

# **AIG Israel Insurance Company Ltd**

## **Interim Financial Report**

**(Unaudited)**

**As of June 30, 2015**

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**Directors' report**  
**AIG Israel Insurance Company Ltd ("the Company")**  
**for the period ended June 30, 2015**

The directors' report on the business of the Company as of June 30, 2015 ("**the directors' report**"), reviews the Company and developments in its business in the first half of 2015 ("**the reported period**"). The information in this report are as of June 30, 2015 ("**the date of report**") unless otherwise is indicated explicitly.

The Company is an "insurer" as this term is defined in the Supervision of Financial Services Law (Insurance), 1981. Therefore, this report is prepared based on Regulations 68-69 and the Second Addendum to the Insurance Business Supervision Regulations (Report Information), 1998 ("**the Reporting Regulations**") and according to the guidance issued by the Supervisor of Capital Markets, Insurance and Savings in the Israel Ministry of Finance ("**the Supervisor of Insurance**" or "**the Supervisor**"). This directors' report was prepared assuming that the user is also holding the Company's 2014 periodic report.

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

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

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

**Forward looking information**

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



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## 1. Condensed description of the Company:

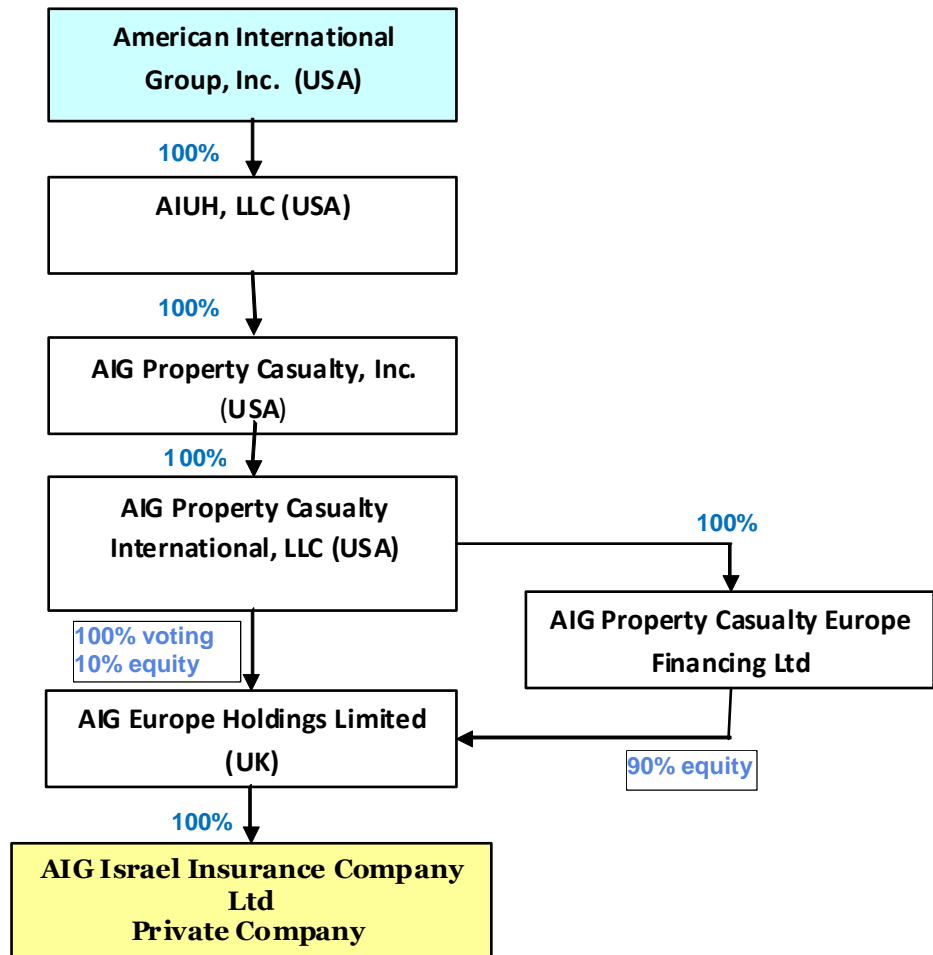
### 1.1 Organizational structure

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

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

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

The following is the holding structure of the Company:





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

The Company is operating in two business divisions (individual insurance and commercial insurance), headquarters, sales and customer service.

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

## **1.2 Areas of activity**

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

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

## **1.3 Dependency on customers or marketing entities**

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

## **1.4 Developments or material changes in reinsurance agreements**

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

## **1.5 Event outside the ordinary course of company's business since last financial statements**

On April 2, 2015, Company's management, the employees' representatives and the Histadrut signed a collective agreement in respect of Company's employees. The agreement settles the work relations, employment conditions and other related conditions of Company's employees to whom the agreement applies.



## **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. In accordance with these data, as of December 31, 2014, insurance fees from the general insurance business amounted to NIS 19,648 million (excluding Karnit); the share of the 5 largest insurance companies – Harel, Clal, Phoenix, Migdal and Menorah – amounted to NIS 12,203 million, which constituted 62% of the total premiums in the Israeli general insurance sectors.

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

### Developments in the company's macro-economic environment

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

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

	Jan-June 2015	Jan-June 2014	Apr-Jun 2015	Apr-Jun 2014	2014
<b>Government bonds indexes</b>					
General government bonds	0.4%	4.5%	-3.6%	2.5%	6.6%
Linked government bonds	0.0%	4.8%	-4.8%	2.7%	5.8%
NIS government bonds	0.7%	4.3%	-2.7%	2.3%	7.2%
<b>Corporate bonds indexes</b>					
Tel Bond 60	- 0.2%	2.2%	-1.6%	0.3%	0.9%
Tel Bond NIS	0.8%	2.9%	-1.9%	0.7%	4.0%
<b>Shares indexes</b>					
Tel-Aviv 100	10.0%	3.7%	0.3%	2.3%-	6.8%

For information regarding the composition of the Company's investments see financial investment asset list in the appendix to the condensed financial statements.

For information on general trends in the insurance sector and their effect on company's business, see Section 4.3 in Chapter A (description of company's business) in the Company's 2014 periodic report.

### **Characteristics and developments in principal insurance lines of business**

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

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

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



## **Regulations**

- On July 27, 2015 the Financial Services Supervision Regulations (Insurance) (Group Health Insurance), 2015 were published in the official gazette. These regulations include amendments to the Financial Services Supervision Regulations (Insurance) (Group Health Insurance), 2009, which cover, among other things the following issues: determining a maximal increase of insurance premiums in the course of the insurance period or at the time of renewal of the policy, issuance of notices to the insured person or entity in connection with renewal of the policy or change in the terms of insurance in the course of the insurance period and restricting the insurance period under a group health insurance policy to five years.
- On August 4, 2015 the Financial Services Supervision Regulations (Insurance) (Terms in Insurance Contract for Surgery and Surgery Alternative Procedures in Israel), 2015 were published in the official gazette. The regulations require that uniform insurance coverage is provided under private surgery insurance policies. The regulations will come into effect on January 1, 2016. The said regulations shall apply to new insurance policies issued as from that date or policies that will be renewed as from that date.

## **Circulars**

- On April 1, 2015, the Supervisor issued Insurance Circular 2015-1-8 titled "Independence between Individual Health Insurance Coverage". The purpose of this circular is to set provisions for marketing different insurance coverage in individual health insurance plans, and provisions about cancellation of such types of coverage that were sold together to allow customers to make informed choices about any of the types of coverage offered in the package and compare the cost of coverages with other insurers.
- On April 1, 2015, the Supervisor issued Insurance Circular 2015-1-7 titled "Preparation of Individual Health Insurance Plans". The purpose of this circular was to provide guidance for developing individual health insurance plan to address issues that arise from marketing an individual health insurance plan with fixed terms and conditions over the entire term of the policy.
- On April 1, 2015, the Supervisor issued Insurance Circular 2015-9-15 titled "Internal Control over Financial Reporting – Declarations, Reports and Disclosures and Management Responsibility for Financial Reporting, Amendment". The purpose of this circular is to amend Financial Institutions Circular 2010-9-7 titled "Internal Control over Financial Reporting – Declarations, Reports and Disclosures".
- On April 1, 2015, the Supervisor issued Financial Institution Circular 2015-9-14, titled "Financial Institution Circular at the Individual Asset Level". The purpose of the circular is to update and consolidate guidance on the quarterly list of individual assets that financial institutions file to the Supervisor, in order to improve the quality and availability of the report. The circular will come into effect beginning in the third quarter of 2015.
- On April 19, 2015, the Supervisor issued Capital and Solvency Circular 2015-1-19 titled "Mandatory Performance of IQIS in 2014". The purpose of this circular is to update the guidance on performing IQIS4, including a number of changes and updates compared with IQIS2, after reviewing changes in the preparation guidance compared to QIS5 and analysis of IQIS2 results. The main changes concern cancellation, longevity, interest, shares, risk margin and liquidity premium scenarios.
- On April 22, 2015, a chapter titled "Measurement, Equity and Management of Assets and Liabilities" was added to the regulatory codex. The chapter includes, among other things, guidance for measuring liabilities in life, general and health insurance, and includes provisions on insurance reserves, best practice for calculating general insurance reserves for financial reporting purposes, industry consolidation, setting the amount of reserve for policies sold shortly before balance sheet date and risks after balance sheet date.



- On April 30, 2015, the Supervisor issued Insurance Circular 2015-1-11 titled "Guidance for Drafting Insurance Plans". The purpose of the circular is to set provisions to insurers on drafting insurance plans without depriving conditions to prevent harm to customers and clarify the responsibility of the insurer to draft insurance plans in as simple and clear way possible. The circular includes a list of guidelines for drafting an insurance plan.
- On May 3, 2015, the Supervisor issued a directive titled "Business Continuity Management and Preparation for Emergencies". The document includes guidance for performing business continuity drills to assess readiness of financial institutions for consequences of a severe earthquake in Israel.
- On May 10, 2015, the Supervisor issued Insurance Circular 2015-9-22 regarding "Leveraged Loans". The objective of the circular is to set provisions regarding the duties of the investment committee prior to the provision of leveraged loans; the circular also aims to set provisions in connection with reporting to the committee on leveraged loans extended by a financial institution.
- On May 10, 2015 the Supervisor issued Insurance Circular 2015-9-21 regarding the "Amendment of the Provisions of the Consolidated Circular – Chapter 4 – Management of Investment Assets (Coordinated Loan to a Company and a Controlling Shareholder Who Experienced Financial Difficulties)". The objective of the circular is to determine the conditions applicable to financial institutions when extending a coordinated loan to a controlling shareholder or a company controlled by the controlling shareholder who experienced financial difficulties in the years preceding the grant of the loan.
- On May 10, 2015 the Supervisor issued Insurance Circular 2015-9-20 regarding the "Amendment of the Provisions of the Consolidated Circular – Chapter 4 – Management of Investment Assets (Rules under which Financial Institutions May Provide Credit)". The objective of the circular is to set provisions regarding the introduction of internal restrictions on providing credit to borrowers, setting another tier of underwriting procedures and analysis of coordinated loans and defining cases where a financial institution may rely on collaterals received. The circular also defines general guidance on the actions to be taken when a condition for immediate recall is breached and a duty to disclose credit taken to finance the purchase of controlling shares in a corporation.
- On May 10, 2015, the Supervisor issued Insurance Circular 2015-9-19 regarding "Reports to be Filed to the Supervisor about Debt Arrangements that Financial Institutions have Undertaken". The circular prescribes the manner in which entities that participate in debt arrangements are required to report their participation in such arrangements to the Supervisor.
- On May 12, 2015 the Supervisor issued Insurance Circular 2015-9-24 regarding the Amendment of the Provisions of the Consolidated Circular – Chapter 4 – Management of Investment Assets (Holding more than 20% of the Means of Control in a Corporation)". The objective of the circular is to implement one of the recommendations made by the Goldschmidt Committee in connection with a financial institution's holding means of control in a corporation in a case where it receives such means of controls after they served as collateral for a debt owed to that financial institution and the collateral was realized.
- On May 12, 2015 the Supervisor issued principle decision 2015-18127 regarding "Joining Collective Life Insurance". The objective of the resolution is to verify that insurance companies receive the written consent of people who join group life insurance policies.
- On June 14 2015 the Supervisor issued Insurance Circular 2015-9-25 regarding the "Annual Report on Compliance by Financial Institutions – Amendment". The purpose of this circular is to amend Circular 2013-9-12 "Annual Report on Compliance by Financial Institutions". The circular includes, among other things, reporting requirements on internal audit, compliance plan, internal enforcement and money laundering.





- On June 30, 2015, the Supervisor issued In-Principle Ruling 2015-214438 titled "In-Principle Ruling on Payment of VAT and Depreciation of Unrepaired Vehicle". This in-principle ruling states that when an insurance customer or a third party claims direct damages from repairing a vehicle and the insurer does not reject that claim, the insurer must pay the customer insurance benefits including, among other things, - vehicle depreciation (if any such depreciation arises) and VAT applicable in this matter, even if the customer did not repair the vehicle in practice. This also applies in a case where an insurer elected to compensate the insurance customer and pay him the amount of the damage as well as in a case where a third party claims direct damages relating to the repair of his vehicle.
- On July 15, 2015 the Supervisor issued Insurance Circular 2015-1-12 regarding "Joining an Insurance Plan". The purpose of the circular is to set principles for formalizing the practices by insurance companies and insurance agents when adding candidates to insurance policies.
- On July 29, 2015 the Supervisor issued Insurance Circular 2015-1-13 regarding "Amendments and Clarifications on General Insurance Reporting". The purpose of the circular is to add information to the mandatory reporting format set in Insurance Circular 2009-1-6 "Required Disclosure Format in Accompanying Reports of Insurance Companies" including accompanying reports to appraiser reports issued in the property home and vehicle sectors.
- On July 30, 2015, the Supervisor issued Insurance Circular 2015-1-8 titled "Independence between Individual Health Insurance Coverage". The purpose of this circular is to set provisions for marketing different insurance coverage in individual health insurance plans, and provisions about cancellation of such types of coverage that were sold together.
- On August 2, 2015 the Supervisor issued Insurance Circular 2015-1-14 regarding the "Liability Adequacy Test (LAT) in Financial Statements of Insurance Companies". The purpose of the circular is to determine the manner of calculation of the adequacy of reserves and the disclosure provided in financial statements of insurance companies, with reference to the different characteristics of the future cash flows, including non-liquidity (through the non-liquidity premium) and cost of non-hedgeable risks.
- On August 10, 2015 the Supervisor issued Circular 2015-1-15 regarding "Required Disclosure Format in (Interim) Financial Statements of Insurance Companies under International Financial Reporting Standards (IFRS)". The purpose of the circular is to set the required disclosure format in interim financial statements of insurance companies. Among other things the circular includes the following changes: requirement for issuance of an auditor's report in the case of standalone financial statements, making changes in the disclosure requirements so that they comply with the provisions of IFRS, making changes to the disclosure requirements so that comply with the provisions regarding annual financial statements and adding a requirement that a material misstatement is reported to the Supervisor.

## **Drafts**

- On May 26, 2015 the Supervisor issued Draft Insurance Circular 2015-76 regarding the "Marketing of Service Letters". The purpose of the draft is to establish rules for the implementation and marketing of service letters.
- On June 1, 2015 the Supervisor issued Draft Insurance Circular 2014-108 regarding "Management of Credit Risk arising from Investment Activity – Amendment – Second Draft". The purpose of the draft is to increase the involvement and the accountability of the Board of Directors and the investment committee in matters concerning the grant of coordinated loans by financial institutions with an emphasis placed on the rate of growth of this credit granting channel out of the total investment portfolio in Israel and abroad, as applicable.



- On June 1, 2015 the Supervisor issued Draft Insurance Circular 2015-65 regarding the "Amendment of the Provision of the Consolidated Circular – Chapter 4 – Management of Investment Assets (internal credit committee and treatment applicable to problematic debts) – Second Draft". The purpose of the draft is to amend Chapter 4 of the Consolidated Circular in order to implement the recommendations of the Goldschmidt Committee relating to corporate governance, including appointment of internal credit committee, credit control and treatment applicable to problematic debts.
- On June 17, 2015 the Supervisor issued "Financial Services Supervision Regulations (Insurance) (Maximal Commissions on Mortgage Life and Building Insurance) (Amendment), 2015 – Draft". The draft includes, among other things, amendments that apply the provisions of the regulations as above also to mortgage life insurance.
- On July 7, 2015 the Supervisor issued Draft Insurance Circular 2015-95 regarding "Life Insurance Plans at Fixed Premium – Draft". The draft stipulates that companies should not market life insurance policies with a term of more than 5 years at fixed premiums, including mortgage life insurance.
- On July 23, 2015 the Supervisor issued Draft Insurance Circular 2015-196 regarding "Compensation Policy in Financial Institutions – Amendment ". The draft includes, among other things, provisions regarding compensation given to the Chairman of the Board of Directors and to directors who are not external directors and the repayment of variable component of compensation, as well as provisions regarding the cost of employment of employees and senior office holder in a group of investors; this includes banning employees or senior office holders in a financial institution from receiving any compensation relating to his/her tenure in the financial institution from any other entity, including from a controlling shareholder of the financial institution or from anyone holding a material stake in the financial institution.
- On July 30, 2015 the Supervisor issued Draft Insurance Circular 2015-116, regarding "Guidance on Insurance Coverage under a Medication Insurance Plan". The said draft includes updated guidance on insurance coverage under medication insurance policies.
- On July 30, 2015 the Supervisor issued Draft Insurance Circular 2015-117 regarding "Principles for Changing Health Insurance Premiums Paid by Existing Insurance Customers". The draft includes, among other things, guidance as to the principles to be applied when changing premiums paid by existing insurance customers, the claims experience, calculation of damage rate and other actuarial considerations that should be taken into account when determining the insurance premiums.
- On July 30, 2015 the Supervisor issued Draft Insurance Circular 2015-119 regarding "Drawing up Critical Illness Insurance Plans". The purpose of the draft is to update the provisions on drawing up critical illness insurance policies so that they will be based on up to date medical definitions.
- On July 30, 2015 the Supervisor issued Draft Insurance Circular 2015-122 regarding "Drawing up an Individual Health Insurance Plan". The draft includes, among other things, provisions regarding the drawing up of individual health insurance policies relating to the following issues: the period of insurance and renewal thereof, issuance of notice to the insured person or entity in connection with the renewal of the policy, changes in the insurance premiums or insurance terms; and issuance of a notice regarding the availability of an updated insurance policy and uniformity of changes in the insurance plan.
- On August 5, 2015 the Supervisor issued Draft Insurance Circular 2015-85 regarding "Controls on the Monthly Report– Update". The purpose of the draft is to update circular no. 2009-9-27 of December 27, 2009 which deals with the "Controls on Monthly Report" issued to the Supervisor.
- On August 5, 2015 the Supervisor issued Draft Insurance Circular 2015-105 regarding "Amendment of the Provisions of the Consolidated Circular – Chapter 1 Part 2 Heading 5 – Measurement". The purpose of the draft is to postpone the commencement of the application of the provision to the 2015 annual financial statements and to correct a typo found in the measurement chapter.
- On August 9, 2015 the Supervisor issued Draft Insurance Circular 2015-126 titled "Report to the Supervisor on Rates in Life Insurance Plans – Second Draft". The purpose of the draft is to regulate the manner in which insurance companies will disclose the insurance rates in order to present them in an online calculator for life insurance rates which will allow customers to compare premiums charged by different insurers,.



### Entry into and marketing of new lines of business

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

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

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

	<b>June 30, 2015</b>	<b>June 30, 2014</b>	<b>December 31, 2014</b>
Other assets	326,861	330,518	349,256
Deferred acquisition expenses	151,821	146,705	148,214
Financial investments and cash	1,640,734	1,550,173	1,576,565
Reinsurance assets	695,517	690,650	718,971
<b>Total assets</b>	<b>2,814,933</b>	<b>2,718,046</b>	<b>2,793,006</b>
Shareholders' equity	717,936	691,052	690,907
Liabilities in respect of insurance	1,740,843	1,658,889	1,715,261
Other liabilities	356,154	368,105	386,838
<b>Total equity and liabilities</b>	<b>2,814,933</b>	<b>2,718,046</b>	<b>2,793,006</b>

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

	<b>Jan-Jun 2015</b>	<b>Jan-Jun 2014</b>	<b>Apr-Jun 2015</b>	<b>Apr-Jun 2014</b>	<b>2014</b>
Gross earned premiums	480,836	451,698	248,505	228,811	923,251
Premiums earned by reinsurers	(79,910)	(76,919)	(40,850)	(37,231)	(149,576)
<b>Premiums earned in retention</b>	<b>400,926</b>	<b>374,779</b>	<b>207,655</b>	<b>191,580</b>	<b>773,675</b>
Net investment revenue and financing revenue	18,078	37,763	(22,604)	12,043	49,127
Fee revenue	21,357	20,966	10,235	9,087	38,427
<b>Total revenue</b>	<b>440,361</b>	<b>433,508</b>	<b>195,286</b>	<b>212,710</b>	<b>861,229</b>
Payments and change in liability for insurance contracts, in retention	(239,873)	(204,554)	(119,310)	(103,480)	(428,884)
Total other expenses	(156,891)	(151,603)	(82,426)	(74,588)	(301,548)
<b>Income (loss) before income taxes</b>	<b>43,597</b>	<b>77,351</b>	<b>(6,450)</b>	<b>34,642</b>	<b>130,797</b>
Taxes on income	(16,568)	(29,303)	2,334	(13,102)	(47,894)
<b>Income (loss) for the period and total comprehensive income (loss) for the period</b>	<b>27,029</b>	<b>48,048</b>	<b>(4,116)</b>	<b>21,540</b>	<b>82,903</b>

### Shareholders' equity and capital requirements

As of June 30, 2015, the Company's shareholders' equity exceeds the shareholders' equity required as of that date under the Insurance Business Regulations (Minimum Capital Required from an Insurer), 1998 by NIS 174.8 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 the first half of 2015 to increase gross premiums, by 5.4% y/y. Total gross premiums in the reported period amounted to NIS 504.5 million, up from NIS 478.6 million in the corresponding period in 2014.

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

Jan-June 2015	Life insurance	Health insurance	General insurance	Total
Gross	60,663	104,849	338,952	504,464
In retention	49,001	103,543	269,661	422,205
% of total gross	12.0	20.8	67.2	100.0
% of retention	11.6	24.5	63.9	100.0

Jan-June 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-December 2014	Life insurance	Health insurance	General insurance	Total
Gross	115,884	207,778	629,362	953,024
In retention	92,553	202,172	496,667	791,392
% of total gross	12.2	21.8	66.0	100.0
% of retention	11.7	25.5	62.8	100.0

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

	Jan-Jun 2015	Jan-Jun 2014	Apr-Jun 2015	Apr-Jun 2014	2014
Income (loss) from compulsory vehicle activity	9,349	9,874	(2,561)	4,530	17,750
Income (loss) from property vehicle activity	719	16,614	(2,819)	10,416	26,643
Income from home insurance activity	5,032	8,941	1,116	3,963	14,479
Income (loss) from commercial insurance activity	226	1,488	(2,752)	1,116	2,159
Income from health insurance activity	16,357	23,650	9,513	11,756	38,783
Income (loss) from life insurance activity	2,067	1,360	1,081	(262)	4,951
Other - Income not attributed to any line of business	9,847	15,424	(10,028)	3,123	26,032
<b>Income (loss) before taxes on income</b>	<b>43,597</b>	<b>77,351</b>	<b>(6,450)</b>	<b>34,642</b>	<b>130,797</b>
Taxes on income	(16,568)	(29,303)	2,334	(13,102)	(47,894)
<b>Income (loss) for the period and total comprehensive income (loss) for the period</b>	<b>27,029</b>	<b>48,048</b>	<b>(4,116)</b>	<b>21,540</b>	<b>82,903</b>

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



The following is explanation on the development in some items:

- a. Net investment income and financing income was NIS 18.1 million, compared with NIS 37.8 million in the corresponding period of 2014. The decrease in investment income resulted from lower investment returns especially in June 2015.
- b. The income of the Company from compulsory vehicle insurance in the reported period was NIS 9.3 million compared with NIS 9.9 million in the corresponding period in 2014.
- c. The income of the Company from property vehicle insurance in the reported period was NIS 0.7 million, compared with NIS 8.9 million in the corresponding period of 2014. The decrease in is mainly attributed to an increase in claims ratio.
- d. The income of the Company from home insurance in the reported period was NIS 5.0 million compared with NIS 8.9 million in the corresponding period in 2014. The decreased profitability is mainly a result of an increase in claim ratio.
- e. The loss of the Company from professional liability insurance in the reported period was NIS 0.2 million compared with an income of NIS 1.3 million in the corresponding period in 2014. The decrease in income is mainly a result of a lower investment income.
- f. The loss of the Company from other property liability insurance in the reported period was NIS 0.2 million compared with an income of NIS 0.2 million in the corresponding period in 2014. The decrease in income is mainly a result of a lower investment income.
- g. The income of the Company from other liability insurance in the reported period was NIS 0.6 million compared with an income of NIS 19 thousands in the corresponding period in 2014. The increased income is a result of lower claims ratio.
- h. The income of the Company from health insurance in the reported period was NIS 16.4 million compared with NIS 23.7 million in the corresponding period in 2014. The decreased income mainly resulted from a higher claims ratio.
- i. The income of the Company from life insurance in the reported period was NIS 2.1 million compared with NIS 1.4 million in the corresponding period in 2014. The increase in profitability is mainly a result of lower claims ratio.

## **5. Cash flows and liquidity**

Net cash provided by operating activities in the reported period was NIS 11.6 million, compared with NIS 7.8 million provided by operating activities in the corresponding period in 2014.

Net cash used in investing activities in the reported period amounted to NIS 5.3 million, compared with amount of NIS 2.9 million in the corresponding period in 2014.

As a result of the above, the balance of cash and cash equivalents in the reported period increased by NIS 6.7 million and amounted NIS 89.7 million as of June 30, 2015.

## **6. Sources of funding**

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

## **7. The effect of external factors**

For more information, see section 2 above.



**8. Material subsequent events**

No 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, 2015 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.

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Ralph Mucerino  
Chairman of the Board of Directors

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Shay Feldman  
CEO

August 18, 2015

# **AIG Israel Insurance Company Ltd**

## **Declarations relating to the Financial Statements**

## **Declaration**

I, Shay Feldman hereby declare that:

1. I reviewed the interim report of AIG Israel Insurance Company Ltd. (hereafter – "the insurance company") for the quarter ended June 30, 2015 (hereafter – "the report").
2. Based on my knowledge, the report does not include any misstatement of a material fact or omit to disclose a material fact the presentation of which in the report is necessary for the purpose of ensuring that under the circumstances in which those presentations are included, they will not be misleading regarding the period covered by the report.
3. Based on my knowledge, the quarterly financial statements and other financial information included in the report reflect fairly, in all material respects, the financial position, results of operations, changes in shareholders' equity and cash flows of the insurance company for the date and periods covered by the report.
4. The Company's other certifying officers and I are responsible for establishing and maintaining controls and procedures relating to disclosure<sup>1</sup> 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

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



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

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

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Shay Feldman - CEO

August 18, 2015

## 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, 2015 (hereafter – "the report").
2. Based on my knowledge, the report does not include any misstatement of a material fact or omit to disclose a material fact the presentation of which in the report is necessary for the purpose of ensuring that under the circumstances in which those presentations are included, they will not be misleading regarding the period covered by the report.
3. Based on my knowledge, the quarterly financial statements and other financial information included in the report reflect fairly, in all material respects, the financial position, results of operations, changes in shareholders' equity and cash flows of the insurance company for the date and periods covered by the report.
4. The Company's other certifying officers and I are responsible for establishing and maintaining controls and procedures relating to disclosure<sup>1</sup> 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

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

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

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

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David Rothstein - CFO

August 18, 2015

## **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, 2015, based on criteria set in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation management believes that as at June 30, 2015 the internal control of the Insurance Company over financial reporting is effective.

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Mr. Ralph Mucerino  
Chairman of the Board

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Mr. Shay Feldman  
CEO

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Mr. David Rothstein  
CFO

Date of approval of financial statements: August 18, 2015

**AIG ISRAEL INSURANCE CO. LTD.**

FINANCIAL INFORMATION FOR INTERIM PERIOD  
(Unaudited)

JUNE 30, 2015

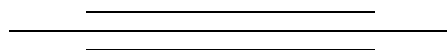
**AIG ISRAEL INSURANCE CO. LTD.**

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

**JUNE 30, 2015**

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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, 2015 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 18, 2015

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, 2015**

	<b>June 30</b>		<b>December 31,</b>
	<b>2015</b>	<b>2014</b>	<b>2014</b>
	<b>(Unaudited)</b>		<b>(Audited)</b>
	<b>NIS in thousands</b>		
<b>Assets</b>			
Intangible assets	22,236	13,823	20,410
Deferred acquisition expenses	151,821	146,705	148,214
Fixed assets	8,892	12,994	10,663
Reinsurance assets	695,517	690,650	718,971
Premiums collectible	201,282	191,760	193,337
Current tax assets	54,313	70,300	84,697
Other receivables	40,138	41,641	40,149
	<u>1,174,199</u>	<u>1,167,873</u>	<u>1,216,441</u>
Financial investments:			
Marketable debt instruments	1,204,780	1,186,745	1,183,798
Non-marketable debt instruments	180,332	168,835	164,461
Marketable shares	99,988	84,694	87,300
Other	65,894	37,332	57,919
<b>TOTAL FINANCIAL INVESTMENTS</b>	<u>1,550,994</u>	<u>1,477,606</u>	<u>1,493,478</u>
Cash and cash equivalents	89,740	72,567	83,087
<b>TOTAL ASSETS</b>	<u>2,814,933</u>	<u>2,718,046</u>	<u>2,793,006</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 18, 2015



**AIG ISRAEL INSURANCE CO. LTD.**  
**CONDENSED STATEMENTS OF FINANCIAL POSITION**  
**AS OF JUNE 30, 2015**

	<b>June 30</b>		<b>December 31,</b>
	<b>2015</b>	<b>2014</b>	<b>2014</b>
	<b>(Unaudited)</b>		<b>(Audited)</b>
	<b>NIS in thousands</b>		
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY:</b>			
Share capital	6	6	6
Share premium	250,601	250,601	250,601
Other capital reserve	11,084	11,084	11,084
Retained earning	456,245	429,361	429,216
<b>TOTAL EQUITY ATTRIBUTABLE TO COMPANY SHAREHOLDERS</b>	<b>717,936</b>	<b>691,052</b>	<b>690,907</b>
<b>LIABILITIES:</b>			
Liabilities in respect of insurance contracts and without-profits investment contracts	1,740,843	1,658,889	1,715,261
Liabilities in respect of deferred taxes, net	6,440	27,181	10,267
Liabilities with respect to employee rights upon retirement, net	3,148	1,757	3,069
Liabilities towards reinsurers	272,231	267,774	280,598
Payables	74,335	71,393	92,904
<b>TOTAL LIABILITIES</b>	<b>2,096,997</b>	<b>2,026,994</b>	<b>2,102,099</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>2,814,933</b>	<b>2,718,046</b>	<b>2,793,006</b>

**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, 2015

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2015	2014	2015	2014	2014
	(Unaudited)		(Unaudited)		(Audited)
NIS in thousands					
Gross earned premiums	480,836	451,698	248,505	228,811	923,251
Premiums earned by reinsurers	(79,910)	(76,919)	(40,850)	(37,231)	(149,576)
Premiums earned on non-ceded business	400,926	374,779	207,655	191,580	773,675
Investment income, net and financing income	18,078	37,763	(22,604)	12,043	49,127
Commission income	21,357	20,966	10,235	9,087	38,427
<b>TOTAL INCOME</b>	<b>440,361</b>	<b>433,508</b>	<b>195,286</b>	<b>212,710</b>	<b>861,229</b>
Payments and change in liabilities					
with respect to insurance contracts, gross	(381,915)	(287,467)	(150,400)	(135,656)	(577,858)
Share of reinsurers in payments and in change in					
insurance contracts	142,042	82,913	31,090	32,176	148,974
Payments and movement in liabilities with respect					
to insurance contracts, retained amount	(239,873)	(204,554)	(119,310)	(103,480)	(428,884)
Commission, marketing expenses and other					
acquisition expenses	(85,142)	(84,221)	(45,497)	(40,611)	(166,902)
General and administrative expenses	(70,086)	(67,135)	(34,558)	(34,641)	(140,159)
Financing income (expenses)	(1,663)	(247)	(2,371)	664	5,513
<b>TOTAL EXPENSES</b>	<b>(396,764)</b>	<b>(356,157)</b>	<b>(201,736)</b>	<b>(178,068)</b>	<b>(730,432)</b>
<b>INCOME (LOSS) BEFORE TAXES ON</b>					
<b>INCOME</b>	<b>43,597</b>	<b>77,351</b>	<b>(6,450)</b>	<b>34,642</b>	<b>130,797</b>
Taxes on income	(16,568)	(29,303)	2,334	(13,102)	(47,894)
<b>INCOME (LOSS) FOR THE PERIOD AND</b>					
<b>TOTAL COMPREHENSIVE INCOME</b>					
<b>(LOSS) FOR THE PERIOD</b>	<b>27,029</b>	<b>48,048</b>	<b>(4,116)</b>	<b>21,540</b>	<b>82,903</b>
<b>BASIC EARNINGS PER SHARE -</b>	<b>4.80</b>	<b>8.53</b>	<b>(0.73)</b>	<b>3.83</b>	<b>14.73</b>
number of shares used in computation					
of basic earnings per share	5,630	5,630	5,630	5,630	5,630

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

**AIG ISRAEL INSURANCE CO. LTD.**  
**CONDESED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE SIX AND THREE MONTHS ENDED JUNE 30, 2015**

	<u>Share capital</u>	<u>Share Premium</u>	<u>Other capital reserves</u>	<u>Retained earnings</u>	<u>Total</u>
	NIS in thousands				
<b>BALANCE AS OF JANUARY 1, 2015</b> (audited)	6	250,601	11,084	429,216	690,907
<b>CHANGES DURING THE SIX MONTHS ENDED JUNE 30, 2015</b> (unaudited) - total income and comprehensive income for the six months ended June 30, 2015				<u>27,029</u>	<u>27,029</u>
<b>BALANCE AS OF JUNE 30, 2015</b> (unaudited)	<u>6</u>	<u>250,601</u>	<u>11,084</u>	<u>456,245</u>	<u>717,936</u>
<b>BALANCE AS OF JANUARY 1, 2014</b> (audited)	6	250,601	11,084	381,313	643,004
<b>CHANGES DURING THE SIX MONTHS ENDED JUNE 30, 2014</b> (unaudited) - total income and comprehensive income for six months ended June 30, 2014				<u>48,048</u>	<u>48,048</u>
<b>BALANCE AS OF JUNE 30, 2014</b> (unaudited)	<u>6</u>	<u>250,601</u>	<u>11,084</u>	<u>429,361</u>	<u>691,052</u>
<b>BALANCE AS OF APRIL 1, 2015</b> (unaudited)	6	250,601	11,084	460,361	722,052
<b>CHANGES DURING THE THREE MONTHS ENDED JUNE 30, 2015</b> (unaudited) - total loss and comprehensive loss for the three months ended June 30, 2015				<u>(4,116)</u>	<u>(4,116)</u>
<b>BALANCE AS OF JUNE 30, 2015</b> (unaudited)	<u>6</u>	<u>250,601</u>	<u>11,084</u>	<u>456,245</u>	<u>717,936</u>
<b>BALANCE AS OF APRIL 1, 2014</b> (unaudited)	6	250,601	11,084	407,821	669,512
<b>CHANGES DURING THE THREE MONTHS ENDED JUNE 30, 2014</b> (unaudited) - total income and comprehensive income for the three months ended June 30, 2014				<u>21,540</u>	<u>21,540</u>
<b>BALANCE AS OF JUNE 30, 2014</b> (unaudited)	<u>6</u>	<u>250,601</u>	<u>11,084</u>	<u>429,361</u>	<u>691,052</u>
<b>BALANCE AS OF JANUARY 1, 2014</b> (audited)	6	250,601	11,084	381,313	643,004
<b>CHANGES DURING THE YEAR 2014</b> (audited) total comprehensive income for year ended December 31, 2014				82,903	82,903
Transactions with shareholders carried directly to equity - dividend				<u>(35,000)</u>	<u>(35,000)</u>
<b>BALANCE AS OF DECEMBER 31, 2014</b> (audited)	<u>6</u>	<u>250,601</u>	<u>11,084</u>	<u>429,216</u>	<u>690,907</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, 2015**

Six months ended June 30	Three months ended June 30	Year ended December 31
2015	2014	2014
(Unaudited)	(Unaudited)	(Audited)
NIS in thousands		

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Net cash provided by (used in) operating activities (Appendix A)	(25,646)	8,304	6,590	(21,652)	96,078
Interest received	26,008	26,788	13,008	14,666	45,484
Dividend received	1,233	1,103	956	667	2,337
Income taxes (paid) – net	9,993	(28,431)	(24,676)	(30,551)	(78,334)
Net cash provided by (used in) operating activities	11,588	7,764	(4,122)	(36,870)	65,565

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Changes in asset cover for equity and non-insurance liabilities:					
Acquisition of fixed assets	110	(563)	733	(188)	(1,769)
Acquisition of Intangible assets	(5,365)	(2,301)	(3,137)	(1,187)	(12,218)
Net cash used in investing activities	(5,255)	(2,864)	(2,404)	(1,375)	(13,987)

**CASH FLOWS FROM FINANCING ACTIVITIES:**

Dividend paid to Company's shareholders	-	-	-	-	(35,000)
Net cash used in financing activities	-	-	-	-	(35,000)

**INCREASE (DECREASE) IN CASH AND CASH  
EQUIVALENTS**

	6,333	4,900	(6,526)	(38,245)	16,578
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**CASH AND CASH EQUIVALENTS AT  
BEGINNING OF PERIOD**

	83,087	67,616	95,947	110,776	67,616
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**INFLUENCE OF FLUCTIONS IN EXCHANGE  
RATE ON CASH AND CASH EQUIVALENTS**

	320	51	319	36	(1,107)
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**CASH AND CASH QUIVALENTS  
AT END OF PERIOD**

	89,740	72,567	89,740	72,567	83,087
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**AIG ISRAEL INSURANCE CO. LTD.**  
**CONDESED STATEMENTS OF CASH FLOWS**  
**FOR THE SIX AND THREE MONTHS ENDED JUNE 30, 2015**

	<b>Six months ended</b>		<b>Three months ended</b>		<b>Year ended</b>
	<b>June 30</b>		<b>June 30</b>		<b>December 31</b>
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2014</b>
<b>NIS in thousands</b>					
<b>APPENDIX A - CASH FLOWS FROM OPERATING ACTIVITIES -</b>					
Income (loss) before taxes on income	43,597	77,351	(6,450)	34,642	130,797
<b>Adjustments for- Income and expenses not involving cash flows:</b>					
Increase (decrease) in insurance contracts not depending on yield	49,036	46,184	(2,709)	18,387	74,234
Decrease (increase) in deferred acquisition expenses	(3,607)	(6,185)	3,140	(262)	(7,694)
Increase (decrease) in liabilities with respect to employee rights upon retirement, net	78	(688)	39	(475)	624
Depreciation of fixed assets	1,661	2,817	446	1,404	6,354
Depreciation of intangible asset	3,539	3,277	1,771	1,629	6,607
Losses (gains), net on realization of financial investments:					
Marketable debt instruments	15,110	(7,772)	32,617	1,180	4,057
Non-marketable debt instruments	7,265	(96)	253	(718)	(3,525)
Marketable shares	(8,388)	(2,253)	485	2,512	(3,313)
Index linked certificates	(443)	(940)	1,557	(349)	(675)
Influence of fluctuation in exchange rate on cash and cash equivalents	(320)	(51)	(319)	(36)	1,107
	<u>107,528</u>	<u>111,644</u>	<u>30,830</u>	<u>57,914</u>	<u>208,573</u>
Changes in operating assets and liabilities:					
Liabilities towards reinsurers	(8,367)	11,589	(12,812)	6,733	24,413
Investments in financial assets, net	(71,063)	(61,680)	9,691	(70,102)	(85,158)
Premiums collectible	(7,945)	(5,346)	2,727	3,766	(6,923)
Receivables	11	(2,598)	1,243	(2,259)	(1,106)
Payables	(18,569)	(17,414)	(11,125)	(2,371)	4,100
	<u>(105,933)</u>	<u>(75,449)</u>	<u>(10,276)</u>	<u>(64,233)</u>	<u>(64,674)</u>
Adjustments with respect to interest and dividend received:					
Interest received	(26,008)	(26,788)	(13,008)	(14,666)	(45,484)
Dividend received	(1,233)	(1,103)	(956)	(667)	(2,337)
Net cash provided by (used in) operating activities	<u>(25,646)</u>	<u>8,304</u>	<u>6,590</u>	<u>(21,652)</u>	<u>96,078</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.

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

**NOTE 1 – GENERAL (continued):**

- 13) 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).
- 14) Details of account regulations - Supervision of Insurance Businesses (Details of account) Regulations, 1998.
- 15) The Investment Regulations – Control of Financial Services (Provident Funds) (Investment Rules Applicable to Financial Institutions) Regulations, 2012.
- 16) Shareholders' Capital Regulations - The Supervision of Insurance Business Regulations (minimum shareholders' equity required from an insurer), 1998 and amendments as amended.
- 17) Account Segregation Regulations in Life Insurance - The Supervision of Insurance Regulations (Method of Segregation of Accounts and Assets of Insurer in Life Insurance), 1984.
- 18) Regulations for Calculation of General Insurance Funds - The Supervision of Insurance Businesses Regulations (Method of Calculation of Provisions for Future Claims in General Insurance) 1984, and amendments as amended.
- 19) Exposure to reinsurers - debit balances with the company's reinsurers, including the reinsurer's share in the company's outstanding claims and unexpired risks fund, all being net of the reinsurer's deposits with the company and the amount of documentary credits granted against the debt of the reinsurer.
- 20) Insurance contract - A contract under which one party (the insurer) takes a significant insurance risk from another party (policy holder), by agreement to indemnify the policy holder if an uncertain a defined future event (insurance event) negatively affects the policy holder.
- 21) Liability for insurance contracts - Insurance reserves and outstanding claims in general insurance.
- 22) Premium - Premium including fees and proceeds for related services
- 23) 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, 2015 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, 2014 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, 2014.

**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:

- a.** Taxes on income for the reported interim period are accounted for on the basis on management's best estimate of the average tax rate applicable to the projected annual profits.
- b.** New accounting standards applied for the first time:
  - 1) New IFRS and amendments to existing standards that came into effect and are mandatory for reporting periods commencing on January 1, 2015**
    - a) IFRS 8 was amended to require disclosure of the judgments made by management in aggregating operating segments. It is also amended to require a reconciliation of total reportable segment assets to the entity's assets only when segment assets are reported. The said amendment shall be applied on a prospective basis for annual reporting periods beginning on July 1, 2014 or thereafter.
    - b) Amendment to IFRS 13 – "Fair Value Measurement". The amendment clarifies that entities are allowed to measure short-term receivables and payables at invoice amounts where the impact of not discounting is immaterial.

As specified in the Company's 2014 annual financial statements, certain amendments to IFRS came into effect for accounting periods commencing on January 1, 2015. However, the first time application of these amendments did not have a material effect on the Company's financial information for interim periods (including comparative figures).



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

**NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES** (continued):

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

It its annual 2014 financial statements, the Company specified new IFRS and additional amendments to existing IFRS, which have not yet become effective and have not been early adopted by the Company. Since the date of issuance of the Company's annual financial statements through the date of approval of these interim financial statements, no new standards of amendments to existing standards were published.

**c. Proposed changes in the calculation of insurance reserves in general insurance**

In February 2013, the Control of Financial Services Regulations (Insurance) (Calculation of Insurance Reserves in General Insurance), 2013 ("the New Regulations") were issued and a circular that was updated in January 2015 (jointly "the Amendment"), regarding an update of the legal provisions for calculation of insurance reserves in general insurance.

The Amendment supersedes the Control of Insurance Business Regulations (Methods of Calculating Provisions for Future Claims in General Insurance), 1984, which will be replaced by the New Regulations. The main change that will apply when the Amendment comes into force is cancellation, as from the financial statements as of December 31, 2015, of the surplus income over expenses reserve ("the Reserve"). The Reserve is currently calculated for three years, in long-tail general insurance branches (mainly compulsory motor and liability), for which an actuarial valuation has been prepared.

In addition, as a complementary measure for the change, the draft position of the Supervisor was published in January 2015 regarding the best practice for actuaries when calculating general insurance reserves for the financial statements to properly and adequately reflect the insurance liabilities. The Supervisor's position includes, inter alia, the following:

- 1) "Suitable reserve for coverage of the insurer's obligation" means that it is fairly likely, that is a probability of at least 75%, that the insurance obligation determined will be sufficient to cover the insurer's obligation.
- 2) Reference to the capitalization rate of the obligations.
- 3) Grouping: to calculate the margins for uncertainty in statistical branches (as defined in the circular), each branch should be considered separately; however, the risks of each underwriting (or damage) year in the branch can be grouped. Non-statistical branches can all be considered as a single set.
- 4) Determination of the level of insurance obligations for policies sold shortly before the reporting date and for risks subsequent to the reporting date:

The Company is reviewing the general effect of the Amendment on the financial statements, together with the position of the Supervisor. At this stage, the effect cannot be assessed, since the first time application of the Supervisor's Position is to take place in December 2015 and it requires making lengthy preparations.

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

**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.

**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.

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

**NOTE 4 - SEGMENT INFORMATION** (continued):

- **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):

	<b>For the 6-month period ended June 30 , 2015 (unaudited)</b>				
	<b>Life assurance</b>	<b>Health insurance</b>	<b>General insurance</b>	<b>Not apportionable to operating segments</b>	<b>Total</b>
	<b>NIS in thousands</b>				
Gross earned premiums	60,594	104,703	315,539		480,836
Premiums earned by reinsurers	(11,659)	(1,305)	(66,946)		(79,910)
Premiums earned by non-ceded business	48,935	103,398	248,593		400,926
Investment income (loss), net and financing income	(1)	671	4,970	12,438	18,078
Commission income	1,924	264	19,169		21,357
Total income	50,858	104,333	272,732	12,438	440,361
Payments and change in insurance liabilities with respect to insurance contracts (gross)	(25,565)	(48,237)	(308,113)		(381,915)
Share of reinsurers in payments and change in liabilities in respect of insurance contracts	9,325	1,831	130,886		142,042
Payments and change in respect of insurance contracts relating to non-ceded business	(16,240)	(46,406)	(177,227)		(239,873)
Commissions and other acquisition expenses	(15,158)	(19,168)	(50,816)		(85,142)
General and administrative expenses	(17,393)	(22,402)	(30,291)		(70,086)
Financing income (expenses)	-	-	928	(2,591)	(1,663)
Total comprehensive income before taxes on income	2,067	16,357	15,326	9,847	43,597
Gross liabilities with respect to insurance contracts as of June 30, 2015	55,584	140,790	1,544,469		1,740,843

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

**NOTE 4 - SEGMENT INFORMATION** (continued):

	<b>For the 6-month period ended June 30 , 2014 (unaudited)</b>				
	<b>Life assurance</b>	<b>Health insurance</b>	<b>General insurance</b>	<b>Not apportionable to operating segments</b>	<b>Total</b>
	<b>NIS in thousands</b>				
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
<b>Total income</b>	<b>46,474</b>	<b>101,765</b>	<b>270,201</b>	<b>15,068</b>	<b>433,508</b>
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)
<b>Total comprehensive income before taxes on income</b>	<b>1,360</b>	<b>23,650</b>	<b>36,917</b>	<b>15,424</b>	<b>77,351</b>
Gross liabilities with respect to insurance contracts as of June 30, 2014	<b>47,585</b>	<b>132,760</b>	<b>1,478,544</b>		<b>1,658,889</b>

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

**NOTE 4 - SEGMENT INFORMATION** (continued):

	<b>For the 3-month period ended June 30, 2015 (unaudited)</b>				
	<b>Life assurance</b>	<b>Health insurance</b>	<b>General insurance</b>	<b>Not apportionable to operating segments</b>	<b>Total</b>
	<b>NIS in thousands</b>				
Gross earned premiums	30,435	52,496	165,574		248,505
Premiums earned by reinsurers	(5,613)	(676)	(34,561)		(40,850)
Premiums earned by non-ceded business	24,822	51,820	131,013		207,655
Investment income (loss), net and financing income	-	(1,943)	(13,932)	(6,729)	(22,604)
Commission income	942	145	9,148		10,235
Total income	25,764	50,022	126,229	(6,729)	195,286
Payments and change in insurance liabilities with respect to insurance contracts (gross)	(13,416)	(20,183)	(116,801)		(150,400)
Share of reinsurers in payments and change in liabilities in respect of insurance contracts	4,971	(98)	26,217		31,090
Payments and change in insurance liabilities with respect to insurance contracts relating to non-ceded business	(8,445)	(20,281)	(90,584)		(119,310)
Commission and other acquisition expenses	(7,650)	(9,587)	(28,260)		(45,497)
General and administrative expenses	(8,588)	(10,641)	(15,329)		(34,558)
Financing income (expenses)	-	-	928	(3,299)	(2,371)
Total comprehensive income (loss) before taxes on income	1,081	9,513	(7,016)	(10,028)	(6,450)

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

**NOTE 4 - SEGMENT INFORMATION** (continued):

	<b>For the 3-month period ended June 30, 2014 (unaudited)</b>				
	<b>Life assurance</b>	<b>Health insurance</b>	<b>General insurance</b>	<b>Not apportionable to operating segments</b>	<b>Total</b>
	<b>NIS in thousands</b>				
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):

	<b>For the year ended December 31, 2014 (audited)</b>				
	<b>Life assurance</b>	<b>Health insurance</b>	<b>General insurance</b>	<b>Not Apportion able to operating segments</b>	<b>Total</b>
	<b>NIS in thousands</b>				
Gross earned premiums	115,500	208,762	598,989		923,251
Premiums earned by reinsurers	(23,354)	(5,607)	(120,615)		(149,576)
Premiums earned by non-ceded business	92,146	203,155	478,374		773,675
Investment income, net and financing income	51	4,193	24,957	19,926	49,127
Commission income	3,457	1,278	33,692		38,427
Total income	95,654	208,626	537,023	19,926	861,229
Payments and change in insurance liabilities with respect to insurance contracts (gross)	(42,011)	(91,717)	(444,130)		(577,858)
Share of reinsurers in increase in insurance liabilities and payments in respect of insurance contracts	10,601	4,799	133,574		148,974
Payments and change in insurance liabilities with respect to insurance contracts relating to non-ceded business	(31,410)	(86,918)	(310,556)		(428,884)
Commission and other acquisition expenses	(28,595)	(39,731)	(98,576)		(166,902)
General and administrative expenses	(30,698)	(43,184)	(66,277)		(140,159)
Financing income (expenses)	-	(10)	(583)	6,106	5,513
Total comprehensive income before taxes on income	4,951	38,783	61,031	26,032	130,797
Gross liabilities with respect to insurance contracts as of December 31, 2014	51,791	137,135	1,526,335		1,715,261



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

**NOTE 4 - SEGMENT INFORMATION** (continued):

**Additional information relating to general insurance segment:**

	<b>For the 6-month period ended June 30, 2015 (unaudited)</b>						
	<b>Compulsory Motor vehicle</b>	<b>Motor vehicle property</b>	<b>Personal property</b>	<b>Professional liability</b>	<b>Other property branches *</b>	<b>Other liability branches *</b>	<b>Total</b>
	<b>NIS in thousands</b>						
Gross premiums	76,909	142,796	51,881	31,095	16,449	19,822	338,952
Reinsurance premiums	(1,078)	(58)	(10,041)	(26,579)	(15,539)	(15,996)	(69,291)
Premiums relating to non-ceded business	75,831	142,738	41,840	4,516	910	3,826	269,661
Change in balance of unearned premiums relating to non-ceded business	(5,750)	(13,645)	(1,200)	(16)	(14)	(443)	(21,068)
Premiums earned on non-ceded business	70,081	129,093	40,640	4,500	896	3,383	248,593
Investment income, net and financing income	2,371	707	262	812	89	729	4,970
Commission income	-	-	2,398	8,170	4,229	4,372	19,169
Total income	<u>72,452</u>	<u>129,800</u>	<u>43,300</u>	<u>13,482</u>	<u>5,214</u>	<u>8,484</u>	<u>272,732</u>
Payments and change in liabilities in respect of insurance contracts (gross)	(69,269)	(101,164)	(25,019)	(96,001)	7,705	(24,365)	(308,113)
Share of reinsurers in payments and change in liabilities in respect of insurance contracts	21,303	-	3,736	92,942	(8,704)	21,609	130,886
Payments and change in insurance liabilities with respect to insurance contracts relating to non-ceded business	(47,966)	(101,164)	(21,283)	(3,059)	(999)	(2,756)	(177,227)
Commission, marketing expenses and other acquisition expenses	(9,014)	(19,476)	(8,215)	(7,319)	(3,021)	(3,771)	(50,816)
General and administrative expenses	(6,123)	(8,768)	(9,358)	(3,354)	(1,350)	(1,338)	(30,291)
Financing income, net	-	327	588	4	-	9	928
Total expenses	<u>(63,103)</u>	<u>(129,081)</u>	<u>(38,268)</u>	<u>(13,728)</u>	<u>(5,370)</u>	<u>(7,856)</u>	<u>(257,406)</u>
Total comprehensive income (loss) before taxes on income	<u>9,349</u>	<u>719</u>	<u>5,032</u>	<u>(246)</u>	<u>(156)</u>	<u>628</u>	<u>15,326</u>
Gross liabilities with respect to insurance contracts as of June 30,2015	<u>699,570</u>	<u>190,524</u>	<u>68,845</u>	<u>231,431</u>	<u>71,445</u>	<u>282,654</u>	<u>1,544,469</u>
Net liabilities with respect to insurance contracts as of June 30,2015	<u>526,521</u>	<u>190,524</u>	<u>60,440</u>	<u>46,278</u>	<u>3,506</u>	<u>42,153</u>	<u>869,423</u>

\* 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 third party warranty insurance line, the operations of which attract 47% 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:**

	<b>For the 6-month period ended June 30, 2014 (unaudited)</b>						
	<b>Compulsory Motor Vehicle</b>	<b>Motor vehicle property</b>	<b>Personal property</b>	<b>Professional liability</b>	<b>Other property Branches*</b>	<b>Other liability Branches*</b>	<b>Total</b>
<b>NIS in thousands</b>							
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	<u>76,721</u>	<u>121,048</u>	<u>44,460</u>	<u>12,923</u>	<u>5,445</u>	<u>9,604</u>	<u>270,201</u>
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	<u>(66,847)</u>	<u>(104,434)</u>	<u>(35,519)</u>	<u>(11,616)</u>	<u>(5,283)</u>	<u>(9,585)</u>	<u>(233,284)</u>
Total comprehensive income before taxes on income	<u>9,874</u>	<u>16,614</u>	<u>8,941</u>	<u>1,307</u>	<u>162</u>	<u>19</u>	<u>36,917</u>
Gross liabilities with respect to insurance contracts as of June 30,2014	<u>659,861</u>	<u>163,158</u>	<u>61,011</u>	<u>252,751</u>	<u>75,794</u>	<u>265,969</u>	<u>1,478,544</u>
Net liabilities with respect to insurance contracts as of June 30,2014	<u>497,508</u>	<u>163,158</u>	<u>53,019</u>	<u>48,373</u>	<u>3,871</u>	<u>42,118</u>	<u>808,047</u>

\* 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:**

	<b>For the 3-month period ended June 30, 2015 (unaudited)</b>						<b>Total</b>
	<b>Compulsory motor vehicle</b>	<b>Motor vehicle property</b>	<b>Personal property</b>	<b>Professional liability</b>	<b>Other property branches *</b>	<b>Other liability branches *</b>	
	<b>NIS in thousands</b>						
Gross premiums	35,612	67,936	22,750	14,237	7,797	8,551	156,883
Reinsurance premiums	(495)	(29)	(4,303)	(12,279)	(7,289)	(6,854)	(31,249)
Premiums relating to non-ceded business	35,117	67,907	18,447	1,958	508	1,697	125,634
Change in balance of unearned premiums relating to non-ceded business	1,224	346	3,264	419	74	52	5,379
Premiums earned on non-ceded business	36,341	68,253	21,711	2,377	582	1,749	131,013
Investment income, net and financing income	(6,448)	(2,190)	(1,118)	(1,926)	(265)	(1,985)	(13,932)
Commission income	-	-	923	4,170	1,988	2,067	9,148
Total income	29,893	66,063	21,516	4,621	2,305	1,831	126,229
Payments and change in liabilities in respect of insurance contracts (gross)	(43,554)	(53,589)	(12,762)	(10,158)	19,783	(16,521)	(116,801)
Share of reinsurers in payments and change in liabilities in respect of insurance contracts	18,719	-	1,345	10,464	(19,251)	14,940	26,217
Payments and change in insurance liabilities with respect to insurance contracts relating to non-ceded business	(24,835)	(53,589)	(11,417)	306	532	(1,581)	(90,584)
Commissions, marketing expenses and other acquisition expenses*	(4,651)	(10,948)	(4,862)	(3,899)	(1,843)	(2,057)	(28,260)
General and administrative expenses *	(2,968)	(4,672)	(4,709)	(1,643)	(696)	(641)	(15,329)
Financing income, net	-	327	588	4	0	9	928
Total expenses	(32,454)	(68,882)	(20,400)	(5,232)	(2,007)	(4,270)	(133,245)
Total comprehensive income (loss) before taxes on income	(2,561)	(2,819)	1,116	(611)	298	(2,439)	(7,016)

- \* The results of other property lines reflect mainly the results of the property insurance line the operations of which attract 86% 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 45% 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:**

	<b>For the 3-month period ended June 30, 2014 (unaudited)</b>						
	<b>Compulsory Motor Vehicle</b>	<b>Motor vehicle property</b>	<b>Personal property</b>	<b>Professional liability</b>	<b>Other property branches *</b>	<b>Other liability branches *</b>	<b>Total</b>
	<b>NIS in thousands</b>						
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 income, 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**

	<b>For year ended December 31, 2014 (audited)</b>						
	<b>Compulsory motor vehicle</b>	<b>Motor vehicle property</b>	<b>Personal Property</b>	<b>Professional liability</b>	<b>Other property branches *</b>	<b>Other liability branches *</b>	<b>Total</b>
	<b>NIS in thousands</b>						
Gross premiums	146,272	256,572	104,123	56,414	32,036	33,945	629,362
Reinsurance premiums	(2,040)	(108)	(23,970)	(47,675)	(30,777)	(28,125)	(132,695)
Premiums relating to non-ceded business	144,232	256,464	80,153	8,739	1,259	5,820	496,667
Change in balance of unearned premiums relating to non-ceded business	(4,733)	(11,461)	(82)	(1,364)	(136)	(517)	(18,293)
Premiums earned on non-ceded business	139,499	245,003	80,071	7,375	1,123	5,303	478,374
Investment income, net and financing income	10,951	4,116	2,873	3,200	479	3,338	24,957
Commission income	-	-	4,870	13,233	8,212	7,377	33,692
<b>Total income</b>	<b>150,450</b>	<b>249,119</b>	<b>87,814</b>	<b>23,808</b>	<b>9,814</b>	<b>16,018</b>	<b>537,023</b>
Payments and change in insurance liabilities with respect to insurance contracts (gross)	(109,602)	(168,861)	(36,945)	(30,731)	(52,706)	(45,285)	(444,130)
Share of reinsurers in increase of insurance liabilities and payments with respect to insurance contracts	13,460	-	4,592	25,395	50,327	39,800	133,574
Payments and change in insurance liabilities with respect to insurance contracts relating to non-ceded business	(96,142)	(168,861)	(32,353)	(5,336)	(2,379)	(5,485)	(310,556)
Commission, marketing expenses and other acquisition expenses	(18,219)	(36,043)	(20,299)	(11,734)	(5,190)	(7,091)	(98,576)
General and administrative expenses	(18,339)	(17,572)	(20,663)	(5,305)	(1,974)	(2,424)	(66,277)
Financing expenses, net	-	-	(20)	(253)	(37)	(273)	(583)
<b>Total expenses</b>	<b>(132,700)</b>	<b>(222,476)</b>	<b>(73,335)</b>	<b>(22,628)</b>	<b>(9,580)</b>	<b>(15,273)</b>	<b>(475,992)</b>
<b>Total comprehensive income before taxes on income</b>	<b>17,750</b>	<b>26,643</b>	<b>14,479</b>	<b>1,180</b>	<b>234</b>	<b>745</b>	<b>61,031</b>
Gross liabilities with respect to insurance contracts as of December 31, 2014	666,500	168,599	64,517	262,359	96,557	267,803	1,526,335
<b>Net liabilities with respect to insurance contracts as of December 31, 2014</b>	<b>506,731</b>	<b>168,599</b>	<b>56,140</b>	<b>49,839</b>	<b>3,591</b>	<b>40,760</b>	<b>825,660</b>

\* The results of other property lines reflect mainly the results of the property insurance line the operations of which attract 83% 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 44% 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:**

**a. Management and capital requirements:**

1. 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.
2. 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

	<b>June 30</b>		<b>December 31,</b>
	<b>2015</b>	<b>2014</b>	<b>2014</b>
	<b>(Unaudited)</b>		<b>(Audited)</b>
The amount required under capital regulations and supervisor guidelines (a)	543,152	527,569	546,550
Existing amount computed under capital regulations:			
Primary capital	717,936	691,052	690,907
Total existing capital existing computed under capital requirements	717,936	691,052	690,907
Surplus	<b>174,784</b>	<b>163,483</b>	<b>144,357</b>

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.

- a.** The amount required includes inter alia, capital requirements, with respect to:

	<b>June 30</b>		<b>December 31,</b>
	<b>2015</b>	<b>2014</b>	<b>2014</b>
	<b>(Unaudited)</b>		<b>(Audited)</b>
	<b>NIS in thousands</b>		
Operations related to general insurance	126,645	120,395	123,599
Exceptional life assurance risks	34,211	29,286	31,756
Deferred acquisition expenses in relation to life assurance	84,053	83,180	85,505
Investment assets and other assets	66,253	60,517	73,831
Catastrophe risk related to general insurance	200,651	204,212	200,903
Operating risks	31,339	29,979	30,956
<b>T o t a l</b>	<b>543,152</b>	<b>527,569</b>	<b>546,550</b>

**NOTE 5 - SHAREHOLDERS' EQUITY AND CAPITAL REQUIREMENTS** (continued):

**b. Solvency II**

In November 2014, the Supervisor published a letter addressed to insurance companies' managers (hereafter – "the letter"), which deals with the implementation of the Solvency II directive. In the letter, the Supervisor notified the insurance companies that the implementation of the directive in Europe was scheduled for the beginning of 2016 and timelines were set for the implementation of the final directive. In view of the intention to publish final directives in Europe by June 2015, the Supervisor notified the insurance companies of her intention to publish in 2016 guidelines regarding the adjustment of the first tier of the directive to the local market; those guidelines shall replace the existing ones. The Supervisor indicated that the insurance companies will be required to meet those guidelines commencing their 2016 annual financial statements. As part of the preparations for the implementation of the model, the Ministry of Finance requires the insurance companies to carry out two additional IQIS exercises in respect of the years 2014 and 2015 (simulations of the effect of the directive on the insurer's equity given its existing business mix and balance sheet).

Subsequently, commencing 2016 and before the new regime comes into effect, there is an intention to require a quarterly reporting in accordance with the new directive; such quarterly reporting will be made in addition to the existing capital requirements reporting.

Changing the capital requirements is subject, among other things, to changing the Supervision of Financial Services (Insurance) (Minimum Equity Required of an Insurer) Regulations, 1998.

The Supervisor also intends to publish guidelines concerning capital management and determination of new internal capital targets regarding gap analysis survey, which the companies will be required to perform with respect to the risk management unit, controls and corporation governance and consultation paper to advance the own risk and solvency assessment (ORSA) process.

In April 2015, the Supervisor published an insurance circular on the requirement to perform IQIS in 2014 (hereafter – IQIS4). According to the letter attached to the circular, since it has published the directive's layout last year, the European commission published final solvency directives as well as technical guidelines for the implementation thereof.

In the said letter, the Supervisor notes, among other things, that the IQIS exercise reflects her decisions regarding the adjustments which are required for the Israeli market and will be reflected in the new instructions. It was also noted in the letter that in advance of the application of IQIS5, the Supervisor will continue monitoring the developments in European instructions, if any, and will discuss any adjustments required for the Israeli market.

The insurance companies will be required to comply with the new capital requirements commencing with the 2016 financial statements.

The guidance on performance of IQIS4 includes a number of changes and updates compared to IQIS2. The main changes relate to cancelations, longevity, interest rate, shares, spreads, risk margin and liquidity premium. The results of the exercise should be filed to the Supervisor by August 31, 2015, in accordance with the specified layout. The company performed the IQIS4 exercise during June 2015.

The previous IQIS exercises performed by the Company indicate an increase in the Company's capital surplus when calculated on Solvency II-based solvency governance compared to capital surplus under the existing Israeli governance.

It should be indicated that the current model is highly sensitive to changes in market variables and other variables, which may result in fluctuations in the capital ratio.

**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 2014, 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.
  2. For details of the fair value of financial investments, see the appendix D.
- c. No material changes have occurred in the financial risk management policy of the Company, compared to the policy it reported in its 2014 annual financial statements.

**d. Composition of financial investments:**

	<b>As of June 30, 2015 (unaudited)</b>		
	<b>Measured at fair value through profit or loss</b>	<b>Loans and receivables</b>	<b>Total</b>
	<b>NIS in thousands</b>		
Marketable debt instruments(1)	1,204,780	-	1,204,780
Non-marketable debt instruments(2)	-	180,332	180,332
Marketable shares(3)	99,988	-	99,988
Other(4)	65,894	-	65,894
<b>Total</b>	<b>1,370,662</b>	<b>180,332</b>	<b>1,550,994</b>

	<b>As of June 30, 2014 (unaudited)</b>		
	<b>Measured at fair value through profit or loss</b>	<b>Loans and receivables</b>	<b>Total</b>
	<b>NIS in thousands</b>		
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
<b>Total</b>	<b>1,308,771</b>	<b>168,835</b>	<b>1,477,606</b>

	<b>As of December 31, 2014 (audited)</b>		
	<b>Measured at fair value through profit or loss</b>	<b>Loans and receivables</b>	<b>Total</b>
	<b>NIS in thousands</b>		
Marketable debt instruments(1)	1,183,798	-	1,183,798
Non-marketable debt instruments(2)	-	164,461	164,461
Marketable shares(3)	87,300	-	87,300
Other(4)	57,919	-	57,919
<b>Total</b>	<b>1,329,017</b>	<b>164,461</b>	<b>1,493,478</b>



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

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

**d. Composition of financial investments** (continued):

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

	<b>As of June 30, 2015</b>	
	<b>(unaudited)</b>	
	<b>Book value</b>	<b>Reduced cost</b>
	<b>NIS in thousands</b>	
Government debentures	582,572	581,384
Other marketable debt instruments:		
Other marketable debt instruments that are not convertible	622,208	628,836
Other marketable debt instruments that are convertible	-	-
<b>Total marketable debt instruments</b>	<b>1,204,780</b>	<b>1,210,220</b>
	<b>As of June 30, 2014</b>	
	<b>(unaudited)</b>	
	<b>Book value</b>	<b>Reduced cost</b>
	<b>NIS in thousands</b>	
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
<b>Total marketable debt instruments</b>	<b>1,186,745</b>	<b>1,162,186</b>
	<b>As of December 31, 2014</b>	
	<b>(audited)</b>	
	<b>Book value</b>	<b>Reduced cost</b>
	<b>NIS in thousands</b>	
Government debentures	629,992	622,306
Other debt instruments:		
Other debt instruments that are not convertible	553,744	557,229
Other debt instruments that are convertible	62	62
<b>Total marketable debt instruments</b>	<b>1,183,798</b>	<b>1,179,597</b>

**AIG ISRAEL INSURANCE CO. LTD.**

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued):

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

**d. Composition of financial investments (continued):**

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

	<b>As of June 30, 2015 (unaudited)</b>	
	<b>Book value</b>	<b>Fair value</b>
	<b>NIS in thousands</b>	
Bank deposits	98,061	97,771
Other marketable debt instruments that are not convertible	82,271	83,520
<b>Total non-marketable debt instruments</b>	<b>180,332</b>	<b>181,291</b>
	<b>As of June 30, 2014 (unaudited)</b>	
	<b>Book value</b>	<b>Fair value</b>
	<b>NIS in thousands</b>	
Bank deposits	121,324	122,358
Other marketable debt instruments that are not convertible	47,511	48,457
<b>Total non-marketable debt instruments</b>	<b>168,835</b>	<b>170,815</b>
	<b>As of December 31, 2014 (audited)</b>	
	<b>Book value</b>	<b>Fair value</b>
	<b>NIS in thousands</b>	
Bank deposits	103,653	103,559
Other marketable debt instruments that are not convertible	60,808	60,893
<b>Total non-marketable debt instruments</b>	<b>164,461</b>	<b>164,452</b>

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

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

**d. Composition of financial investments** (continued):

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

	<b>As of June 30, 2015</b>	
	<b>(unaudited)</b>	
	<u>Book value</u>	<u>Cost</u>
	<b>NIS in thousands</b>	
Marketable shares	<u>99,988</u>	<u>88,663</u>

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

	<b>As December 31, 2014</b>	
	<b>(audited)</b>	
	<u>Book value</u>	<u>Cost</u>
	<b>NIS in thousands</b>	
Marketable shares	<u>87,300</u>	<u>83,854</u>

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

	<b>As of June 30, 2015</b>	
	<b>(unaudited)</b>	
	<u>Book value</u>	<u>Cost</u>
	<b>NIS in thousands</b>	
Marketable financial investments	<u>65,894</u>	<u>65,698</u>

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

	<b>As December 31, 2014</b>	
	<b>(audited)</b>	
	<u>Book value</u>	<u>Cost</u>
	<b>NIS in thousands</b>	
Marketable financial investments	<u>57,919</u>	<u>57,916</u>

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

**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, 2015 is 37.71% (2014 – 37.71%).

**NOTE 8 - CONTINGENT LIABILITIES - CLASS ACTIONS:**

1. 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 plaintiffs' summaries were filed lately after the date for filing their summaries was deferred. The company is to file its summaries by September 16, 2015. 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 8 - CONTINGENT LIABILITIES - CLASS ACTIONS** (continued):

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

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

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

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

The amount of the individual claim filed by the applicants against the Company is NIS 272 thousands and the amount claimed by the group of persons insured by the Company amounts to NIS 5,784,187.

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

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

**NOTE 8 - CONTINGENT LIABILITIES - CLASS ACTIONS** (continued):

disclosure claims that underlies the application to approve the claim as a class action is a specific and individual claim which should not be debated as part of a class action.

On April 19, 2015 the applicants filed their reply to the application to approve the claim as a class action. The applicants reject the claims raised in the reply to the application. A preliminary hearing to discuss the application was held on June 14, 2015. In the course of this hearing the Court informed the parties that it intends to address questions arising from the application to approve the claim as a class action to the Supervisor of Insurance; the Court asked the parties to provide it, by July 16, 2016, with questions that will be addressed to the Supervisor of Insurance. On July 16, 2015 the parties filed the Court some questions they wish to refer to the Supervisor of Insurance as above.

A further preliminary hearing was held on July 20, 2015 to discuss the application to approve the claim as a class action. In this hearing the Court ordered to refer questions to the Supervisor of Insurance by October 20, 2015. The Court also stipulated that the parties will be allowed to file their reply to the position of the Supervisor of Insurance through November 20, 2015. A preliminary hearing to discuss the application to approve the claim as a class action was set to January 3, 2016.

Based on information and data that was received, at this preliminary stage the legal advisors of the Company believe that it is more likely than not that the court will not allow the application to approve the claim as a class action.

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

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

At this stage it is not yet clear whether the claim shall be heard in its current form since the class action plaintiff also filed an individual claim against the Company (including in connection with the VAT component) at the same time the class action motion was filed; the class action plaintiff requested the Court which hears the plaintiff's individual claim against the Company to allow him to withdraw the VAT component from this individual claim and to file an application to approve the claim as a class action in respect of this component. The relevant Court has not yet issued its decision to the said request.

The total amount claimed from the Company is NIS 40,211,388.

The Company is to file its reply within 90 days (with the addition of the 45 days of the courts recess) and a preliminary hearing was set to March 7, 2016.

At this preliminary stage the legal advisors of the Company are looking into the matter; once they are familiarized with the details they will be able to assess the Company's chances of prevailing in this claim.

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NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

**NOTE 8 - CONTINGENT LIABILITIES - CLASS ACTIONS** (continued):

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

<b>Pending applications for approval of legal claims as class actions:</b>	<b>Number of claims</b>	<b>The amount claimed NIS in thousands</b>
An amount relating to the company was specified	<u>3</u>	<u>68,292</u>