more reliable than in the past, and allow a reduction of reserves in the different sectors (relative to reserves that were kept in the past) to the 75th percentile. Note that in this regard, even as it is not required by the best practice, the Company actuary uses the 75th percentile in other sectors, beyond compulsory vehicle and liabilities.

That reduction of the reserves is not part of implementing the change in accounting policy resulting from the position of the Supervisor, which does not require the reduction of reserves but only sets a minimum threshold (along with the elimination of the accumulation in compulsory vehicle and liabilities). Instead, the reduction is a change in an accounting estimate of the Company as to the degree of conservativism required from the actuarial standpoint in the different general insurance sectors, based on accumulated experience of the Company, as indicated above. Accordingly, this change is accounted for by the Company as a change of accounting estimate, which is recognized in income or loss.

- First, the optimal estimation for the liability was calculated
- The optimal estimation was adjusted by a conservative factor to bring the assessment to a probability of at least 75%. The conservativism factor was obtained using stochastic model that estimate volatility in claim experience. Those models also estimate random and systemic risks.
- Pending claims in compulsory vehicle and Liabilities insurance were not discounted.

NOTE 27 - RISK MANAGEMENT (continued):

f. Credit risk data:

Credit risk arises from exposure to decrease in the quality of credit or default of borrowers from deterioration of their financial situation. Investments in bonds, capital notes and deposits of companies are mainly rated A or above, which represents a lower credit risk.

Investment in acquisition of bonds is done after a deep analysis of the Company and the investment based on credit criteria and policy as approved by the investments committee. Those debts are monitored continuously, with special attention given to problematic debt.

1) Distribution of debt instruments by location*

	December 31, 2015		
	Marketable	Nonmarketable	Total
	ILS in thousands		
Domestic	1,200,998	183,959	1,384,957
Abroad	-	19,976	19,976
Total debt instruments	1,200,998	203,935	1,404,933

	December 31, 2014		
	Marketable	Nonmarketable	Total
	ILS in thousands		
Domestic	1,183,798	152,591	1,336,389
Abroad	-	11,870	11,870
Total debt instruments	1,183,798	164,461	1,348,259

*The classification between domestic debt instruments and debt instruments abroad was made in accordance with the country in which the instrument in traded.

NOTE 27 - RISK MANAGEMENT (continued):

f. Credit risk data (continued):

2) Breakdown of assets by ratings:

a. Debt assets (excluding cash and cash equivalents and other receivables):

	Domestic rating			
	As of December 31, 2015			
	-AA and above	BBB through A+	Lower than BBB	Total
	ILS in thousands			
Debt assets in Israel:				
Marketable debt assets:				
Government bonds	589,845	-	-	589,845
Corporate bonds	432,260	178,893	-	611,153
Total marketable debt assets in Israel	1,022,105	178,893	-	1,200,998
Nonmarketable debt assets:				
Corporate bonds	76,154	10,091		86,245
Deposits with banks and financial institutions	97,714	-	-	97,714
Total nonmarketable debt assets in Israel	173,868	10,091		183,959
Total domestic debt instruments	1,195,973	188,984	-	1,384,957

	International rating			
	As of December 31, 2015			
Debt assets abroad	A and above	BBB	Lower than BBB	Total
	ILS in thousands			
Nonmarketable debt assets - corporate bonds	17,216	-	2,760	19,976
Total nonmarketable debt assets abroad	17,216	-	2,760	19,976
Total debt assets abroad	17,216	-	2,760	19,976

NOTE 27 - RISK MANAGEMENT (continued):

f. Credit risk data (continued):

	-AA and above	BBB through A+	Lower than BBB	Total
	Domestic rating			
	As of December 31, 2014			
	ILS in thousands			
Debt assets in Israel:				
marketable debt assets:				
government bonds	629,992	-	-	629,992
corporate bonds	334,177	219,629	-	553,806
Total marketable debt assets in Israel	964,169	219,629	-	1,183,798
nonmarketable debt assets:				
corporate bonds	39,242	9,695		48,937
deposits with banks and financial institutions	103,654	-	-	103,654
Total nonmarketable debt assets in Israel	142,896	9,695		152,591
Total domestic debt instruments	1,107,065	229,324	-	1,336,389

Debt assets abroad	A and above	BBB	Lower than BBB	Total
	International rating			
	As of December 31, 2014			
	ILS in thousands			
Marketable debt assets abroad				
Government bonds	6,218	-	-	6,218
Total Marketable Debt Assets Abroad	6,218	-	-	6,218
Nonmarketable debt assets - corporate bonds	9,119	-	2,751	11,870
Total nonmarketable debt assets abroad	9,119	-	2,751	11,870
Total debt assets abroad	9,119	-	2,751	11,870

b. Credit risk in respect of other financial assets (in Israel)

	A and above	BBB	Lower than BBB	Not rated	Total
	Domestic rating				
	As of December 31, 2015				
	ILS in thousands				
Accounts receivable - excluding balances of reinsurers	-	-	-	251,193	251,193
Cash and cash equivalents	62,243	-	-		62,243
	62,243	-	-	251,193	313,436

NOTE 27 - RISK MANAGEMENT (continued):

f. Credit risk data (continued):

	Domestic rating				
	As of December 31, 2014				
	A and above	BBB	Lower than BBB	Not rated	Total
	ILS in thousands				
Accounts receivable - excluding balances of reinsurers	-	-	-	314,739	314,739
Cash and cash equivalents	83,087	-	-		83,087
	83,087	-	-	314,739	397,826

3) Additional data regarding credit risks:

a. The systems of ratings of domestic debt instruments and debt instruments abroad vary from one another. It should be indicated that in accordance with the Capital Market circular 2008-6-1, regarding the publication of data for conversion of the Israeli rating system and the international rating system, the supervisor instructed that through January 1, 2009 the rating companies that received the approval of the Commissioner of Capital Market, Insurance and Savings to operate as a rating company in accordance with the Capital Market circular 2004/1 are to publish a system for the conversion of the Israeli rating into the international rating.

b. As to balances with reinsurers amounting to ILS 548,150, see note 13. Also see note 27f(5)(3).

4) Breakdown of exposure of economic sectors to investments in marketable and marketable financial debt instruments:

	As of December 31, 2015	
	Balance sheet credit risk	
	Amount	% of total
	ILS in thousands	
Economic sector:		
Banks	301,228	21.5
Construction and real estate	245,091	17.4
Investment and holdings	48,301	3.4
Other business services	75,258	5.4
High-tech	56,153	4.0
Oil and gas	39,772	2.8
Commerce	15,162	1.1
Production industry	17,305	1.2
Insurance	16,818	1.2
	815,088	58.0
Government bonds	589,845	42.0
Total	**1,404,933**	**100.0**

NOTE 27 - RISK MANAGEMENT (continued):

f. Credit risk data (continued):

	As of December 31, 2014	
	Balance sheet credit risk	
	Amount	% of total
	ILS in thousands	
Economic sector:		
Banks	256,581	19.0
Construction and real estate	214,221	15.9
Investment and holdings	57,481	4.3
Other business services	42,113	3.1
High-tech	53,464	4.0
Oil and gas	32,455	2.4
Commerce	16,467	1.2
Production industry	29,507	2.2
Insurance	15,978	1.2
	718,267	53.3
Government bonds	629,992	46.7
TOTAL	1,348,259	100.0

5) Reinsurance

The Group's insurance companies insure some of their businesses by means of reinsurance (mostly with global AIG Corporation companies, which are related parties of the Company). However, the reinsurance does not relieve the direct insurers of their obligations towards their policyholders under the insurance policies

The Company is exposed to risks arising from uncertainty as to the ability of the reinsurers to pay their share in the liability in respect of insurance contract (the reinsurance assets) and their obligations in respect of claims that were paid. This exposure is managed by holding a follow-up on a current basis with regard to the reinsurer's situation in the world market and a follow-up with respect of the fulfillment of the reinsurer's financial liabilities.

Under the guidelines set by the Supervisor, the Board of Directors set one a year, maximal exposure levels to the reinsurer with which the Company entered (or will enter) into reinsurance agreement; such levels are based on the reinsurers' international rating. Also, the Company's exposures are divided between various reinsurers; the most significant of these exposures are to reinsurers of high international ratings.

a. In 2015, most of the Company's general insurance contracts (include earthquake exposure) were with insurance companies, as follows:

- ("NHIC") New Hampshire Insurance Company
- ("NUFIC") National Union Fire Insurance Company of Pittsburgh, PA
- ("AHAC") American Home Assurance Company

The above-mentioned companies are global AIG Corporation companies and they are related parties of the Company. For further details on balances and transactions with related parties see note 28. The said companies have been granted an A+ rating by S&P.

b. In 2015, the Company entered into most of the life insurance contracts with the following insurance companies:

- Swiss Re
- Partner Re

NOTE 27 – RISK MANAGEMENT (continued):

f. Credit risk data (continued):

c. Data regarding the exposure to credit risks as of December 31, 2015:

Rating group	Total premiums to reinsurers for 2015	Net debit (credit) balances	Reinsurance assets			Deposits of reinsurers	amount of letters of credit received from reinsurers	Total exposure	Debts overdue	
			Life insurance	Property insurance	Liabilities insurance				0.5-1 year	In excess of 1 year
	ILS in thousands									
-AA or above:										
GEN RE	1,463	(240)	1,207	-		(585)		382		
SWISS RE	18,610	(2,109)	9,920	-		(7,444)		367		
Other	160	-	-	-		-		-		
	20,233	(2,349)	11,127			(8,029)		749		
A:										
Partner Reinsurance Co Ltd.	3,729	(400)	1,075	-	-	(1,454)		(779)		
AHAC*	12,811	(1,115)		8,084	42,021	(23,712)		25,278		
NUFIC*	99,930	(8,697)		63,066	327,764	(184,954)		197,179		
NHIC*	15,374	(1,338)		9,701	50,425	(28,454)		30,334		
Other companies in the AIG	13,920	2,306		33,210	1,085	-		36,601		
Other	241	72		592	-	-		664		
	146,005	(9,172)	1,075	114,653	421,295	(238,574)		289,277		
BBB+										
other	1,177	(165)	-	-	-	-		(165)		
	1,177	(165)	-	-	-	-		(165)		
Total	167,415	(11,686)	12,202	114,653	421,295	(246,603)		289,861		

* Global AIG Corporation companies which are related parties of the Company.

NOTE 27 – RISK MANAGEMENT (continued):

f. Credit risk data (continued):

c. Data regarding the exposure to credit risks as of December 31, 2014:

Rating group	Total premiums to reinsurers for 2014	Net debit (credit) balances	Reinsurance assets: Life insurance	Reinsurance assets: Property insurance	Reinsurance assets: Liabilities insurance	Deposits of reinsurers	amount of letters of credit received from reinsurers	Total exposure	Debts overdue: 0.5-1 year	Debts overdue: In excess of 1 year
	ILS in thousands									
-AA or above:										
GEN RE	1,883	(103)	2,632	-		(753)		1,776		
SWISS RE	17,788	(1,858)	9,881	-		(7,115)		908		
Other	1,350	(264)	-	-		-		(264)		
	21,021	(2,225)	12,513			(7,868)		2,420		
A:										
Partner Reinsurance Co Ltd.	4,346	(515)	542	-	-	(1,291)		(1,264)		
AHAC*	11,879	192		9,342	57,339	(25,428)		41,445		
NUFIC*	92,660	1,496		72,874	447,242	(198,335)		323,277		
NHIC*	14,257	230		11,210	68,807	(30,513)		49,734		
Other companies in the AIG international corporation	13,085	(940)		35,834	2,825	-		37,719		
Other	2,933	315		444	-	-		759		
	139,160	778	542	129,704	576,213	(255,567)		451,670		
BBB+	1,451	(57)	-	-	-	-		(57)		
other	1,451	(57)	-	-	-	-		(57)		
Total	161,632	(1,504)	13,055	129,704	576,213	(263,435)		454,033		

* Global AIG Corporation companies which are related parties of the Company.

NOTE 27 - RISK MANAGEMENT (continued):

g. Operating risks

Operating risk may lead to financial loss, reputational damage, regulatory non-compliance, undermining operating efficiency, lost targets, etc. The exposures may result from failure or inappropriateness of internal processes, human error, information technology failure, regulatory non-compliance or exogenous events. To reduce the operating risk, the Company works to reduce the material risks in accordance with the organizational risk chart and to perform risk control self-assessments by the business unit. The risk management function in the Company includes "risk-management champions" in business units who report risk events and collect various key risk indicators for risk analysis and assessment. The risk events and key risk indicators are reported in accordance with the reporting hierarchy. The Company also has an operating risk management committee whose members include the managers of the departments, the compliance officer and a representative of the legal department. The internal auditor is invited to take part in the committee's meetings. The committee convenes every quarter and discusses risk management in various processes, risk events, etc.

In 2015, risk management procedures were integrated to have ongoing detection, treatment, monitoring and regular reporting of exposures in the organizational operating processes. In addition, regular training was given to employees on detection and reporting operating risk events.

As part of the operating risk management, the Company designed a disaster recovery plan (DRP) and a business continuity plan (BCP) to recover in an instance of damage to operating infrastructure. In addition, the Company performs once a period a risk survey to detect fraud.

Information security and cyber – The Company manages its information security risk according to a relevant policy it approved. Chief Information Officer prepares to implement regulatory requirements that are expected to be published on cyber security, in addition to professional guidance of the international AIG Corporation.

Further, the Company is operating an internal audit function that performs periodic audits according to an annual and multi-annual plan. This plan reflects the findings of a legally mandatory risk survey and different guidance.

Additional aspects of operating loss are treated under the guidance in SOX 404.

h. Geographic risks:

	December 31, 2015					
	Government bonds	**Corporate bonds**	**Shares**	**Index funds**	**Other investments**	**Total balance sheet exposure**
	ILS in thousands					
Israel	589,845	631,341	51,706	53,095	159,957	1,485,944
North America	-	72,550	35,361	9,468	-	117,379
Other	-	13,483	5,784	10,861	-	30,128
Total	589,845	717,374	92,851	73,424	159,957	1,633,451

The geographical exposure reported in the table for the different asset classes is based on the ultimate location of exposure, by country or region, as applicable. In cases where it is not possible to identify the location of ultimate exposure, the exposure is reported based on the place where the asset was issued or is traded.

NOTE 28 – BALANCES AND TRANSACTIONS WITH INTERESTED PARTIES AND RELATED PARTIES

Interested parties as defined in the Israeli Securities Regulations (Preparation of Annual Financial Statements), 2010
Related parties - as defined in IAS 24 - "Related Party Disclosures".

Company's key management personnel (which are included together with others in the definition of "related parties" under IAS 24) include members of the Board of Directors and member of senior management (hereafter – "key management personnel").

a. Balances with interested parties and related parties:

		December 31			
		2015		2014	
	Note	Global AIG corporation companies	Key management personnel	Global AIG corporation companies	Key management personnel
		ILS in thousands			
Reinsurance assets	13, 27(f)(5)(c)	535,356	-	705,473	-
Accounts receivable	8	4,534	-	3,422	-
Accounts payable	19	-	3,772	-	5,747
Liabilities to reinsurers	29	248,286	-	256,041	-

b. Transactions with interested parties and related parties

Office holders in the Company may purchase' from time to time' insurance contracts issued by the Company under market conditions and in the ordinary course of business.

		December 31		
	Note	2014	2013	2012
		ILS in thousands		
Premiums - gross*	20	33	30	58
Reinsurance premiums**	20	(141,661)	(131,882)	(136,395)
Income from commissions**	22	38,754	36,754	37,788
Payments and change in insurance liabilities in respect of insurance contracts**	23	(48,019)	(138,373)	(158,931)
Administrative and general expenses*	25	(10,362)	*** (14,829)	*** (10,864)
Administrative and general expenses**	25	(1,167)	*** (1,132)	*** (62)
Financial income (expenses)**	26	-	(593)	(2,177)

* Transactions with key management personnel.

** Transactions with Global AIG Corporation companies.

*** Reclassified due to change in accounting policy - see note 2u.

NOTE 28 - BALANCES AND TRANSACTIONS WITH INTERESTED PARTIES AND RELATED PARTIES (continued):

c. Benefits to key management personnel:

	For the year ended December 31					
	2015		2014		2013	
	No. of people	Amount	No. of people	Amount	No. of people	Amount
			ILS in thousands			
Short-term benefits	14	8,776	14	13,300	13	9,114
Other long-term benefits	14	1,586	14	1,529	13	1,750
		10,362		14,829		10,864

d. Benefits to key management personnel – directors:

	For the year ended December 31					
	2015		2014		2013	
	No. of people	Amount	No. of people	Amount	No. of people	Amount
			ILS in thousands			
Fees to directors	4	507	4	612	4	671
	4	507	4	612	4	671

e. Income and expenses from related parties and interested parties:

1) Transactions with global AIG Corporation companies which are related parties of the Company

Most of the Company's transactions with reinsurers are carried out with global AIG Corporation companies which are related parties of the Company.
As to the amounts of the said transactions, see a. and b. above. See also note 27(f)(5)(c).

2) Bonuses to key management personnel

Short-term and long-term benefits include bonuses and other benefits to key management personnel, amounting to ILS 964 thousands (2014 = ILS 3,108 thousands and 2013 – ILS 2,448 thousands).

NOTE 29 –LIABILITIES TO REINSURANCE:

	December 31	
	2015	**2014**
	ILS in thousands	
Deposits of reinsurers (2) ,(1)	246,603	263,435
Deferred acquisition costs in respect of reinsurance	18,662	12,209
Related parties(1)(2)	11,166	1,765
Other	2,916	3,189
	279,347	280,598

(1) As to the details of deposits and balances of reinsurers, most of which are related parties – see note 27(f)(5)(c).
(2) See also note 28a.

NOTE 30 - CONTINGENT LIABILITES AND COMMITMENTS:

Contingent liabilities class actions:

a. In December 2012, a lawsuit and a motion for class action certification was filed against 8 insurance companies, including the Company; the plaintiffs also filed an application to approve the claim as a class action. 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 2008, 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 group in the name of whom the legal claim was lodged is the group of insured persons and entities the classification of the vehicles of which was changed in the last seven years.

Total damages claimed from the company in respect of property insurance amount to ILS 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.

On July 10, 2013, a pretrial 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.

NOTE 30 - CONTINGENT LIABILITES AND COMMITMENTS (continued)**:**

Cross examinations of the parties' witnesses took place on February 24, 2014, March 6, 2014 and March 25, 2014. At the end of this hearing the court recommended that the claimant considers 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 application to approve 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. The claimants and the insurance companies have recently filed their summaries; after the date for filing the summaries was postponed. On February 1, 2016 the claimants filed their response summaries. The Court has not yet issued its ruling in the case.

The Company's management, based on the opinion of its legal counsel, believes that it is more likely than not that the claim will be rejected.

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

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

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

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

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

NOTE 30 - CONTINGENT LIABILITES AND COMMITMENTS (continued)**:**

On January 6, 2015 the respondents filed their reply to the application to approve the claim as a class action. In their reply the respondents claimed, among other things, that neither the law nor the insurance policy requires them to reduce the insured amount on their own accord and to adjust it to the updated balance of the loan. On the contrary, the insurance policy informs the insured individuals of the potential difference between the balance of the loan and the insured amount and in any case the updated insured amount is presented in the annual statements posted to all insured individuals; the respondents claim that without a specific request of the insured individual (to which an approval of the lending bank should be attached) they cannot reduce the insured amount since this will be considered breach of the provisions of the insurance policy; the respondents claim that they are unable to reduce the insured amount so that it corresponds to the balance of the loan since this information is subject to the bank secrecy duty; the respondents claim that the insured amount 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 applicants are not higher than the premiums they should have paid. The respondents also claim that the underlying assumptions on which the applicants relied in their application is not shared by all applicants and that the applicants themselves acted in contradiction to those assumptions. The respondents claim that the non-disclosure claims that underlies the application to approve 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 applicants filed their reply to the application to approve the claim as a class action. The applicants reject the claims raised in the reply to the application. A preliminary hearing to discuss the application was held on June 14, 2015. In the course of this hearing the Court informed the parties that it intends to address questions arising from the application to approve the claim as a class action to the Supervisor of Insurance; the Court asked the parties to provide it, by July 16, 2016, 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 to discuss the application to approve the claim as a class action. In this hearing the Court ordered to refer questions to the Supervisor of Insurance.

On December 21, 2015, the Supervisor of Insurance informed the Court that she has referred the Court's questions to the Supervisor of Banks.

The date on which the Supervisor of Insurance will provide its answers to the above-mentioned questions was set to February 25, 2016. The parties may file their reply to those answers by March 25, 2016.

A preliminary court hearing was set for April 10, 2016.

Based on information and data that was received, at this preliminary stage the Company’s management, based on the opinion of its legal counsel, believes that it is more likely than not that the Court will not allow the application to approve the claim as a class action.

NOTE 30 - CONTINGENT LIABILITES AND COMMITMENTS (continued)**:**

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

The plaintiffs rely in their legal claim on the Supreme Court's ruling in the Zlutzin vs. Diur La-Olle case (civil appeal 17229/99) according to which even where repairs were not carried out in practice, the insurer (which insures the person who caused the damage) should bear the VAT component. The plaintiffs also rely on In-Principle Ruling issued by the Supervisor of Insurance titled "In-Principle Ruling on Payment of VAT and Depreciation of Unrepaired Vehicle". This in-principle ruling states that when an insurance customer or a third party claims direct damages from repairing a vehicle and the insurer does not reject that claim, the insurer must pay the customer insurance benefits including, among other things, the VAT applicable in this matter, even if the customer did not repair the vehicle in practice.

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 an application to approve the claim as a class action in respect of this component. On January 2, 2016 the Court rejected the plaintiff's request. At this stage the plaintiff has several alternative legal channels, through which he may continue pursuing the legal procedures.

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

A preliminary hearing was set to June 6, 2016.

At this stage, the legal advisors of the Company await to see which legal procedure the plaintiff will pursue so that they will be able to assess whether the claim is relevant to the Company and if so what are the Company's chances of prevailing in this claim.

d. A legal claim and an application to approve the claim as 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 group of plaintiffs on whose behalf the applicants wish to file the class action includes any insured 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 30 - CONTINGENT LIABILITES AND COMMITMENTS (continued)**:**

In the application to approve the claim as a class action, the applicants 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 applicants 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 applicants also asked the Court to set measures for the enforce the said injunction. The applicants also asked that the Court orders the defendants to pay them individual compensation as well as the fees of their attorneys, as determined by the Court.

On February 4, 2016 the Company informed the Court that it is negotiating a compromise agreement with the applicants, which will resolve the case outside the Court. The Company has asked the Court to postpone the date for filing the Company's reply to the application till April 1, 2016 in order to exhaust the negotiation process. The Court postponed the said date, as requested.

Based on information and data that was received, at this preliminary stage the Company's management, based on the opinion of its legal counsel, believes that it is more likely than not that the Court will not allow the application to approve the claim as a class action.

e. On December 17, 2015 the Reserve Forces Association filed an application to approve a claim as a class action against the Company and another insurance Company.

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

The group of plaintiffs on whose behalf the applicants wish to file the class action 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 application was filed to the District Court (Center District) against other insurance companies. An application to approve a joinder of the two class action applications was filed and on January 27, 2016 the Court ordered the joinder of the two legal procedures.

The Court has set June 30, 2016 as the date for replying to the class action application. A Court hearing was set to September 6, 2016.

At this preliminary stage the legal advisors and management of the Company are looking into the matter; once they are familiarized with the details they will be able to assess the chances of the Court's approving the class action application.

NOTE 30 - CONTINGENT LIABILITES AND COMMITMENTS (continued)**:**

f. A legal claim and an application to approve the claim as 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 group of plaintiffs on whose behalf the applicants wish to file the class action includes any insured 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.

The Company is required to file its reply to the application until May 4, 2016.

At this preliminary stage the legal advisors and management of the Company are looking into the matter; once they are familiarized with the details they will be able to assess the chances of the Court's approving the class action application..

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

Pending applications for approval of legal claims as class actions -	**Number of claims**	**The amount claimed NIS in thousands**
an amount relating to the Company was specified	6	68,292

GENERAL INSURANCE SECTORS – ACTUARY STATEMENT

AS OF 31.12.2015

AIG ISRAEL INSURANCE CO. LTD.

Chapter A - Identity of the actuary

I was requested by AIG Israel Insurance Co. Ltd. to evaluate the provisions listed in Chapter B hereafter in the general insurance sectors for the financial statements ("the provisions") of the insurer AIG Israel Insurance Co. Ltd. at December 31, 2015, as detailed below.

I am a salaried employee of AIG Israel Insurance Co. Ltd. ("the insurer"). I am not an interested party in the insurer nor am I a relative of an interested party of the insurer.

I was appointed to this position on 31.12.2015.

Chapter B - Scope of the actuarial opinion

1. Wording of scope of the actuarial opinion section

1.1 For the purpose of calculating the insurer's provisions, I relied on data that I received from the insurer. My requests for information and data were satisfied adequately for the purpose of evaluating the provisions for financial statements purposes. I reviewed the reasonability and adequacy of the data, including comparing the said data with the data for the year to which the statement refers and the data for previous years.

1.2 Where necessary, my evaluation also relied on data received from other reliable sources. I reviewed the consistency and adequacy of the data and their relevance.

1.3 The actuarial assumptions that I used in my work, as well as the methods for evaluating the provisions specified in section 2 below were determined by me, to the best of my professional judgment, and subject to the instructions, directives and principles specified in section 1 to Chapter C, below.

1.4 To calculate the retention, I asked the entities responsible for the insurer's reinsurance for information concerning the insurer's reinsurance arrangements, the ability to collect claims, and problems with the reinsurers' payment policy. Based on the information that I received, I reviewed the effect and implications of the reinsurance arrangements on the provisions.

1.5 The following matters were also taken into account in my opinion:
The provision that was calculated for the Company's share of the "Pool" (Israel Motor Insurance Pool) was based on an assessment conducted by the Pool's actuary.

1.6 No reserve was taken for the absence of a correlation between the different sectors for the purpose of writing down the total provision for all the sectors included in my evaluation."

2. Data included in the section on the scope of the actuarial opinion

As of December 31, 2015

2.1 Pending Claims

2.1.1 Non-aggregated sectors:

		Gross	Retention
		NIS in thousands	
	Motor property	47,779	47,779
	Comprehensive flats	21,449	17,698
	Loss of property	33,178	1,859
	Engineering insurance	22,576	451
	Compulsory motor	395,905	305,192
	Liability employers	48,803	6,011
	Third party liability	137,292	12,318
	Product liability	58,544	10,580
	Professional liability	117,264	19,250
	Other	3,224	403
	Total non-aggregated sectors	886,014	421,541
	Total non-aggregated sectors	-	-
2.1.2	Total aggregated and non-aggregated sectors	886,014	421,541
2.2	Indirect expenses for all sectors	29,427	29,427
2.3	Premium deficiency:		
	Motor property	11,321	11,321
	Comprehensive flats	Not required to declare	-
	Compulsory motor	Note required to declare	-
Total pending claims, indirect expenses, premium deficiency reserve computed in accordance with actuarial valuation		**926,762**	**462,289**

Chapter C – the Opinion

"I hereby declare and confirm that in the following sectors, comprehensive flats, motor vehicle insurance – property (owned and third party), motor vehicles (New Version), 1970:

1. I evaluated the insurer's provisions listed in Chapter B in accordance with the instructions, directives and principles set forth below, and all in effect as of the date of the financial statements:

   a. The provisions of the Control of Financial Services (Insurance) Law, -1981, and regulations promulgated thereunder.
   b. Instructions and directives issued by the Supervisor of Insurance;
   c. Supervisor's position regarding calculation of general insurance reserves
   d. Acceptable actuarial principles.

2. After reviewing the data mentioned in Chapter B, I concluded that the data are reasonable and adequate, and that they can be relied on for the purpose of my evaluation.
3. I determined the assumptions and methods used to assess the provisions, to the best of my professional judgment, and in accordance with the instructions, directives and principles specified above.

4. To the best of my knowledge, the provisions specified in Chapter B, section 2.1.1 in respect of the non-aggregated sectors comprehensive flats, property loss, engineering, compulsory motor, employers liability, third party liability, product liability, professional liability and other form an adequate reserve for covering the insurer's commitments in respect of the pending claims, defined above, for each statistical sector listed separately, in effect as of the date of the financial statements.

5. To the best of my knowledge, the total provisions listed in Chapter B, section 2.1.2, form an adequate reserve for covering the insurer's commitments in respect of pending claims in the aggregated and non-aggregated sectors together, in effect as of the date of the financial statements.

6. To the best of my knowledge, the provision specified in Chapter B, section 2.2 forms an adequate reserve for covering the insurer's commitments in respect of indirect expenses to settle the claims in effect as of the date of the financial statements.

7. To the best of my knowledge, the provisions listed in Chapter B, section 2.3, form an adequate reserve for covering the insurer's commitment in respect of a deficit premium at retention level (inasmuch as such deficit premium exists) in the sectors listed, in effect as of the date of the financial statements."

<u>Chapter D – Comments and Clarifications</u>

1. **Comments, clarifications and explanations in connection with the actuary opinion I rendered, to the best of my professional judgment.**

   a. In January 2015 a new Insurance Circular was published - "Actuarial Assessment in General Insurance" - which is designed to enhance the quality of assessment of the reserves for an insurer's liability due to general insurance contracts (hereafter – "insurance reserves), which are an important element in the assessment of an insurer's liability, and to regulate the attachment of the professional opinion of an appointed actuary (hereafter – "the actuary") on these provisions to the financial statements. The circular establishes the scope of the actuarial assessment which the actuary is required to perform, the actuarial report he/she is required to prepare and the statement he/she is required to sign, which must be attached to the financial statements.

   b. In January 2015 the Supervisor published a position paper on "Best Practice for Calculation of Insurance Reserves in General Insurance for Financial Reporting" (hereafter – "the position paper"). The Supervisor's position paper includes, inter alia, explanations of the principles of professionalism, consistency and caution which have not been previously defined in circular 2015-1-1 on Actuarial Valuation in General Insurance. The principle of caution will require the actuary to verify that the valuations made in the liability sectors aim for a probability estimate of 75% at the very least. The Supervisor's position paper also refers to the issue of the discount rate applied to liabilities for best estimate purposes.

   c. In January 2015 a circular was published – "Calculation of Reserves in General Insurance – Update"; in accordance with the this circular, commencing in the financial statements as of December 31, 2015, the reserve in respect of the excess of income over expenses shall not be calculated for the liability insurance sectors and the compulsory vehicle insurance sector.

d. I do not use capitalization interest in the actuary assessment to assess the provisions for pending claims or indirect expenses. It is possible to measure the extent of conservativeness of using a 0% real interest compared with using a risk free capitalization interest including non-liquidity premium:

Effect of risk free interest on capitalization/non-capitalization of provisions for pending claims - gross

Sectors	Best estimate provision before capitalization	Best estimate provision after capitalization	Provision in books	Increment (%)
	NIS in thousands			
Compulsory motor	372,898	367,096	395,905	7.85%
Motor property	45,766	45,405	47,779	5.23%
Comprehensive flats	19,842	19,724	21,449	8.75%
Engineering insurance	21,218	21,110	22,576	6.95%
Property	31,182	31,000	33,178	7.02%
Employers' liability	45,868	45,042	48,803	8.35%
Other	2,912	2,815	3,224	14.51%
Product liability	49,032	48,124	58,544	21.65%
Professional liability	105,929	101,375	117,264	15.67%
Third party liability	128,191	125,857	137,292	9.09%
Total	822,838	807,548	886,014	9.72%

Effect of risk free interest on capitalization/non-capitalization of provisions for pending claims - retention

Sectors	Best estimate provision before capitalization	Best estimate provision after capitalization	Provision in books	Increment (%)
	NIS in thousands			
Compulsory motor	288,278	285,275	305,192	6.98%
Motor property	45,766	45,405	47,779	5.23%
Comprehensive flats	16,372	16,274	17,698	8.75%
Engineering insurance	424	422	451	6.93%
Property	1,747	1,736	1,859	7.06%
Employers' liability	5,649	5,544	6,011	8.42%
Other	364	351	403	14.93%
Product liability	8,861	8,692	10,580	21.72%
Professional liability	17,390	16,627	19,250	15.78%
Third party liability	11,502	11,296	12,318	9.04%
Total	396,351	391,622	421,541	7.64%

e. The sensitivity of the conservative amounts is reflected by changing the risk free interest rate used for capitalization (including non-liquidity premium) by 0.5% or 1.0%.

Sensitivity analysis of conservative amounts without capitalization to the risk free interest

Amounts in thousands of NIS	Provision in books without capitalization	Best estimate capitalization: Risk free interest less 1.0%	Best estimate capitalization: Risk free interest less 0.5%	Best estimate capitalization: Risk free interest	Best estimate capitalization: Risk free interest plus 0.5%	Best estimate capitalization: Risk free interest plus 1.0%
All sectors (gross)	886,014	845,023	825,921	807,548	789,867	772,844
Difference in NIS compared with provision without capitalization	-	40,991	60,092	78,466	96,147	113,170
Difference in % compared with provision without capitalization	0.0%	4.6%	6.8%	8.9%	10.9%	12.8%
All sectors (retention)	421,541	406,086	398,737	391,622	384,729	378,049
Difference in NIS compared with provision without capitalization	-	15,455	22,803	29,919	36,812	43,491
Difference in % compared with provision without capitalization	0.0%	3.7%	5.4%	7.1%	8.7%	10.3%

f. The process of assessing the various actuarial provisions involves statistical uncertainty. These assessments are based on certain assumptions which best reflect the information currently available to us. There may be future changes, which will have an effect on these assumptions in terms of legislation, legal rulings and economic and social environments. It is impossible to predict these factors and they may affect the final cost of the claims thus affecting actuarial estimate of the provisions.

2. **Material changes in actuarial assumptions and methods compared with last year's actuarial assessment**

a. Unallocated loss adjustment expenses (ULAE)

The model used to calculate unallocated loss adjustment expenses (ULAE) was reassessed at the end of 2015. The new method calculates a ULAE factor based on the historical ratio of paid ULAE to paid losses for the latest calendar years. The ULAE reserve was computed assuming one half the cost of settling a claim is incurred upon opening a file and the remainder upon closing it; however in allocating the ULAE reserves by line, some weight was given to consider the length of time until claims are initially reported and ultimately settled. The total change in the ULAE reserve due to this change in methodology is NIS 750 thousands.

b. As per the circular issued by the Supervisor, dated January 15, 2015 beginning year end 2015, adequate reserve for cover of the liabilities in respect of pending claims in the compulsory and liability sectors shall be interpreted as meaning that it is fairly likely - i.e. a 75% probability at least - that the insurance obligation prescribed will be sufficient to cover the insurer's obligations.

We have decided to utilize a model that AIG uses globally to stochastically determine reserve variability, which we call the Reserve/Premium Risk Statistical Model ("RPS Model"). This model can be described as three sub-models:

1. The Adaptive Reserve Monitoring System Model ("ARMS Model")
2. The Reserve and Premium Risk – Coefficient of Variation Model ("CV Model")
3. The Reserve and Premium Risk – Aggregation Model ("Aggregation Model")

The purpose of the RPS Model is to produce reasonable aggregate estimates of adverse risk or premium risk loss outcomes. The model is statistical in nature. Adverse loss outcomes are generated by developing a stochastic model of individual line of business volatilities and their correlation and dependency across the company.

We believe our model is complete and considers both random variation and systemic risk. In particular our model considers these by modeling three sources of volatility:

1) Diversifying process risk: randomness of future outcomes, given a known distribution of possible outcomes.
2) Parameter risk: Potential error in estimated parameters used to describe the distribution of potential outcomes
3) Systematic Risk: the risk that calendar year loss trends will change unpredictably in the future.

Reserve risk and premium risk for each analysis segment is simulated. Coefficient of Variations (standard deviation/mean) for the simulated distributions are derived from the segment analytics previously described.

Best estimate reserves and expected losses on the unearned premiums were determined by the actuary. Based on the results of the RPS model, a factor was calculated, for each individual segment, to project losses from the mean (best estimate) to the 75th percentile level. These form the basis for the statutory reserves of the company.

Below is a summary of the mean, standard deviation, Coefficient of Variation and the reserves at the 75th percentile level.

For a more detailed explanation of the model, please see App. A. Model Development Document.

Best estimate – Retention as of December 31, 2015

	Best estimate of total reserve for settling pending claims	**Standard Deviation**	**CV**	**75^{th} percentile**
Compulsory motor	234,912	25,860	11.0%	251,826
Compulsory motor - Pool	53,366	-		53,366
Employers' liability	5,649	553	9.8%	6,011
Property motor	45,766	3,029	6.6%	47,779
Comprehensive flats	16,372	2,044	12.5%	17,698
Product liability	8,861	2,845	32.1%	10,580
Professional liability	17,390	2,899	16.7%	19,250
Property loss	2,171	211	9.7%	2,310
Third party liability	11,502	1,261	11.0%	12,318
Other	364			403
Total	**396,351**			**421,541**

c. Change in an estimate as to the degree of conservativism required in the different general insurance sectors

As of December 31, 2015, simultaneously with the implementation of the Supervisor's position about the best practice for calculating general insurance reserves, in which, as noted above, the prudence principle requires to maintain a minimum threshold of reserve (in order to meet the "fairly likely" principle, which is the 75 percentile for compulsory vehicle and liability insurance), I reconsidered the degree of conservativism that the Company needs to maintain for its different general insurance reserves, given accumulated experience of the Company with those sectors.

Following this process, I concluded that as of December 31, 2015, the accumulated experience of the Company makes actuary calculations that are performed in those sectors to be more reliable than in the past, and allow a reduction of reserves in the different sectors (relative to reserves that were kept in the past) to the 75th percentile. Note that in this regard, even as it is not required by the best practice, I uses the 75th percentile in other sectors, beyond compulsory vehicle and liabilities.

That reduction of the reserves is not part of implementing the change in accounting policy resulting from the position of the Supervisor, which does not require the reduction of reserves but only sets a minimum threshold (along with the elimination of the accumulation in compulsory vehicle and liabilities). Instead, the reduction is a change in an accounting estimate of the Company as to the degree of conservativism required from the actuarial standpoint in the different general insurance sectors, based on accumulated experience of the Company, as indicated above.

d. For the line of business that is 2010 and forward – up to 1.2 million NIS, now that we have six years of historical experience, we are able to use the triangle for assumptions on the most recent periods and use similar methods (DFM, BF).

e. Premium deficiency are now calculated by line of business. Expected claims ratios are selected for each line of business and are based on the most recent accident/underwriting years indications, taking into consideration recent trends in the loss ratios. The expected claims ratios are adjusted to reflect the 75th percentile level. Future ULAE costs, and other expense costs including DAC are considered.

3. **Material changes to provisions described in Chapter B compared to provisions described for the previous reporting period and the reasons for those changes, by sectors**

Attached below is a by line of business summary of the reserve provisions as of year-end 2014 and 2015, and the changes in provisions. The main change is the change in the methodology as explained in chapter d.2 b.

Comparison of annual actuarial estimate compared with previous years' actuarial estimate - gross

Sectors	Reserve as of 31.12.2014	Addition as of 31.12.2015	Change in reserve
Compulsory motor	516,620	395,905	-120,715
Property motor	36,996	47,779	10,783
Comprehensive flats	16,159	21,449	5,290
Engineering insurance	15,143	22,576	7,433
Property	64,633	33,178	-31,455
Employers' liability	51,159	48,803	-2,356
Other	5,462	3,224	-2,238
Product liability	51,073	58,544	7,471
Professional liability	203,098	117,264	-85,835
Third party liability	133,605	137,292	3,687
Total	1,093,949	886,014	-207,935

Comparison of annual actuarial estimate compared with previous years' actuarial estimate - retention

Sectors	Reserve as of 31.12.2014	Addition as of 31.12.2015	Change in reserve
Compulsory motor	356,853	305,192	-51,661
Property motor	36,996	47,779	10,783
Comprehensive flats	14,711	17,698	2,987
Engineering insurance	278	451	173
Property	1,721	1,859	137
Employers' liability	5,980	6,011	31
Other	582	403	-179
Product liability	9,022	10,580	1,557
Professional liability	29,366	19,250	-10,116
Third party liability	11,729	12,318	589
Total	**467,240**	**421,541**	**-45,699**

15.3.2016	General Insurance Actuary Director	Ernest Segal	
Date	Position	Name of Actuary	Signature

HEALTH INSURANCE SECTOR – ACTUARY STATEMENT

AS OF 31.12.2015

AIG ISRAEL INSURANCE CO. LTD.

<u>Chapter A - Identity of the actuary</u>

I was requested by AIG Israel Insurance Co. Ltd. to evaluate the provisions listed in Chapter B hereafter in the health insurance sector for the financial statements ("the provisions") of the insurer AIG Israel Insurance Co. Ltd. at December 31, 2014, as detailed below.

I am a salaried employee of AIG Israel Insurance Co. Ltd. ("the insurer"). I am not an interested party in the insurer nor am I a relative of an interested party of the insurer.

I was appointed to this position on 31.12.2015.

<u>Chapter B - Scope of the actuarial opinion</u>

1. Wording of scope of the actuarial opinion section

"A For the purpose of calculating the insurer's provisions, I relied on data that I received from the insurer. My requests for information and data were satisfied adequately for the purpose of evaluating the provisions for financial statements purposes. I reviewed the reasonability and adequacy of the data, including comparing the said data with the data for the year to which the statement refers and the data for previous years.

B Where necessary, my evaluation also relied on data received from other reliable sources. I reviewed the consistency and adequacy of the data and their relevance.

C The actuarial assumptions that I used in my work, as well as the methods for evaluating the provisions specified in section 2 below were determined by me, to the best of my professional judgment, and subject to the instructions, directives and principles specified in section 1 to Chapter C, below.

D To calculate the retention, I asked the entities responsible for the insurer's reinsurance for information concerning the insurer's reinsurance arrangements, the ability to collect claims, and problems with the reinsurers' payment policy. Based on the information that I received, I reviewed the effect and implications of the reinsurance arrangements on the provisions.

E The following matters were also taken into account in my opinion:

1) The provision calculated in respect of incoming businesses (in that regard "incoming businesses" as defined in Insurance Business Supervision Regulations (Methods of Calculating Provisions for Future Claims in General Insurance), 1984): an estimate was not calculated since the company does not have business of this type.

2) The provision that was calculated for co-insurance where the company is not the leading insurer: the company does not have business of this type.

3) For the "critical illnesses" and "medical expenses-individual" sub-sectors I relied on reserves calculated by the Life Insurance Actuary Director – Ms. Michal Burger.

2. Data included in the section on the scope of the actuarial opinion

1) Provision for pending Claims

a) Sectors for which an actuary provision for pending claims was calculated:

Sub-sector- general insurance	Gross provision	Provision in Retention
	NIS in thousands	
Personal accidents – individual	74,209	72,181
Personal accidents – group	11,746	11,746
Travel abroad – individual	4,988	4,988
Travel abroad – group	258	258
Critical illness – individual – elementary insurance	8,862	8,078
Total reported in general insurance	100,063	97,251

Sub-sector- life insurance	Gross provision	Provision in retention
	NIS in thousands	
Critical illness – individual	3,814	3,550
Medical expenses – individual	2,438	1,323
Total reported in life insurance	6,253	4,874

2) Provision for indirect expenses for settlement of claims

Provision for indirect expenses for settlement of claims (gross and retention)		
NIS in thousands		
Type of activity	General insurance	Life insurance
Private	6,365	-
Group	924	-
Total	7,289	-

3) Provision deriving from conditions of insurance contracts (contract reserve)

In some of the products available in the personal accidents – individual sub-sector, we found that a provision needs to be made which arises from the conditions of the insurance contract.

Sub sector	Gross provision	Provision in retention
	NIS in thousands	
Personal accidents - individual	5,779	5,779

Sub sector	Gross premium deficiency provision	Premium deficiency provision in retention
	NIS in thousands	
Personal accidents - group	176	176

4) Provision in respect of profit sharing

No provision was calculated since the company does not have business of this type.

Chapter C – the Opinion

"I hereby declare and confirm that in the following subsectors of health insurance, personal accidents individual and group, critical illness, travel abroad individual and group and medical expenses:

1. I evaluated the insurer's provisions listed in Chapter B in accordance with the instructions, directives and principles set forth below, and in effect as of the date of the financial statements:

   a. The provisions of the Control of Financial Services (Insurance) Law, -1981, and regulations promulgated thereunder.
   b. Instructions and directives issued by the Supervisor of Insurance;
   c. Acceptable actuarial principles.

2. After reviewing the data mentioned in Chapter B, I concluded that the data are reasonable and adequate, and that they can be relied on for the purpose of my evaluation.

3. I determined the assumptions and methods used to assess the provisions, to the best of my professional judgment, and in accordance with the instructions, directives and principles specified above.

4. To the best of my knowledge, the provisions specified in Chapter B form an adequate reserve for covering the insurer's commitments in respect of its liability arising from health insurance contracts included in the health insurance subsectors listed above, in effect as of the date of the financial statements."

Chapter D – Comments and Clarifications

1. Two products of the personal accidents group sector - pupils and sportsmen are in a run off when in excess of 10 years. This means that the company no longer receives premiums for those insurances but continues to settle claims in respect of past exposure. In the pupils' product, there is a particularly long tail. The experience with claims and development of claims is materially different than those of the sportsmen product.

2. As per the circular issued by the Supervisor, dated January 15, 2015 beginning year end 2015, adequate reserve for cover of the liabilities in respect of pending claims in the compulsory and liability sectors shall be interpreted as meaning that it is fairly likely - i.e. a 75% probability at least - that the insurance obligation prescribed will be sufficient to cover the insurer's obligations.

   We have decided to utilize a model that AIG uses globally to stochastically determine reserve variability, which we call the Reserve/Premium Risk Statistical Model ("RPS Model"). This model can be described as three sub-models:

   1. The Adaptive Reserve Monitoring System Model ("ARMS Model")
   2. The Reserve and Premium Risk – Coefficient of Variation Model ("CV Model")
   3. The Reserve and Premium Risk – Aggregation Model ("Aggregation Model")

The purpose of the RPS Model is to produce reasonable aggregate estimates of adverse risk or premium risk loss outcomes. The model is statistical in nature. Adverse loss outcomes are generated by developing a stochastic model of individual line of business volatilities and their correlation and dependency across the company.

We believe our model is complete and considers both random variation and systemic risk. In particular our model considers these by modeling three sources of volatility:

1) Diversifying process risk: randomness of future outcomes, given a known distribution of possible outcomes.
2) Parameter risk: Potential error in estimated parameters used to describe the distribution of potential outcomes
3) Systematic Risk: the risk that calendar year loss trends will change unpredictably in the future.

Reserve risk and premium risk for each analysis segment is simulated. Coefficient of Variations (standard deviation/mean) for the simulated distributions are derived from the segment analytics previously described.

Best estimate reserves and expected losses on the unearned premiums were determined by the actuary. Based on the results of the RPS model, a factor was calculated, for each individual segment, to project losses from the mean (best estimate) to the 75th percentile level. These form the basis for the statutory reserves of the company (see 3 below).

For a more detailed explanation of the model, please see App. A. Model Development Document.

In light of the change of estimate regarding the degree of conservativism required in health insurance sectors (see 3 below), as of December 31, 2015, we maintain our health insurance reserves at the 75th percentile, as above.

3. As of December 31, 2015, simultaneously with the implementation of the Supervisor's position about the best practice for calculating general insurance reserves, in which, as noted above, the prudence principle requires to maintain a minimum threshold of reserve (in order to meet the "fairly likely" principle, which is the 75 percentile for compulsory vehicle and liability insurance), I reconsidered the degree of conservativism that the Company needs to maintain for its health insurance reserves, given accumulated experience of the Company with this sector.

   Following this process, I concluded that as of December 31, 2015, the accumulated experience of the Company makes actuary calculations that are performed in this sector to be more reliable than in the past, and allow a reduction of reserves (relative to reserves that were kept in the past) to the 75th percentile. Note that in this regard, even as it is not required by the best practice, I uses the 75th percentile in other sectors, beyond compulsory vehicle and liabilities.

   That reduction of the reserves is not part of implementing the change in accounting policy resulting from the position of the Supervisor, which refers to general insurance, and does not require the reduction of reserves but only sets a minimum threshold (along with the elimination of the accumulation in compulsory vehicle and liabilities). Instead, the reduction is a change in an accounting estimate of the Company as to the degree of conservativism required from the actuarial standpoint in the health insurance sector, based on accumulated experience of the Company, as indicated above.

4. The model used to calculate unallocated loss adjustment expenses (ULAE) was reassessed at the end of 2015. The new method calculates a ULAE factor based on the historical ratio of paid ULAE to paid losses for the latest calendar years. The ULAE reserve was computed assuming one half the cost of settling a claim is incurred upon opening a file and the remainder upon closing it; however in allocating the ULAE reserves by line, some weight was given to consider the length of time until claims are initially reported and ultimately settled. The total change in the ULAE reserve due to this change in methodology is NIS 3.5 million.

5. Capitalization interest was only used to compute the provision deriving from the insurance contract. The interest rate is the NIS risk free interest (linked to the CPI) which was published as of December 31, 2015.

6. I do not capitalize the reserves; or in other words, I capitalize them at a real interest of 0%. For comparison purposes, I apply to the reserves a capitalization of risk free linked interest. The comparison makes it possible to measure a further margin for conservatism included in the reserves for pending claims.
A considerable portion of our investments are invested in government bonds or high quality corporate bonds; therefore, it is appropriate to make the comparison with risk free linked interest

Effect of risk free interest on capitalization/non-capitalization of provisions for pending claims – gross

Sectors	Best estimate provision before capitalization	Best estimate provision after capitalization	Provision made in practice	Increment (%)
	NIS in thousands			
Personal accidents – individual	69,225	68,714	74,209	8.00%
Personal accidents – group	10,957	10,836	11,746	8.39%
Travel abroad – individual	4,653	4,459	4,988	11.86%
Travel abroad – group	241	238	258	8.36%
Critical illness	8,266	8,217	8,862	7.85%
Total - in health insurance	93,342	92,465	100,063	8.22%
Critical illness – life insurance	3,814	3,791	3,814	0.60%
Medical expenses – life insurance	2,438	2,423	2,438	0.6%
Total reported in life insurance	6,253	6,214	6,253	0.62%

Effect of risk free interest on capitalization/non-capitalization of provisions for pending claims – retention

Sectors	Best estimate provision before capitalization	Best estimate provision after capitalization	Provision made in practice	Increment (%)
	NIS in thousands			
Personal accidents – individual	67,333	66,834	72,181	8.00%
Personal accidents – group	10,957	10,836	11,746	8.39%
Travel abroad – individual	4,653	4,459	4,988	11.86%
Travel abroad – group	241	238	258	8.36%
Critical illness	7,536	7,490	8,078	7.85%
Total – in health insurance	90,720	89,858	97,251	8.23%
Critical illness – life insurance	3,550	3,529	3,550	0.61%
Medical expenses – life insurance	1,323	1,315	1,323	0.63%
Total reported in life insurance	4,874	4,844	4,874	0.61%

7. The sensitivity of the conservative amounts is reflected by changing the interest rate used for capitalization by 0.5% or 1.0%.

Sensitivity analysis of conservative amounts without capitalization to the risk free interest

Amounts in thousands of NIS	Best estimate provision in books without capitalization	Best estimate capitalization: Risk free interest less 1.0%	Best estimate capitalization: Risk free interest less 0.5%	Best estimate capitalization: Risk free interest	Best estimate capitalization: Risk free interest plus 0.5%	Best estimate capitalization: Risk free interest plus 1.0%
All sectors (gross)	106,316	101,217	99,932	98,679	97,456	96,262
Difference in NIS compared with provision without capitalization	-	5,098	6,383	7,637	8,860	10,054
Difference in % compared with provision without capitalization	0.0%	4.8%	6.0%	7.2%	8.3%	9.5%
All sectors (retention)	102,125	97,160	95,915	94,702	93,518	92,363
Difference in NIS compared with provision without capitalization	-	4,965	6,209	7,423	8,607	9,762
Difference in % compared with provision without capitalization	0.0%	4.9%	6.1%	7.3%	8.4%	9.6%

8. The process of assessing the various actuarial provisions involves statistical uncertainty. These assessments are based on certain assumptions which reflect the information currently available to us. There may be future changes, which will have an effect on these assumptions in terms of legislation, legal rulings and economic and social environments. It is impossible to predict these factors and they may affect the final cost of the claims thus affecting actuarial estimate of the provisions.

15.3.2016	Health Insurance Actuary Director	Ernest Segal	
Date	Position	Name of Actuary	Signature

LIFE INSURANCE SECTOR – ACTUARY STATEMENT

AS OF 31.12.2015

AIG INSURANCE CO. LTD.

Chapter A - Identity of the actuary

I was requested by AIG Israel Insurance Co. Ltd. to evaluate the provisions listed in Chapter B hereafter in the life insurance sector for the financial statements ("the provisions") of the insurer AIG Israel Insurance Co. Ltd. at December 31, 2015, as detailed below.

I – Michal Burger - am a salaried employee of AIG Israel Insurance Co. Ltd. ("the insurer") and serve as the Life Insurance Actuary Director. I was appointed to sign this statement in January 2006.
I am a full member of the Israel Association of Actuaries (F.IL.A.A),

I hereby declare that I am not an interested party in the company.

Chapter B - Scope of the actuarial opinion

1. Scope of the actuarial opinion

A For the purpose of calculating the insurer's provisions, I relied on data that I received from the insurer. My requests for information and data were satisfied adequately for the purpose of evaluating the provisions for financial statements purposes. I reviewed the reasonability and adequacy of the data, including comparing the said data with the data for the year to which the statement refers and the data for previous years.

B Where necessary, my evaluation also relied on data received from other reliable sources. I reviewed the consistency and adequacy of the data and their relevance.

C The actuarial assumptions that I used in my work, as well as the methods for evaluating the provisions specified below were determined by me, to the best of my professional judgment, and subject to the instructions, directives and principles specified in section 1 to Chapter C, below.

D To calculate the retention, I asked the entities responsible for the insurer's reinsurance for information concerning the insurer's reinsurance arrangements, the ability to collect claims, and problems with the reinsurers' payment policy. Based on the information that I received, I reviewed the effect and implications of the reinsurance arrangements on the provisions.
I would like to indicate that the AIG Israel's life insurance reinsurers are not part of AIG Inc.

E The following matters were also taken into account in my opinion:

1) The provision calculated in respect of incoming businesses was calculated by the actuary (in that regard "incoming businesses" as defined in Insurance Business Supervision Regulations (Methods of Calculating Provisions for Future Claims in General Insurance), 1984). No estimate was calculated since the company does not have businesses of this type.

2) The provision calculated in respect of assumed businesses was calculated by the actuary.

2. Data included in the section on the scope of the actuarial opinion

a) Set forth below are the amounts of provisions (in thousands of NIS) both gross and retention, as follows:

1. Set forth below are the provisions for pending claims (claims which have taken place buy have not yet been fully paid, whether approved or not) as well as the direct expenses arising there from (including provision for claims which have not yet been reported to the insurer), without overhead to settle the claims:

Sectors in which we calculated an actuarial provision for pending claims:

Sector	Gross provision NIS thousands (excluding health insurance)	Retention provision NIS thousands (excluding health insurance)
Life insurance	17,576	13,685
Disability permanently	14,337	10,777
Disability from accident	9,403	6,301
Unemployment	303	152
Disability from accident	343	237
Total life individual	41,962	31,152
Total life group	0	0

2. a) The company does not have plans on accrual basis.
b) The company has insurance policies where some of the premium collected in the early years of the contract is designed to provide coverage at a later date – set forth below are the provisions in respect of fixed premium

Sector	Gross provision (thousands of NIS)	Retention provision (thousands of NIS)
Life individual	851	851

3. The company does not have claims which are paid by way of allowances.
4. The company does not have participation in profits.
5. Supplemental amount arising from assessment of adequacy of the provision – no such provision was required.
6. Set forth below are further provisions – unearned premium reserve, reserves for group.

Sector	Gross provision (thousands of NIS) (including health insurance)	Retention provision (thousands of NIS) (including health insurance)
Life individual	74	61
Life group	0	0

b) Set forth below is the amount of changes in provisions (in thousands of NIS) at both gross and retention levels, as follows:

1) For policies that came into effect after the end of the reported period of the last financial statements – the adjustment amount of the provisions – arising from the difference between the premium basic assumptions and the provision basic assumptions – no such adjustment was required.

2) For policies which came into effect before the end of the reported period of the last financial statements – the adjustment amount of the provisions – arising from changes in premiums, methods or the level of premium that is expected to be collected and other adjustments – no such adjustments were required.

<u>Chapter C – the Opinion</u>

I hereby declare and confirm that in the life insurance sector:

1. I evaluated the insurer's provisions listed in Chapter B in accordance with the instructions, directives and principles set forth below, and in effect as of the date of the financial statements:

   a. The provisions of the Control of Financial Services (Insurance) Law, -1981, and regulations promulgated thereunder.
   b. Instructions and directives issued by the Supervisor of Insurance;
   c. Acceptable actuarial principles.

2. After reviewing the data mentioned in Chapter B, I concluded that the data are reasonable and adequate, and that they can be relied on for the purpose of my evaluation.

3. I determined the assumptions and methods used to assess the provisions, to the best of my professional judgment, and in accordance with the instructions, directives and principles specified above.

4. To the best of my knowledge, the provisions specified in Chapter B form an adequate reserve for covering the insurer's commitments in respect of its liability arising from life insurance contracts, in effect as of the date of the financial statements.

Chapter D – Comments and Clarifications

1. The most common IBNR reserves in life insurance are normally based on maintaining full premium for several months in accordance with the reporting differences between the insurance event and the opening of the claim. This method completely ignores several basic parameters, such as the frequency of the claims, the severity of the claims, the claims that have already been reported in practice. The amount of the premium is irrelevant. If the premium was not priced correctly, there will be a reserve deficit. If the premium was priced correctly, then the premium method is too conservative because it includes both the expenses and the profit factors. Also it does not relate to claims that have already been reported. In this case one ends up with double counting.

2. In terms of pending claims, the company's life insurance portfolio is very similar to the personal accidents insurance portfolio. All payments made to the insured are compensation where a insurance event takes place. The insurance amounts are paid as a one-off payment except for unemployment allowance insurance under which an allowance is paid for a period of up to a year. It is therefore my opinion that it is desirable that the claims experience is examined in accordance with actuarial principles generally acceptable in general/health insurance, if the claims experience allows it.

3. In light of the above I decided to adopt the "triangles methods", which are methods that follow up the development of claims over time and which make it possible to predict the estimate of pending claims in accordance with past rates of paid claims or known claims (paid+pending).

4. There is statistical uncertainty in the process of estimating the various actuarial reserves. These estimates are based on certain assumptions and these assumptions best reflect the things that are currently known to us. There may be future changes in the legal, judicial, social and economic environment that will have an effect on these assumptions. These changes may have an unpredictable effect on the total future actuarial reserves.

15.3.2016	Life Insurance Actuary Director	Michal Burger	
Date	Position	Name of Actuary	Signature

Additional Information

Regulation 25a

Name of company:	AIG Insurance Co. Ltd.
No, of company with companies' registrar	51-230488-2
Address:	25 Hasivim St. Kiryat Matalon, Petach Tikva
Telephone no:	03-9272333
Fax no.	03-9272366
Website:	www.aig.co.il
Balance sheet date:	December 31, 2015
Date of financial statements:	March 15, 2016

Regulation 11: List of Investments in Subsidiaries and related Companies as of date of financial statements

None

Regulation 12: Changes in Investments in Subsidiaries and Related Companies in the reported period

None

Regulation 13: Income or Losses of Subsidiaries and Related Companies for the year ended December 31, 2015

None

Regulation 14: List of Loan Balances Extended as of Date of Financial Statements

None. Extending loans is not a principal activity of the company.

Regulation 20: Trade in the Stock Exchange

None. As of date of financial statements there are no securities issued by the company, which are listed in the Stock Exchange.

Regulation 21: Payments to Interested Parties and Senior Office Holders

Set forth below is a breakdown of the payments made by the company and amounts it undertook to pay in the reported year for each of the five office holders receiving the highest salary among office holders who served in their position, regardless of whether they were granted by the company or by others (amounts are denominated in thousands of NIS and excluding payroll tax).

	Salary	Social benefits and related payments	Total
1	2,787	49	2,836
2	928	169	1,097
3	852	137	989
4	800	148	948
5	728	152	880

Salary paid to outside directors - 507 thousands NIS, including VAT.

Regulation 21a: Company's controlling shareholders

As of the date of publication of these financial statements, the controlling shareholder in the company is AIG Europe Holdings Ltd. ("AEHL") which holds 100% of the ordinary shares of the company. AEHL is a member of American International Group Inc. ("AIG"). AIG is the ultimate parent company or the company.

Regulation 22: Transactions with a controlling shareholder or transactions in the approval of which the controlling shareholder has personal interest, into which the company has entered in the reported year or subsequent to the end of the reported year through the date of publication of this report or which is valid at the time of publication of the report

Transactions which are not listed in Section 270(4)

For details about transactions with a controlling shareholder or transactions in the approval of which the controlling shareholder has personal interest, which are not listed in Section 270(4), see section 4.5 (Reinsurance) in Chapter A – Description of the Company's Business and note 28 to the financial statements – Balances and Transactions with Interested Parties and Related Parties.

Exceptional transactions
There were no exceptional transactions with the controlling shareholder or transactions in the approval of which the controlling shareholder had personal interest.

Insignificant transactions

There were no insignificant transactions with the controlling shareholder or transactions in the approval of which the controlling shareholder had personal interest.

Regulation 24: Shares and Convertible Securities Held by an Interested Party in the Company as of date of financial statements

				Holding rate		
Name of interested party	**No. of company with registrar of companies**	**Name of security**	**Par value as of 31.12.15**	**In equity**	**In voting rights**	**In authority to appoint directors**
AIG Europe Holdings Ltd.	Foreign	Ordinary shares	5,730	100%	100%	100%

Regulation 24a: Registered shares capital, issued share capital and convertible securities

The company's registered share capital includes NIS 45,000,100, divided into 45,000,000 ordinary shares of NIS 1 par value each and 100 preferred shares of NIS 1 par value each.

The issued and paid share capital of the company is NIS 5,730 which is distributed into 5,730 ordinary shares of NIS 1 par value each and 100 preferred shares of NIS 1 par value each.

Regulation24b: company's shareholders register
For details regarding the sole shareholder of the company, see Regulation 21a to this chapter.

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Regulation 26: Company's Directors

1.

Name	Ralph Mucerino (Chairman of the Board)
Passport No.	516514209
Year of birth	1946
Address	New York, State of New York USA
Nationality	American
Member of Directors Committee	No
Independent director/outside director	No
Employee of the company, subsidiary related company or an interested party?	Yes, President, U.S Consumer Insurance, AIG
Date of commencement of service as director	13.1.2011
Education and main occupation during the past 5 years as well as other companies in which he serves as a director	University graduate, COO of AIU
Relative of another interested party in the company?	No

2.

Name	Daniel Doherty
Passport No.	422065134
Year of birth	1961
Address	London UK
Nationality	American
Member of Directors Committee	No
Independent director/outside director	No
Employee of the company, subsidiary related company or an interested party?	Yes, Chief Distribution Officer, Global Distribution, AIG
Date of commencement of service as director	17.08.2011
Education and main occupation during the past 5 years as well as other companies in which he serves as a director	University graduate, senior positions in the field of personal insurance in AIG Europe
Relative of another interested party in the company?	No

On 31.12.15 Mr. Doherty ended his tenure as a Company director.

3.

Name	Robert Quane
Passport No.	422098299
Year of birth	1968
Address	New York, State of New York, USA
Nationality	American
Member of Directors Committee	No
Independent director/outside director	No
Employee of the company, subsidiary related company or an interested party?	Yes, Head of Global Personal Accident AIG
Date of commencement of service as director	27.07.2010
Education and main occupation during the past 5 years as well as other companies in which he serves as a director	University graduate , Head of Global Personal Lines
Relative of another interested party in the company?	No

4.

Name	James Lenton
Passport No.	540160940
Year of birth	1975
Address	London, UK
Nationality	British
Member of Directors Committee	No
Independent director/outside director	No
Employee of the company, subsidiary related company or an interested party?	Yes, Chief Financial Officer , AIG PC Europe
Date of commencement of service as director	24.10.13
Education and main occupation during the past 5 years as well as other companies in which he serves as a director	University graduate, CPA, Partner in Ernst & Young LLP
Relative of another interested party in the company?	No

5.

Name	Neil Minnich
ID No.	452109240
Year of birth	1970
Address	London, UK
Nationality	British
Member of Directors Committee	No
Independent director/outside director	No
Employee of the company, subsidiary related company or an interested party?	Yes, Senior Vice President, Head of Accident, Health & Travel, EMEA, AIG
Date of commencement of service as director	10.12.2015
Education and main occupation during the past 5 years as well as other companies in which he serves as a director	University graduate, Vice President and Head of Personal Lines UK
Relative of another interested party in the company?	No

6.

Name	David Klein
ID No.	007256647
Year of birth	1935
Address	30 Jabotinsky St. Kfar Saba
Nationality	Israeli
Member of Directors Committee	Yes. Member of Investments Committee, Compensation Committee and Audit Committee
Independent director/outside director	Yes, financial ,accounting and insurance expertise
Employee of the company, subsidiary related company or an interested party?	No
Date of commencement of service as director	1.4.2011
Education and main occupation during the past 5 years as well as other companies in which he serves as a director	Academic, PhD in Economics, owners of David Klein Financial Consulting Ltd.
Relative of another interested party in the company?	No

7.

Name	Jules Polak
ID No.	026059444
Year of birth	1946
Address	4 Kiryati St. Ramat Gan
Nationality	Dutch
Member of Directors Committee	Chairman of the Audit Committee and Compensation Committee
Independent director/outside director	Yes, financial ,accounting and insurance expertise
Employee of the company, subsidiary related company or an interested party?	No
Date of commencement of service as director	27.2.2006
Education and main occupation during the past 5 years as well as other companies in which he serves as a director	University graduate, CPA, MBA, CEO of Jules Polak Business Management Ltd.
Relative of another interested party in the company?	No

On February 27, 2015 Mr. Jules Polak completed his third tenure as an outside director in the Company.

8.

Name	The Late Aliza Rotbard
ID No.	060477510
Year of birth	1946
Address	6 Herzl Rosenblum St. Tel Aviv
Nationality	Israeli
Member of Directors Committee	Yes. Audit Committee, Investment Committee, Compensation Committee
Independent director/outside director	Yes, accounting and financial expertise
Employee of the company, subsidiary related company or an interested party?	No
Date of commencement of service as director	24.2.2011
Education and main occupation during the past 5 years as well as other companies in which he serves as a director	University graduate, BA in Physics and Mathematics, Director in Kamada, Pointer Shagrir, Red-Hill Bio. and other companies
Relative of another interested party in the company?	No

Ms. Rotbard passed away on 29.11.15. The company, members of the board of directors, managers and employees of the company mourn her loss.

9.

Name	Eti Livni
ID No.	003782372
Year of birth	1948
Address	122 Wingate St. Herzliya
Nationality	Israeli
Member of Directors Committee	Yes, Audit Committee, Compensation Committee
Independent director/outside director	Yes, insurance expertise
Employee of the company, subsidiary related company or an interested party?	No
Date of commencement of service as director	26.3.2008
Education and main occupation during the past 5 years as well as other companies in which he serves as a director	University graduate, director in Makeft Gemel and The Company for Location and Restitution of Holocaust Victims' Assets Ltd.
Relative of another interested party in the company?	No

10.

Name	Arie Nachmias
ID No.	051604205
Year of birth	1952
Address	1 Hohit St., Giva'at Hasla'im Rosh-HaAyin
Nationality	Israeli
Member of Directors Committee	Yes, Audit Committee, Investments Comittee
Independent director/outside director	Yes
Employee of the company, subsidiary related company or an interested party?	No
Date of commencement of service as director	19.1.2016
Education and main occupation during the past 5 years as well as other companies in which he serves as a director	University graduate, BA in Economics Tel Aviv University, M.Sc in Economics & Management Hebrew University, PhD in Management University of Wisconsin–Milwaukee, Head of Masters Degree Program Business Administration Open University, Director in Gal Gemel for Teachers (Provident Fund) Ltd.
Relative of another interested party in the company?	No

Regulation 26a: Senior Office Holders of the Company

1.

Name	Shay Feldman
ID No.	031872245
Year of birth	1974
Position in the company	CEO
Interested party or relative of another office holder or of an interested party in the company?	No
Education and main occupation during the past 5 years	BA in Economics and Management (Tel Aviv-Yaffo Academic College), MA in Marketing from Derby University, Regional Manager AIG Marketing Europe, Head of Direct Division and Business Partners for Asia-Pacific in Zurich Financial Service, Senior Vice President Marketing and Personal Insurance EMEA in London
Year of commencement of service	2013

2.

Name	David Rothstein
ID No.	017016973
Year of birth	1958
Position in the company	CFO
Interested party or relative of another office holder or of an interested party in the company?	No
Education and main occupation during the past 5 years	University graduate, CPA
Year of commencement of service	2001

3.

Name	Lior Scheinin
ID No.	028024099
Year of birth	1970
Position in the company	Senior VP Consumer Distribution and Business Development
Interested party or relative of another office holder or of an interested party in the company?	No
Education and main occupation during the past 5 years	University graduate, BA in Business Administration, VP Personal Insurance
Year of commencement of service	2003

4.

Name	Iris Nachshoni
ID No.	058468414
Year of birth	1963
Position in the company	Chief Information Systems Officer
Interested party or relative of another office holder or of an interested party in the company	No
Education and main occupation during the past 5 years	VP Information Systems Schestowitz Ltd 2008-2012
Year of commencement of service	2012

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5.

Name	Sharon Shaham
ID No.	017331422
Year of birth	1973
Position in the company	Deputy Director Commercial Insurance
Interested party or relative of another office holder or of an interested party in the company	No
Education and main occupation during the past 5 years	University graduate, BA in Communications and Business Management, MA in Law, MA Business Management, Director of Property and Liabilities, Director of Business Development, Director of Hi-Tech and Special Risks in Migdal Insurance Company Ltd.
Year of commencement of service	2012

6.

Name	Pazit Kalir
ID No.	013215868
Year of birth	1970
Position in the company	VP Human Resources
Interested party or relative of another office holder or of an interested party in the company	No
Education and main occupation during the past 5 years	University graduate, BA in Criminology, MA in Organizational Sociology
Year of commencement of service	2008

7.

Name	Nurit Kantor
ID No.	031817356
Year of birth	1974
Position in the company	VP Customers
Interested party or relative of another office holder or of an interested party in the company	No
Education and main occupation during the past 5 years	University graduate BA and MA in Business Management, VP Customer Service and Sales Bezeq International
Year of commencement of service	2012

8.

Name	Ilanit Levi
ID No.	028875177
Year of birth	1971
Position in the company	VP Sales
Interested party or relative of another office holder or of an interested party in the company	No
Education and main occupation during the past 5 years	University graduate, Director profit center Life Insurance, Distribution Director Individual Insurance Division, Sales Directors in Insurance Agency of Bank Leumi
Year of commencement of service	2012

9.

Name	Gil Sagiv
ID No.	025469248
Year of birth	1973
Position in the company	VP Marketing
Interested party or relative of another office holder or of an interested party in the company	No
Education and main occupation during the past 5 years	University graduate, B. Sc Engineering, MBA Business Administration. For the past five years served as the Chief Marketing Officer and member of management of Kardan Vehicle Ltd. – holder of Avis' franchise in Israel.
Year of commencement of service	2014

10.

Name	Aviram Gavish
ID No.	029312550
Year of birth	1972
Position in the company	VP, Chief Legal Officer and Chief Compliance and Enforcement Officer
Interested party or relative of another office holder or of an interested party in the company	No
Education and main occupation during the past 5 years	Lawyer, MA in Commercial Law from the Tel-Aviv University, BA in Law from the Hebrew University of Jerusalem, Director Reinsurance, Ombudsman and Company Secretary in Shlomo Insurance Company Ltd.
Year of commencement of service	2012

11.

Name	Olivia Zohar
ID No.	011179322
Year of birth	1970
Position in the company	VP, Risks Officer
Interested party or relative of another office holder or of an interested party in the company	No
Education and main occupation during the past 5 years	University graduate, CPA, MBA, Chief Risks Officer of the Senior Pension Funds
Year of commencement of service	2013

12.

Name	Thomas Lowe
ID No.	327077798
Year of birth	1976
Position in the company	VP, Internal Auditor
Interested party or relative of another office holder or of an interested party in the company	No
Education and main occupation during the past 5 years	CPA, University graduate, Senior Manager Internal Audit, Controller, Financial Project Manager
Year of commencement of service	2013

13.

Name	Orna Karni
ID No.	025164567
Year of birth	1973
Position in the company	VP, Manager of life and health insurance lines.
Interested party or relative of another office holder or of an interested party in the company	No
Education and main occupation during the past 5 years	B.A – Management, MBA – Business Administration, LL.B, Manager of integrated ventures in Clal Insurance Company Ltd. Manager of international business development in Clal Health Ltd.
Year of commencement of service	2014

14.

Name	Yifat Reiter
ID No.	029480548
Year of birth	1972
Position in the company	VP, Head of Personal insurance
Interested party or relative of another office holder or of an interested party in the company	No
Education and main occupation during the past 5 years	B.A Economics and Financing, MBA – Business Administration, head of vehicle and flats insurance lines
Year of commencement of service	2014

Regulation 26b: Number of Independent Signatories as determined by the Company

None

Regulation 27: Auditors of the Company
Kesselman & Kesselman CPAs, 25 Hamered St. Tel-Aviv

To the best of the company's knowledge the auditors, including Mr. Noam Hadar, CPA, who is the engagement partner in the said firm, are not interested parties and/or related to any senior officeholder or interested parties in the company.

Regulation 28: Changes in the Memorandum or Articles of Association of the Company in 2015

None

Regulation 29: Resolutions and Recommendations of the Board of Directors

a. Set forth below are the recommendations of the Board of Directors and the resolutions of the Board of Directors which do not require the approval of a General Meeting:

   1. Payment of dividend (or distribution) as defined in the Companies Law, in any other way, or distribution of bonus shares: For details see note 12 to the financial statements.
   2. Changes to authorized or issued equity of the Company: None.
   3. Changes to the Memorandum or Articles of Association of the Company: None.
   4. Redemption of shares: None.
   5. Early redemption of debentures: None.
   6. Non arm's-length transaction between the company and an interested party thereof, except for a transaction between the Company and a subsidiary thereof. For details see Regulation 22 above.

b. General Meeting resolutions that were taken without being recommended by the Board of Directors. None

c. Resolutions of Special General Meeting.

   1. On February 4, 2015, the Company's General Meeting made the following resolutions: renewal of the liability insurance policy covering Company's office holders and directors and reappointment of Kesselman & Kesselman CPAs as the Company's auditors.

   2. On December 10, 2015, the Company's General Meeting approved the appointment of Mr. Neil Minnich as a director in the Company's board of directors.

   3. On December 23, 2015, the Company's General Meeting resolved to appoint Mr. Arie Nachmias as an outside directors in the Company's board of directors effective as from the date of approval of the appointment by the Supervisors of Insurance and subject to such an approval.

Regulation 29a: Resolutions of the Company

a. Approval of acts under Section 255 to the Companies Law. None

b. An act in accordance with Section 254(a) to the Companies Law, which has not yet been approved. None

c. Transactions that require special approval in accordance with Section 270(1) to the Companies Law and provided that the transaction is an exceptional transaction as defined in the Companies Law; for details see Regulation 22 above.

d. Exemption, insurance or liability to indemnify a office holder as defined in the Companies Law and which is in effect as of the date of publication of the report:

Insurance

The Company entered into an officers' liability insurance policy covering office holders and directors for the period from February 1, 2015 through January 31, 2016. The liability limit is $ 25 million per claim and for the whole insurance period including legal expenses; (but in respect of claims filed in Israel the policy covers legal expenses in excess of the above liability limit to an amount equal to 20% of the said liability limit.

Indemnification

The Company has undertaken in advance to indemnify its office holders in accordance with the wording of the indemnity letters it provided to the office holders. According to the indemnity letters, the Company has undertaken, to the extent allowed by law, to indemnify its office holders for any liability or expense with which he was charged or which he expended in consequence of an act which he/she performed by virtue of holding office in the Company. The accumulated amount of indemnity for all office holders in respect of one or more than one of the event set by the Board of Directors shall not exceed 25% of the Company's equity. The Company has also undertaken to indemnify its office holders for payment which was levied on them as part of payment to a victim of breach; the Company has also undertaken to indemnify its office holders for expenses they accrued as part of a procedure for levying financial sanctions on those office holders, including reasonable legal expenses.

Exemption

As part of an exemption letter issued to its office holders, subject to the provisions of Sections 258-263 to the Companies Law, 1999 and any law that is to replace them, the Company has undertaken to exempt its officers, from all of his/her responsibility for damage caused to the Company, whether directly or indirectly, due to his/her violation of the obligation of caution towards the Company as a result of actions taken in good faith and as part of his/her capacity as office holder in the Company and/or employee of the Company; the exemption will not apply in cases where the obligation of caution was violated intentionally or rashly; nor will the exemption apply if the obligation of caution was violated due to any matter relating to distribution.

AIG Insurance Company Ltd.

Date: March 15, 2016

Shay Feldman **CEO**	**Ralph Mucerino** **Chairman of the Board**