

AIG Israel Insurance Company Ltd

Interim Financial Report

(Unaudited)

As of June 30, 2014

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**AIG Israel Insurance Company Ltd. ("the Company" –
Directors' Report of Company's Business
for the Period Ended June 30, 2014**

The Directors Report of the Company's Business as of June 30, 2014 ("**directors' report**") reviews the Company and the development its business as took place in the first half of 2014 ("**the reported period**"). The information in this report are as of June 30, 2014 ("**the report date**"), unless otherwise is explicitly indicated.

The Company is an 'insurer' as this term is defined by the Supervision of Financial Services Law (Insurance), 1981. Therefore, this report was prepared according to the Regulations 68-69 and the second addendum to the Supervision of Insurance Businesses Regulations (Details of Report), 1998 and in accordance with the directives of the Supervisor of Capital Markets, Insurance and Savings in the Ministry of Finance ("**the Supervisor of Insurance**" or "**the Supervisor**"). The Directors' Report was drawn up under the assumption that the Company's 2013 periodic report is also available to readers thereof.

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

The business of the Company is in areas requiring extensive professional knowledge, where many professional terms are essential to understanding the business of the Company. To present the description of the corporation's business in as clear a way as possible, those professional terms are used with accompanied explanations as much as possible.

The Directors' Report is an inseparable part of the interim financial statements and should be read with all parts thereof as one unit.

Forward-looking information

This Directors' Report, which describes the Company, the development of its business and areas of operations may contain forward-looking information within the meaning of this term in the Israel Securities Law, 1968. Forward-looking information is uncertain information regarding the future and is based on the information available to the Company on the date of the report and includes the subjective assessment of management based on assumptions and assessments of the Company and/or its intentions as of the date of the report. Nothing in providing this information as above may be construed as providing warranty for its veracity or completeness, and the actual activity and/or results of the Company may differ from those presented in the forward-looking information presented in this report. It is possible, in certain instances, to identify sections containing forward-looking information by the appearance of wording like: "the Company estimates", "the Company believes", "the Company intends", etc, but this information may be worded differently or it may be explicitly indicated as forward-looking information.



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1. Summary description of the Company

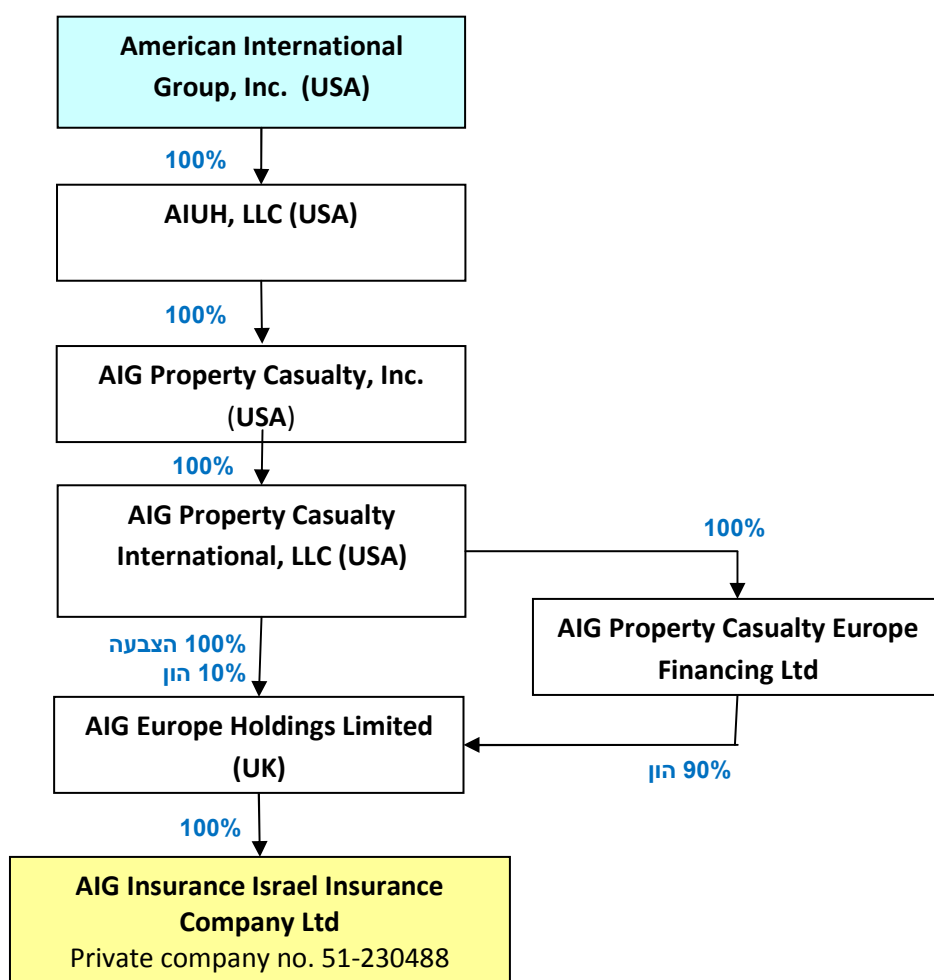
1.1 Organizational structure

AIG Israel Insurance Company ("**the Company**") was incorporated in Israel on March 27, 1996 as a limited liability privately-owned company. The company commenced its insurance activity in May 1997. The company does not hold any subsidiaries or affiliates. The Company has no activity outside Israel through either branches or investees.

The ultimate controlling shareholder of the Company is American International Group Inc. ("global AIG"), a leading international insurance and finance corporation, and as of the date of this report an A- rated company by Standard & Poor's (S&P).

The shareholder of the Company is AIG Europe Holdings Limited, which holds the entire issued and paid up share capital of global AIG.

The following is the holding structure of the Company:





The Company has insurer licenses granted by the Israel Supervisor of Insurance to engage in the general insurance line and life insurance line according as follows: property vehicle insurance, compulsory vehicle insurance, comprehensive home insurance, health insurance (sickness and hospitalization insurance and personal accident insurance), commercial insurance (property loss insurance, comprehensive insurance to businesses, engineering insurance, employers' liability insurance, third-party liability insurance and product liability insurance, cargo in transit insurance, insurance for other risks (limited to damages caused by crime and embezzlement), comprehensive life insurance and insurance covering businesses originating from overseas applicable to certain insurance lines.

The activity of the Company comprise of two business divisions (retail insurance and commercial insurance), headquarter departments, sales and customer service.

The Company markets and sells insurance policies in the personal insurance business, mainly directly to customers (without mediation of insurance agents) and through call and online sales centers and a central customer service operation. Most of the commercial insurance business as well as a small portion of the retail business are carried out through the intermediation of insurance agents. As a result of those marketing methods, the organizational structure of the Company is based on activity through a head office in Petach Tikva, and two smaller branches in Haifa and Ashdod.

1.2 Lines of business

The main activity of the Company is in the retail insurance business. The main lines of business in the Company are as follows:

- General insurance: motor vehicle property insurance business
- General insurance: compulsory motor vehicle insurance business
- General insurance: home insurance business
- General insurance: commercial insurance business
- Health insurance: health insurance business
- Life insurance: life insurance business (life assurance risk only).

1.3 Dependence on clients or marketing entities

In most of its lines of business, the Company is not dependent on a single client. For further details 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 2013 periodic report.

1.4 Developments or material changes in agreements with reinsurers

For information on reinsurance of the Company, see section 4.5 in Chapter A (description of company's business) in the Company's 2013 periodic report.

1.5 Unusual events since the issuance of the last financial statements

No material unusual events after the date of the financial statements



2. Description of business environment

General

In accordance with data published by the division of Capital Market, Insurance and Savings at the Israel Ministry of Finance, there are more than 20 Israeli insurance companies currently active in Israel; most of these companies are engaged in general insurance. According to these data, as of December 31, 2013, general insurance premiums amounted to NIS 18,994 million (without Karnit), while the share of the five largest insurance companies: Harel, the Phoenix, Clal, Menora and Migdal amounted to NIS 12,184 thousand, or 64.1% of total general insurance premiums in the Israeli market.

For more information about competition in the different business areas of activity of the Company and the means that the Company takes to cope 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 2013 periodic report.

Developments in the macroeconomic environment of the Company

The Company invests most of its portfolio in the capital market, and the returns on investment of different types of assets have material impact on its profitability.

The following is information about changes in listed securities on the Tel Aviv Stock Exchange:

	Jan- Jun 2014	Jan- Jun 2013	Apr- Jun 2014	Apr- Jun 2013	2013
Government bond indices					
General government bonds	4.5%	1.0%	2.5%	1.2%	3.5%
CPI-linked government bonds	4.8%	0.0%	2.7%	0.9%	3.0%
Treasury bonds	4.3%	1.9%	2.3%	1.5%	4.0%
Corporate bond indices					
Tel Bond 60	2.2%	2.7%	0.3%	1.3%	6.4%
Tel Bond Shekel	2.9%	3.3%	0.7%	1.9%	5.9%
Share indices					
TA 100	3.7%	2.1%	-2.3%	-2.6%	15.1%

For more information on the composition of Company investments, see appendix with list of assets for financial investments in the condensed financial statements.

For information about general trends in the insurance industry, and their impact on the business of the Company, see section 4.3 in Chapter A (description of company's business) in the Company's 2013 periodic report.

Trends and developments in the main insurance business segments of the Company

For information about trends and developments in the main insurance business segments 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 2013 periodic report.



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

The following is summary of the key legislation changes concerning the activity of the Company that were addressed by the Supervisor of Insurance in circulars and draft in the reported period through shortly before the issue of this report:

Legislation

- On April 24, 2014, Amendment No. 6 to the Insurance Contract Law, 1981 was published in the Reshumot (the Israeli government's official gazette). That amendment adds a new provision relating to the number of years for statute of limitations, and it is determined that in case of a claim arising from disability of the client from an illness of accident, then the statute of limitations should be counted since the date when the right of the client to claim insurance benefit under the insurance contract is created.

Circulars

- On April 10, 2014, the Supervisor of Insurance issued Insurance Circular 2014-9-2, titled "Compensation Policy in Institutional Investment Entities." The purpose of the circular was to set provisions for the purpose of creating a policy framework for compensation to executives and other employees in institutional investment entities, and preventing incentives that may encourage taking risks that are inconsistent with the longer-term targets of the institutional investment entities and its risk-management policy.
- On May 27, 2014, the Supervisor issued Insurance Circular 2014-9-4, titled "Introduction of Insurance Plan and Articles of Provident Funds." The purpose of this circular is to set procedures for filing a notice on an insurance plan or new articles or a change thereof. This circular includes provisions that prescribe the information items that should appear in the notification on a new insurance plan, a new group insurance plan, reporting to the Supervisor on discontinuation of marketing, the format of filing a personal injury insurance policy of not longer than one year and the basis for pricing an insurance policy.
- On June 10, 2014, the Supervisor issued Insurance Circular 2014-9-6, titled "Increase of the Involvement of Institutional Investment Entities in the Israeli Capital Market". The purpose of this circular is to clarify the guidance to institutional investment entities on developing voting policy and the way to disclose a voting policy given the experience gained since releasing Supervision of Financial Services Regulations (Provident Funds) (Participation of Management Company in General Meetings), 2009, and Institutional Investment Entities Circular 2009-9-11, titled " Provisions for Increasing the Involvement of Institutional Investment Entities in the Israeli Capital Market."

Drafts

- On April 10, 2014, the Supervisor of Insurance issued Draft Agents and Consultants Circular 2014-32, titled "Involvement of an Unlicensed Entity in Marketing and Selling of Non-Group Financial Product – Draft." The draft circular sets a framework for engagement between a regulated entity and a person or entity without a license from the Supervisor around the involvement of an external entity in the marketing and sale of retail insurance products.



- On April 10, 2014, the Supervisor of Insurance issued Draft Agents and Consultants Circular 2014-34, titled "Group Overseas Travel Insurance to Health Fund Members and Travel Agency Customers – Draft." The draft circular sets principles under which the Supervisor will allow Health Funds or Travel Agencies to have group overseas travel insurance, as well as provisions on the sale of group overseas travel insurance created or renewed prior the effective date of the Supervision of Financial Services Regulations (Insurance) (Group Health Insurance), 2009.
- On April 27, 2014, the Supervisor of Insurance issued Draft Insurance Circular, titled "Principle Decision on Joining a Collective Life Insurance Policy – Draft." Following the findings in a cross-section test on the collective insurance business, the draft circular establishes, among other things, means to contact insurance customers to obtain their consent to continue be insured in collective life insurance, and for the purpose of refunding policy premiums to customers who are not interested in such coverage or do not provide their decision to the insurer.
- Following the draft issued on January 30, 2013, a second draft of the Insurance Business Regulations (Terms of Household and Contents Insurance Contract) (Amendment) 2014 was issued on May 1, 2014. The purpose of the second draft was to revise the terms and the language in the standard policy and regulate a number of issues, given various court decisions given on the terms set in the standard policy and the ample experience accumulated on the standard policy at the Capital Market, Insurance and Savings Department, and the discussions made in 2013 with insurance companies and comments received on the first version of the draft.
- On June 5, 2014, the Supervisor issued Principle Decision on the Law for Equal rights to Persons with disabilities. This decision prescribes that an insurance company must provide a written and explained notice to a disabled person who was given a different treatment, as this term is defined by the Law, or a person with disabilities that it refused for insurance. This notice should indicate that the decision of the insurance company was reached due to the greater insurance risk of that person due to that person's disability compared with a person who does not have that disability. In addition, such a notice will include a summary of actuary, statistical, medical or other data that served as basis for the decision by the insurance company, as well as the information it relied upon in connection with that person.
- On July 13, 2014, the Supervisor released Draft Institutional Investment Entities Regulations 2013-138, titled "Monthly Reports of Provident Funds, Pension Funds and Insurance Companies." The purpose of the draft circular is to revise and consolidate the guidance for regulating the monthly reporting format for institutional investment entities and to improve the quality of reporting filed to the Supervisor.
- On July 15, 2014, the Supervisor released Draft Institutional Investment Entity Circular 2013-117, titled "List of Assets of Financial Institutions at the Individual Asset level." The purpose of the draft circular is to revise and consolidate the reporting guidance for quarterly asset lists filed by institutional investment entities at the individual asset level, to improve the quality and availability of the report.



Entering and marketing new business

The Company did not enter new business activities during the reported period.

3. Financial information by business activities of the Company

Set forth below are principal balance sheet data (in thousands of NIS):

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>December 31, 2013</u>
Other assets	330,518	247,678	326,383
Deferred acquisition expenses	146,705	136,573	140,520
Financial investments and cash	1,550,173	1,451,890	1,472,481
Reinsurance assets	690,650	657,880	647,666
Total assets	2,718,046	2,494,021	2,587,050
Shareholders' equity	691,052	608,611	643,004
Liabilities in respect of insurance	1,658,889	1,526,841	1,569,722
Other liabilities	368,105	358,569	374,324
Total equity and liabilities	2,718,046	2,494,021	2,587,050

Set forth below is principle comprehensive income information (in thousands of NIS)

	<u>Jan-Jun 2014</u>	<u>Jan-Jun 2013</u>	<u>Apr-Jun 2014</u>	<u>Apr-Jun 2013</u>	<u>2013</u>
Gross earned premiums	451,698	432,258	228,811	218,590	882,315
Premiums earned by reinsurers	(76,919)	(88,768)	(37,231)	(44,127)	(173,387)
Premiums earned in retention	374,779	343,490	191,580	174,463	708,928
Net investment revenue and financing revenue	37,763	29,218	12,043	16,448	75,241
Fee revenue	20,966	22,588	9,087	10,377	42,617
Total revenue	433,508	395,296	212,710	201,288	826,786
Payments and change in liability for insurance contracts, in retention	(204,554)	(195,285)	(103,480)	(100,965)	(417,491)
Total other expenses	(151,603)	(150,288)	(74,588)	(75,860)	(302,392)
Income before income taxes	77,351	49,723	34,642	24,463	106,903
Taxes on income	(29,303)	(18,216)	(13,102)	(9,030)	(41,003)
Income for the period and total comprehensive income for the period	48,048	31,507	21,540	15,433	65,900

Shareholders' equity and capital requirements

As of June 30, 2014, 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 163.5 million.

For details regarding the amounts of equity required from the Company and the existing amounts in accordance with the minimum equity regulations, see note 5 to the financial statements.



4. Results of operations

The Company continued during Q1 2014 to increase gross premiums, by 6.7% y/y. Total gross premiums in the reported period amounted to NIS 478.6 million, up from NIS 448.4 million in the corresponding period in 2013.

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

Jan-Jun 2014	Life insurance	Health insurance	General insurance	Total
Gross	56,678	101,609	320,331	478,618
In retention	44,785	97,434	252,751	394,970
% of total gross	11.8	21.2	67.0	100.0
% of retention	11.3	24.7	64.0	100.0

Jan-Jun 2013	Life insurance	Health insurance	General insurance	Total
Gross	49,442	98,454	300,489	448,385
In retention	38,611	91,391	232,521	362,523
% of total gross	11.0	22.0	67.0	100.0
% of retention	10.7	25.2	64.1	100.0

Jan-Dec 2013	Life insurance	Health insurance	General insurance	Total
Gross	102,494	203,622	582,763	888,879
In retention	80,598	189,388	455,510	725,496
% of total gross	11.5	22.9	65.6	100.0
% of retention	11.1	26.1	62.8	100.0



The following is principle information on comprehensive income by key activity segments

	<u>Jan-Jun</u> <u>2014</u>	<u>Jan-Jun</u> <u>2013</u>	<u>Apr-Jun</u> <u>2014</u>	<u>Apr-Jun</u> <u>2013</u>	<u>Jan-Dec</u> <u>2013</u>
Income from compulsory vehicle activity	9,874	9,152	4,530	5,356	18,341
Income from property vehicle activity	16,614	7,984	10,416	7,065	15,911
Income from household activity	8,941	5,769	3,963	3,803	12,416
Income (loss) from commercial insurance activity	1,488	(7,407)	1,116	(6,195)	(10,657)
Income from health insurance activity	23,650	20,454	11,756	9,114	40,284
Income (loss) from life insurance activity	1,360	2,123	(262)	(1,115)	(3,849)
Other - Income not attributed to any segment	15,424	11,648	3,123	6,435	34,457
Income before tax	77,351	49,723	34,642	24,463	106,903
Taxes on income	(29,303)	(18,216)	(13,102)	(9,030)	(41,003)
Income for the period and total comprehensive income for the period	48,048	31,507	21,540	15,433	65,900

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

The following is explanation on the development of part of the data presented above:

- a. Income from net investment was NIS 37.8 million, compared with NIS 29.2 million in the corresponding period in 2013. The increase in investment was derived from increase asset prices in the Israeli capital market during the reported period compared to the corresponding period in 2013.
- b. The income of the Company from compulsory vehicle insurance in the reported period was NIS 9.9 million, compared with NIS 9.2 million in income in the corresponding period in 2013.
- c. The income of the Company from property vehicle insurance in the reported period was NIS 16.6 million, compared with NIS 8.0 million in the corresponding period of 2013. The increase in profit was mainly a result of improved claims ratio.
- d. The income of the Company from household insurance in the reported period was NIS 8.9 million compared with NIS 5.8 million in the corresponding period in 2013. The increased profitability is a result of improved claim ratio.
- e. The income of the Company from professional liability insurance in the reported period was NIS 1.3 million compared with NIS 5.2 million loss in the corresponding period in 2013. The increased profitability is a result of higher investment returns, as well as improved claim ratio and expense ratio.
- f. The income of the Company from other property liability insurance in the reported period was NIS 0.2 million compared with NIS 0.6 million loss in the corresponding period in 2013.



- g. The income of the Company from other liability insurance in the reported period was NIS 19 thousand compared with NIS 1.6 million loss in the corresponding period in 2013. The increased profitability is a result of an improved investment returns.
- h. The income of the Company from health insurance in the reported period was NIS 23.7 million compared with NIS 20.5 million in the corresponding period in 2013. The increased profitability is a result of an improved expense ratio.
- i. The income of the Company from life insurance in the reported period was NIS 1.4 million compared with NIS 2.1 million in the corresponding period in 2013. The decrease in profitability is a result of higher claim ratio.

5. Cash flows and liquidity

Net cash provided by operating activities in the reported period amounted to NIS 7.8 million, compared with NIS 38.1 million in cash used by operating activities in the corresponding period in 2013.

Net cash used in investing activities in the reported period amounted to NIS 2.8 million, compared with amount of NIS 3.5 million in the corresponding period in 2013.

As a result of the above, the balance of cash and cash equivalents in the reported period increased by NIS 5.0 million to NIS 72.6 million as of June 30, 2014 (after neutralization of the effect of exchange rate fluctuations on the balance of cash and cash equivalents).

6. Sources of funding

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

7. The effect of external factors

For more information, see section 2 above.



8. Material subsequent events

No significant events have taken place subsequent to balance sheet date.

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

Controls and procedures applied to disclosure

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

Internal controls over financial reporting

In the course of the quarter ending on June 30, 2014 no change occurred in the internal control of the Company over financial reporting, which materially affected or is reasonably expected to materially affect the Company's internal control on financial reporting.

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

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

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

Ralph Mucerino
Chairman of the Board of Directors

Shay Feldman
CEO

August 19, 2014

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 June 30, 2014 (hereafter – "the report").
2. Based on my knowledge, the report does not include any misstatement of a material fact or omit to disclose a material fact the presentation of which in the report is necessary for the purpose of ensuring that under the circumstances in which those presentations are included, they will not be misleading regarding the period covered by the report.
3. Based on my knowledge, the quarterly financial statements and other financial information included in the report reflect fairly, in all material respects, the financial position, results of operations, changes in shareholders' equity and cash flows of the insurance company for the date and periods covered by the report.
4. The Company's other certifying officers and I are responsible for establishing and maintaining controls and procedures relating to disclosure¹ and internal controls over financial reporting of the insurance company; and -
 - (a) Accordingly, we have designed such disclosure controls and procedures, or have had such disclosure controls and procedures established under our charge, designed to ensure that material information relating to the insurance company is made known to us by others in the insurance company particularly during the period in which the reports were prepared;
 - (b) We designed internal controls over financial reporting, or supervised the design of such internal controls designed to provide a reasonable assurance regarding the reliability of the financial reporting and assurance to the effect that the financial statements are drawn up in accordance with International Financial Reporting Standards (IFRS) and in accordance with the directives of the Supervisor of Insurance.
 - (c) We assessed the effectiveness of controls and procedures regarding the disclosure of the insurance company and presented our conclusions regarding the effectiveness of disclosure controls and procedures as of the end of the period covered in the report, based on our estimate; and
 - (d) We disclosed in the report any change in the insurance company's internal controls over financial reporting which took place in this quarter and had a material effect or is expected to have a material effect on the insurance company's internal controls over financial reporting; and

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

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

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

Shay Feldman - CEO

August 19, 2014

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 June 30, 2014 (hereafter – "the report").
2. Based on my knowledge, the report does not include any misstatement of a material fact or omit to disclose a material fact the presentation of which in the report is necessary for the purpose of ensuring that under the circumstances in which those presentations are included, they will not be misleading regarding the period covered by the report.
3. Based on my knowledge, the quarterly financial statements and other financial information included in the report reflect fairly, in all material respects, the financial position, results of operations, changes in shareholders' equity and cash flows of the insurance company for the date and periods covered by the report.
4. The Company's other certifying officers and I are responsible for establishing and maintaining controls and procedures relating to disclosure¹ and internal controls over financial reporting of the insurance company; and -
 - (a) Accordingly, we have designed such disclosure controls and procedures, or have had such disclosure controls and procedures established under our charge, designed to ensure that material information relating to the insurance company is made known to us by others in the insurance company particularly during the period in which the reports were prepared;
 - (b) We designed internal controls over financial reporting, or supervised the design of such internal controls designed to provide a reasonable assurance regarding the reliability of the financial reporting and assurance to the effect that the financial statements are drawn up in accordance with International Financial Reporting Standards (IFRS) and in accordance with the directives of the Supervisor of Insurance.
 - (c) We assessed the effectiveness of controls and procedures regarding the disclosure of the insurance company and presented our conclusions regarding the effectiveness of disclosure controls and procedures as of the end of the period covered in the report, based on our estimate; and
 - (d) We disclosed in the report any change in the insurance company's internal controls over financial reporting which took place in this quarter and had a material effect or is expected to have a material effect on the insurance company's internal controls over financial reporting; and

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

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

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

David Rothstein - CFO

August 19, 2014

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 June 30, 2014, 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 June 30, 2014 the internal control of the Insurance Company over financial reporting is effective.

Mr. Ralph Mucerino
Chairman of the Board

Mr. Shay Feldman
CEO

Mr. David Rothstein
CFO

Date of approval of financial statements: August 19, 2014

AIG ISRAEL INSURANCE CO. LTD.

**FINANCIAL INFORMATION FOR INTERIM PERIOD
(Unaudited)**

JUNE 30, 2014

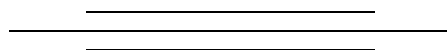
AIG ISRAEL INSURANCE CO. LTD.

**FINANCIAL INFORMATION FOR INTERIM PERIOD
(Unaudited)**

JUNE 30, 2014

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Accountants' review report to shareholders of AIG Israel Insurance Co. Ltd.

Introduction

We have reviewed the attached financial information of AIG Israel Insurance Co. Ltd ("the Company"), which information is comprised of the condensed statement of financial position as of June 30, 2014 and the condensed statements of comprehensive income, changes in equity and cash flows for the six and three-months 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, which conclusion is 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 accountant of entity.' 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

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

Tel-Aviv, Israel
August 19, 2014

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

AIG ISRAEL INSURANCE CO. LTD.
CONDENSED STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2014

	June 30		December 31,
	2014	2013	2013
	(Unaudited)		(Audited)
	NIS in thousands		
A s s e t s			
Intangible assets	13,823	13,786	14,799
Deferred acquisition expenses	146,705	136,573	140,520
Fixed assets	12,994	16,645	15,248
Reinsurance assets	690,650	657,880	647,666
Premiums collectible	191,760	180,257	186,414
Current tax assets	70,300	-	70,879
Other receivables	41,641	36,990	39,043
	<u>1,167,873</u>	<u>1,042,131</u>	<u>1,114,569</u>
Financial investments:			
Marketable debt instruments	1,186,745	1,141,868	1,174,216
Non-marketable debt instruments	168,835	106,763	128,704
Marketable shares	84,694	70,258	77,352
Other	37,332	80,988	24,593
TOTAL FINANCIAL INVESTMENTS	<u>1,477,606</u>	<u>1,399,877</u>	<u>1,404,865</u>
Cash and cash equivalents	72,567	52,013	67,616
TOTAL ASSETS	<u>2,718,046</u>	<u>2,494,021</u>	<u>2,587,050</u>

Ralph Mucerino
Chairman of the Board
of Directors

Shay Feldman
C.E.O

David Rothstein
C.F.O

Date of approval of financial information for interim period by the Board of Directors of the Company - August 19, 2014

AIG ISRAEL INSURANCE CO. LTD.
CONDESED STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2014

	June 30		December 31,
	2014	2013	2013
	(Unaudited)		(Audited)
	NIS in thousands		
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	6	6	6
Share premium	250,601	250,601	250,601
Other capital reserve	11,084	11,084	11,084
Retained earning	429,361	346,920	381,313
TOTAL EQUITY ATTRIBUTABLE TO COMPANY SHAREHOLDERS	691,052	608,611	643,004
LIABILITIES:			
Liabilities in respect of insurance contracts and without-profits investment contracts	1,658,889	1,526,841	1,569,722
Liabilities in respect of deferred taxes, net	27,181	9,827	26,889
Liabilities with respect to employee rights upon retirement, net	1,757	2,425	2,445
Liabilities towards reinsurers	267,774	251,333	256,185
Liability with respect to current taxes	-	26,586	-
Payables	71,393	68,398	88,805
TOTAL LIABILITIES	2,026,994	1,885,410	1,944,046
TOTAL EQUITY AND LIABILITIES	2,718,046	2,494,021	2,587,050

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

AIG ISRAEL INSURANCE CO. LTD.

CONDENSED STATEMENTS OF OTHER COMPREHENSIVE INCOME

FOR THE SIX AND THREE MONTHS ENDED JUNE 30, 2014

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2014	2013	2014	2013	2013
	(Unaudited)		(Unaudited)		(Audited)
	NIS in thousands				
Gross earned premiums	451,698	432,258	228,811	218,590	882,315
Premiums earned by reinsurers	(76,919)	(88,768)	(37,231)	(44,127)	(173,387)
Premiums earned on non-ceded business	374,779	343,490	191,580	174,463	708,928
Investment income, net and financing income	37,763	29,218	12,043	16,448	75,241
Commission income	20,966	22,588	9,087	10,377	42,617
TOTAL INCOME	433,508	395,296	212,710	201,288	826,786
Payments and change in liabilities with respect to insurance contracts, gross	(287,467)	(317,872)	(135,656)	(167,570)	(587,544)
Share of reinsurers in payments and in change in insurance contracts	82,913	122,587	32,176	66,605	170,053
Payments and movement in liabilities with respect to insurance contracts, retained amount	(204,554)	(195,285)	(103,480)	(100,965)	(417,491)
Commission, marketing expenses and other acquisition expenses	(84,221)	(*) (81,271)	(40,611)	(*) (40,803)	(167,520)
General and administrative expenses	(67,135)	(*) (67,671)	(34,641)	(*) (35,234)	(133,847)
Financing income (expenses)	(247)	(1,346)	664	177	(1,025)
TOTAL EXPENSES	(356,157)	(345,573)	(178,068)	(176,825)	(719,883)
PROFIT BEFORE TAXES ON INCOME	77,351	49,723	34,642	24,463	106,903
Taxes on income	(29,303)	(18,216)	(13,102)	(9,030)	(41,003)
PROFIT FOR PERIOD AND TOTAL COMPREHENSIVE INCOME FOR PERIOD	48,048	31,507	21,540	15,433	65,900
BASIC EARNINGS PER SHARE -	8.53	5.60	3.83	2.74	11.71
number of shares used in computation of basic earnings per share	5,630	5,630	5,630	5,630	5,630

* Reclassified, see note 3c.

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

AIG ISRAEL INSURANCE CO. LTD.
CONDENSED STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX AND THREE MONTHS ENDED JUNE 30, 2014

	<u>Share capital</u>	<u>Share Premium</u>	<u>Other capital reserves</u>	<u>Retained earnings</u>	<u>Total</u>
	NIS in thousands				
BALANCE AS OF JANUARY 1, 2014 (audited)	6	250,601	11,084	381,313	643,004
CHANGES DURING THE SIX MONTHS ENDED JUNE 30, 2014 (unaudited) - total income and comprehensive income for the three months ended June 30, 2014				48,048	48,048
BALANCE AS OF JUNE 30, 2014 (unaudited)	<u>6</u>	<u>250,601</u>	<u>11,084</u>	<u>429,361</u>	<u>691,052</u>
BALANCE AS OF JANUARY 1, 2013 (audited)	6	250,601	11,084	315,413	577,104
CHANGES DURING THE SIX MONTHS ENDED JUNE 30, 2013 (unaudited) - total income and comprehensive income for three months ended June 30, 2013				31,507	31,507
BALANCE AS OF JUNE 30, 2013 (unaudited)	<u>6</u>	<u>250,601</u>	<u>11,084</u>	<u>346,920</u>	<u>608,611</u>
BALANCE AS OF APRIL 1, 2014 (audited)	6	250,601	11,084	407,821	669,512
CHANGES DURING THE THREE MONTHS ENDED JUNE 30, 2014 (unaudited) - total income and comprehensive income for the three months ended June 30, 2014				21,540	21,540
BALANCE AS OF JUNE 30, 2014 (unaudited)	<u>6</u>	<u>250,601</u>	<u>11,084</u>	<u>429,361</u>	<u>691,052</u>
BALANCE AS OF APRIL 1, 2013 (audited)	6	250,601	11,084	331,487	593,178
CHANGES DURING THE THREE MONTHS ENDED JUNE 30, 2013 (unaudited) - total income and comprehensive income for the three months ended June 30, 2013				15,433	15,433
BALANCE AS OF JUNE 30, 2013 (unaudited)	<u>6</u>	<u>250,601</u>	<u>11,084</u>	<u>346,920</u>	<u>608,611</u>
BALANCE AS OF JANUARY 1, 2013 (audited)	6	250,601	11,084	315,413	577,104
CHANGES DURING THE 2013 (audited) total comprehensive income for year ended December 31, 2013				65,900	65,900
BALANCE AS OF DECEMBER 31, 2013 (audited)	<u>6</u>	<u>250,601</u>	<u>11,084</u>	<u>381,313</u>	<u>643,004</u>

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

AIG ISRAEL INSURANCE CO. LTD.
CONDESED STATEMENTS OF CASH FLOWS
FOR THE SIX AND THREE MONTHS ENDED JUNE 30, 2014

	Six months ended		Three months ended		Year ended
	June 30		June 30		December 31
	2014	2013	2014	2013	2013
	(Unaudited)		(Unaudited)		(Audited)
	NIS in thousands				
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net cash provided by (used in) operating activities (Appendix A)	8,304	(23,034)	(21,652)	(15,276)	84,298
Interest received	26,788	24,001	14,666	11,899	39,693
Dividend received	1,103	1,168	667	973	2,234
Income taxes (paid) – net	(28,431)	(40,231)	(30,551)	(38,501)	(143,050)
Net cash provided by (used in) operating activities	<u>7,764</u>	<u>(38,096)</u>	<u>(36,870)</u>	<u>(40,905)</u>	<u>(16,825)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Changes in asset cover for equity and non-insurance liabilities:					
Acquisition of fixed assets	(563)	(2,413)	(188)	(205)	(4,516)
Acquisition of Intangible assets	(2,301)	(1,064)	(1,187)	(485)	(4,871)
Net cash used in investing activities	<u>(2,864)</u>	<u>(3,477)</u>	<u>(1,375)</u>	<u>(690)</u>	<u>(9,387)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,900	(41,573)	(38,245)	(41,595)	(26,212)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	67,616	93,540	110,776	93,954	93,540
INFLUENCE OF FLUCTIONS IN EXCHANGE RATE ON CASH AND CASH EQUIVALENTS	51	46	36	(346)	288
CASH AND CASH QUIVALENTS AT END OF PERIOD	<u><u>72,567</u></u>	<u><u>52,013</u></u>	<u><u>72,567</u></u>	<u><u>52,013</u></u>	<u><u>67,616</u></u>

AIG ISRAEL INSURANCE CO. LTD.

CONDESED STATEMENTS OF CASH FLOWS

FOR THE SIX AND THREE MONTHS ENDED JUNE 30, 2014

	Six months ended June 30		Three months ended June 30		Year ended December 31 2013
	2014	2013	2014	2013	2013
NIS in thousands					
APPENDIX A - CASH FLOWS FROM OPERATING ACTIVITIES -					
Profit before taxes on income	77,351	49,723	34,642	24,463	106,903
Adjustments for- Income and expenses not involving cash flows:					
Increase (decrease) in insurance contracts not depending on yield	46,184	45,154	18,387	7,537	98,248
Decrease (increase) in deferred acquisition expenses	(6,185)	(6,382)	(262)	891	(10,329)
Increase (decrease) in liabilities with respect to employee rights upon retirement, net	(688)	99	(475)	(112)	119
Depreciation of fixed assets	2,817	2,653	1,404	1,393	6,153
Depreciation of intangible asset	3,277	3,010	1,629	1,507	5,804
Losses (gains), net on realization of financial investments:					
Marketable debt instruments	(7,772)	3,051	1,185	(3,253)	(14,121)
Non-marketable debt instruments	(96)	(469)	(718)	(515)	(939)
Marketable shares	(2,253)	(2,248)	2,512	1,646	(10,062)
Index linked certificates	(940)	(4,931)	(349)	(1,813)	(9,511)
Influence of fluctuation in exchange rate on cash and cash equivalents	(51)	(46)	(36)	346	(288)
	<u>111,644</u>	<u>89,614</u>	<u>57,919</u>	<u>32,090</u>	<u>171,977</u>
Changes in operating assets and liabilities:	11,589	(3,151)	6,733	(18,286)	1,701
Liabilities towards reinsurers	(61,680)	(55,937)	(70,102)	(23,661)	(30,891)
Investments in financial assets, net	(5,346)	(6,102)	3,766	9,373	(12,259)
Premiums collectible	(2,598)	(3,322)	(2,259)	(1,464)	(5,375)
Receivables	(17,414)	(19,967)	(2,376)	(956)	437
Payables					
Liability in respect of current taxes	-	1,000	-	500	635
	<u>(75,449)</u>	<u>(87,479)</u>	<u>(64,238)</u>	<u>(34,494)</u>	<u>(45,752)</u>
Adjustments with respect to interest and dividend received:					
Interest received	(26,788)	(24,001)	(14,666)	(11,899)	(39,693)
Dividend received	(1,103)	(1,168)	(667)	(973)	(2,234)
Net cash provided by (used in) operating activities	<u>8,304</u>	<u>(23,034)</u>	<u>(21,652)</u>	<u>(15,276)</u>	<u>84,298</u>

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

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

AIG ISRAEL INSURANCE CO. LTD.
NOTES TO CONDENSED FINANCIAL STATEMENTS

NOTE 1 - GENERAL

AIG Israel Insurance Co. 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 and investees.

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

The company's shareholder is AIG Europe Holdings Limited which holds all the issued share capital of the company. AIG Europe Holdings Limited is a member of the global AIG group.

The registered address of the company's office is 25 Hasivim St. Petah-Tikva.

DEFINITIONS:

- 1) The Company – AIG Israel Insurance Co Ltd.
- 2) The parent company – AIG Europe Holdings Limited
- 3) Supervisor - Supervisor of Insurance (Commissioner of the Capital Market, Insurance and Savings at the Israel Ministry of Finance).
- 4) The Supervision Law – The Supervision of Financial Services (Insurance) Law, 1981.
- 5) Investment contracts – policies which do not constitute insurance contracts.
- 6) Reinsurance assets – the reinsurer's share in the reserves for insurance contracts and in the contingent claims.
- 7) CPI - The consumer price index published by the Israeli Central Bureau of Statistics.
- 8) Known CPI - The CPI known at the end of the month.
- 9) Related parties - as defined in IAS 24 "Related Party Disclosures".
- 10) Interested party - as defined in the Israeli Securities (Financial Statements) Regulations, 2010.
- 11) Life insurance fund - Actuarial fund calculated in accordance with the principles generally accepted for this purpose in Israel.
- 12) Unexpired risks fund - Funds calculated in accordance with the Regulations for Calculation of General Insurance Funds.
- 13) Surplus reserve* - The accumulated surplus of income over expenses (comprising premiums, acquisition costs, claims and part of the incomes from investments, all net of the reinsurers' share for the relevant underwriting year), as calculated in accordance with the Regulations for Calculation of General Insurance Funds, less a provision for unexpired risks and less outstanding claims.

AIG ISRAEL INSURANCE CO. LTD.
NOTES TO CONDENSED FINANCIAL STATEMENTS

NOTE 1 – GENERAL (continued):

- 14) Outstanding claims - Known outstanding claims, with the addition of the expected growth 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).
- 15) Details of account regulations - Supervision of Insurance Businesses (Details of account) Regulations, 1998.

* The balance sheet includes the accrual under the "liabilities in respect of non-yield dependent insurance contract and investments".
- 16) The Investment Regulations – Control of Financial Services (Provident Funds) (Investment Rules Applicable to Financial Institutions) Regulations, 2012.
- 17) Shareholders' Capital Regulations - The Supervision of Insurance Business Regulations (minimum shareholders' equity required from an insurer), 1998 and amendments as amended.
- 18) Account Segregation Regulations in Life Insurance - The Supervision of Insurance Regulations (Method of Segregation of Accounts and Assets of Insurer in Life Insurance), 1984.
- 19) 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.
- 20) 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.
- 21) Insurance contract - A contract under which one party (the insurer) takes a significant insurance risk from another party (policy holder), by agreement to indemnify the policy holder if an uncertain a defined future event (insurance event) negatively affects the policy holder.
- 22) Liability for insurance contracts - Insurance reserves and outstanding claims in general insurance.
- 23) Premium - Premium including fees.
- 24) The expression, 'premiums earned,' refers to premiums that relate to the period under review.

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS:

- a. The Company's condensed financial information as of June 30, 2014 and for the six and three-month interim periods ended on that date ("the financial information for the interim period") 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 financial information for the interim period should be considered in conjunction with the annual financial statements as of December 31, 2013 and for the year ended thereon including the accompanying notes which are in compliance with International Financial Reporting Standards, which are standards and interpretations published by the International Accounting Standards Board (hereafter – IFRS).

AIG ISRAEL INSURANCE CO. LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

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

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

- b.** Assessment- 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, 2013.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES:

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

- 1) 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.
- 2) New accounting standards applied for the first time:
 - a) New IFRS and amendments to existing standards that came into effect and are mandatory for reporting periods commencing on January 1, 2014:**

The amendment to IAS 32 "Offsetting Financial Assets and Financial Liabilities" (hereinafter – the amendment to IAS 32)

The amendment to IAS 32 does not change the current model in IAS 32 "Financial Instruments: Presentation" for offsetting financial assets and financial liabilities (hereinafter - offsetting), but clarifies that an entity can offset a financial asset and financial liability in the statement of financial position only when the entity currently has a legally enforceable right of set-off (i.e., not conditioned on any future event). In addition, the right to set-off must be legally enforceable for all counterparties in the normal course of business, default, insolvency or bankruptcy. The amendment to IAS 32 also clarifies the criteria for gross settlement mechanisms.

The amendment to IAS 32 was implemented for the first time retrospectively for annual periods beginning on or after January 1, 2014. The first-time adoption of this amendment did not have a material effect on the consolidated financial statements of the company.

As specified in the 2013 annual financial statements of the company, further amendments to existing IFRS came into effect which are mandatory for accounting periods commencing on January 1, 2014. However, the first time application of those amendments did not have a material effect on the company's financial information for the interim reporting period (including comparative figures).

AIG ISRAEL INSURANCE CO. LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (continued):

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

In its annual 2013 financial statements, the company specified new IFRS and additional amendments to existing IFRS, which have not yet become effective and have not been early adopted by the company.

In addition to those standards and amendments, since the date of publication of the company's annual financial statements and through the date of approval of these interim financial statements, certain amendments to standards which are specified below have been published which are not yet in effect and which have not been early adopted by the company.

1. Amendment to IFRS 8 "Operating Segments" (IFRS 8).

The amendment deals with the disclosure requirements of IFRS 8. It requires the disclosure of the judgments made by management in aggregating segments as well as a reconciliation of reportable segment assets to the entity's assets only when segments assets are reported. The amendment is to be applied prospectively for annual reporting period commencing July 1, 2014 and thereafter.

2. Amendment to IAS 24 – "Related Party Disclosures" (IAS 24)

The amendment revises the definition of "related party" to include an entity that provides key management personnel services to the reporting entity or its parent, and clarifies the related disclosure requirements. The amendment is to be applied prospectively for annual reporting period commencing July 1, 2014 and thereafter.

3) Certain amounts which are presented in the comparative figures of the statements of income and loss have been reclassified. The amounts of the reclassified items are not material for the Company.

NOTE 4 - SEGMENT INFORMATION

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

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

1) Life assurance sector

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

2) Health insurance sector

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

AIG ISRAEL INSURANCE CO. LTD.
NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

NOTE 4 - SEGMENT INFORMATION (Continued):

3) General insurance sector

The general insurance sector encompasses the property and liability lines. In accordance with the directives of the Supervisor of Insurance, the sector is divided into the following lines, viz. the compulsory motor vehicle line, the motor vehicle property line, the personal property insurance line, other property lines, other liability lines and the professional liability line.

- **Compulsory motor vehicle line**

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

- **Motor vehicle property line**

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

- **Flats insurance sector**

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

- **Professional liability line**

The professional liability line 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.

- **Other Property lines**

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

- **Other liability lines**

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

AIG ISRAEL INSURANCE CO. LTD.
NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 4 - SEGMENT INFORMATION (continued):

	For the 6-month period ended June 30 , 2014 (unaudited)				
	Life assurance	Health insurance	General insurance	Not apportionable to operating segments	Total
	NIS in thousands				
Gross earned premiums	56,571	101,802	293,325		451,698
Premiums earned by reinsurers	(11,909)	(4,179)	(60,831)		(76,919)
Premiums earned by non-ceded business	44,662	97,623	232,494		374,779
Investment income, net and financing income	40	3,022	19,633	15,068	37,763
Commission income	1,772	1,120	18,074		20,966
Total income	46,474	101,765	270,201	15,068	433,508
Payments and change in insurance liabilities with respect to insurance contracts (gross)	(21,738)	(41,815)	(223,914)		(287,467)
Share of reinsurers in payments and change in liabilities in respect of insurance contracts	5,850	3,340	73,723		82,913
Payments and change in respect of insurance contracts relating to non-ceded business	(15,888)	(38,475)	(150,191)		(204,554)
Commission and other acquisition expenses	(14,639)	(18,648)	(50,934)		(84,221)
General and administrative expenses	(14,587)	(20,976)	(31,572)		(67,135)
Financing income (expenses)	-	(16)	(587)	356	(247)
Total comprehensive income before taxes on income	1,360	23,650	36,917	15,424	77,351
Gross liabilities with respect to insurance contracts as of June 30, 2014	47,585	132,760	1,478,544		1,658,889

AIG ISRAEL INSURANCE CO. LTD.
NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 4 - SEGMENT INFORMATION (continued):

	For the 6-month period ended June 30 , 2013 (unaudited)				
	Life	Health	General	Not	Total
	assurance	insurance	insurance	apportionable	
NIS in thousands					
				to operating	
				segments	
Gross earned premiums	49,365	99,119	283,774		432,258
Premiums earned by reinsurers	(10,831)	(7,065)	(70,872)		(88,768)
Premiums earned by non-ceded business	38,534	92,054	212,902		343,490
Investment income, net and financing income	61	2,514	15,052	11,591	29,218
Commission income	1,642	2,196	18,750		22,588
Total income	40,237	96,764	246,704	11,591	395,296
Payments and change in insurance liabilities with respect to insurance contracts (gross)	(16,232)	(40,722)	(260,918)		(317,872)
Share of reinsurers in payments and change in liabilities in respect of insurance contracts	4,361	4,589	113,637		122,587
Payments and change in respect of insurance contracts relating to non-ceded business	(11,871)	(36,133)	(147,281)		(195,285)
Commission and other acquisition expenses(*)	(11,839)	(20,228)	(49,204)		(81,271)
General and administrative expenses (*)	(14,404)	(19,883)	(33,384)		(67,671)
Financing income (expenses)	-	(66)	(1,337)	57	(1,346)
Total comprehensive income before taxes on income	2,123	20,454	15,498	11,648	49,723
Gross liabilities with respect to insurance contracts as of June 30,2013	23,501	127,300	1,376,040		1,526,841

* Reclassified, see note 3c.

AIG ISRAEL INSURANCE CO. LTD.
NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 4 - SEGMENT INFORMATION (continued):

	For the 3-month period ended June 30, 2014 (unaudited)				
	Life	Health	General	Not	Total
	assurance	insurance	insurance	apportionable	
NIS in thousands					
				to operating	
				segments	
Gross earned premiums	28,589	51,345	148,877		228,811
Premiums earned by reinsurers	(5,989)	(620)	(30,622)		(37,231)
Premiums earned by non-ceded business	22,600	50,725	118,255		191,580
Investment income, net and financing income	20	1,313	7,921	2,789	12,043
Commission income	898	46	8,143		9,087
Total income	23,518	52,084	134,319	2,789	212,710
Payments and change in insurance liabilities with respect to insurance contracts (gross)	(12,494)	(21,328)	(101,834)		(135,656)
Share of reinsurers in payments and change in liabilities in respect of insurance contracts	3,407	852	27,917		32,176
Payments and change in insurance liabilities with respect to insurance contracts relating to non-ceded business	(9,087)	(20,476)	(73,917)		(103,480)
Commission and other acquisition expenses	(7,258)	(8,741)	(24,612)		(40,611)
General and administrative expenses	(7,435)	(11,128)	(16,078)		(34,641)
Financing expenses	-	17	313	334	664
Total comprehensive income (loss) before taxes on income	(262)	11,756	20,025	3,123	34,642

AIG ISRAEL INSURANCE CO. LTD.
NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 4 - SEGMENT INFORMATION (continued):

	For the 3-month period ended June 30, 2013 (unaudited)				
	Life assurance	Health insurance	General insurance	Not apportionable to operating segments	Total
	NIS in thousands				
Gross earned premiums	25,087	50,058	143,445		218,590
Premiums earned by reinsurers	(5,427)	(3,436)	(35,264)		(44,127)
Premiums earned by non-ceded business	19,660	46,622	108,181		174,463
Investment income, net and financing income	32	1,609	9,210	5,597	16,448
Commission income	809	1,068	8,500		10,377
Total income	20,501	49,299	125,891	5,597	201,288
Payments and change in insurance liabilities with respect to insurance contracts (gross)	(8,700)	(22,470)	(136,400)		(167,570)
Share of reinsurers in payments and change in liabilities in respect of insurance contracts	1,782	2,844	61,979		66,605
Payments and change in insurance liabilities with respect to insurance contracts relating to non-ceded business	(6,918)	(19,626)	(74,421)		(100,965)
Commission and other acquisition expenses(*)	(6,111)	(10,216)	(24,476)		(40,803)
General and administrative expenses(*)	(8,587)	(10,314)	(16,333)		(35,234)
Financing income (expenses)	-	(29)	(632)	838	177
Total comprehensive income (loss) before taxes on income	(1,115)	9,114	10,029	6,435	24,463

* Reclassified, see note 3c.

AIG ISRAEL INSURANCE CO. LTD.
NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 4 - SEGMENT INFORMATION (continued):

	For the year ended December 31, 2013 (audited)				Total
	Life assurance	Health insurance	General insurance	Not Apportion able to operating segments	
	NIS in thousands				
Gross earned premiums	102,738	204,204	575,373		882,315
Premiums earned by reinsurers	(22,094)	(14,234)	(137,059)		(173,387)
Premiums earned by non-ceded business	80,644	189,970	438,314		708,928
Investment income, net and financing income	104	6,619	35,212	33,306	75,241
Commission income	3,335	4,417	34,865		42,617
Total income	84,083	201,006	508,391	33,306	826,786
Payments and change in insurance liabilities with respect to insurance contracts (gross)	(42,978)	(91,795)	(452,771)		(587,544)
Share of reinsurers in payments and change in liabilities in respect of insurance contracts	11,121	10,935	147,997		170,053
Payments and change in insurance liabilities with respect to insurance contracts relating to non-ceded business	(31,857)	(80,860)	(304,774)		(417,491)
Commission and other acquisition expenses	(26,110)	(43,001)	(98,409)		(167,520)
General and administrative expenses	(29,965)	(36,776)	(67,106)		(133,847)
Financing income (expenses)	-	(85)	(2,091)	1,151	(1,025)
Total comprehensive income (loss) before taxes on income	(3,849)	40,284	36,011	34,457	106,903
Gross liabilities with respect to insurance contracts as of December 31, 2013	37,566	135,796	1,396,360		1,569,722

AIG ISRAEL INSURANCE CO. LTD.
NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 4 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment:

	For the 6-month period ended June 30, 2014 (unaudited)						Total
	Compulsory motor vehicle	Motor vehicle property	Personal property	Professional liability	Other property branches *	Other liability branches *	
NIS in thousands							
Gross premiums	75,004	130,876	51,738	30,276	15,929	16,508	320,331
Reinsurance premiums	(1,046)	(52)	(12,061)	(25,871)	(15,230)	(13,320)	(67,580)
Premiums relating to non-ceded business	73,958	130,824	39,677	4,405	699	3,188	252,751
Change in balance of unearned premiums relating to non-ceded business	(6,295)	(12,713)	(29)	(672)	(158)	(390)	(20,257)
Premiums earned on non-ceded business	67,663	118,111	39,648	3,733	541	2,798	232,494
Investment income, net and financing income	9,058	2,937	1,758	2,606	428	2,846	19,633
Commission income	-	-	3,054	6,584	4,476	3,960	18,074
Total income	76,721	121,048	44,460	12,923	5,445	9,604	270,201
Payments and change in liabilities in respect of insurance contracts (gross)	(59,044)	(77,958)	(16,932)	(16,023)	(18,117)	(35,840)	(223,914)
Share of reinsurers in payments and change in liabilities in respect of insurance contracts	10,424	-	2,563	12,609	16,666	31,461	73,723
Payments and change in insurance liabilities with respect to insurance contracts relating to non-ceded business	(48,620)	(77,958)	(14,369)	(3,414)	(1,451)	(4,379)	(150,191)
Commission, marketing expenses and other acquisition expenses	(9,567)	(18,166)	(11,228)	(5,594)	(2,702)	(3,677)	(50,934)
General and administrative expenses	(8,660)	(8,310)	(9,904)	(2,369)	(1,082)	(1,247)	(31,572)
Financing expenses, net	-	-	(18)	(239)	(48)	(282)	(587)
Total expenses	(66,847)	(104,434)	(35,519)	(11,616)	(5,283)	(9,585)	(233,284)
Total comprehensive income before taxes on income	9,874	16,614	8,941	1,307	162	19	36,917
Gross liabilities with respect to insurance contracts as of June 30, 2014	659,861	163,158	61,011	252,751	75,794	265,969	1,478,544
Net liabilities with respect to insurance contracts as of June 30, 2014	497,508	163,158	53,019	48,373	3,871	42,118	808,047

* The results of other property lines reflect mainly the results of the property insurance line the operations of which attract 81% of the total premiums attributable to these lines.
The results of other liability lines reflect mainly the results of the third party warranty insurance line, the operations of which attract 46% of the total premiums attributable to these lines.

AIG ISRAEL INSURANCE CO. LTD.
NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 4 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment:

	For the 6-month period ended June 30, 2013 (unaudited)						Total
	Compulsory motor vehicle	Motor vehicle property	Personal property	Professional liability	Other property branches **	Other liability branches **	
NIS in thousands							
Gross premiums	68,496	116,620	50,392	21,855	22,856	20,270	300,489
Reinsurance premiums	(967)	(55)	(9,468)	(18,354)	(21,857)	(17,267)	(67,968)
Premiums relating to non-ceded business	67,529	116,565	40,924	3,501	999	3,003	232,521
Change in balance of unearned premiums relating to non-ceded business	(7,638)	(11,922)	(1,098)	124	(71)	986	(19,619)
Premiums earned on non-ceded business	59,891	104,643	39,826	3,625	928	3,989	212,902
Investment income, net and financing income	7,030	2,041	1,436	1,786	380	2,379	15,052
Commission income	-	-	1,874	5,273	5,696	5,907	18,750
Total income	66,921	106,684	43,136	10,684	7,004	12,275	246,704
Payments and change in liabilities in respect of insurance contracts (gross)	(54,805)	(74,710)	(19,316)	(39,933)	(43,530)	(28,624)	(260,918)
Share of reinsurers in payments and change in liabilities in respect of insurance contracts	13,318	-	1,733	34,077	41,884	22,625	113,637
Payments and change in insurance liabilities with respect to insurance contracts relating to non-ceded business	(41,487)	(74,710)	(17,583)	(5,856)	(1,646)	(5,999)	(147,281)
Commissions, marketing expenses and other acquisition expenses*	(9,100)	(15,237)	(9,793)	(5,837)	(3,960)	(5,277)	(49,204)
General and administrative expenses *	(7,182)	(8,753)	(9,957)	(3,735)	(1,889)	(1,868)	(33,384)
Financing expenses, net	-	-	(34)	(472)	(127)	(704)	(1,337)
Total expenses	(57,769)	(98,700)	(37,367)	(15,900)	(7,622)	(13,848)	(231,206)
Total comprehensive income (loss) before taxes on income	9,152	7,984	5,769	(5,216)	(618)	(1,573)	15,498
Gross liabilities with respect to insurance contracts as of June 30,2013	605,587	141,644	55,167	218,093	84,786	270,763	1,376,040
Net liabilities with respect to insurance contracts as of June 30,2013	454,450	141,644	50,537	40,512	3,945	40,188	731,276

* Reclassified see note 3c

** The results of other property lines reflect mainly the results of the property insurance line the operations of which attract 85% of the total premiums attributable to these lines.
The results of other liability lines reflect mainly the results of the third party warranty insurance line, the operations of which attract 39% of the total premiums attributable to these lines.

AIG ISRAEL INSURANCE CO. LTD.
NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 4 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment:

	For the 3-month period ended June 30, 2014 (unaudited)						Total
	Compulsory motor vehicle	Motor vehicle property	Personal property	Professional liability	Other property branches *	Other liability branches *	
NIS in thousands							
Gross premiums	34,385	60,514	22,897	13,991	6,104	6,259	144,150
Reinsurance premiums	(472)	(26)	(5,375)	(12,064)	(5,805)	(4,974)	(28,716)
Premiums relating to non-ceded business	33,913	60,488	17,522	1,927	299	1,285	115,434
Change in balance of unearned premiums relating to non-ceded business	508	(368)	2,559	(50)	18	154	2,821
Premiums earned on non-ceded business	34,421	60,120	20,081	1,877	317	1,439	118,255
Investment income, net and financing income	3,502	1,310	788	1,019	180	1,122	7,921
Commission income	-	-	880	3,413	2,065	1,785	8,143
Total income	37,923	61,430	21,749	6,309	2,562	4,346	134,319
Payments and change in liabilities in respect of insurance contracts (gross)	(30,380)	(38,196)	(8,953)	(7,279)	(8,521)	(8,505)	(101,834)
Share of reinsurers in payments and change in liabilities in respect of insurance contracts	6,020	-	1,424	5,231	8,111	7,131	27,917
Payments and change in insurance liabilities with respect to insurance contracts relating to non-ceded business	(24,360)	(38,196)	(7,529)	(2,048)	(410)	(1,374)	(73,917)
Commissions, marketing expenses and other acquisition expenses*	(4,549)	(8,240)	(5,669)	(2,750)	(1,520)	(1,884)	(24,612)
General and administrative expenses *	(4,484)	(4,578)	(4,598)	(1,217)	(560)	(641)	(16,078)
Financing expenses, net	-	-	10	138	22	143	313
Total expenses	(33,393)	(51,014)	(17,786)	(5,877)	(2,468)	(3,756)	(114,294)
Total comprehensive income before taxes on income	4,530	10,416	3,963	432	94	590	20,025

** The results of other property lines reflect mainly the results of the property insurance line the operations of which attract 91% of the total premiums attributable to these lines.
The results of other liability lines reflect mainly the results of the third party warranty insurance line, the operations of which attract 41% of the total premiums attributable to these lines.

AIG ISRAEL INSURANCE CO. LTD.
NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 4 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment:

	For the 3-month period ended June 30, 2013 (unaudited)						Total
	Compulsory motor vehicle	Motor vehicle property	Personal property	Professional liability	Other property branches *	Other liability branches *	
NIS in thousands							
Gross premiums	31,664	54,914	22,841	8,610	8,210	8,892	135,131
Reinsurance premiums	(444)	(27)	(5,162)	(7,187)	(7,863)	(7,514)	(28,197)
Premiums relating to non-ceded business	31,220	54,887	17,679	1,423	347	1,378	106,934
Change in balance of unearned premiums relating to non-ceded business	(365)	(1,306)	1,850	399	113	556	1,247
Premiums earned on non-ceded business	30,855	53,581	19,529	1,822	460	1,934	108,181
Investment income, net and financing income	4,308	1,290	819	1,094	236	1,463	9,210
Commission income	-	-	627	2,378	2,559	2,936	8,500
Total income	35,163	54,871	20,975	5,294	3,255	6,333	125,891
Payments and change in liabilities in respect of insurance contracts (gross)	(23,843)	(36,039)	(7,717)	(32,406)	(24,133)	(12,262)	(136,400)
Share of reinsurers in payments and change in liabilities in respect of insurance contracts	1,852	-	358	28,211	23,215	8,343	61,979
Payments and change in insurance liabilities with respect to insurance contracts relating to non-ceded business	(21,991)	(36,039)	(7,359)	(4,195)	(918)	(3,919)	(74,421)
Commissions, marketing expenses and other acquisition expenses*	(4,634)	(7,593)	(4,677)	(2,898)	(2,031)	(2,643)	(24,476)
General and administrative expenses *	(3,182)	(4,174)	(5,120)	(1,943)	(973)	(941)	(16,333)
Financing expenses, net	-	-	(16)	(222)	(60)	(334)	(632)
Total expenses	(29,807)	(47,806)	(17,172)	(9,258)	(3,982)	(7,837)	(115,862)
Total comprehensive income(loss) before taxes on income	5,356	7,065	3,803	(3,964)	(727)	(1,504)	10,029

** The results of other property lines reflect mainly the results of the property insurance line the operations of which attract 79% of the total premiums attributable to these lines.
The results of other liability lines reflect mainly the results of the third party warranty insurance line, the operations of which attract 37% of the total premiums attributable to these lines.

AIG ISRAEL INSURANCE CO. LTD.
NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 4 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment

	For year ended December 31, 2013 (audited)						Total
	Compulsory motor vehicle	Motor vehicle property	Personal Property	Professional liability	Other property branches *	Other liability branches *	
	NIS in thousands						
Gross premiums	135,015	227,638	101,852	43,007	39,552	35,699	582,763
Reinsurance premiums	(1,895)	(108)	(21,435)	(35,842)	(37,650)	(30,323)	(127,253)
Premiums relating to non-ceded business	133,120	227,530	80,417	7,165	1,902	5,376	455,510
Change in balance of unearned premiums relating to non-ceded business	(7,609)	(10,582)	(546)	155	73	1,313	(17,196)
Premiums earned on non-ceded business	125,511	216,948	79,871	7,320	1,975	6,689	438,314
Investment income, net and financing income	16,359	5,116	3,555	4,198	831	5,153	35,212
Commission income	-	-	3,180	10,838	10,881	9,966	34,865
Total income	141,870	222,064	86,606	22,356	13,687	21,808	508,391
Payments and Change in insurance liabilities with respect to insurance contracts (gross)	(107,786)	(155,018)	(40,439)	(64,945)	(46,115)	(38,468)	(452,771)
Share of reinsurers in increase of insurance liabilities and payments with respect to insurance contracts	17,340	-	4,559	52,925	44,453	28,720	147,997
Payments and Change in insurance liabilities with respect to insurance contracts relating to non-ceded business	(90,446)	(155,018)	(35,880)	(12,020)	(1,662)	(9,748)	(304,774)
Commission, marketing expenses and other acquisition expenses	(18,317)	(32,476)	(18,651)	(11,653)	(7,687)	(9,625)	(98,409)
General and administrative expenses	(14,766)	(18,659)	(19,599)	(7,162)	(2,702)	(4,218)	(67,106)
Financing expenses, net	-	-	(60)	(827)	(169)	(1,035)	(2,091)
Total expenses	(123,529)	(206,153)	(74,190)	(31,662)	(12,220)	(24,626)	(472,380)
Profit (loss) before taxes on income	18,341	15,911	12,416	(9,306)	1,467	(2,818)	36,011
Gross liabilities with respect to insurance contracts as of December 31, 2013	632,567	146,404	62,622	234,943	65,438	254,386	1,396,360
Net liabilities with respect to insurance contracts as of December 31, 2013	477,611	146,404	55,283	45,546	2,946	40,320	768,110

* The results of other property lines reflect mainly the results of the property insurance line the operations of which attract 84% of the total premiums attributable to these lines.

The results of other liability lines reflect mainly the results of the product warranty insurance line, the operations of which attract 40% of the total premiums attributable to these lines.

AIG ISRAEL INSURANCE CO. LTD.
NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 5 - SHAREHOLDERS' EQUITY AND CAPITAL REQUIREMENTS:

Management and capital requirements:

- a. Management pursues a policy of maintaining a sound equity base, thereby allowing the Company to continue operations in such manner that will enable it to provide a return to its shareholders and undertake future commercial operations. The Company is required to adhere to the capital requirements laid down by the Supervisor.
- b. The table below provides information with respect to the capital requirements as set out in the capital regulations and the amendments thereto and in the directives of the Supervisor, together with information relating to the level of the Company's existing capital.

Company's existing capital with respect to the capital requirements

	June 30		December 31,
	2014	2013	2013
	(Unaudited)		(Audited)
The amount required under capital regulations and supervisor guidelines (a)	527,569	467,719	516,896
Existing amount computed under capital regulations:			
Primary capital	691,052	608,611	643,004
Total existing capital existing computed under capital requirements	691,052	608,611	643,004
Surplus	163,483	140,892	126,108

Aside from the general requirements of the Companies' Law, the payment of a dividend out of the equity surpluses of insurance companies is also subject to compliance with liquidity requirements and the provisions of the investment regulations. For this purpose, the investments for which it is obligatory to set against equity surplus in accordance with the Supervisors instructions constitute surplus that is not distributable.

The amount required includes inter alia, capital requirements, with respect to:

	June 30		December 31,
	2014	2013	2013
	(Unaudited)		(Audited)
	NIS in thousands		
Operations related to general insurance	120,395	112,335	118,183
Exceptional life assurance risks	29,286	24,658	26,880
Deferred acquisition expenses in relation to life assurance	83,180	76,029	81,818
Investment assets and other assets	60,517	50,609	58,823
Catastrophe risk related to general insurance	204,212	176,242	202,881
Operating risks	29,979	27,846	28,311
T o t a l	527,569	467,719	516,896

AIG ISRAEL INSURANCE CO. LTD.
 NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 6 – FINANCIAL INSTRUMENTS AND FINANCIAL RISKS

a. Fair value disclosure

Following the discussion in note 10(g) to the financial statements dated December 31, 2013, no transfers were made in the reported period between level 1 and level 2.

b. The fair value of financial assets and financial liabilities

1. The balances of cash and cash equivalents, premiums collectible, accounts receivables and accounts payable in the financial statements are equal or close to their fair value.

c. Composition of financial investments:

As of June 30, 2014 (unaudited)			
Measured at			
fair value			
through			
	profit or loss	Loans and	Total
NIS in thousands			
Marketable debt instruments	(1) 1,186,745	-	1,186,745
Non-marketable debt instruments	(2) -	168,835	168,835
Marketable shares	(3) 84,694	-	84,694
Other	(4) 37,332	-	37,332
Total	1,308,771	168,835	1,477,606

As of June 30, 2013 (unaudited)			
Measured at			
fair value			
through			
	profit or	Loans and	Total
NIS in thousands			
Marketable debt instruments	(1) 1,141,868	-	1,141,868
Non-marketable debt instruments	(2) -	106,763	106,763
Marketable shares	(3) 70,258	-	70,258
Other	(4) 80,988	-	80,988
Total	1,293,114	106,763	1,399,877

As of December 31, 2013 (audited)			
Measured at			
fair value			
through			
	profit or	Loans and	Total
NIS in thousands			
Marketable debt instruments	(1) 1,174,216	-	1,174,216
Non-marketable debt instruments	(2) -	128,704	128,704
Marketable shares	(3) 77,352	-	77,352
Other	(4) 24,593	-	24,593
Total	1,276,161	128,704	1,404,865

AIG ISRAEL INSURANCE CO. LTD.
 NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

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

c. Composition of financial investments(continued):

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

	As of June 30, 2014	
	(unaudited)	
	Book value	Reduced cost
	NIS in thousands	
Government debentures	670,701	654,595
Other marketable debt instruments:		
Other marketable debt instruments that are not convertible	515,982	507,530
Other marketable debt instruments that are convertible	62	61
Total marketable debt instruments	1,186,745	1,162,186
	As of June 30, 2013	
	(unaudited)	
	Book value	Reduced cost
	NIS in thousands	
Government debentures	822,964	810,238
Other marketable debt instruments:		
Other marketable debt instruments that are not convertible	318,780	311,304
Other marketable debt instruments that are convertible	124	121
Total marketable debt instruments	1,141,868	1,121,663
	As of December 31, 2013	
	(audited)	
	Book value	Reduced cost
	NIS in thousands	
Government debentures	768,336	761,641
Other debt instruments:		
Other debt instruments that are not convertible	405,754	397,027
Other debt instruments that are convertible	126	125
Total marketable debt instruments	1,174,216	1,158,793

AIG ISRAEL INSURANCE CO. LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued):

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

a. Composition of financial investments(continued):

(2) Composition of non-marketable debt instruments

	As of June 30, 2014 (unaudited)	
	Book value	Fair value
	NIS in thousands	
Bank deposits	121,324	122,358
Other marketable debt instruments that are not convertible	47,511	48,457
Total non-marketable debt instruments	168,835	170,815
	As of June 30, 2013 (unaudited)	
	Book value	Fair value
	NIS in thousands	
Bank deposits	72,487	73,554
Other marketable debt instruments that are not convertible	34,276	35,062
Total non-marketable debt instruments	106,763	108,616
	As of December 31, 2013 (audited)	
	Book value	Fair value
	NIS in thousands	
Bank deposits	113,448	114,511
Other marketable debt instruments that are not convertible	15,256	15,886
Total non-marketable debt instruments	128,704	130,397

AIG ISRAEL INSURANCE CO. LTD.
 NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

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

c. Composition of financial investments(continued):

(3) Shares (earmarked upon initial recognition for the fair value through profit or loss category):

	As of June 30, 2014	
	(unaudited)	
	<u>Book value</u>	<u>Cost</u>
	NIS in thousands	
Marketable shares	<u>84,694</u>	<u>81,695</u>

	As of June 30, 2013	
	(unaudited)	
	<u>Book value</u>	<u>Cost</u>
	NIS in thousands	
Marketable shares	<u>70,258</u>	<u>69,729</u>

	As December 31, 2013	
	(audited)	
	<u>Book value</u>	<u>Cost</u>
	NIS in thousands	
Marketable shares	<u>77,352</u>	<u>75,176</u>

(4) Other financial investments (earmarked upon initial recognition for the fair value through profit or loss category):

	As of June 30, 2014	
	(unaudited)	
	<u>Book value</u>	<u>Cost</u>
	NIS in thousands	
Marketable financial investments	<u>37,332</u>	<u>36,561</u>

	As of June 30, 2013	
	(unaudited)	
	<u>Book value</u>	<u>Cost</u>
	NIS in thousands	
Marketable financial investments	<u>80,988</u>	<u>74,002</u>

	As December 31, 2013	
	(audited)	
	<u>Book value</u>	<u>Cost</u>
	NIS in thousands	
Marketable financial investments	<u>24,593</u>	<u>22,131</u>

AIG ISRAEL INSURANCE CO. LTD.
NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

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

- d. No material changes have occurred in the financial risk management policy of the Company, compared to the policy it reported in the 2013 annual financial statements.

NOTE 7 - TAXES ON INCOME

Computing the income tax for the interim period is based on the best estimate of the weighed income tax rate expected for the full fiscal year. The average annual tax rate of the company in the year ended December 31, 2014 is 37.71% (2013 – 36.22%).

NOTE 8 - CONTINGENT LIABILITIES - CLASS ACTIONS:

1. A legal claim has been filed against the company and against 5 other insurance companies in February 2011; the plaintiff has also filed an application to approve the claim as a class action. The plaintiff claims that the company does not pay full compensation in respect of decrease in value of a car due to damages caused as a result of an accident, but rather pays a reduced compensation. The plaintiff claims that the computation of this reduced decrease in value was made based on the report of the Sasson committee, which set parameters for computation of decrease in value.

According to the claimant, he was misled by the company and as a result suffered financial losses. The remedy requested is a declaration to the effect that the company is obliged to disclose its insured motorists the manner in which it computation of decrease in value of the vehicle; such disclosure should be made in advance when a quote is issued to the potential client.

The plaintiff therefore claims refund of the premium paid by each insured motorist for the insurance policy, since such a policy constitutes an insurance agreement that was entered into by deceit. The plaintiff assesses the number of vehicles that were insured per year by the Company at 47,264; the average premium was NIS 2,000; (if the rate of insured motorists that had insurance claims during that year is reduced- a rate of 20%) then the total amount of premium is NIS 529,390,400. This amount pertains to all motorists insured by the company during the last 7 years.

An alternative remedy is the refund of NIS 150 per each motorist -which is the difference between a premium with rate of excess of 1.5% and a premium with rate of excess of 5%. The amount demanded for all motorists insured by the company in the seven years that preceded the legal claim that was filed is NIS 39,704,700.

Another alternative remedy is compensation at an amount equal to the policy component representing the decrease in value of the vehicle - app. NIS 800 per each motorist. The amount demanded for all motorists insured by the company for the last seven years is NIS 264,678,400.

On a hearing taking place on May 13, 2012, the claimant was convinced to withdraw the claim. In view of the claimant's exaggerated demands in connection with fees and remuneration to the class action claimant, it was agreed to leave the matter to the discretion of the court with each party submitting its claims to the court.

After filing the Company's claims, the court ordered the payment of a amount of 10,000 NIS provided to the plaintiff and his attorneys.

On September 10, 2012, the plaintiffs filed an appeal to the Supreme Court, requesting that the Court cancels the ruling of the District Court and resumes discussions relating to the compensation payable to the plaintiffs, to expenses and legal fees. Alternatively, the plaintiffs request that the Supreme Court increases the said amounts.

AIG ISRAEL INSURANCE CO. LTD.
NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 7 - CONTINGENT LIABILITIES - CLASS ACTIONS (continued):

The Supreme Court heard the appeal on May 26, 2014. After hearing the claims of both parties the Supreme Court recommended the appellants to withdraw the appeal. The appellants withdrew the appeal and the appeal was struck off.

2. A legal claim and an application to approve the claim as a class action were filed against the company and 7 other insurance companies in December 2012. 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 group in the name of whom the legal claim was lodged is the group of insured persons and entities the classification of the vehicles of which was changed in the last seven years.

Total damages claimed from the company in respect of property insurance amount to 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 application to approve the claim as a class action on June 2, 2013; the claimant filed its reply to the said application on July 7, 2013.

On July 10, 2013, a pretrial hearing was held, resulting in a court decision that the company and all other defendants may file complementary responses to the motion for class action certification through October 6, 2013. The court also ruled that to the extent the plaintiffs are interested to file a specific discovery, they will have to do so within 30 days, with a response to the motion filed within 14 days and the counter-response within 7 days (court holiday are counted). In addition, a cross-examination of declarants was scheduled for February 24, 2014 and March 6, 2014.

The plaintiffs filed a motion for discovery and a motion to respond to a questionnaire. The company filed its objection to the motion and the court has not given a decision.

Cross examinations of the parties' witnesses took place on February 24, 2014 and March 6, 2014. An examination hearing was held on March 6, 2014 and the defendants' representatives were investigated during this hearing. A further examination hearing was held on March 25, 2014 and insurance agency representatives were investigated during this hearing. At the end of this hearing the court recommended that the claimant considers whether to continue pursuing the case.

On June 8, 2014 the plaintiffs filed a notice to the effect that they maintain their position that the application to approve the claim as a class action shall be heard by the court. In accordance with the plaintiffs' notice, the court set a date for a summary hearing. The company is to file its summaries by December 7, 2014.

The legal counsels believe that it is more likely than not that the claim will be rejected.

AIG ISRAEL INSURANCE CO. LTD.
NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 7 - CONTINGENT LIABILITIES - CLASS ACTIONS (continued):

3. A legal claim and an application to approve the claim as a class action were filed against the company and 14 other insurance companies on January 13, 2013.

According to the plaintiff – Ms. Ilanit Nadav – she was insured under a compulsory vehicle insurance policy with the Israel Motor Insurance Pool (hereafter – "the pool").

According to the policy issued to the plaintiff, the insurance period commences at the date of payment of premium but not before April 1, 2008. The plaintiff paid the premium on April 7, 2008 – a day after she was injured in a car accident. The plaintiff's insurance claim for indemnification for damage caused in the accident was rejected and it was determined that at the date on which the accident happened she did not have a valid insurance policy.

According to the plaintiff, the pool has charged her for insurance premium in respect of 6 days on which she was not insured (1-6.4.2008). Therefore, she demands repayment of the insurance premium in respect of these 6 days.

The company is being sued in respect of its share in the pool (average of 2.5%) and in respect of the compulsory vehicle insurances it uses to insure directly.

According to the statement of claim, 18% of the persons and entities insured under compulsory vehicle insurance policies pay the premium after the due date. On average, insured persons and entities pay the premium 3 days after the due date. According to computations of the plaintiff, the amount claimed from the company is NIS 1,050,000.

The company filed its response to the motion to certify a class action on June 5, 2013, and the plaintiff filed his counter-response on October 15, 2013.

On October 31, 2013, a pretrial hearing was held in which the court pointed out that the insurers charge premium for risk free periods, and such practice may be considered inappropriate given a decision in Appeal Request 3489/09 Migdal v. Metal Coating.

The Company pointed to the court that insurance companies operate based on the law and regulations, in this industry that is highly regulated and that they may not change the text in the policy as dictated by law. In addition, charging premium and the dates indicated on the policy are done in accordance with Motor Vehicle Insurance Regulations (Residual Insurance Arrangement and Mechanism for Setting the Tariff), 2001, Supervision of Financial Services (Insurance) (Contract Conditions for Compulsory Motor Vehicle Insurance), 2010 and the guidance in a circular issued by the Supervisor titled "Insurance Premiums in the Compulsory Motor Vehicle Industry", dated August 10, 2005.

The Court ruled that at this stage, the motion for certification of a class action has no relevance to the insurance companies except for the Pool (since the Pool is a separate legal entity, and the plaintiff has grievance only towards it) and permitted the attorneys of the plaintiffs to file a request to amend the motion for class action certification in such way that will cover plaintiffs concerning the other insurance companies through January 31, 2014.

On January 30, 2014 the applicant asked the court to defer the date of filing the application for adding additional applicants by 14 days and to grant the organization Hatzlacha 30 days during which it shall consider the option of filing an application to be added as an applicant to the application as well as filing application for instructions. On February 6, 2014 the company filed its objection to the above mentioned application to defer the filing date.

On February 16, 2014, the applicant's attorney filed an application to amend the application for certification of the claim as a class action; the purpose of the amendment of the application as above was to add applicants so that the application will cover plaintiffs concerning the other insurance companies.

AIG ISRAEL INSURANCE CO. LTD.
NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 7 - CONTINGENT LIABILITIES - CLASS ACTIONS (continued):

On February 20, 2014 the court allowed the applicant's request to defer the date of filing the application for addition additional applicant and ordered that the application to add applicant shall be discussed in a pre-trial hearing on March 25, 2014.

The attorneys of the applicant were unsuccessful in finding a class action claimant that was insured or is still insured by the company. On March 4, 2014, the company asked the court to reject the class action against the company.

On March 25, 2014, the Court ruled that the claim against the company shall be stroked out since a claimant holding its insurance policy is not in attendance. Kindly be advised that the court case against the company was, indeed, closed, but if the attorneys of the claimants or other representing attorneys find a class action claimant against the company, a new claim may be filed in the future. We would like to indicate that a similar claim and application to approve as class action were filed by another representing attorney against other insurance company. The company is not a defendant in the said case.

4. On June 9, 2013, Ms. Talya Cohen and Mr. Reuven Cohen (hereinafter: "the plaintiffs") filed a motion to the Tel Aviv District Court to certify a NIS 165,075,000 class action against the Company.

The motion claims that the company violates the provisions of the Communications Law 1982 including Section 30A of that law that prohibit advertising through short text messages unless specific terms in the Communications Law are met; and violation of the Privacy Protection Law, 1981 and especially the provisions on direct mailing in that law.

The plaintiffs claim that text messages that are sent by the company for renewal of compulsory motor vehicle insurance is a prohibited "advertisement" as defined by Section 30A to the Communications Law. The plaintiffs further argue that the text messages sent by the company are "direct mailing" and that such direct mailing is done against the provisions of the Privacy Protection Law.

The plaintiffs claim that sending the text messages was done without their consent and that their attempts to remove themselves from the mailing list were unsuccessful due to the requirement of the company to undergo an unreasonable identification procedure in this circumstance for identifying the plaintiffs.

The plaintiffs believe that the underlying objective is renewal of the insurance policy by exerting pressure, without real possibility to remove from the mailing list for those text messages without many conditions that undermine civil rights, freedom of choice and privacy.

The plaintiffs argue that the Supervisor of Insurance prohibited acting according to a practice on automatic renewal of compulsory vehicle insurance at the end of the policy period and that the defendant found a course of action to go around those regulations. The plaintiffs also ask that the insurance in question was not a compulsory insurance policy but a comprehensive insurance, which is voluntary property coverage.

The plaintiffs argue that the company violated the provisions of the Privacy Protection Law in connection to the dos and don'ts of managing a database for direct mailing services under sections 17D 17F(a) of the Privacy Protection Law, concerning disclosure of the source that provided the data to the database and providing indication that the customer was approached through direct mailing plus the registration number of the database.

The plaintiffs claim for damages due to the violation of Section 30A(i) to the Communications Law that states that such violation is a civil tort that is governed by the Tort Ordinance, as well as general compensation, including grievance.

The plaintiffs point to the provisions of the amendment in the Class Action Law, 2006 which explicitly added a violation of Section 30A to the Communications Law to the list of violations and the legal provisions that allow having a class action.

AIG ISRAEL INSURANCE CO. LTD.
NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 7 - CONTINGENT LIABILITIES - CLASS ACTIONS (continued):

The plaintiffs point to Section 20(c) to the Class Action Law, claiming that that section indicate that in cases in which it is not possible to exactly quantify the damage that will be caused to each, or even to identify them, the legislature permitted paying damages to the public at large.

The plaintiffs claim that the Company has 74,663 property damages insurance customers, based on reports by the Supervisor of Capital Markets, Insurance and Savings for 2011, which indicates that 2,333,247 vehicles in Israel are covered against property damages, and that the Company has a market share of 3.2%. The plaintiffs argue that it is possible to assume that each of the members in the class was sent between one to four violating advertisements by the Company, or two violating advertisements in the last five years. Therefore, based on NIS 1,000 in damages per message, the plaintiffs estimated the damage of the class for cause at NIS 746,630,000. Alternatively, the plaintiffs ask that the amount of damages will be determined by a court-appointed expert opinion. However, since the plaintiffs do not have the full and accurate information, they set the amount of their claim for that cause of damage at NIS 150,000,000, provided that they retain their right to revise that amount according to the full data disclosed by the Company.

In addition, the plaintiffs argue that the damage caused to class member for the inability to be removed without pay is the cost of phone calls to contact the Company, estimated at NIS 75,000.

The plaintiffs also ask to compensate class members for miscellaneous damages that they sustained, including financial damage, mental damage, infringement of autonomy, invasion of privacy, grievance, discomfort and violation of legal provisions on managing a database, which were estimated at NIS 15,000,000.

The plaintiffs asked, among other things, for the following reliefs.

1. The certify a class action with an estimated financial and non-financial damages of NIS 165,075,000.
2. Issue an injunction against the defendant to prevent it from this invidious practice, refrain from sending violating text messages and change the invidious removal mechanism and aligning it with the provisions of the law.
3. Ordering the defendant to give the plaintiffs and to the class data and summary reports on the scope of sending the violating advertisements, or alternatively, to order the appointment of an expert for the court.
4. To determine the fee of attorneys representing the plaintiffs in this motion for class action certification.

On December 15, 2013, the company filed its response to the motion for class action certification.

On June 29, 2014, the court held a pre-trial hearing; in the course of this hearing the court suggested that the applicants remove the class action certification motion. In light of the court's suggestion as above, the applicants removed the motion and the case was closed; no court expenses order was issued.

5. A legal claim and an application to approve the claim as a class action were filed in June 2014 against 7 insurance companies (including the company). According to the plaintiffs, the amount from which their mortgage life insurance premium has been derived by the defendants in the last seven years exceeded the actual balance of the loan and as a result the premiums they paid were higher than the premiums they should have paid.

AIG ISRAEL INSURANCE CO. LTD.
NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 7 - CONTINGENT LIABILITIES - CLASS ACTIONS (continued):

The plaintiffs claim that since the mortgage life insurance is an insurance that lenders oblige their clients to undertake as a guarantee to the mortgage loan, it is the duty of the defendants to review the balance of the loan from time to time and to verify that the amounts of the insurance premium are updated to reflect the actual risk. The amount claimed by the plaintiffs that were insured by the company is NIS 5,784,187.

The date for filing the reply to the claim and application is November 17, 2014. The company has not yet decided which law firm shall cover this claim. At this stage it is not possible to estimate the company's chances of prevailing in the claim and the exposure that might arise to the company as a result of the claim.

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

Pending applications for approval of legal claims as class actions:	Number of claims	The amount claimed NIS in thousands
An amount relating to the company was specified	<u><u>2</u></u>	<u><u>28,081</u></u>