AIG Israel Insurance Company Ltd

Interim Financial Report

(Unaudited)

As of March 31, 2017

Contents

Directors' report
AIG Israel Insurance Company Ltd ("the Company")
for the period ended March 31, 2017

The directors' report on the business of the Company as of March 31, 2017 ("**the directors' report**"), reviews the Company and developments in its business in the first quarter of 2017 ("**the reported period**"). The information in this report are as of March 31, 2017 ("**the date of report**") unless otherwise is indicated explicitly.

The Company is an "insurer" as this term is defined in the Supervision of Financial Services Law (Insurance), 1981. Therefore, this report is prepared based on Regulations 68-69 and the Second Addendum to the Insurance Business Supervision Regulations (Report Information), 1998 ("the Reporting Regulations") and according to the guidance issued by the Supervisor of Capital Markets, Insurance and Savings in the Israel Ministry of Finance ("the **Supervisor of Insurance**" or "**the Supervisor**"). This directors' report was prepared assuming that the user is also holding the Company's 2016 periodic report.

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

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

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

Forward looking information

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

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1. Condensed description of the Company:

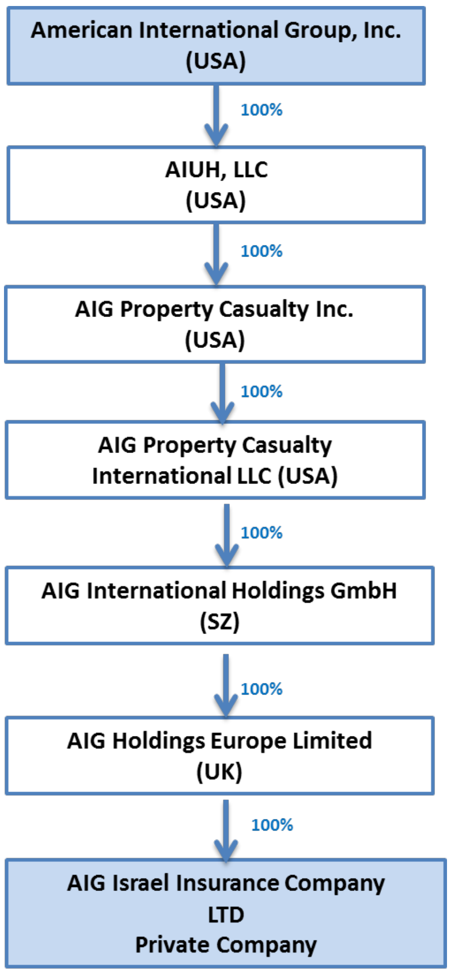
1.1 Organizational structure

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

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

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

The following is the undated holding structure of the Company:



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

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

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

1.2 Areas of activity

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

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

1.3 Dependency on customers or marketing entities

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

1.4 Developments or material changes in reinsurance agreements

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

1.5 Exceptional events since last financial statements

Note exceptional events took place since the last financial statements.

2. Description of business environment:

General

In accordance with data published by the Israel Capital Market, Insurance and Savings Department in the 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 December 31, 2016, insurance fees from the general insurance business amounted to NIS 21,480 million (excluding Karnit); the share of the 5 largest insurance companies – Harel, Clal, Phoenix, Migdal and Menorah – was NIS 12,523 million, or 58% of the total premiums in the Israeli general insurance sectors.

For further details regarding the competition in the different lines of business of the company and regarding the measures taken by the company to face competition in this competitive market, see Sections 2.1.2. 2.2.2, 2.3.2, 2.4.2, 2.5.2 and 2.6.2 in Chapter A (description of company's business) in the Company's 2016 periodic report.

Developments in the company's macro-economic environment

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

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

	Jan-Mar 2017	Jan-Mar 2016	2016
Government bonds indexes			
General government bonds	0.1%	1.4%	0.9%
Linked government bonds	(0.6%)	1.8%	0.7%
NIS government bonds	0.6%	1.2%	1.2%
Corporate bonds indexes			
Tel Bond 60	1.2%	0.8%	2.3%
Tel Bond NIS	2.0%	0.6%	2.4%
Shares indexes			
Tel-Aviv 100	(2.4%)	(4.9%)	(2.5%)

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

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

Characteristics and developments in principal insurance lines of business

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

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

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

Discounting regulations and the Vinograd Committee recommendations

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

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

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

The information in this section above, is forward-looking information, which is based, among other things, on the current position of the activity of the Company. Actual results may be different than estimates, including in a material way that forecasted above, as a result of various factors, the primary of which are regulatory changes that apply to the Company and the development of future claims that may be substantially different than Company estimates.

Regulatory codex

Health insurance segment

- In January 2017, the Supervisor issued Circular 2016-1-26, titled "Amendment of Provisions of the Codex in the Overseas Travel Chapter." The purpose of that amendment was to set guidance on the drafting of overseas travel policies and the way to market them, such that it ensures proper coverage and fair selling process. Among other things, the circular set the following key provisions: determination that insurance payments need to correspond to the expected costs in the case of an insurance event, and considering, among other things, the costs expected in the destination country; determination that coverages will comprise a basic tier for the insurance plan and a list of add-ons that can be purchased on top of the basic policy, and imposing a duty on insurance companies to inform customers on the implications of pre-existing conditions, and when necessary, to offer an extension to cover that medical condition.

Reporting to the Supervisor chapter

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

Home insurance segment

- In April 2017, an amendment was issued to the provision of the unified circular in home insurance segment, which postponed the effective date of the unified circular on water damage in home insurance to September 2017.

Circulars

- In January 2017, the Supervisor issued and update circular on the structure of required disclosure regarding financial statements of insurance company in accordance to International Financial Reporting Standards (IFRS)." The purpose of those circulars was to update the disclosure provisions set by Insurance Circular 2010-1-4.

- In January 2017, the Supervisor issued Circular 2016-10-13 on the involvement of unlicensed entities in selling and marketing insurance products that are not collective. The purpose of that circular was to provide more elaborate guidance on the engagement of regulated entities with non-regulated ones in relation to marketing or selling a non-group insurance product.

- In February 2017, the Supervisor issued a position that clarifies the issue of reassessing the entitlement in the circular titled "Settlement of Claims and Handling Customer Complaints". The position of the Supervisor clearly states how to reexamine rights of a customer that is claiming benefits, according to the provisions of the circular. In addition, in March 2017, another amendment was issued to the circular as above. The purpose of the amendment was to prohibit problematic practices of financial institutions in relation to their processes for examining and settling claims.

- In February 2017, the Supervisor issue Circular 2017-9-2, which updates the provisions of the circular on annual and quarterly statements to customers of financial institutions. The circular includes an update to the chapter on the short-version of the annual statement to life insurance and occupational disability customers without a savings component, and on the certificate for individual tax reporting purposes.

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

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

- In February 2017, the Supervisor issued Circular 2019-253 on the provisions of implementing the Solvency II regimen. The directive includes a comprehensive review of risks the insurance companies are exposed to, and standards for their management and measurement, and is based on three tiers: a quantitative tier that concerns a risk-based solvency ratio; a qualitative tier, concerning internal control processes, risk management and corporate governance and self-assessment of risks and solvency (ORSA); the third tier concerns the promotion of market discipline, disclosure and reporting. The circular indicates that an insurance company has a duty to comply minimum capital provisions and the supervisor provisions thereunder, and that at the same time, the Capital Markets, Insurance and Savings Department will act to promote those regulations, such that their provisions on minimum required capital will not apply to insurance companies that are governed by the circular, and that after the insurance company obtains the approval of the Supervisor after an audit of implementing the provisions of the circular in the insurer's financial statements. The provisions of the circular will take effect beginning on June 30, 2017, but insurance companies will be able to calculate the required capital for solvency reasons as of the date of the annual report only, through the end of 2018.

- In March 2017, the Supervisor issued Circular 2017-1-5 on provisions for drafting new insurance policies. The purpose of the circular is to limit the use of insurance in wording of insurance contracts that restrict the ability of insurance customers to exercise their rights under the policy.

- In March 2017, the Supervisor issued Circular 2017-1-4, which amends the provisions of insurance acceptance circular. The purpose of the circular is to prohibit problematic practices by financial institutions in relation to acceptance to insurance plans.

- In March 2017, the Supervisor issued Circular 2017-9-4 on information files through safes. The circular lists the requirements from financial institutions for using safes that allow maintaining information confidentiality.

- In April 2017, the Supervisor issued Circular 2017-10-1 on annual reporting on premiums, policies and payment of fees of financial institutions. The provisions of the circular indicate the reports that financial institutions are required to file to the Supervisor as to the scale of their activity in the distribution market, including the amount of premiums that are transferred to them, brokerage fees and distribution fees that are registered in the systems of the financial institution as payable to insurance agents.

Drafts

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

- In March 2017, the Supervisor issued a second draft on the involvement of supporting sales staff in the process of marketing and selling insurance products. The draft governed the activity of sales support staff who do not hold an agent license and perform activities while selling insurance products for an insurer or an agent. The provisions of the draft indicate, among other things, that the policy being sold by sales support staff does not take effect until obtaining a customer-initiated approval, and that a customer that joins an insurance plan by support staff may cancel that and get a premium refund until six months from the date of joining the insurance.

- In April 2017, the Supervisor issued a draft circular titled "Life Insurance Plans for Home Mortgage Loans". The purpose of the draft was to set terms and conditions to be included in home mortgage insurance plans, such that the purchased insurance coverage will match the terms and conditions of the loan throughout the life of the loan, and that including by obtaining the necessary information from the lending bank for updating the terms of the policy according to up-to-date loan information.

- In April 2017, the Supervisor issued draft circular on investment rules that apply to and are mandatory for financial institutions. The purpose of the draft amendment is to expand investment options of financial institutions and to allow them to invest in companies that deal with the provisions of credit to households that are related parties in terms and limitations that were set in that draft amendment, including securing loan principal by an autonomous, non-recurring guarantee from a bank or another financial institution before a financial institution can provide its proportionate share in the value of the loan.

Entry into and marketing of new lines of business

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

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

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

	March 31, 2017	March 31, 2016*	December 31, 2016
Other assets	279,915	266,598	253,139
Deferred acquisition expenses	150,791	151,131	141,827
Financial investments and cash	1,664,349	1,731,880	1,696,771
Reinsurance assets	659,458	* 576,855	658,559
Total assets	**2,754,513**	***2,726,464**	**2,750,296**
Shareholders' equity	726,752	*829,556	753,860
Liabilities in respect of insurance	1,681,952	* 1,489,414	1,646,765
Other liabilities	345,809	* 407,494	349,671
Total equity and liabilities	**2,754,513**	***2,726,464**	**2,750,296**

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

	Jan-Mar 2017	Jan-Mar 2016	2016
Gross earned premiums	273,693	251,219	1,037,400
Premiums earned by reinsurers	(50,298)	(42,287)	(168,023)
Premiums earned in retention	**223,395**	**208,932**	**869,377**
Net investment revenue and financing revenue	10,929	1,673	18,475
Fee revenue	10,061	12,039	43,553
Total revenue	**244,385**	**222,644**	**931,405**
Payments and change in liability for insurance contracts, in retention	(133,987)	*(140,907)	(564,108)
Total other expenses	(74,676)	(79,986)	(320,290)
Income before income taxes	**35,722**	***1,751**	**47,007**
Taxes on income	(12,830)	*119	(15,833)
Income for the period and total comprehensive income for the period	**22,892**	***1,870**	**31,174**

* Retroactively adjusted. See note 3b to the condensed financial information.

Shareholders' equity and capital requirements

As of March 31, 2017, the Company's shareholders' equity exceeds the shareholders' equity required as of that date under the Insurance Business Regulations (Minimum Capital Required from an Insurer), 1998 by NIS 77.1 million.

For more information about the capital required from the Company and existing amounts according to minimum equity regulations, and about a distribution of NIS 50 million dividend to AHEL, see note 6 to the financial statements.

According to IQIS 5 results from 2016, capital surplus of the Company increased as of December 31, 2015, under the Solvency II regimen relative to capital surplus under the existing Israeli regimen. The solvency ratio of the Company as calculated in IQIS 5 using the December 31, 2015 information was 182% before the above dividend distribution and 157% after the dividend payout in 2016 and 2017. For more information about the IQIS 5 exercise as performed by the Company, see note 6c to the condensed financial information.

4. Results of operations

The Company continued in Q1 2017 to increase gross premiums, by 2.2% y/y. Total gross premiums in the reported period amounted to NIS 299.8 million compared with NIS 293.3 million in the corresponding period in 2016.

In the reported period, total premiums earned in retention amounted to NIS 250.3 million compared with NIS 232.1 million in the corresponding period in 2016 a 7.8% increase.

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

Jan-Mar 2017	**Life insurance**	**Health insurance**	**General insurance**	**Total**
Gross	31,849	55,445	212,516	299,810
In retention	26,372	54,653	169,273	250,298
% of total gross	10.6	18.5	70.9	100.0
% of retention	10.5	21.8	67.7	100.0

Jan-Mar 2016	**Life insurance**	**Health insurance**	**General insurance**	**Total**
Gross	31,513	53,003	208,816	293,332
In retention	25,640	52,272	154,190	232,102
% of total gross	10.7	18.1	71.2	100.0
% of retention	11.0	22.5	66.5	100.0

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

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

	Jan-Mar 2017	**Jan-Mar 2016**	**Jan-Dec 2016**
Income from compulsory vehicle activity	10,858	* (2,953)	(4,958)
Income (loss) from property vehicle activity	9,028	(10,504)	(18,448)
Income from home insurance activity	3,996	4,518	15,457
Income from commercial insurance activity	(3,649)	2,786	(9,424)
Income from health insurance activity	9,887	11,088	42,041
Income from life insurance activity	3,010	1,034	14,086
Other - Income (loss) not attributed to any line of business	2,592	(4,218)	8,253
Income before taxes	**35,722**	*** 1,751**	**47,007**
Taxes on income	(12,830)	* 119	(15,833)
Income for the year and total comprehensive income for the year	**22,892**	*** 1,870**	**31,174**

* Retroactively adjusted. See note 3b to the condensed financial information.

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

The following is explanation on the development in some items:

a. Net investment income and financing income was NIS 10.9 million, compared with NIS 1.7 million in the corresponding period of 2016. The sharp increase in investment income mainly resulted from increased yields of corporate bonds (see 2. Above).

b. The loss of the Company from compulsory vehicle insurance in the reported period was NIS 10.9 million compared with a NIS 3.0 million loss in the corresponding period in 2016. The increase in income is mainly from improvement of claims ratio. Results for Q1 2016 was mainly affected by the recommendations of the Vinograd Committee ("Vinograd"), at approx. NIS 11.0 million. The increase in income was also a result of investment gains in the reported period relative to the corresponding period in 2016.

   For more information about the impact of the Vinograd Committee on results of the Company, see note 3b to the condensed financial information.

c. The income of the Company from property vehicle insurance in the reported period was NIS 9.0 million compared to a loss of NIS 10.5 million in the corresponding period in 2016. The increase in income resulted from a large decrease of claims ratio. Improvement was seen in claims ratio beginning in 2016, as a result of taking a number of measures in the disposal of the Company to reduce the cost of claims. This trend continued in the reported period. Resulting from this improvement of claims ratio, the Company was able fully release the provision for premium deficit, at NIS 2.5 million.

d. The income of the Company from home insurance in the reported period was NIS 4.0 million compared with NIS 4.5 million in the corresponding period in 2016. The decrease resulted from an increase in expenses ratio.

e. The loss of the Company from professional liability insurance in the reported period was NIS 9.5 million compared with an income of NIS 0.3 million in the corresponding period in 2016. The decrease in this item was mainly due to the development of a number of claims in directors' liability insurance, and especially one claim at NIS 8 million in retention.

f. The income of the Company from other property liability insurance in the reported period was NIS 1.4 million compared with income of NIS 1.2 million in the corresponding period in 2016.

g. The income of the Company from other liability insurance in the reported period was NIS 4.4 million compared with an income of NIS 1.3 million in the corresponding period in 2016. The increase in this item is mainly a result of improved in both claims ratio and expense ratio.

h. The income of the Company from health insurance in the reported period was NIS 9.9 million compared with NIS 11.1 million in income in the corresponding period in 2016. The decrease in income mainly resulted from an increase in both claims ratio and expense ratio.

i. The income of the Company from life insurance in the reported period was NIS 3.0 million compared with NIS 1.0 million in the corresponding period in 2016. This increase mainly resulted from a decrease in in expense ratio.

5. Cash flows and liquidity

Net cash provided by operating activities in the reported period was NIS 14.2 million, compared with NIS 75.6 million provided by operating activities in the corresponding period in 2016.

Net cash used in investing activities in the reported period amounted to NIS 9.5 million, compared with NIS 4.5 million in the corresponding period in 2016.

As a result of the above, the balance of cash and cash equivalents in the reported period decreased by NIS 45.3 million and amounted NIS 90.9 million as of March 31, 2017.

6. Sources of funding

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

7. The effect of external factors

For more information, see section 2 above.

8. Material subsequent events

a. For information about a motion to certify a class action that was filed against the Company after March 31, 2017, see note 10 to the condensed financial information.

b. As to the announcement of the Finance Committee of the Knesset on approving the Solvency II-based regulations, see note 10 to the condensed financial information.

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

Controls and procedures applied to disclosure

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

Internal controls over financial reporting

In the course of the quarter ending on March 31, 2017, no change has occurred in the internal control of the Company over financial reporting that materially affected or is reasonably expected to materially affect the Company's internal control on financial reporting.

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

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

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

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Ralph Mucerino	Shay Feldman
Chairman of the Board of Directors	CEO

May 25, 2017

Declaration

I, Shay Feldman hereby declare that:

1. I reviewed the interim report of AIG Israel Insurance Company Ltd. (hereafter – "the insurance company") for the quarter ended March 31, 2017 (hereafter – "the report").

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

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

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

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

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

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

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

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

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

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

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

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

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Shay Feldman - CEO

May 25, 2017

Declaration

I, David Rothstein hereby declare that:

1. I reviewed the interim report of AIG Israel Insurance Company Ltd. (hereafter – "the insurance company") for the quarter ended March 31, 2017 (hereafter – "the report").

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

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

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

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

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

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

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

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

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

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

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

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

____

David Rothstein - CFO

May 25, 2017

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

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

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

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

The Insurance Company's management with the supervision of its Board of Directors evaluates the effectiveness of the internal control of the Insurance Company over financial reporting as at March 31, 2017, based on criteria set in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation management believes that as at March 31, 2017 the internal control of the Insurance Company over financial reporting is effective.

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

Date of approval of financial statements: May 25, 2017

AIG ISRAEL INSURANCE COMPANY LTD.

FINANCIAL INFORMATION FOR INTERIM PERIOD
(Unaudited)

MARCH 31, 2017

AIG ISRAEL INSURANCE COMPANY LTD.

FINANCIAL INFORMATION FOR INTERIM PERIOD
(Unaudited)

MARCH 31, 2017

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

Introduction

We have reviewed the attached financial information of AIG Israel Insurance Company Ltd ("the Company"), which is comprised of the condensed statement of financial position as of March 31, 2017 and the condensed statements of comprehensive income, changes in equity and cash flows for the three-month periods ended on that date. The Board of Directors and management are responsible for the preparation and presentation of the financial information for this interim period in accordance with the provisions of International Accounting Standard No. 34, 'Interim Financial Reporting'(hereafter "IAS 34"), and they are also responsible for the preparation of the financial information for this interim period in accordance with the disclosure requirements of the Supervision of Financial Services (Insurance) Law, 1981 and the regulations promulgated thereunder. Our responsibility is to express a conclusion with respect to the financial information for this interim period, based on our review.

Scope of review

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

Conclusion

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

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

Without qualifying our above conclusion, we draw attention to note 3 to the interim financial information on restatement of the condensed interim financial information as of March 31, 2016 and for the three-month period then ended, and which are presented as comparative information in these condensed financial information, in order to retrospectively reflect a correction in the amount of liability of the Company to insurance contracts as of that date.

Tel-Aviv, Israel
May 25, 2017

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

AIG ISRAEL INSURANCE COMPANY LTD.

CONDENSED STATEMENT OF FINANCIAL POSITION

AS OF MARCH 31, 2017

	March 31		December 31,
	2017	**2016**	**2016**
	(Unaudited)		**(Audited)**
	NIS in thousands		
A s s e t s			
Intangible assets	37,555	27,115	33,816
Deferred acquisition costs	150,791	151,131	141,827
Property and equipment	13,077	11,810	11,435
Reinsurance assets	659,458	* 576,855	658,559
Premiums collectible	172,166	** 175,813	153,534
Current tax assets	4,473	-	1,864
Other receivables	52,644	51,860	52,490
	1,090,164	994,584	1,053,525
Financial investments:			
Marketable debt instruments	1,348,764	1,236,152	1,310,175
Non-marketable debt instruments	146,295	** 247,882	171,285
Other	78,368	114,410	79,077
TOTAL FINANCIAL INVESTMENTS	1,573,427	1,598,444	1,560,537
CASH AND CASH EQUIVALENTS	90,922	133,436	136,234
TOTAL ASSETS	2,754,513	2,726,464	2,750,296

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

Date of approval of financial information for interim period by the Board of Directors of the Company: May 25, 2017

* Restated – see note 3.

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

AIG ISRAEL INSURANCE COMPANY LTD.

CONDENSED STATEMENTS OF FINANCIAL POSITION

AS OF MARCH 31, 2017

	March 31		December 31,
	2017	2016	2016
	(Unaudited)		(Audited)
	NIS in thousands		
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	6	6	6
Share premium	250,601	250,601	250,601
Capital reserves	11,084	11,084	11,084
Retained earning	465,061	*567,865	492,169
TOTAL EQUITY ATTRIBUTABLE TO COMPANY SHAREHOLDERS	726,752	829,556	753,860
LIABILITIES:			
Liabilities in respect of insurance contracts and investment contracts that are not yield dependent	1,681,952	*1,489,414	1,646,765
Liabilities in respect of deferred taxes, net	3,097	2,760	779
Retirement benefit obligation, net	2,662	2,433	2,713
Liabilities to reinsurers	256,772	295,318	257,165
Liabilities for current taxes	-	*28,553	-
Payables	83,278	78,430	89,014
TOTAL LIABILITIES	2,027,761	1,896,908	1,996,436
TOTAL EQUITY AND LIABILITIES	2,754,513	2,726,464	2,750,296

* Restated - see note 3.

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

AIG ISRAEL INSURANCE COMPANY LTD.

CONDENSED STATEMENT OF COMPREHENSIVE INCOME

FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2017

	Three months ended March 31		Year ended December 31,
	2017	2016	2016
	(Unaudited)		(Audited)
	NIS in thousands		
Gross earned premiums	273,693	251,219	1,037,400
Premiums earned by reinsurers	(50,298)	(42,287)	(168,023)
Premiums earned in retention	223,395	208,932	869,377
Investment income, net and financing income	10,929	1,673	18,475
Commission income	10,061	12,039	43,553
TOTAL INCOME	244,385	222,644	931,405
Payments and change in liabilities with respect to insurance contracts, gross	(158,782)	* (171,266)	(756,904)
Share of reinsurers in increase of insurance liability and payments for insurance contracts	24,795	* 30,359	192,796
Payments and change in liabilities with respect to insurance contracts, retention	(133,987)	* (140,907)	(564,108)
Commission, marketing expenses and other acquisition costs	(55,967)	(58,675)	(242,330)
General and administrative expenses	(18,378)	(20,547)	(81,370)
Financing income (expenses), net	(331)	(764)	3,410
TOTAL EXPENSES	(208,663)	* (220,893)	(884,398)
INCOME BEFORE TAXES ON INCOME	35,722	* 1,751	47,007
Tax benefit (taxes on income)	(12,830)	* 119	(15,833)
INCOME FOR THE PERIOD AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	22,892	*1,870	31,174
BASIC EARNINGS PER SHARE:			
Basic income per share	4.00	0.33	5.44
Number of shares used in calculating basic income per share	5,730	5,730	5,730

* Restated – see note 3

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

AIG ISRAEL INSURANCE COMPANY LTD.

CONDENSED STATEMENT OF CHANGES IN EQUITY

FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2017

	Share capital	Share premium	Other reserves	Retained earnings	Total
	NIS in thousands				
BALANCE AS OF JANUARY 1, 2017 (audited)	6	250,601	11,084	492,169	753,860
Change during the three months ended march 31, 2017 (unaudited) -				22,892	22,892
Dividend				(50,000)	(50,000)
BALANCE AS OF MARCH 31, 2017 (unaudited)	6	250,601	11,084	465,061	726,752
BALANCE AS OF JANUARY 1, 2016 (audited)	6	250,601	11,084	565,995	827,686
Total comprehensive income in the three months ended March 31, 2016				*1,870	1,870
BALANCE AS OF MARCH 31, 2016 (unaudited)	6	250,601	11,084	567,865	829,556
BALANCE AS OF JANUARY 1, 2016 (audited)	6	250,601	11,084	565,995	827,686
Total comprehensive income for the period				31,174	31,174
Dividend				(105,000)	(105,000)
BALANCE AS OF December 31, 2016 (unaudited)	6	250,601	11,084	492,169	753,860

* Restated – see note 3.

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

AIG ISRAEL INSURANCE COMPANY LTD.

CONDENSED STATEMENT OF CASH FLOWS

FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2017

	Three months ended March 31		Year ended December 31,
	2017	2016	2016
	(Unaudited)		(Audited)
	NIS in thousands		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net cash provided by operations (Appendix A)	1,966	36,800	184,682
Interest received	24,770	12,069	41,449
Dividend received	40	137	259
Income taxes received (paid), net	(12,581)	26,547	(21,759)
Net cash provided by operating activities	14,195	75,553	204,631
CASH FLOWS FROM INVESTING ACTIVITIES:			
Changes in assets covering equity and non-insurance liabilities:			
Investment in property and equipment	(2,961)	(1,697)	(6,396)
Investment in intangible assets	(6,531)	(2,777)	(16,716)
Net cash used in investing activities	(9,492)	(4,474)	(23,112)
CASH FLOWS FROM FINANCING ACTIVITIES -			
dividend paid to shareholders	(50,000)	-	(105,000)
Net cash used in financing activities	(50,000)	-	(105,000)
IMPACT OF EXCHANGE RATE FLUCTUATIONS ON CASH AND CASH EQUIVALENT BALANCES	(15)	114	(2,528)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(45,312)	71,193	73,991
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	136,234	62,243	62,243
CASH AND CASH EQUIVALENTS AT END OF PERIOD	90,922	133,436	136,234

AIG ISRAEL INSURANCE COMPANY LTD.

CONDENSED STATEMENT OF CASH FLOWS

FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2017

	Three months ended March 31		**Year ended December 31,**
	2017	**2016**	**2016**
	(Unaudited)		**(Audited)**
	NIS in thousands		
APPENDIX A - CASH FLOWS FROM OPERATING ACTIVITY			
Income before taxes on income	35,722	*1,751	47,007
Adjustments for- Items not involving cash flows:			
Change in liabilities with respect to insurance contracts that are not yield dependent	35,187	*71,425	228,776
Change in reinsurance assets	(899)	*(28,705)	(110,409)
Increase (decrease) in deferred acquisition costs	(8,964)	(1,456)	7,848
Change in retirement benefits obligation, net	(51)	(348)	(68)
Depreciation of property and equipment	1,319	1,356	6,430
Amortization of intangible asset	2,792	2,059	9,297
Losses (gains), net, on financial investments:			
Marketable debt instruments	12,169	3,312	17,594
Non-marketable debt instruments	4,513	**3,441	3,094
Marketable shares	-	4,162	4,162
Marketable index fund certificates	709	1,407	(3,456)
Impact of fluctuation in exchange rate on cash and cash equivalents	15	(114)	2,528
	46,790	56,539	165,796
Changes in operating assets and liabilities:			
Liabilities to reinsurers	(393)	15,971	(22,182)
Investments in financial assets, net	(30,281)	18,612	47,446
Premiums collectible	(18,632)	**(27,116)	(4,836)
Receivables	(154)	(8,389)	(9,019)
Payables	(5,736)	(8,355)	2,228
Current tax assets	(540)	*(7)	(50)
	(55,736)	(9,284)	13,587
Adjustments for interest and dividend:			
Interest received			
Dividend received	(24,770)	(12,069)	(41,449)
	(40)	(137)	(259)
Net cash provided by operations	(24,810)	(12,206)	(41,708)
	1,966	36,800	184,682

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

* Restated – see note 3.

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

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

NOTE 1 - GENERAL

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

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

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

Definitions:

1) The Company – AIG Israel Insurance Company Ltd.

2) The parent company – AHEL

3) Supervisor - Supervisor of 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 that do not constitute insurance contracts.

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

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

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

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

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

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

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

NOTE 1 - GENERAL (continued):

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

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

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

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

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

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

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

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

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

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

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

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS:

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

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

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

b. Estimates

The preparation of interim financial statements requires management to exercise its judgment and also requires use of accounting estimates and assumptions that affect the application of the Company's accounting policy and the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Significant judgments exercised by management in preparation of these condensed interim financial statements as well as the uncertainty involved in the key sources of those estimates were identical to the ones used in the Company's annual financial statements for the year ended December 31, 2016.

NOTE 3 - IMPLICATIONS OF THE VINOGRAD COMMITTEE RECOMMENDATIONS:

a. Implications of the Vinograd committee recommendations as of March 31, 2017

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

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

On September 13, 2016, an amendment to the Amendment of the Discounting Regulations was published in the official gazette, postponing the coming into effect of the Amendment to the Discounting Regulations to September 2017.

Management believes, based on the opinion of its legal counsel, that the courts may not necessarily adopt the discount interest rate set by the discounting regulations of National Insurance in bodily injury liability cases, and as such, the Company made an estimate of possible impact according to its estimation of such impact.

As of December 31, 2016, management estimated that the Amendment to the Discounting Regulations is expected to increase the amounts, which the Company will be required to pay in settlement of insurance contracts in the vehicle compulsory sector, by a total of NIS 18.1 million pre-tax, which were included in the 2016 financial statements of the Company. This amount is estimated based on an updated estimation of management that the discount interest rate, as above, will be 2% per year over the period until 2019 (inclusive), and that beginning in 2020, the discount interest rate will be lowered to about 1% per year. In addition, the Company's share of the Pool's liabilities resulting from the effects of the Amendment to the Discounting Regulations as of the said date, is NIS 5.2 million pre-tax. Accordingly, insurance liabilities were increased as of that date. As of March 31, 2017, no material occurred in the provision for increased insurance liabilities in respect of that amendment.

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

The impact on other segments is totally negligible.

Note that, in light of the above, there is uncertainty, at this stage, regarding the impact of the Amendment to the Discounting Regulations on liabilities of the Company, and therefore, it is possible that future claims will unfold significantly differently than Company estimates, and that the Company will later be required to update its estimates.

b. Correction of error in the 2016 first quarter interim financial information in respect to implications of the Vinograd committee recommendations:

As discussed in note 3 to the interim financial information of the Company as of June 30, 2016 and for the 6-month period then ended, when preparing the interim financial statements of the Company as of March 31, 2016 and for the three-month period then ended (hereinafter - the 2016 first quarter reports), the Company presented a very preliminary estimate of the Vinograd Committee impact as of that date, and concluded that it will increase its insurance liability compulsory insurance sector by NIS 11 million before tax (approx. NIS 7.1 million after tax). Management estimated at that date that the above impact is immaterial to its financial statements. Hence, and given the fact that it was a very preliminary estimate, no provision was included for the impact of the Vinograd Committee in the 2016 first quarter report. After discussions that management held with the Supervisor of Insurance, management decided to correct the information of the 2016 first quarter report, and include that impact in comparative information presented in the interim financial information of the Company as of March 31, 2017 and the 3-month period then ended.

The following presents the impact of the correction:

	As reported in Q1 2016 financial information	Correction	As presented in this financial information
	NIS in thousands		
Condensed statement of the financial position as of March 31, 2016:			
Reinsurance assets	568,455	8,400	576,855
Liabilities for insurance contracts and investment contract that are not yield dependent	1,470,014	19,400	1,489,414
Liability for current taxes	32,502	(3,949)	28,553
Retained income	574,916	(7,051)	567,865

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

b. Correction of error in the 2016 first quarter interim financial information in respect to implications of the Vinograd committee recommendations (continued):

	As reported in Q1 2016 financial information	Correction	As presented in this financial information
	NIS in thousands		
Condensed statement of income for the three-month period ended March 31, 2016:			
Payments and change in liabilities for insurance contracts, gross	(151,866)	(19,400)	(171,266)
Share of reinsurers in increase of insurance liabilities and payments for insurance contracts	21,959	8,400	30,359
Payments and change in liabilities for insurance contracts, retention	(129,907)	(11,000)	(140,907)
Income before tax	12,751	(11,000)	1,751
Taxes on income	(3,830)	3,949	119
Income for the period and total comprehensive income for the period	8,921	(7,051)	1,870

	As reported in Q1 2016 financial information	Correction	As presented in this financial information
	NIS in thousands		
Note 5 - Segment information:			
General insurance sector – for the 3-month period ended March 31, 2016:			
Payments and change in liabilities for insurance contracts, gross	(117,663)	(19,400)	(137,063)
Share of reinsurers in increase of insurance liabilities and payments for insurance contracts	18,790	8,400	27,190
Payments and change in liabilities for insurance contracts, retention	(98,873)	(11,000)	(109,873)
Total comprehensive income (loss) before tax	4,847	(11,000)	(6,153)
Liability for insurance contracts gross as of March 31, 2016	1,305,973	19,400	1,325,373

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

b. Correction of error in the 2016 first quarter interim financial information in respect to implications of the Vinograd committee recommendations (continued):

	As reported in Q1 2016 financial information	Correction	As presented in this financial information
		NIS in thousands	
Compulsory vehicle insurance sector within the additional information about the general insurance sector – for the 3-month period ended March 31, 2016:			
Payments and change in liabilities for insurance contracts, gross	(26,121)	(19,400)	(45,521)
Share of reinsurers in increase of insurance liabilities and payments for insurance contracts	4,835	8,400	13,235
Payments and change in liabilities for insurance contracts, retention	(21,286)	(11,000)	(32,286)
Total comprehensive income (loss) before tax	8,047	(11,000)	(2,953)
Liability for insurance contracts gross as of March 31, 2016	486,253	19,400	505,653
Liability for insurance contracts retention as of March 31, 2016	391,524	11,000	402,524

	As reported in Q1 2016 financial information	Correction	As presented in this financial information
		NIS in thousands	
Note 6 - Equity and capital requirements – management and capital requirements (section b.):			
The amount required under Supervisor regulations and guidance (a)	530,082	336	530,418
Existing amount calculated under capital regulations: primary capital	836,607	(7,051)	829,556
Total existing equity calculated under capital regulations	836,607	(7,051)	829,556
Surplus	306,525	(7,387)	299,138
Surplus after effect of subsequent events	201,525	(7,387)	194,138
(a) The amount required, including capital requirement for:			
Investment and other assets	49,937	336	50,273
Total amount required under capital regulations	530,082	336	530,418

Additionally, and as a direct result of the impact of the amendment, as above, the relevant items in the condensed statement of changes in equity and Appendix A to the condensed statement of cash flows for the 3-month period ended on March 31, 2016 were also corrected.

NOTE 4 - SIGNIFICANT ACCOUNTING POLICIES

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

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

b. New accounting standards:

1. The 2016 annual financial statements of the Company presented new IFRSs and amendments to existing standards that have not yet become effective and have not been early adopted by the Company, as well as amendments to an IFRS that become applicable for accounting periods beginning on or after January 1, 2017.

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

2. IFRS 17 "Insurance Contracts"

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

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

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

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

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

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

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

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

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

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

NOTE 5 - SEGMENT INFORMATION

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

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

1) Life insurance segment

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

2) Health insurance segment

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

3) General insurance segment

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

- **Compulsory motor vehicle sector**

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

NOTE 5 - SEGMENT INFORMATION (continued):

- **Motor vehicle property sector**

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

- **Home insurance sector**

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

- **Professional liability sector**

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

- **Property and others sectors**

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

- **Other liability sectors**

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

NOTE 5 - SEGMENT INFORMATION (continued):

	For 3-month period ended March 31, 2017 (unaudited)				
	Life insurance	Health insurance	General insurance	Not attributed to operating segments	Total
	NIS in thousands				
Gross earned premiums	31,828	55,316	186,549		273,693
Premiums earned by reinsurers	(5,476)	(794)	(44,028)		(50,298)
Premiums earned in retention	26,352	54,522	142,521		223,395
Investment income, net	1	810	6,721	3,397	10,929
Commission income	940	88	9,033		10,061
Total income	27,293	55,420	158,275	3,397	244,385
Payments and change in liabilities with respect to insurance contracts (gross)	(14,689)	(24,907)	(119,186)		(158,782)
Share of reinsurers in increase of insurance liabilities and payments for insurance contracts and change in liabilities in respect of insurance contracts, in retention	3,592	1,294	19,909		24,795
Payments and change in liabilities with respect to insurance contracts, in retention	(11,097)	(23,613)	(99,277)		(133,987)
Commissions and other acquisition costs	(10,605)	(14,115)	(31,247)		(55,967)
General and administrative expenses	(2,581)	(7,805)	(7,992)		(18,378)
Financing income (expenses), net	-	-	474	(805)	(331)
Total comprehensive income before taxes on income	3,010	9,887	20,233	2,592	35,722
Liabilities for insurance contracts, gross, as of March 31, 2017	62,835	120,402	1,498,715		1,681,952

	For 3-month period ended March 31, 2016 (unaudited)				
	Life insurance	Health insurance	General insurance	Not attributed to operating segments	Total
	NIS in thousands				
Gross earned premiums	31,608	53,028	166,583		251,219
Premiums earned by reinsurers	(5,873)	(734)	(35,680)		(42,287)
Premiums earned in retention	25,735	52,294	130,903		208,932
Investment income (loss), net	1	529	4,123	(2,980)	1,673
Commission income	929	129	10,981		12,039
Total income	26,665	52,952	146,007	(2,980)	222,644
Payments and change in liabilities with respect to insurance contracts (gross)	(11,494)	(22,709)	* (137,063)		* (171,266)
Payments and change in liabilities with respect to insurance contracts, in retention	2,145	1,024	* 27,190		* 30,359
	(9,349)	(21,685)	* (109,873)		* (140,907)
Commissions and other acquisition costs	(11,881)	(13,562)	(33,232)		(58,675)
General and administrative expenses	(4,401)	(6,617)	(9,529)		(20,547)
Financing income (expenses), net	-	-	474	(1,238)	(764)
Total comprehensive income (loss) before taxes on income	1,034	11,088	* (6,153)	(4,218)	* 1,751
Liabilities with respect to insurance contracts, gross, as of March 31, 2016	52,543	111,498	* 1,325,373		* 1,489,414

* Restated - see note 3.

NOTE 5 - SEGMENT INFORMATION (continued):

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

NOTE 5 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment:

	For 3-month period ended March 31, 2017 (unaudited)						
	Compulsory motor vehicle	Motor vehicle property	Home	Professional liability	Other property Sectors*	Other liability Sectors*	Total
	NIS in thousands						
Gross premiums	43,132	97,347	28,239	18,660	10,858	14,280	212,516
Reinsurance premiums	(602)	(28)	(2,884)	(16,932)	(10,391)	(12,406)	(43,243)
Premiums in retention	42,530	97,319	25,355	1,728	467	1,874	169,273
Change in balance of unearned premiums, in retention	(6,671)	(16,942)	(3,048)	310	(157)	(244)	(26,752)
Premiums earned in retention	35,859	80,377	22,307	2,038	310	1,630	142,521
Investment income, net	2,943	1,408	407	885	157	921	6,721
Commission income	-	-	387	4,321	2,364	1,961	9,033
Total income	38,802	81,785	23,101	7,244	2,831	4,512	158,275
Increase in insurance liabilities and payments for insurance contracts	(25,617)	(56,004)	(10,084)	(17,750)	(6,941)	(2,790)	(119,186)
Share of reinsurers in increase of insurance liabilities and payments for insurance contracts	4,789	-	(405)	4,500	6,738	4,287	19,909
Increase in liabilities and payments for insurance contracts in retention	(20,828)	(56,004)	(10,489)	(13,250)	(203)	1,497	(99,277)
Commission, marketing expenses and other acquisition costs	(6,111)	(13,503)	(6,185)	(3,203)	(796)	(1,449)	(31,247)
General and administrative expenses	(1,005)	(3,427)	(2,725)	(290)	(426)	(119)	(7,992)
Financing income, net	-	177	294	3	-	-	474
Total expenses	(27,944)	(72,757)	(19,105)	(16,740)	(1,425)	(71)	(138,042)
Total comprehensive income (loss) before taxes on income	10,858	9,028	3,996	(9,496)	1,406	4,441	20,233
Liabilities with respect to insurance contracts, gross, as of March 31,2017	573,398	241,986	72,730	243,862	84,579	282,160	1,498,715
Net liabilities with respect to insurance contracts, retention as of March 31, 2017	453,485	241,986	67,646	53,661	3,472	37,291	857,541

(*) Property and others sectors reflect mainly the results of property loss insurance sectors with 86% of the total premiums attributable to these sectors.
Other liability sectors reflect mainly the results of the third party liability insurance sector, with 41% of the total premiums attributable to these sectors.

NOTE 5 - SEGMENT INFORMATION (continued):

	For 3-month period ended March 31, 2016 (unaudited)						
	Compulsory motor vehicle	**Motor vehicle property**	**Home**	**Professional liability**	**Other property Sectors***	**Other liability Sectors***	**Total**
				NIS in thousands			
Gross premiums	40,644	86,404	28,094	20,803	19,077	13,794	208,816
Reinsurance premiums	(568)	(29)	(5,948)	(18,266)	(18,426)	(11,389)	(54,626)
Premiums in retention	40,076	86,375	22,146	2,537	651	2,405	154,190
Change in balance of unearned premiums, in retention	(5,003)	(15,025)	(2,338)	(421)	(93)	(407)	(23,287)
Premiums earned in retention	35,073	71,350	19,808	2,116	558	1,998	130,903
Investment income, net	1,738	847	279	519	102	638	4,123
Commission income	-	-	1,805	4,294	2,627	2,255	10,981
Total income	36,811	72,197	21,892	6,929	3,287	4,891	146,007
Increase in insurance liabilities and payments for insurance contracts	** (45,521)	(65,936)	(10,853)	(5,280)	(7,789)	(1,684)	** (137,063)
Share of reinsurers in increase of insurance liabilities and payments for insurance contracts	**13,235	-	1,718	3,784	7,729	724	** 27,190
Increase in liabilities for insurance contracts in retention	** (32,286)	(65,936)	(9,135)	(1,496)	(60)	(960)	** (109,873)
Commission, marketing expenses and other acquisition costs	(5,986)	(13,098)	(5,199)	(4,705)	(1,807)	(2,437)	(33,232)
General and administrative expenses	(1,492)	(3,844)	(3,334)	(416)	(219)	(224)	(9,529)
Financing income, net	-	177	294	3	-	-	474
Total expenses	** (39,764)	(82,701)	(17,374)	(6,614)	(2,086)	(3,621)	** (152,160)
Total comprehensive income (loss) before taxes on income	**(2,953)	(10,504)	4,518	315	1,201	1,270	** (6,153)
Liabilities with respect to insurance contracts, gross, as of March 31,2016	**505,653	229,731	72,416	158,265	90,927	268,381	** 1,325,373
Net liabilities with respect to insurance contracts, retention as of March 31, 2016	**402,524	229,731	62,352	27,633	3,288	37,212	** 762,740

(*) Property and others sectors reflect mainly the results of engineering insurance sectors with 54% of the total premiums attributable to these sectors.
Other liability sectors reflect mainly the results of the third party liability insurance sector, with 34% of the total premiums attributable to these sectors.

(**) Restated – see note 3.

NOTE 5 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment:

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

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

NOTE 5 - SEGMENT INFORMATION (continued):

Additional information relating to life insurance segment:

For the 3-month period ended March 31, 2017 (unaudited) (NIS in thousands):

	Policies not containing savings element		Total
	Risk sold as single policy		
	Private	Group	
Gross risk premiums	31,849	-	31,849
Payments and change in liabilities for gross insurance contracts	14,689	-	14,689

For the 3-month period ended March 31, 2016 (unaudited) (NIS in thousands):

	Policies not containing savings element		Total
	Risk sold as single policy		
	Private	Group	
Gross risk premiums	31,513	-	31,513
Payments and change in liabilities for gross insurance contracts	11,494	-	11,494

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

	Policies not containing savings element		Total
	Risk sold as single policy		
	Private	Group	
Gross risk premiums	125,151	-	125,151
Payments and change in liabilities for gross insurance contracts	44,105	-	44,105

NOTE 5 - SEGMENT INFORMATION (continued):

Additional information relating to healthcare segment:

For the 3-month period ended March 31, 2017 (unaudited) (NIS in thousands):

	Long-term	Short-term	Total
Gross premiums	49,453	5,992	* 55,445
Payments and change in liabilities for gross insurance contracts	22,397	2,510	24,907

* Includes mainly policies issued to individuals

For the 3-month period ended March 31, 2016 (unaudited) (NIS in thousands):

	Long-term **	Short-term **	Total
Gross premiums	50,024	2,979	* 53,003
Payments and change in liabilities for gross insurance contracts	19,652	3,057	22,709

* Includes mainly policies issued to individuals
** Reclassified

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

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

* Includes mainly policies issued to individuals

NOTE 6 - SHAREHOLDERS' EQUITY AND CAPITAL REQUIREMENTS:

a. Dividend paid

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

b. Capital management and requirements

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

Company's capital in accordance with the Shareholders' Equity Regulations:

	March 31		December 31,
	2017	2016	2016
	(Unaudited)		(Audited)
The amount required under capital regulations and supervisor guidelines (a)	649,613	* 530,418	584,790
Existing amount calculated under shareholders' equity regulations:			
Primary capital	726,752	* 829,556	753,860
Total existing capital calculated under shareholders' equity regulations	726,752	829,556	753,860
Surplus	**77,139**	* 299,138	169,070
Subsequent events:			
Dividend declared	0	(105,000)	(50,000)
Surplus after consideration of subsequent events	**77,139**	**194,138**	**119,070**

(a) The amount required including capital requirements for:

Operations in general insurance	118,243	106,654	117,976
Exceptional life insurance risks	42,781	37,988	41,588
Deferred acquisition costs related to life insurance	79,497	82,343	79,687
Investment assets and other assets	71,484	*50,273	58,507
Catastrophe risks related to general insurance	307,205	226,660	257,227
Operating risks	30,403	26,500	29,805
Total full amount required under capital regulations	649,613	*530,418	584,790

* Restated – see note 3

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

c. Solvency II

1) 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 announced she intended to publish in 2016 guidance for adjusting the first tier of the directive to the local market, which will replace the present guidance. As part of preparations for model implementation, the Supervisor 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).

2) On April 21, 2016, the Supervisor issued guidance for performing an IQIS regarding 2015 (hereinafter - IQIS 5). According to the directive, insurance companies were required to file the results of the planned exercise to the Supervision. The Company completed IQIS 5 in July 2016. According to IQIS 5 results of the Company, capital surplus of the Company increased as of December 31, 2015, under the Solvency II regimen relative to capital surplus under the existing Israeli regimen (see b. above). Note that the model, in its present version, has very high sensitivity to changes in market and other variables and therefore capital requirements it reflects may be highly volatile.

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

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

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

4) On September 1, 2016, the Supervisor published several letters, which are addressed to insurance companies and which update the provisions of the Solvency II-based regimen and the guidance relating to disclosure thereof in the financial statements of the insurance companies. Among other things, those provisions included Solvency II disclosure guidance for financial statements of an insurance company, mainly relating to the Q3 2016 financial statement and 2016 annual financial statements.

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

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

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

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

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

In this respect, it is important to note that the provisions of the circular determine, among other things, that the period from June 30, 2017 to December 31, 2021 ("the deployment period"), the following provisions will apply in relation to solvency capital requirement (SCR) in the deployment period:

1) The solvency capital requirement in the deployment period as of June 30, 2017 may not be less than 60% of the solvency required capital as per the guidance in the appendix to the circular ("SCR");
2) The solvency required capital in the deployment period as calculated using data as of December 31, 2017 will be 65% of the SCR;
3) The solvency required capital in the deployment period as calculated using data as of December 31, 2018 and data as of June 30, 2019, will be 70% of the SCR;
4) The solvency required capital in the deployment period as calculated using data as of December 31, 2019 and data as of June 30, 2020, will be 80% of the SCR;
5) The solvency required capital of an insurance company in the deployment period as calculated using data as of December 31, 2020 and data as of June 30, 2021, will be 90% of the SCR.
6) The solvency required capital of an insurance company in the deployment period as calculated using data as of December 31, 2021 and thereafter, will not be less than SCR.

On May 22, 2017, the Chairman of the Insurance Authority announced it agreed to extend transition period by three years until 2024, instead of 2021. Following that announcement, the Finance Committee of the Knesset approved the provisions of Solvency II. The resolution of the committee is subject to removing a petition for a re-vote filed by the chairman of the committee, as elaborated in that statement.

NOTE 7 - FINANCIAL INSTRUMENTS AND FINANCIAL RISKS:

a. Fair value disclosure

Following the discussion in note 11(g) to the Company's 2016 annual financial statements, during the 3-month period ended March 31, 2017, no transfers were made between level 1 and level 2.

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

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

c. In the three-month period ended March 31, 2017, no material changes have occurred in the financial risk management policy of the Company, compared to the policy it reported in its 2016 annual financial statements.

d. Composition of financial investments:

	As of March 31, 2017 (unaudited)		
	Measured at fair value through profit or loss	Loans and receivables	Total
	NIS in thousands		
Marketable debt instruments (1)	1,348,764	-	1,348,764
Non-marketable debt instruments (2)	-	146,295	146,295
Other (3)	78,368	-	78,368
Total	1,427,132	146,295	1,573,427

	As of March 31, 2016 (unaudited)		
	Measured at fair value through profit or loss	Loans and Receivables *	Total
	NIS in thousands		
Marketable debt instruments(1)	1,236,152	-	1,236,152
Non-marketable debt instruments (2)	-	247,882	247,882
Other (3)	114,410	-	114,410
Total	1,350,562	247,882	1,598,444

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

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

d. Composition of financial investments (continued):

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

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

	As of March 31, 2017 (unaudited)	
	Carrying amount	Amortized cost
	NIS in thousands	
Government bonds	490,022	489,607
Other debt assets:		
Other non-convertible debt assets	858,742	842,861
Total marketable debt assets	1,348,764	1,332,468

	As of March 31, 2016 (unaudited)	
	Carrying amount	Amortized cost
	NIS in thousands	
Government bonds	584,954	570,308
Other debt assets:		
Other non-convertible debt assets	651,198	647,225
Total marketable debt assets	1,236,152	1,217,533

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

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

d. Composition of financial investments (continued):

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

	As of March 31, 2017 (unaudited)	
	Carrying amount	Fair value
	NIS in thousands	
Bank deposits	36,687	37,508
Presented at amortized cost, except for bank deposits	109,608	111,977
Total non-marketable debt assets	146,295	149,485

	As of March 31, 2016 (unaudited) *	
	Carrying amount	Fair value
	NIS in thousands	
Bank deposits	96,984	98,107
Presented at amortized cost, except for bank deposits	150,898	154,616
Total non-marketable debt assets	247,882	252,723

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

	As of December 31, 2016 (unaudited)	
	Carrying amount	Fair value
	NIS in thousands	
Bank deposits	57,042	57,084
Presented at amortized cost, except for bank deposits	114,243	116,602
Total non-marketable debt assets	171,285	173,686

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

d. Composition of financial investments (continued):

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

	As of March 31, 2017 (unaudited)	
	Carrying amount	Cost
	NIS in thousands	
Marketable financial investments	78,368	74,684

	As of March 31, 2016 (unaudited)	
	Carrying amount	Cost
	NIS in thousands	
Marketable financial investments	114,410	114,270

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

NOTE 8 - TAXES ON INCOME:

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

b. Changes in corporate tax rate that came into effect on January 1, 2017

In January 2016, the Law for the Amendment of the Income Tax Ordinance (No. 216), 2016 was published in the official gazette, enacting a reduction of corporate tax in 2016 and thereafter from 26.5% to 25%.

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

NOTE 8 - TAXES ON INCOME (continued)**:**

c. Insurance industry specific tax arrangements – agreement with tax authorities

As to insurance industry specific tax arrangements, which also apply to the Company – see note 19a to the 2016 annual financial statements of the Company.

Current and deferred taxes in these financial statements are determined according to the principles in those agreements.

NOTE 9 - CONTINGENT LIABILITIES - CLASS ACTION:

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

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

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

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

On July 10, 2013, a pretrial hearing was held, resulting in a court decision that the Company and all other defendants may file complementary responses to the motion for class action certification through October 6, 2013. The complementary response was filed on November 3, 2013. The court also ruled that the plaintiffs were allowed to file a specific discovery.

The plaintiffs filed a motion for discovery and a motion to respond to a questionnaire. A decision was handed down requiring limited disclosure of documents.

On February 23, 2014, a deposition was filed on behalf of the Company that after examination, the requested documents in your company were not found.

On February 24, 2014, an examination hearing was held in which the plaintiffs were examined. On March 6, 2014, an examination hearing was held in which defendants' representatives were examined.

On March 25, 2014, another examination hearing was held in which Mr. Shai Zohar, from the Oren Mizrach insurance agency and Mr. Meir Shavit were examined, and filed a deposition and opinion on behalf of the Company. At the end of the examinations, the court recommended the claimant to consider whether to continue pursuing the case.

NOTE 9 - CONTINGENT LIABILITIES - CLASS ACTION (continued)**:**

On June 8, 2014, the plaintiffs filed a notice to the effect that they maintain their position that the motion to certify the claim as a class action shall be heard by the court. In accordance with the plaintiffs' notice, closing arguments were filed on behalf of the plaintiffs and the insurance companies, and response closing arguments on behalf of the plaintiffs.

On April 23, 2017, a court decision was handed down, rejecting the motion to certify a class action, including against the Company. The court ruled legal expenses NIS 10 thousand payable to the Company.

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

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

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

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

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

NOTE 9 - CONTINGENT LIABILITIES - CLASS ACTIONS (continued)**:**

On January 6, 2015, the respondents filed their reply to the motion to certify the claim as a class action. In their reply, the respondents claimed, among other things, that neither the law nor the insurance policy requires them to reduce the insured amount on their own accord and to adjust it to the updated balance of the loan. On the contrary, the insurance policy informs the insured individuals of the potential difference between the balance of the loan and the insured amount and in any case the updated insured amount is presented in the annual statements posted to all insured individuals; the respondents claim that without a specific request of the insured individual (to which an approval of the lending bank should be attached) they cannot reduce the insured amount since this will be considered breach of the provisions of the insurance policy; the respondents claim that they are unable to reduce the insured amount so that it corresponds to the balance of the loan since this information is subject to the bank secrecy duty; the respondents claim that the insured amount 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 motion to certify the claim as a class action is a specific and individual claim, which should not be debated as part of a class action.

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

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

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

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

NOTE 9 - CONTINGENT LIABILITIES - CLASS ACTIONS (continued)**:**

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

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

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

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

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

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

On June 5, 2016, the Company notified the court that it agreed to refer the limited issues that remained disputed to an arbitration proceeding, but provided that the arbitration is set to examine possible additional focusing or clarifying of arguments of the parties to the arbitration. On June 29, 2016, the Company notified the court that in the circumstances of the matter, given the plaintiffs notice, it does see any benefit in arbitration, and asked the court to decide on the motion to certify a class action based on the arguments filed and the position of the Supervisor.

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

An arbitration hearing was held on November 23, 2016. After the parties failed to reach agreements in the arbitration, the court ruled in a pretrial hearing, dated January 26, 2017, that the defendants were required to respond through February 9, 2017 on whether they are willing to continue the arbitration and accept an arbitrator recommended decision.

On February 9, 2017, the plaintiffs filed their response to the court, notifying that they are willing to continue with the arbitration process.

Currently, the parties are in arbitration. Another pretrial hearing was set to July 3, 2017.

NOTE 9 - CONTINGENT LIABILITIES - CLASS ACTIONS (continued)**:**

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

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

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

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

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

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

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

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

On March 28, 2017, the plaintiffs filed an appeal on the decision of the Supreme Court. No hearing was scheduled on this.

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

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

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

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

NOTE 9 - CONTINGENT LIABILITIES - CLASS ACTIONS (continued)**:**

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

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

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

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

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

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

On March 5, 2017, the parties notified the court that they reached in-principle understandings as to the settlement of the dispute that is the object of the motion to certify. For filing a formal request in relation to settling the dispute, the parties motioned for a short stay, and that the date for filing the motion to withdraw will be extended until May 28, 2017.

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

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

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

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

NOTE 9 - CONTINGENT LIABILITIES - CLASS ACTIONS (continued)**:**

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

Clarifications were provided and the court ordered to publish the fact that a settlement agreement has been reached and to send a copy to the attorney so that he could consider whether to object it.

No objections were received from class members, and the Attorney General notified that he did not object.

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

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

The response of the Company to the motion to certify the claim as class action was filed on January 1, 2017. The defendants need to file a response to the Company's response by May 35, 2017.

A pretrial hearing was scheduled to July 3, 2017.

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

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

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

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

The Company is required to file its response to the motion to certify by June 6, 2017. The plaintiff must file a response by August 8, 2017.

A pretrial hearing was scheduled to September 13, 2017.

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

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

NOTE 9 - CONTINGENT LIABILITIES - CLASS ACTIONS (continued)**:**

The motion concerns insurance coverage to homeowners who take mortgage loans where the loan capital is only returned at the end of the loan period ("balloon loans").

The plaintiff estimates the overall damage to the class at NIS 75 million. The alleged share of the Company in the claimed amount is NIS 15 million. The date for filing a response is May 28, 2017.

A hearing on the case is scheduled to July 17, 2017.

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

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

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

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

A hearing on the case was scheduled to October 22, 2017.

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

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

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

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

The Company is required to file its response to the motion to certify by June 8, 2017. The plaintiff will be required to file a response to Company arguments by July 9, 2017. A pretrial hearing was scheduled for June 22, 2017.

At this preliminary stage of the lawsuit, the Company's management and its legal counsel are still reviewing the matter. Management believes, based on its legal counsel, that, at this preliminary stage, it is not possible to assess the likelihood that a class action will be certified.

k. On May 3, 2017, a lawsuit and a motion to certify a class action were filed against a number of insurance companies, including the company on charging credit fees.

The plaintiffs claimed for overcharging credit fees beyond the legal limit.

The amount of the claim against the Company is NIS 21,000 thousands.

At this preliminary stage of the lawsuit, the Company's management and its legal counsel are still reviewing the matter. Management believes, based on its legal counsel, that, at this preliminary stage, it is not possible to assess the likelihood that a class action will be certified.

NOTE 9 - CONTINGENT LIABILITIES - CLASS ACTIONS (continued)**:**

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

	Number of claims	The amount claimed NIS in thousands
Pending applications for approval of legal claims as class actions - an amount relating to the Company was specified	11	* 174,173

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

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

NOTE 10 - SUBSEQUENT EVENTS

a. For information about a motion to certify a class action that was filed against the Company after March 31, 2017, see note 9 k above.

b. As to the announcement of the Finance Committee of the Knesset on approving the Solvency II-based regulations, see note 6c(5).

Embedded value reporting
of
AIG Israel Insurance Company Ltd
As of December 31, 2016

Date issued: May 25, 2017

Table of contents

1. General

1.1 Background and scope of disclosure

Under a circular of the Israel Supervisor of Insurance dated August 12, 2007 (Insurance Circular 2007-1-11) ("**the Circular**"), insurance companies are required to disclose annually, along with the financial information for the first quarter of each year, information about their embedded value ("**embedded value**" or "**EV**") of long-term insurance policies (life insurance and health insurance) for the end of previous year. In compliance with the circular, AIG Israel Insurance Company Ltd ("**the Company**") discloses below the embedded value of its long-term insurance business as of December 31, 2016.

This report was prepared in accordance with the rules and principles set by the Supervisor of Insurance, who adopted the rules and principles proposed by a joint committee of insurers and the Supervisor of Insurance, which was assisted by Israeli and international advisors (hereinafter: "**the Committee**" and "the Committee Report"), except for the treatment of certain risks that are depicted in paragraph 1.5.3 below, and all as elaborated in that paragraph.

The disclosure in this report is in accordance with the general disclosure rules in the Committee Report and the provisions presented in a draft "disclosure format" that was prepared by the Committee in coordination with the Supervisor. The draft "disclosure format" has yet to be published by the Supervisor as an addendum to the Circular.

The rules and principles set in the Committees report are presented in the website of the Ministry of Finance – Financial Markets, Insurance and Savings Department (www.mof.gov.il).

1.2 Forward-looking statement

Determining the embedded value and the value of the new business (as this term is defined below) was based on projections, assessments and estimates about uncertain future events and that are not under the control of the Company, and should be seen as "forward-looking information" as defined by Section 32A to the Israel Securities Law, 1968. Those projections, assessments and estimates may not materialize or materialize in a different way than presented in the embedded value report and, and thus, actual results may be different than projected.

1.3 The main chapters in this document

- An overview and explanation of the computation methodology
- Assumptions that underlie the computation
- Results of the embedded value and value of new business
- Sensitivity analyses of embedded value results
- Analysis of change in embedded value

1.4 Definitions

The following definitions present a summary explanation to clarify key terms in this report.

Full descriptions and explanations can be found in the rules and principles in the Committee Report.

Present value of future profits (PVFP)	Discounting of future expected profit stream arising from covered in-force businesses (see paragraph 2.5.2 below).
Adjusted net worth (ANW)	The net worth of the company after a number of adjustments to make it consistent with the value of the in-force portfolio (see paragraph 2.5.1 below)
Cost of required capital (CoC)	The cost of required capital is the impact, from shareholders perspective, on embedded value due to the requirement mandating the Company to hold a minimum capital (see paragraph 2.5.3 below)
Value of in-force (VIF)	The value of the in-force portfolio is the present value of future profits less the cost of required capital
Embedded value (EV)	The embedded value is the aggregate of the following two components: Value in-force (VIF) and adjusted net worth. Note that the adjusted net worth is the equity relating to the operations of the entire company and not only those covered within the scope of EV. Also note that the value of in-force does not include: General insurance business (elementary) The ability to create additional business in the future (goodwill).
Value of new business (VNB)	The present value from the time of sale to the end of policy lifetime of expected profits for the covered businesses that were sold during the reported year.
Covered businesses	The businesses covered in the computation of in-force value: Long-term personal policies within the life insurance and health insurance portfolio in force as of December 31, 2016, including future premium increases

1.5 Comments, clarifications and limitations

1.5.1 General

As discussed above, the embedded value was computed based on the methodology, rules and principles in the Committee Report. The assumption in the model are the "best estimated assumptions", i.e. assumptions that are the result of applying existing experience to the future within the environment where insurance companies operate and excluding prudence. Naturally, since those are long-term future estimates, actual results are expected to be different than those estimated when calculating the embedded value.

Variations from the factors and assumptions in projected embedded value may have material impact on outcomes. Those include among other:

1. Economic factors (e.g. discount rate, returns)
2. Demographic factors (e.g. change in mortality and morbidity)
3. Legislation and legislative arrangements relating to relevant topics
4. Taxation
5. Changes in the business environment

Future results that vary from the assessments made based on the best estimated assumptions are normal and expected even if no change will take place in the above factors. Therefore, it is anticipated that actual results in each year will be different than those projected in the embedded value model, and even due to normal random fluctuations.

1.5.2 Reforms and legislation

There is uncertainty around the expected impact of recent legislation reforms, including the following:

The calculation of embedded value does not include the impact of the following events, and other developments that have yet to materialize in actual data, and where the Company is unable at this time to assess their impact on the business results and the embedded value or any other uncertain scenario.

Given the above, sensitivity analyses are included that assess the sensitivity of calculation results to changes in various factors that may occur following such events. Note that it is not possible to infer from the sensitivity analysis on Company assessments on the potential impact of regulatory changes that the Company is currently unable to assess their impact prior to their full implementation.

1.5.3 Addressing risk

The following are limits relating to the embedded value listed in this report, which arise from the way the Company calculated the embedded value:

- Assumptions used in calculating embedded value – In divergence from the Committee Report, extreme risks with very low probability, which the Company is unable to estimate their probabilities and effect on the Company, such as operating risks, were not taken into account.

Additionally, the demographic assumptions underpinning the model were mainly arrived at based on studies and analyses that rely on the Company's experience over the last few years, where no extreme events occurred. Therefore, there is a possibility of extreme scenarios that the Company did not account for in making the assumptions underlying the model, despite the attempt to set realistic assumptions that correspond to actual long-term experience.

- The model is based on the assumptions that there is no correlation between model assumptions on non-market and market risks, which may significantly affect embedded value. In divergence from the Committee Report, due to insufficient data for testing this correlation, this assumption was not tested by the Company.

- Under assumptions and rules of the Committee, the assumptions are made, among other things, in a way that results in the expected value of embedded value to shareholders. In the absence of significant statistical data that are suitable for estimating the distribution of embedded value among all demographic and operating factors, the Company used realistic assumptions of each factor individually, based on the expected value of each relevant factor.

- The embedded value is founded on the theory that investors do not need compensation for non-market risks as long as they can spread uncertainty by holding a distributed and diversified portfolio and on the assumption that uncertainty can be distributed as above. In practice, some of the demographic and operating risks may not be distributed. In the absence of a liquid and deep market that allows estimating market pricing for those risks, and without an agreed-upon methodology for quantifying the notional market price for those risks, we did not lower the embedded value for those risks.

- It should be indicated that in 2011 the committee engaged foreign actuarial advisors to set up a proper and practical methodology to adjust the embedded value to reflect the cost of non-hedgeable risks. It is expected that such adjustment shall reduce the embedded value, both with respect to the VIF and with respect to the VNB so that they will better reflect all risks, including non-hedgeable risks, in accordance with normal practice of reporting embedded value. As of the date of publication of this report, the said actuarial advisors have not yet issued detailed or final recommendations; therefore, the committee has not yet set an orderly methodology with regard to this matter. In light of the above, it is not possible to effect the adjustment in this report.

To reflect the assessment of risks that were not taken into account as above, readers of this report can adjust the presented embedded value, at their own judgment, using the sensitivity analyses in paragraph 3.5, as well as the sensitivity to changes in the discount rate vector. Note that, as indicated above, the Company is unable to quantify objectively and scientifically the effect of the above issues on the embedded value, and therefore, the sensitivities presented are not representing such an estimate, but provide a tool for users of the report for estimating the effect of the issues at their own judgment.

1.5.4 Asset valuation at fair value

According to the rules and principles in the Committee Report, the accounting values of all Company assets were not adjusted to fair value, but only the assets corresponding to the business included in the embedded value.

1.5.5 The embedded value is not supposed to represent the economic or market value of the Company or its parent.

Note that as discussed above, the value of in-force does not include general insurance business (elementary and overseas travel), except for long-term health business, which is covered.

Also, the embedded value does not cover certain risks that are specified in 1.5.3 above.

It follows, then, that the embedded value does not represent the market value or the overall economic value and market value of the Company.

2. Embedded value calculation methodology

2.1 General

The principles of computing the embedded value are in accordance with the rules and principles in the Committee Report, except for the treatment of certain risks as described in section 1.5.3 above, and all as specified in that section. The assumptions in the model are best estimate assumptions, i.e. without a prudence margin. The model does not include the value of future sales, but the calculation assumes continued business activity in terms of expenditure level and so on.

2.2 Treatment of risks

Financial risks (or markets risk) – Market risks are taken at their cost embedded in market prices using a financing technique called certainty equivalent approach. In this technique, the expected return is reduced to the risk-free level. After this adjustment, the expected cash flows are discounted using risk-free interest without a need to add a risk premium to the discount rate.

As part of the committee's consultation with the foreign advisors as above, they set out to formulate a methodology which will reflect the fact that in practice it is possible to assume excess returns over risk free interest, in light of the fact that it is possible to invest in non-marketable assets against non liquid insurance liabilities and it is therefore possible to assume a premium over risk free interest which will be applied to marketable assets ("the lack of liquidity premium") in accordance with normal practice of EV reporting and with other areas of the global insurance sector. The adjustment of the risk free interest rate due to "the lack of liquidity premium" is expected to increase the embedded value. As of the date of publication of this report the committee has not yet issued detailed and final recommendations; therefore the "lack of liquidity premium" is not reflected in this report.

Non-market risk – The calculation of the embedded value is based on the financial theory that investors do not need additional compensation in the discount interest for non-market risks as long as they can spread uncertainty using a distributed and diversified portfolio. Therefore, assuming this condition is satisfied, accounting for non-market risks is done through the use of best estimate assumptions and discounting cash flows using the risk-free interest rate.

2.3 General assumptions

2.3.1 Return, discount interest and inflation:

The future return and discount interest is determined using the risk-free interest linked to the cpi. Risk-free interest rates (spot) as of 2016 year-end are:

Year-end	Interest rate	Year-end	Interest rate	Year-end	Interest rate
2017	0.48%	**2027**	0.78%	**2037**	1.34%
2018	0.02%	**2028**	0.85%	**2038**	1.38%
2019	-0.7%	**2029**	0.92%	**2039**	1.42%
2020	0.01%	**2030**	0.98%	**2040**	1.45%
2021	0.16%	**2031**	1.04%	**2041**	1.49%
2022	0.31%	**2032**	1.10%	**2042**	1.52%
2023	0.44%	**2033**	1.15%	**2043**	1.55%
2024	0.54%	**2034**	1.20%	**2044**	1.58%
2025	0.63%	**2035**	1.25%	**2045**	1.61%
2026	0.70%	**2036**	1.29%	**2046**	1.64%

Note that there is no need for an explicit assumption of future inflation as all amounts in the model are CPI-linked. When a certain parameter is expected to change in divergence from future inflation, an explicit assumption was taken of variation from future inflation.

2.3.2 Tax

Tax rate on financial institutions (including profit tax). The tax rate excludes a tax reduction after December 31, 2016.

Year	2016	2017	+2018
Tax rate	35.90%	35.04%	34.19%

2.4 Demographic and operating assumptions

All the assumptions above with material impact on the embedded value were set based on the best estimates of the Company for each demographic and operating factor, and reflect the anticipation of the Company for the future developments in those factors.

2.4.1 Demographic assumptions

The demographic assumptions, included in the computation were taken from internal studies of the Company, when available, and conclusions that resulted from exercising professional judgment, based on both the relevant experience and a combination of information from external sources, such as information from reinsurers and mortality and morbidity tables that were issued.

2.4.2 Future administrative and general expenses

Administrative and general expenses were calculated based on the results of an internal pricing model on expenses related to associates, including allocation of expenses to the various sectors (life insurance, health insurance) and loading expenses on different activities (production, ongoing management, investments, etc.)

2.5 Computation method

2.5.1 Adjusted net worth (ANW)

The amount of net worth is taken from the December 31, 2016 financial statements of the Company. This amount was reduced by the amount of deferred acquisition expenses based on the related balance sheet information, less the allowance for deferred tax in their respect and less the expected tax benefit for the part of the deductible deferred acquisition cost.

For a list of the adjustments, see the tables presented above in section 3.3.

2.5.2 Present value of future profits (PVFP)

The present value of future profits was calculated using an actuarial model that is based on insurance policy and other data that are available to the Company. This model allows for projecting future cash flows and their discount.

2.5.3 Cost of required capital (CoC)

A projection of the required capital for the covered businesses was made based on existing requirements and future reductions of the covered businesses. The cost of required capital is the discounting of the tax on investment return on the capital required for the covered businesses.

2.5.4 Value of new business (VNB)

As indicated above, the value of new business is calculated as the present value of profits from the time of sale to the end of policy lifetime. The present value of profits is calculated using an actuarial model that is based on policy data and other data to reflect the contribution of this year's profit to the embedded value.

The calculation of VNB was made for the following populations:

- All policies underwritten in the reported year
- New coverage that was underwritten during the reported year as an addition to policies underwritten before the reported year.

Note that the present value of future profits (PVFP) includes the value profits from the reporting year-end and thereafter for new business.

2.6 Treating options and financial promises

The covered business does not include options and financial promises to insurance clients.

2.7 Analysis of change in EV and EV-based profit

The tables in section 3.4 below present the change in the embedded value, broken down into the adjusted capital components and the in-force value (less equity cost), including transfers between those two components. All amounts are presented after tax. The change is mapped into the different affecting factors, as follows:

1. Changes in operating and demographic assumptions – The Company revises annually the assumptions used for estimating the embedded value. The revisions were made according to new data arising from actual experience and changes in expectations of management.

    a. Life insurance: increase in overall portfolio value by NIS 12.8 million, resulting from a reduction of mortality rates and expenses and net of an increase in cancellation rate.

    b. Health insurance: decrease of portfolio value by NIS 39.9 million, resulting from higher morbidity rate and cancellation rate, and less reduction in expense ratio.

2. Expected profit on the embedded value – The embedded value is expected to yield profit even if the Company would not have sold new business and would not have been active in additional businesses that are not covered by EV. These profits arise from 3 sources:

    a. Expected return on the value of in-force portfolio – This anticipated income is based on the real rate of return expected at the beginning of the year (adjusted to actual CPI) including margins above risk-free interest that were expected to be received.

    b. Expected return on adjusted net worth – Income from expected investments from assets against adjusted net worth. This expected income is based on the real rate of return expected at the beginning of the year, including margins above the anticipated risk-free interest rate.

    c. Profit expected to go from in-force portfolio to adjusted net worth during 2016 – In 2016, the expected profit for 2016 was transferred from the value of in-force to adjusted net worth, such that in total this source does not affect total embedded value as a whole. According to the method of determining adjusted net worth, this profit does not include the impact of reducing DAC, except for the tax credit and tax deduction on DAC.

3. The impact of variations from operating and demographic assumptions in 2016 – Naturally, actual experience around claims rates, cancellations, expenses etc., were different during the period from those assumed at the beginning of the year for the purpose of calculating embedded value. Those variations have impact on expected profits after year-end and also profits for that year itself, and the impacts are presented in this section separately for in-force portfolio and adjusted net worth, respectively. In addition, this section includes the effect of a number of factors that each is considered by the Company to immaterial, including, changes in existing insurance policies, reinsurance terms or commission agreements with agents.

4. Profit from new business – The embedded value does not include the value that is expected to be added from new business that will be sold in the future. Therefore, this item presents the addition to embedded value at the end of the previous period, for the sale of new insurance policies during the year. The addition is divided into the actual impact of the new business on profit in the period itself (presented under adjusted net worth) and into expected profits from future new business (presented under value of in-force).

5. Development expenses not covered in EV – This presents the impact of exceptional expenses that were not included in embedded value, but attributed to future sales, on actual profits in the year. In 2016, no expenses were excluded from EV.

It is common to call the sum of the changes in paragraphs 1 to 5 "embedded value operating profit". This amount reflects the value that was added to the embedded value or profit in terms of value that arises from operating activity of the Company, except for the impact from businesses not covered by EV (such as elementary insurance) and before the impact of unexpected economic factors, such as unexpected changes in market interest rates, the financial markets and inflation.

6. The effect of inflation in 2016 – This item includes the effect of inflation in the reported year (-0.3%) on the opening balance. The following paragraphs present the effect of real returns on top of CPI.

7. Profit from variation from economic assumptions in 2016 and changes in economic assumptions – this item includes two components:

   a. The effect on the value of in-force resulting from changes in economic assumptions that are based on market interest rates. Those assumptions include discount interest and expected returns. This year, a change in interest rate caused a NIS 34.0 million increase in the value of the portfolio.

   b. The effect of actual variations of economic factors during the year vs. the underlying assumptions for calculating embedded value as of the end of last year. The impact is in two components of EV:

      • In adjusted net worth – due to the impact on profit, mainly from different-than-expected returns on Company assets against capital and against insurance reserves for covered businesses.

   c. One-off impact on value in force due to changes in future tax rates on profits. At the end of the reported year, corporate tax rates decreased relative to those in effect in the previous year. This caused an increase of VIF by NIS 22.0 million.

   It is common to call the sum of changes in section 1 to 7 "embedded value-based profit on covered business". This amount reflects the value that was added to embedded value, or profit in terms of value, that arose in the operating activity of the Company, including effects of economic factors and exceptional items, but excluding the effect of businesses not covered by EV (such as elementary insurance).

8. Profit from non-covered business – The total embedded value includes the entire equity of the Company, and therefore, some of the increase/decrease in embedded value is explained by the profits/losses of business that is not covered by the in-force. In the reported year, this item contributed NIS 5.9 million.

9. Capital movements – This item presents the change in embedded value that results from capital movements during the year. A NIS 105 million was distributed in 2016.

2.8 Sensitivity tests

The sensitivity tests presented in 3.6 below were prepared while adopting the following approaches:

1. Sensitivities refer to all covered business unless otherwise is indicated

2. Sensitivity tests refer to each assumption separately, without aggregated or offsetting effects, or changes derived from other factors, etc.

3. Sensitivity for new business relates to changes from the end of 2016 and thereafter, and not to the period from the time of sale through the end of 2016.

4. Mortality – mortality sensitivity tests (including accidental death).

5. Morbidity – the sensitivity test includes all claims that are not deaths, which are included in subsection 4 above, including morbidity of serious illness, accidental disability, etc.

6. Interest – the results of the sensitivity test include:

    a. The effect of change in interest rate used as discounting interest and the expected return on investments of Company assets over the present value of future profits (PVFP).
    b. The effect of change in interest rate on the value of assets bearing NIS or CPI-linked interest that back the covered business.

7. Administrative and general expenses – sensitivity tests for changes in administrative and general expenses.

8. Cancellations – sensitivity tests for changes in cancellations

3. Results

3.1 The embedded value as of December 31, 2016

Million NIS	**EV on covered business in life and health insurance**
Adjusted net worth (see 3.3 below)	685.6
Present value of future profits, net of tax	628.7
Less cost of required capital	-8.7
Embedded value	**1,305.6**

3.2 Value of new business from sales in 2016

Million NIS	**VBN on covered business in life and health insurance**
Value of new business before cost of required capital	29.8
Cost of required capital on new business	-1.3
Total value of new business	**28.5**

3.3 Reconciliation of adjusted net worth to equity in the financial statements

	Million NIS
Equity (Company balance sheet)	753.9
Revaluation of assets corresponding to covered business and presented in the financial statements at cost to fair value less tax	0
Less deferred acquisition costs (DAC to balance sheet)*	-79.7
Add - reserve for deferred tax on DAC	11.4
Less value of acquired insurance accounts and goodwill thereon, included in equity, net of tax	0
Adjusted net worth on covered business	685.6

* The deduction of tax for this adjustment is partially presented as an addition to the allowance for deferred tax in this table and partially in adjusting the present value of future profits (see 2.5.2).

3.4 Analysis of change in EV and EV-based profit (million NIS)

	Section	Adjusted net worth	Value of in-force	Embedded value
Embedded value as of December 31, 2015		**754.6**	**587.1**	**1,341.8**
Adjustments to embedded value as of December 31, 2015		-	0.0	0.0
Adjusted embedded value as of December 31, 2015		**754.6**	**587.1**	**1,341.8**
Operating profit from inforce as of December 31, 2015:				
Change in operating and demographic assumptions	2.7.1	-	-27.1	-27.1
Expected real growth	2.7.2	12.2	5.2	17.4
Total profit expected to move from inforce to net worth in 2016	2.7.2	77.6	-77.6	-
Effect of variation from operating and demographic assumptions in 2016 and other changes to inforce	2.7.3	14.0	-4.1	9.9
Total		**103.8**	**-103.6**	**0.2**
Profit from new business	2.7.4	-53.8	82.3	28.5
Development expenses not included in EV	2.7.5	-	-	-
Embedded value operating profit		**49.9**	**-21.3**	**28.6**
Profit from exceptional items		0	-	-
Effect of inflation in 2016	2.7.6	-1.5	-1.8	-3.2
Income from variation from economic assumptions in 2016 and change in economic assumptions	2.7.7	-6.7	56.0	49.3
Total embedded value profit		**41.8**	**32.9**	**74.4**
Profit from non-covered business	2.7.8	-5.8	-	-5.8
Total embedded value profit of all Company business		**35.9**	**32.9**	**68.8**
Movements in equity	2.7.9	-105.0	-	-105.0
Total change in EV		**-69.1**	**32.9**	**-36.2**
Embedded value as of December 31, 2016		**685.6**	**620.0**	**1,305.6**

3.5 Reconciliation of the movement in adjusted net worth to net income of the Company

The following are details on the gap between the movement in adjusted net worth and net income of the Company (million NIS):

Net income	31.2
Items transferred through equity reserve	-
Comprehensive income (after tax)	**31.2**
Change in DAC before tax	4.8
Tax on change in DAC	0.0
Change in asset valuation at fair value net of tax	
Net change in value of inforce/goodwill on the balance sheet	
Comprehensive income adjusted to basis of embedded value	35.9
Movement in equity	-105.0
Total change in adjusted net worth	**-69.1**

3.6 Sensitivity analysis for covered business in accordance with Circular requirements

	See section	**Change in embedded value**		**Change in value of new business**	
		Million NIS	**%**	**Million NIS**	**%**
Basic result		1,036.0		28.5	
0.5% reduction in riskfree interest	**2.8.6**	24.8	1.90%	2.1	7.55%
10% increase in administration and general expenses		-21.5	-1.64%	-0.7	-2.34%
10% increase in cancellation rate		-57.8	-4.42%	-7.4	-25.95%
10% increase in mortality rate	**2.8.4**	-26.3	-2.01%	-2.8	-9.77%
10% increase in morbidity rate	**2.8.5**	-57.5	-4.40%	-6.3	-22.24%

Dafna Kaufman F.IL.A.A
Life Insurance Appointed Actuary

Ernst Segal F.IL.A.A
Health Insurance Appointed Actuary