

AIG Israel Insurance Company Ltd

Interim Financial Report

(Unaudited)

As of September 30, 2014

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

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

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

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

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

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

Forward-looking information

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



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1. Summary description of the Company

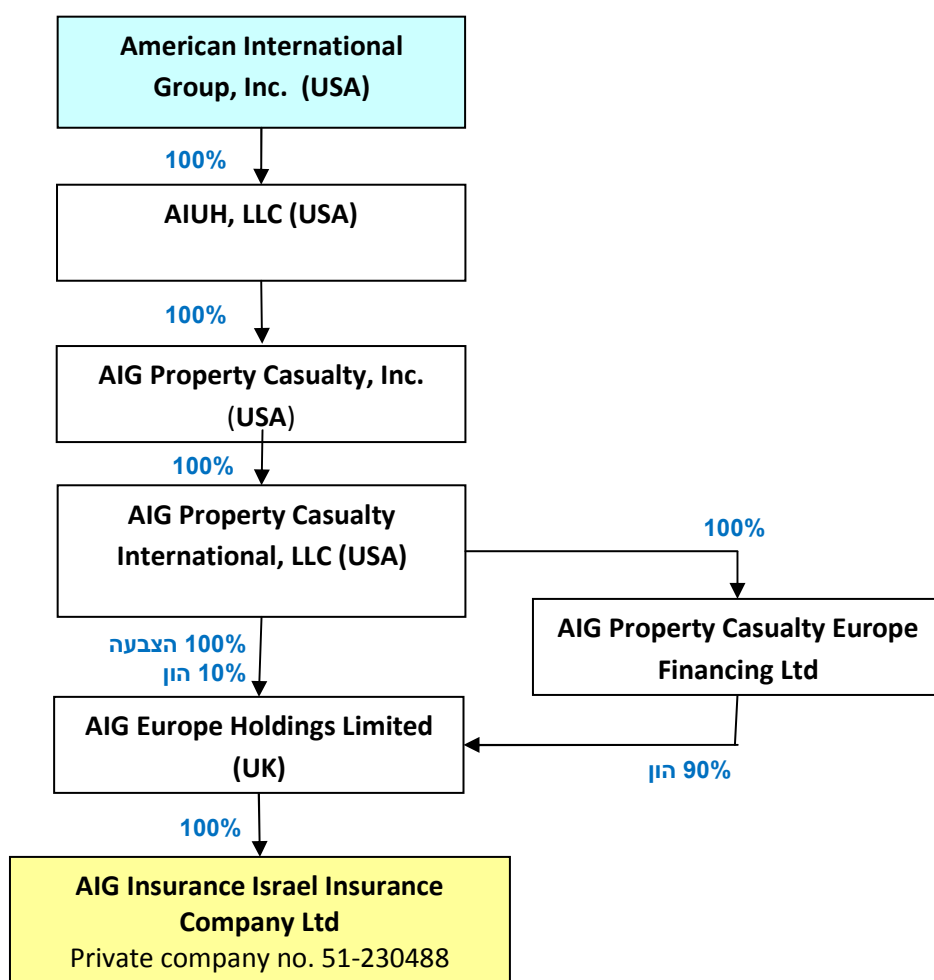
1.1 Organizational structure

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

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

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

The following is the holding structure of the Company:





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

The activity of the Company comprise of business divisions and headquarter, sales and customer service departments.

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

1.2 Lines of business

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

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

1.3 Dependence on clients or marketing entities

In most of its lines of business, the Company is not dependent on a single client. For further details see sections 2.1.3, 2.2.3, 2.3.3, 2.4.3, 2.5.3 and 2.6.3 in Chapter A (description of company's business) in the Company's 2013 periodic report.

1.4 Developments or material changes in agreements with reinsurers

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

1.5 Unusual events since the issuance of the last financial statements

No material unusual events have taken place since the date of the last financial statements



2. Description of business environment

General

In accordance with data published by the division of Capital Market, Insurance and Savings at the Israel Ministry of Finance, there are more than 20 Israeli insurance companies currently active in Israel; most of these companies are engaged in general insurance. According to these data, as of June 30, 2014, general insurance premiums amounted to NIS 10,735 million (excluding Karnit), while the share of the five largest insurance companies: Harel, the Phoenix, Clal, Menora and Migdal amounted to NIS 46,676 thousand, or 62.2% of total general insurance premiums in the Israeli market.

For more information about competition in the different business areas of activity of the Company and the means that the Company takes to cope in this competitive market, see sections 2.1.2, 2.2.2, 2.3.2, 2.4.2, 2.5.2 and 2.6.2 in Chapter A (description of company's business) in the Company's 2013 periodic report.

Developments in the macroeconomic environment of the Company

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

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

	1-9 2014	1-9 2013	7-9 2014	7-9 2013	2013
Government bond indices					
General government bonds	6.7%	2.1%	2.1%	1.0%	3.5%
CPI-linked government bonds	6.5%	1.4%	1.6%	1.4%	3.0%
Treasury bonds	6.8%	2.7%	2.4%	0.8%	4.0%
Corporate bond indices					
Tel Bond 60	3.2%	4.9%	1.1%	2.3%	6.4%
Tel Bond Shekel	4.8%	4.7%	2.0%	1.5%	5.9%
Share indices					
TA 100	8.1%	8.9%	4.2%	6.6%	15.1%

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

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



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

For information about trends and developments in the main insurance business segments of the Company, see sections 2.1.2, 2.2.2, 2.3.2, 2.4.2, 2.5.2, 2.6.2, 4.1, 4.5 and 4.7 in Chapter A (description of company's business) in the Company's 2013 periodic report.

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

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

Circulars

- On July 23, 2014, the Supervisor of Insurance published the Institutional Investment Entities circular 2014-9-12 concerning the annual and quarterly reports that institutional investment entities are required to send members and policyholders. The circular prescribes the annual and quarterly reporting format for pension savings products and life assurance products; it aims to extend the disclosure obligations that apply to institutional investment entities and to simplify the information to be presented in the report so that members and policyholders can use the reports as a control and monitoring tool.
- On August 12, 2014, the Supervisor of Insurance published a position paper on the subject of "business day"; the paper aims to clarify the definition of a "business day"; according to the paper a business day is any day except Saturday, Friday, public holidays and certain festivals. The paper further specifies that a business day will commence when the previous business day ends and it will end at 18:30 on that day of business, as prescribed in the provisions applicable to the bank.
- On September 14, 2014 the Supervisor of Insurance published a position paper regarding "The Findings of Business Continuity Tests – October 2013 and June 2014 Exercises". The purpose of this position paper is to describe the findings of the business continuity exercise which included dealing with outright war.
- On September 30, 2014, the Supervisor of Insurance published circular 2014-1-6 concerning the "renewal of an insurance contract". The circular aims to set rules for renewal of insurance policies which do not include a provision whereby the policy shall be renewed automatically at the end of the insurance period; the circular also aims to set rules regarding issuance of notice to the policyholders regarding the end of the insurance period.



Drafts

- On July 13, 2014, the Supervisor released Draft Institutional Investment Entities Regulations 2013-138, titled "Monthly Reports of Provident Funds, Pension Funds and Insurance Companies." The purpose of the draft circular is to revise and consolidate the guidance for regulating the monthly reporting format for institutional investment entities and to improve the quality of reporting filed to the Supervisor.
- On July 15, 2014, the Supervisor released Draft Institutional Investment Entity Circular 2013-117, titled "List of Assets of Financial Institutions at the Individual Asset level." The purpose of the draft circular is to revise and consolidate the reporting guidance for quarterly asset lists filed by institutional investment entities at the individual asset level, to improve the quality and availability of the report.
- A draft amendment of the Supervision of Financial Services (Insurance) (Brokerage Fees) Regulations was published on August 16, 2014. The draft amendment mainly seeks to prohibit the compensation of insurance agents by way of granting gifts or rewards that might give an agent an incentive to market a product which is not suitable for the client. The draft amendment prescribes, among other things, that a considerable portion of the compensation paid to the insurance agent shall be paid for the service he/she shall render to the client over the life of the product. The draft amendment prohibits insurance companies from paying brokerage fees to two agents at the same time.
- A draft amendment of the Supervision of Financial Services (Insurance) (Group Health Insurance) Regulations was published on August 18, 2014. The draft deals, among other things, in the amendment of the definitions set in the regulations and the restriction of increases of insurance premiums; it also seeks to make the issuance to the client of a notice regarding the automatic renewal of group health insurance policies mandatory and requires that the insurers obtain the policyholders' consent to renew the policy or to make changes in the terms thereof.

For details regarding further law provisions which were published in the reported period, see Section 2 to previous quarterly 2014 financial statements.

Entering and marketing new business

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



3. Financial information by business activities of the Company

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

	September 30, 2014	September 30, 2013	December 31, 2013
Other assets	359,311	290,051	326,383
Deferred acquisition expenses	151,867	139,653	140,520
Financial investments and cash	1,589,579	1,453,946	1,472,481
Reinsurance assets	709,349	664,144	647,666
Total assets	2,810,106	2,547,794	2,587,050
Shareholders' equity	727,692	634,250	643,004
Liabilities in respect of insurance	1,704,136	1,570,209	1,569,722
Other liabilities	378,278	343,335	374,324
Total equity and liabilities	2,810,106	2,547,794	2,587,050

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

	1-9 2014	1-9 2013	7-9 2014	7-9 2013	2013
Gross earned premiums	685,326	656,675	233,628	224,417	882,315
Premiums earned by reinsurers	(111,792)	(131,242)	(34,873)	(42,474)	(173,387)
Premiums earned in retention	573,534	525,433	198,755	181,943	708,928
Net investment revenue and financing revenue	61,094	55,369	23,331	26,151	75,241
Fee revenue	29,522	32,797	8,556	10,209	42,617
Total revenue	664,150	613,599	230,642	218,303	826,786
Payments and change in liability for insurance contracts, in retention	(312,588)	(298,728)	(108,034)	(103,443)	(417,491)
Total other expenses	(224,306)	(223,779)	(72,703)	(73,491)	(302,392)
Income before income taxes	127,256	91,092	49,905	41,369	106,903
Taxes on income	(42,568)	(33,946)	(13,265)	(15,730)	(41,003)
Income for the period and total comprehensive income for the period	84,688	57,146	36,640	25,639	65,900



Shareholders' equity and capital requirements

As of September 30, 2014, company's shareholders' equity exceeds the shareholders' equity required as of that date under the Insurance Business Regulations (Minimum Capital Required from an Insurer), 1998 by NIS 198 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.

For details regarding the distribution of a dividend at the total amount of NIS 35 million subsequent to balance sheet date, see section 8 below.

4. Results of operations

During the first three months of 2014, the Company continued to increase gross premiums, by 7.4% y/y. Total gross premiums in the reported period amounted to NIS 727.8 million, up from NIS 677.6 million in the corresponding period in 2013.

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

January-September 2014	Life insurance	Health insurance	General insurance	Total
Gross	86,002	156,069	485,733	727,804
Retained	68,398	151,238	383,678	603,314
% of total gross	11.8	21.4	66.8	100.0
% of total retention	11.3	25.1	63.6	100.0

Jan-September 2013	Life insurance	Health insurance	General insurance	Total
Gross	75,555	152,297	449,757	677,609
Retained	59,240	141,645	350,422	551,307
% of total gross	11.2	22.5	66.3	100.0
% of total retention	10.7	25.7	63.6	100.0

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



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

	1-9 2014	1-9 2013	7-9 2014	7-9 2013	2013
Income from auto Motor Bodily Injury	20,674	14,041	10,800	4,889	18,341
Income from auto property	24,261	14,441	7,647	6,457	15,911
Income from personal property	13,337	11,620	4,396	5,851	12,416
Income (loss) from commercial insurance activity	2,407	(6,845)	919	562	(10,657)
Income from health insurance activity	35,507	29,630	11,857	9,176	40,284
Income from life insurance activity	2,435	4,793	1,075	2,670	(3,849)
Other - Income not attributed to any segment	28,635	23,412	13,211	11,764	34,457
Income before tax	127,256	91,092	49,905	41,369	106,903
Taxes on income	(42,568)	(33,946)	(13,265)	(15,730)	(41,003)
Income for the period and total comprehensive income for the period	84,688	57,146	36,640	25,639	65,900

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

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

- a. Income from net investment was NIS 61.1 million, compared with NIS 55.4 million in the corresponding period in 2013. The increase in investment was derived from increase asset prices in the Israeli capital market during the reported period compared to the corresponding period in 2013.
- b. The income of the Company from Auto Motor Bodily Injury insurance in the reported period was NIS 20.7 million, compared with NIS 14.0 million in income in the corresponding period in 2013. The increase in profit was mainly a result of improved claims ratio.
- c. The income of the Company from Auto property insurance in the reported period was NIS 24.3 million, compared with NIS 14.4 million in the corresponding period of 2013. The increase in profit was mainly a result of improved claims ratio.
- d. The income of the Company from personal property insurance in the reported period was NIS 13.3 million compared with NIS 11.6 million in the corresponding period in 2013. The increased profitability is a result of improved claim ratio.
- e. The income of the Company from professional liability insurance in the reported period was NIS 2.7 million compared with a loss of NIS 6.4 million in the corresponding period in 2013. The increased profitability is mainly a result of improved claim ratio and expense ratio.



- f. The income of the Company from other property liability insurance in the reported period was NIS 0.7 million compared with an income of NIS 0.8 million in the corresponding period in 2013.
- g. The Company's loss from other liability insurance in the reported period was NIS 0.9 million compared with a loss of NIS 1.2 million in the corresponding period in 2013.
- h. The income of the Company from health insurance in the reported period was NIS 35.5 million compared with an income of NIS 29.6 million in the corresponding period in 2013. The increased profitability is a result of an improved claim ratio and expense ratio.
- i. The income of the Company from life insurance in the reported period was NIS 2.4 million compared with NIS 4.8 million in the corresponding period in 2013. The decrease in profitability is a result of higher claim ratio.

5. Cash flows and liquidity

Net cash provided by operating activities in the reported period amounted to NIS 46.4 million, compared with NIS 48.0 million in the corresponding period in 2013.

Net cash used in investing activities in the reported period amounted to NIS 8.5 million, compared with amount of NIS 4.7 million in the corresponding period in 2013.

As a result of the above, the balance of cash and cash equivalents in the reported period increased by NIS 37.3 million to NIS 105.0 million as of September 30, 2014 (after neutralization of the effect of exchange rate fluctuations on the balance of cash and cash equivalents).

6. Sources of funding

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

7. The effect of external factors

For more information, see section 2 above.

8. Material subsequent events

On October 28, 2014 the Company's board of directors resolved to distribute a NIS 35 million dividend to the sole Company shareholder – AIG Europe Holdings Limited. The excess of Company's equity over its required equity, taking into account the distribution of dividend, amounts to NIS 165 million – 31% more than the required equity.



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

Controls and procedures applied to disclosure

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

Internal controls over financial reporting

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

For purposes of this paragraph, "the covered period" is the reported financial quarter. Management's statements as to the adequacy of the financial data presented in the Company's financial statements and the existence and effectiveness of internal controls relating to the financial statements are attached hereunder.

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

Ralph Mucerino
Chairman of the Board of Directors

Shay Feldman
CEO

November 25, 2014

Declaration

I, Shay Feldman hereby declare that:

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

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

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

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

Shay Feldman - CEO

November 25, 2014

Declaration

I, David Rothstein hereby declare that:

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

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

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

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

David Rothstein - CFO

November 25, 2014

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

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

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

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

The Insurance Company's management with the supervision of its Board of Directors evaluates the effectiveness of the internal control of the Insurance Company over financial reporting as at September 30, 2014, based on criteria set in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation management believes that as at September 30, 2014 the internal control of the Insurance Company over financial reporting is effective.

Mr. Ralph Mucerino
Chairman of the Board

Mr. Shay Feldman
CEO

Mr. David Rothstein
CFO

Date of approval of financial statements: November 25, 2014

AIG ISRAEL INSURANCE CO. LTD.

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

SEPTEMBER 30, 2014

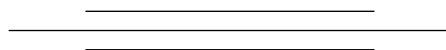
AIG ISRAEL INSURANCE CO. LTD.

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

SEPTEMBER 30, 2014

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

Introduction

We have reviewed the attached financial information of AIG Israel Insurance Co. Ltd ("the Company"), which information is comprised of the condensed statement of financial position as of September 30, 2014 and the condensed statements of comprehensive income, changes in equity and cash flows for the nine 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
November 25, 2014

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

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

	September 30	December 31,	
	2014	2013	2013
	(Unaudited)	(Audited)	
	NIS in thousands		
A s s e t s			
Intangible assets	16,944	13,325	14,799
Deferred acquisition expenses	151,867	139,653	140,520
Fixed assets	12,486	16,124	15,248
Reinsurance assets	709,349	664,144	647,666
Premiums collectible	203,548	186,840	186,414
Current tax assets	82,337	38,509	70,879
Other receivables	43,996	35,253	39,043
	<u>1,220,527</u>	<u>1,093,848</u>	<u>1,114,569</u>
Financial investments:			
Marketable debt instruments	1,200,994	1,049,229	1,174,216
Non-marketable debt instruments	159,313	106,566	128,704
Marketable shares	87,816	74,905	77,352
Other	36,501	86,158	24,593
TOTAL FINANCIAL INVESTMENTS	<u>1,484,624</u>	<u>1,316,858</u>	<u>1,404,865</u>
Cash and cash equivalents	104,955	137,088	67,616
TOTAL ASSETS	<u>2,810,106</u>	<u>2,547,794</u>	<u>2,587,050</u>

Ralph Mucerino
Chairman of the Board
of Directors

Shay Feldman
C.E.O

David Rothstein
C.F.O

Date of approval of financial information for interim period by the Board of Directors of the Company – November 25, 2014

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

	September 30		December 31,
	2014	2013	2013
	(Unaudited)		(Audited)
	NIS in thousands		
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	6	6	6
Share premium	250,601	250,601	250,601
Other capital reserve	11,084	11,084	11,084
Retained earning	466,001	372,559	381,313
TOTAL EQUITY ATTRIBUTABLE TO COMPANY SHAREHOLDERS	728,692	634,250	643,004
LIABILITIES:			
Liabilities in respect of insurance contracts and without-profits investment contracts	1,704,136	1,570,209	1,569,722
Liabilities in respect of deferred taxes, net	24,009	11,376	26,889
Liabilities with respect to employee rights upon retirement, net	1,457	2,387	2,445
Liabilities towards reinsurers	274,034	262,352	256,185
Payables	78,778	67,220	88,805
TOTAL LIABILITIES	2,082,414	1,913,544	1,944,046
TOTAL EQUITY AND LIABILITIES	2,810,106	2,547,794	2,587,050

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

AIG ISRAEL INSURANCE CO. LTD.

CONDENSED STATEMENTS OF OTHER COMPREHENSIVE INCOME
FOR THE NINE AND THREE MONTHS ENDED SEPTEMBER 30, 2014

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2014	2013	2014	2013	2013
	(Unaudited)		(Unaudited)		(Audited)
	NIS in thousands				
Gross earned premiums	685,326	656,675	233,628	224,417	882,315
Premiums earned by reinsurers	(111,792)	(131,242)	(34,873)	(42,474)	(173,387)
Premiums earned on non-ceded business	573,534	525,433	198,755	181,943	708,928
Investment income, net and financing income	61,094	55,369	23,331	26,151	75,241
Commission income	29,522	32,797	8,556	10,209	42,617
TOTAL INCOME	664,150	613,599	230,642	218,303	826,786
Payments and change in liabilities with respect to insurance contracts, gross	(434,725)	(450,436)	(147,258)	(132,564)	(587,544)
Share of reinsurers in payments and in change in insurance contracts	122,137	151,708	39,224	29,121	170,053
Payments and movement in liabilities with respect to insurance contracts, retained amount	(312,588)	(298,728)	(108,034)	(103,443)	(417,491)
Commission, marketing expenses and other acquisition expenses	(122,911)	*(123,247)	(38,690)	*(41,976)	(167,520)
General and administrative expenses	(103,302)	*(99,365)	(36,167)	*(31,694)	(133,847)
Financing income (expenses)	1,907	(1,167)	2,154	179	(1,025)
TOTAL EXPENSES	(536,894)	(522,507)	(180,737)	(176,934)	(719,883)
PROFIT BEFORE TAXES ON INCOME	127,256	91,092	49,905	41,369	106,903
Taxes on income	(42,568)	(33,946)	(13,265)	(15,730)	(41,003)
PROFIT FOR PERIOD AND TOTAL COMPREHENSIVE INCOME FOR PERIOD	84,688	57,146	36,640	25,639	65,900
BASIC EARNINGS PER SHARE -	15.04	10.15	6.51	4.55	11.71
number of shares used in computation of basic earnings per share	5,630	5,630	5,630	5,630	5,630

* Reclassified, see note 3c.

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

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

	<u>Share capital</u>	<u>Share Premium</u>	<u>Other capital reserves</u>	<u>Retained earnings</u>	<u>Total</u>
	NIS in thousands				
BALANCE AS OF JANUARY 1, 2014 (audited)	6	250,601	11,084	381,313	643,004
CHANGES DURING THE NINE MONTHS ENDED SEPTEMBER 30, 2014 (unaudited) - total income and comprehensive income for the nine months ended September 30, 2014				84,688	84,688
BALANCE AS OF SEPTEMBER 30, 2014 (unaudited)	<u>6</u>	<u>250,601</u>	<u>11,084</u>	<u>466,001</u>	<u>727,692</u>
BALANCE AS OF JANUARY 1, 2013 (audited)	6	250,601	11,084	315,413	577,104
CHANGES DURING THE NINE MONTHS ENDED SEPTEMBER 30, 2013 (unaudited) - total income and comprehensive income for nine months ended September 30, 2013				57,146	57,146
BALANCE AS OF SEPTEMBER 30, 2013 (unaudited)	<u>6</u>	<u>250,601</u>	<u>11,084</u>	<u>372,559</u>	<u>634,250</u>
BALANCE AS OF JULY 1, 2014 (audited)	6	250,601	11,084	429,361	691,052
CHANGES DURING THE THREE MONTHS ENDED SEPTEMBER 30, 2014 (unaudited) - total income and comprehensive income for the three months ended September 30, 2014				36,640	36,640
BALANCE AS OF SEPTEMBER 30, 2014 (unaudited)	<u>6</u>	<u>250,601</u>	<u>11,084</u>	<u>466,001</u>	<u>727,692</u>
BALANCE AS OF JULY 1, 2013 (audited)	6	250,601	11,084	346,920	608,611
CHANGES DURING THE THREE MONTHS ENDED SEPTEMBER 30, 2013 (unaudited) - total income and comprehensive income for the three months ended September 30, 2013				25,639	25,639
BALANCE AS OF SEPTEMBER 30, 2013 (unaudited)	<u>6</u>	<u>250,601</u>	<u>11,084</u>	<u>372,559</u>	<u>634,250</u>
BALANCE AS OF JANUARY 1, 2013 (audited)	6	250,601	11,084	315,413	577,104
CHANGES DURING THE 2013 (audited) total comprehensive income for year ended December 31, 2013				65,900	65,900
BALANCE AS OF DECEMBER 31, 2013 (audited)	<u>6</u>	<u>250,601</u>	<u>11,084</u>	<u>381,313</u>	<u>643,004</u>

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

AIG ISRAEL INSURANCE CO. LTD.
CONDENSED STATEMENTS OF CASH FLOWS
FOR THE NINE AND THREE MONTHS ENDED SEPTEMBER 30, 2014

	Nine months ended		Three months ended		Year ended
	September 30		September 30		December 31
	2014	2013	2014	2013	2013
	(Unaudited)		(Unaudited)		(Audited)
	NIS in thousands				
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net cash provided by operating activities (Appendix A)	64,667	131,694	56,363	154,728	84,298
Interest received	37,057	33,891	10,269	9,890	39,693
Dividend received	1,599	1,899	496	731	2,234
Income taxes (paid) – net	(56,906)	(119,504)	(28,475)	(79,273)	(143,050)
Net cash provided by (used in) operating activities	<u>46,417</u>	<u>47,980</u>	<u>38,653</u>	<u>86,076</u>	<u>(16,825)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Changes in asset cover for equity and non-insurance liabilities:					
Acquisition of fixed assets	(1,405)	(2,828)	(842)	(415)	(4,516)
Acquisition of Intangible assets	(7,048)	(1,824)	(4,747)	(760)	(4,871)
Net cash used in investing activities	<u>(8,453)</u>	<u>(4,652)</u>	<u>(5,589)</u>	<u>(1,175)</u>	<u>(9,387)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	37,964	43,328	33,064	84,901	(26,212)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	67,616	93,540	72,567	52,013	93,540
INFLUENCE OF FLUCTIONS IN EXCHANGE RATE ON CASH AND CASH EQUIVALENTS	(625)	220	(676)	174	288
CASH AND CASH QUIVALENTS AT END OF PERIOD	<u>104,955</u>	<u>137,088</u>	<u>104,955</u>	<u>137,088</u>	<u>67,616</u>

AIG ISRAEL INSURANCE CO. LTD.
CONDENSED STATEMENTS OF CASH FLOWS
FOR THE NINE AND THREE MONTHS ENDED SEPTEMBER 30, 2014

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2014	2013	2014	2013	2013
NIS in thousands					
APPENDIX A - CASH FLOWS FROM OPERATING ACTIVITIES -					
Profit before taxes on income	127,256	91,092	49,905	41,369	106,903
Adjustments for- Income and expenses not involving cash flows:					
Increase in insurance contracts not, net depending on yield	72,730	82,255	26,546	37,101	98,248
Increase in deferred acquisition expenses	(11,347)	(9,462)	(5,162)	(3,080)	(10,329)
Increase (decrease) in liabilities with respect to employee rights upon retirement, net	(988)	61	(300)	(38)	119
Depreciation of fixed assets	4,167	3,589	1,350	936	6,153
Depreciation of intangible asset	4,903	4,231	1,626	1,221	5,804
Gains, net on realization of financial investments:					
Marketable debt instruments	(14,472)	(4,894)	(6,700)	(7,945)	(14,121)
Non-marketable debt instruments	(2,729)	(2,047)	(2,633)	(1,578)	(939)
Marketable shares	(5,353)	(5,769)	(3,100)	(3,521)	(10,062)
Index linked certificates	(1,423)	(7,708)	(483)	(2,777)	(9,511)
Influence of fluctuation in exchange rate on cash and cash equivalents	625	(220)	676	(174)	(288)
	<u>173,369</u>	<u>151,128</u>	<u>61,725</u>	<u>61,514</u>	<u>171,977</u>
Changes in operating assets and liabilities:	17,849	7,868	6,260	11,019	1,701
Liabilities towards reinsurers	(55,781)	42,902	5,899	98,839	(30,891)
Investments in financial assets, net	(17,134)	(12,685)	(11,788)	(6,583)	(12,259)
Premiums collectible	(4,953)	(1,584)	(2,355)	1,738	(5,375)
Receivables	(10,027)	(21,145)	7,387	(1,178)	437
Payables					
Liability in respect of current taxes	-	1,000	-	-	635
	<u>(70,046)</u>	<u>16,356</u>	<u>5,403</u>	<u>103,835</u>	<u>(45,752)</u>
Adjustments with respect to interest and dividend received:					
Interest received	(37,057)	(33,891)	(10,269)	(9,890)	(39,693)
Dividend received	(1,599)	(1,899)	(496)	(731)	(2,234)
Net cash provided by operating activities	<u>64,667</u>	<u>131,694</u>	<u>56,363</u>	<u>154,728</u>	<u>84,298</u>

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

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

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

NOTE 1 - GENERAL

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

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

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

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

DEFINITIONS:

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

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

NOTE 1 – GENERAL (continued):

- 14) Outstanding claims - Known outstanding claims, with the addition of the expected growth of claims that have been incurred but not enough reported (I.B.N.E.R.) plus claims that have been Incurred but not reported (I.B.N.R).
- 15) Details of account regulations - Supervision of Insurance Businesses (Details of account) Regulations, 1998.

* The balance sheet includes the accrual under the "liabilities in respect of non-yield dependent insurance contract and investments".
- 16) The Investment Regulations – Control of Financial Services (Provident Funds) (Investment Rules Applicable to Financial Institutions) Regulations, 2012.
- 17) Shareholders' Capital Regulations - The Supervision of Insurance Business Regulations (minimum shareholders' equity required from an insurer), 1998 and amendments as amended.
- 18) Account Segregation Regulations in Life Insurance - The Supervision of Insurance Regulations (Method of Segregation of Accounts and Assets of Insurer in Life Insurance), 1984.
- 19) Regulations for Calculation of General Insurance Funds - The Supervision of Insurance Businesses Regulations (Method of Calculation of Provisions for Future Claims in General Insurance) 1984, and amendments as amended.
- 20) Exposure to reinsurers - debit balances with the company's reinsurers, including the reinsurer's share in the company's outstanding claims and unexpired risks fund, all being net of the reinsurer's deposits with the company and the amount of documentary credits granted against the debt of the reinsurer.
- 21) Insurance contract - A contract under which one party (the insurer) takes a significant insurance risk from another party (policy holder), by agreement to indemnify the policy holder if an uncertain a defined future event (insurance event) negatively affects the policy holder.
- 22) Liability for insurance contracts - Insurance reserves and outstanding claims in general insurance.
- 23) Premium - Premium including fees.
- 24) The expression, 'premiums earned,' refers to premiums that relate to the period under review.

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS:

- a. The Company's condensed financial information as of September 30, 2014 and for the nine and three-month interim periods ended on that date ("the financial information for the interim period") has been prepared in accordance with the provisions of IAS 34 'Interim Financial Reporting' (hereafter – "IAS 34") and is in compliance with the disclosure requirements of the Supervision of Financial Services (Insurance) Law, 1981 ("the supervision law") and the regulations promulgated there under. The financial information for the interim period should be considered in conjunction with the annual financial statements as of December 31, 2013 and for the year ended thereon including the accompanying notes which are in compliance with International Financial Reporting Standards, which are standards and interpretations published by the International Accounting Standards Board (hereafter – IFRS).

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

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

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

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

Significant judgments exercised by management in preparation of these condensed interim financial statements as well as the uncertainty involved in the key sources of those estimates were identical to the ones used in the Company's annual financial statements for the year ended December 31, 2013.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES:

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

- 1) Taxes on income for the reported interim period are accounted for on the basis on management's best estimate of the average tax rate applicable to the projected annual profits.
- 2) New accounting standards applied for the first time:

a) New IFRS and amendments to existing standards that came into effect and are mandatory for reporting periods commencing on January 1, 2014:

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

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

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

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

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

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (continued):

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

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

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

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

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

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

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

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

NOTE 4 - SEGMENT INFORMATION

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

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

1) Life assurance sector

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

2) Health insurance sector

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

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

NOTE 4 - SEGMENT INFORMATION (Continued):

3) General insurance sector

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

- **Compulsory motor vehicle line**

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

- **Motor vehicle property line**

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

- **Flats insurance sector**

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

- **Professional liability line**

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

- **Other Property lines**

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

- **Other liability lines**

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

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

NOTE 4 - SEGMENT INFORMATION (continued):

	For the 9-month period ended September 30, 2014 (unaudited)				
	Life assurance	Health insurance	General insurance	Not apportionable to operating segments	Total
	NIS in thousands				
Gross earned premiums	85,847	155,897	443,582		685,326
Premiums earned by reinsurers	(17,621)	(4,838)	(89,333)		(111,792)
Premiums earned by non-ceded business	68,226	151,059	354,249		573,534
Investment income, net and financing income	46	4,926	29,988	26,134	61,094
Commission income	2,637	1,185	25,700		29,522
Total income	70,909	157,170	409,937	26,134	664,150
Payments and change in insurance liabilities with respect to insurance contracts (gross)	(33,031)	(65,328)	(336,366)		(434,725)
Share of reinsurers in payments and change in liabilities in respect of insurance contracts	8,357	3,883	109,897		122,137
Payments and change in respect of insurance contracts relating to non-ceded business	(24,674)	(61,445)	(226,469)		(312,588)
Commission and other acquisition expenses	(21,761)	(29,196)	(71,954)		(122,911)
General and administrative expenses	(22,039)	(31,008)	(50,255)		(103,302)
Financing income (expenses)	-	(14)	(580)	2,501	1,907
Total comprehensive income before taxes on income	2,435	35,507	60,679	28,635	127,256
Gross liabilities with respect to insurance contracts as of September 30, 2014	50,321	135,797	1,518,018		1,704,136

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

NOTE 4 - SEGMENT INFORMATION (continued):

	For the 9-month period ended September 30 , 2013 (unaudited)				
	Life	Health	General	Not	Total
	assurance	insurance	insurance	apportionable	
	NIS in thousands				
				to operating	
				segments	
Gross earned premiums					
Premiums earned by reinsurers	75,435	152,410	428,830		656,675
Premiums earned by non-ceded business	(16,302)	(10,656)	(104,284)		(131,242)
Investment income, net and financing income	59,133	141,754	324,546		525,433
Commission income	83	4,933	27,674	22,679	55,369
Total income	2,441	3,304	27,052		32,797
	61,657	149,991	379,272	22,679	613,599
Payments and change in insurance liabilities with respect to insurance contracts (gross)					
Share of reinsurers in payments and change in liabilities in respect of insurance contracts	(23,472)	(66,280)	(360,684)		(450,436)
Payments and change in respect of insurance contracts relating to non-ceded business	6,296	6,404	139,008		151,708
Commission and other acquisition expenses (*)	(17,176)	(59,876)	(221,676)		(298,728)
General and administrative expenses (*)					
Financing income (expenses)	(18,283)	(31,539)	(73,425)		(123,247)
Total comprehensive income before taxes on income	(21,405)	(28,866)	(49,094)		(99,365)
Gross liabilities with respect to insurance contracts as of September 30,2013	-	(80)	(1,820)	733	(1,167)
	4,793	29,630	33,257	23,412	91,092
	24,319	134,955	1,410,935		1,570,209

* Reclassified, see note 3c.

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

NOTE 4 - SEGMENT INFORMATION (continued):

	For the 3-month period ended September 30, 2014 (unaudited)				
	Life assurance	Health insurance	General insurance	Not apportionable to operating segments	Total
	NIS in thousands				
Gross earned premiums	29,276	54,095	150,257		233,628
Premiums earned by reinsurers	(5,712)	(659)	(28,502)		(34,873)
Premiums earned by non-ceded business	23,564	53,436	121,755		198,755
Investment income, net and financing income	6	1,904	10,355	11,066	23,331
Commission income	865	65	7,626		8,556
Total income	24,435	55,405	139,736	11,066	230,642
Payments and change in insurance liabilities with respect to insurance contracts (gross)	(11,293)	(23,513)	(112,452)		(147,258)
Share of reinsurers in payments and change in liabilities in respect of insurance contracts					
Payments and change in insurance liabilities with respect to insurance contracts relating to non-ceded business	2,507	543	36,174		39,224
	(8,786)	(22,970)	(76,278)		(108,034)
Commission and other acquisition expenses	(7,122)	(10,548)	(21,020)		(38,690)
General and administrative expenses	(7,452)	(10,032)	(18,683)		(36,167)
Financing expenses	-	2	7	2,145	2,154
Total comprehensive income before taxes on income	1,075	11,857	23,762	13,211	49,905

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

NOTE 4 - SEGMENT INFORMATION (continued):

	For the 3-month period ended September 30, 2013 (unaudited)				
	Life assurance	Health insurance	General insurance	Not apportionable to operating segments	Total
	NIS in thousands				
Gross earned premiums	26,070	53,291	145,056		224,417
Premiums earned by reinsurers	(5,471)	(3,591)	(33,412)		(42,474)
Premiums earned by non-ceded business	20,599	49,700	111,644		181,943
Investment income, net and financing income	22	2,419	12,622	11,088	26,151
Commission income	799	1,108	8,302		10,209
Total income	21,420	53,227	132,568	11,088	218,303
Payments and change in insurance liabilities with respect to insurance contracts (gross)	(7,240)	(25,558)	(99,766)		(132,564)
Share of reinsurers in payments and change in liabilities in respect of insurance contracts					
Payments and change in insurance liabilities with respect to insurance contracts relating to non-ceded business	1,935	1,815	25,371		29,121
	(5,305)	(23,743)	(74,395)		(103,443)
Commission and other acquisition expenses(*)	(6,444)	(11,310)	(24,222)		(41,976)
General and administrative expenses(*)	(7,001)	(8,984)	(15,709)		(31,694)
Financing income (expenses)	-	(14)	(483)	676	179
Total comprehensive income before taxes on income	2,670	9,176	17,759	11,764	41,369

* Reclassified, see note 3c.

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

NOTE 4 - SEGMENT INFORMATION (continued):

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

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

NOTE 4 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment:

	For the 9-month period ended September 30, 2014 (unaudited)						
	Compulsory motor vehicle	Motor vehicle property	Personal property	Professional liability	Other property branches *	Other liability branches *	Total
	NIS in thousands						
Gross premiums	112,802	198,373	80,578	43,145	25,299	25,536	485,733
Reinsurance premiums	(1,572)	(79)	(18,834)	(36,427)	(24,227)	(20,916)	(102,055)
Premiums relating to non-ceded business	111,230	198,294	61,744	6,718	1,072	4,620	383,678
Change in balance of unearned premiums relating to non-ceded business	(8,009)	(17,400)	(1,817)	(1,365)	(180)	(658)	(29,429)
Premiums earned on non-ceded business	103,221	180,894	59,927	5,353	892	3,962	354,249
Investment income, net and financing income	13,665	4,762	2,867	3,937	610	4,147	29,988
Commission income	-	-	3,869	9,722	6,373	5,736	25,700
Total income	116,886	185,656	66,663	19,012	7,875	13,845	409,937
Payments and change in liabilities in respect of insurance contracts (gross)	(86,198)	(121,230)	(26,459)	(29,461)	(21,984)	(51,034)	(336,366)
Share of reinsurers in payments and change in liabilities in respect of insurance contracts	17,217	-	3,399	25,433	20,369	43,479	109,897
Payments and change in insurance liabilities with respect to insurance contracts relating to non-ceded business	(68,981)	(121,230)	(23,060)	(4,028)	(1,615)	(7,555)	(226,469)
Commission, marketing expenses and other acquisition expenses	(13,618)	(25,856)	(15,065)	(8,443)	(3,812)	(5,160)	(71,954)
General and administrative expenses	(13,613)	(14,309)	(15,181)	(3,608)	(1,745)	(1,799)	(50,255)
Financing expenses, net	-	-	(20)	(248)	(41)	(271)	(580)
Total expenses	(96,212)	(161,395)	(53,326)	(16,327)	(7,213)	(14,785)	(349,258)
Total comprehensive income (loss) before taxes on income	20,674	24,261	13,337	2,685	662	(940)	60,679
Gross liabilities with respect to insurance contracts as of September 30,2014	667,722	171,684	65,196	265,786	70,549	277,081	1,518,018
Net liabilities with respect to insurance contracts as of September 30,2014	503,181	171,684	56,171	49,289	3,645	43,715	827,865

* 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 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:

	For the 9-month period ended September 30, 2013 (unaudited)						
	Compulsory motor vehicle	Motor vehicle property	Personal property	Professional liability	Other property branches **	Other liability branches **	Total
	NIS in thousands						
Gross premiums	103,049	174,823	78,704	32,341	32,653	28,187	449,757
Reinsurance premiums	(1,447)	(82)	(15,885)	(26,972)	(31,077)	(23,872)	(99,335)
Premiums relating to non-ceded business	101,602	174,741	62,819	5,369	1,576	4,315	350,422
Change in balance of unearned premiums relating to non-ceded business	(9,370)	(14,515)	(3,040)	111	(86)	1,024	(25,876)
Premiums earned on non-ceded business	92,232	160,226	59,779	5,480	1,490	5,339	324,546
Investment income, net and financing income	12,833	3,949	2,651	3,356	653	4,232	27,674
Commission income	-	-	2,438	8,062	8,501	8,051	27,052
Total income	105,065	164,175	64,868	16,898	10,644	17,622	379,272
Payments and change in liabilities in respect of insurance contracts (gross)	(86,559)	(113,190)	(27,242)	(49,544)	(50,046)	(34,103)	(360,684)
Share of reinsurers in payments and change in liabilities in respect of insurance contracts	19,743	-	2,434	41,370	48,773	26,688	139,008
Payments and change in insurance liabilities with respect to insurance contracts relating to non-ceded business	(66,816)	(113,190)	(24,808)	(8,174)	(1,273)	(7,415)	(221,676)
Commissions, marketing expenses and other acquisition expenses*	(13,646)	(23,572)	(13,734)	(8,941)	(6,136)	(7,396)	(73,425)
General and administrative expenses *	(10,562)	(12,972)	(14,659)	(5,491)	(2,325)	(3,085)	(49,094)
Financing expenses, net	-	-	(47)	(706)	(142)	(925)	(1,820)
Total expenses	(91,024)	(149,734)	(53,248)	(23,312)	(9,876)	(18,821)	(346,015)
Total comprehensive income (loss) before taxes on income	14,041	14,441	11,620	(6,414)	768	(1,199)	33,257
Gross liabilities with respect to insurance contracts as of September 30,2013	628,430	149,971	59,287	224,990	83,354	264,903	1,410,935
Net liabilities with respect to insurance contracts as of September 30,2013	470,883	149,971	53,426	42,482	3,353	40,301	760,416

* Reclassified see note 3c

** 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 41% of the total premiums attributable to these lines.

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

NOTE 4 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment:

	For the 3-month period ended September 30, 2014 (unaudited)						Total
	Compulsory motor vehicle	Motor vehicle property	Personal property	Professional liability	Other property branches *	Other liability branches *	
NIS in thousands							
Gross premiums	37,798	67,497	28,840	12,869	9,370	9,028	165,402
Reinsurance premiums	(526)	(27)	(6,773)	(10,556)	(8,997)	(7,596)	(34,475)
Premiums relating to non-ceded business	37,272	67,470	22,067	2,313	373	1,432	130,927
Change in balance of unearned premiums relating to non-ceded business	(1,714)	(4,687)	(1,788)	(693)	(22)	(268)	(9,172)
Premiums earned on non-ceded business	35,558	62,783	20,279	1,620	351	1,164	121,755
Investment income, net and financing income	4,607	1,825	1,109	1,331	182	1,301	10,355
Commission income	-	-	815	3,138	1,897	1,776	7,626
Total income	40,165	64,608	22,203	6,089	2,430	4,241	139,736
Payments and change in liabilities in respect of insurance contracts (gross)	(27,154)	(43,272)	(9,527)	(13,438)	(3,867)	(15,194)	(112,452)
Share of reinsurers in payments and change in liabilities in respect of insurance contracts	6,793	-	836	12,824	3,703	12,018	36,174
Payments and change in insurance liabilities with respect to insurance contracts relating to non-ceded business	(20,361)	(43,272)	(8,691)	(614)	(164)	(3,176)	(76,278)
Commissions, marketing expenses and other acquisition expenses*	(4,051)	(7,690)	(3,837)	(2,849)	(1,110)	(1,483)	(21,020)
General and administrative expenses *	(4,953)	(5,999)	(5,277)	(1,239)	(663)	(552)	(18,683)
Financing income (expenses), net	-	-	(2)	(9)	7	11	7
Total expenses	(29,365)	(56,961)	(17,807)	(4,711)	(1,930)	(5,200)	(115,974)
Total comprehensive income (loss) before taxes on income	10,800	7,647	4,396	1,378	500	(959)	23,762

** 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 42% of the total premiums attributable to these lines.

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

NOTE 4 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment:

	For the 3-month period ended September 30, 2013 (unaudited)						Total
	Compulsory motor vehicle	Motor vehicle property	Personal property	Professional liability	Other property branches *	Other liability branches *	
	NIS in thousands						
Gross premiums	34,553	58,203	28,312	10,486	9,797	7,917	149,268
Reinsurance premiums	(480)	(27)	(6,417)	(8,618)	(9,220)	(6,605)	(31,367)
Premiums relating to non-ceded business	34,073	58,176	21,895	1,868	577	1,312	117,901
Change in balance of unearned premiums relating to non-ceded business	(1,732)	(2,593)	(1,942)	(13)	(15)	38	(6,257)
Premiums earned on non-ceded business	32,341	55,583	19,953	1,855	562	1,350	111,644
Investment income, net and financing income	5,803	1,908	1,215	1,570	273	1,853	12,622
Commission income	-	-	564	2,789	2,805	2,144	8,302
Total income	38,144	57,491	21,732	6,214	3,640	5,347	132,568
Payments and change in liabilities in respect of insurance contracts (gross)	(31,754)	(38,480)	(7,926)	(9,611)	(6,516)	(5,479)	(99,766)
Share of reinsurers in payments and change in liabilities in respect of insurance contracts	6,425	-	701	7,293	6,889	4,063	25,371
Payments and change in insurance liabilities with respect to insurance contracts relating to non-ceded business	(25,329)	(38,480)	(7,225)	(2,318)	373	(1,416)	(74,395)
Commissions, marketing expenses and other acquisition expenses*	(4,546)	(8,336)	(3,941)	(3,104)	(2,176)	(2,119)	(24,222)
General and administrative expenses *	(3,380)	(4,218)	(4,702)	(1,756)	(436)	(1,217)	(15,709)
Financing expenses, net	-	-	(13)	(234)	(15)	(221)	(483)
Total expenses	(33,255)	(51,034)	(15,881)	(7,412)	(2,254)	(4,973)	(114,809)
Total comprehensive income(loss) before taxes on income	4,889	6,457	5,851	(1,198)	1,386	374	17,759

* Reclassified see note 3c

** The results of other property lines reflect mainly the results of the property insurance line the operations of which attract 87% 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 44% of the total premiums attributable to these lines.

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

NOTE 4 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment

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

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

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

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

NOTE 5 - SHAREHOLDERS' EQUITY AND CAPITAL REQUIREMENTS:

Management and capital requirements:

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

Company's existing capital with respect to the capital requirements

	September 30		December 31,
	2014	2013	2013
	(Unaudited)		(Audited)
The amount required under capital regulations and supervisor guidelines (a)	529,236	497,330	516,896
Existing amount computed under capital regulations:			
Primary capital	727,692	634,250	643,004
Total existing capital existing computed under capital requirements	727,692	634,250	643,004
Surplus	198,456	136,920	126,108
Dividend declared subsequent to balance sheet date	(35,000)		
Surplus after taking into account subsequent events	163,456		
The amount required includes inter alia, capital requirements, with respect to:			
Operations related to general insurance	122,223	116,385	118,183
Exceptional life assurance risks	30,503	25,715	26,880
Deferred acquisition expenses in relation to life assurance	84,940	77,458	81,818
Investment assets and other assets	66,112	58,750	58,823
Catastrophe risk related to general insurance	194,675	190,460	202,881
Operating risks	30,783	28,562	28,311
T o t a l	529,236	497,330	516,896

On October 28, 2014 the Company's board of directors resolved to distribute a dividend in the total amount of NIS 35 million, representing NIS 6.21 per share.

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

NOTE 6 – FINANCIAL INSTRUMENTS AND FINANCIAL RISKS

a. Fair value disclosure

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

b. The fair value of financial assets and financial liabilities

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

c. Composition of financial investments:

		As of September 30, 2014 (unaudited)		
		NIS in thousands		
		Measured at fair value through profit or loss	Loans and receivables	Total
		NIS in thousands		
Marketable debt instruments	(1)	1,200,994	-	1,200,994
Non-marketable debt instruments	(2)	-	159,313	159,313
Marketable shares	(3)	87,816	-	87,816
Other	(4)	36,501	-	36,501
Total		1,325,311	159,313	1,484,624

		As of September 30, 2013 (unaudited)		
		Measured at fair value through profit or loss		
		Loans and receivables	Total	
		NIS in thousands		
Marketable debt instruments	(1)	1,049,229	-	1,049,229
Non-marketable debt instruments	(2)	-	106,566	106,566
Marketable shares	(3)	74,905	-	74,905
Other	(4)	86,158	-	86,158
Total		1,210,292	106,566	1,316,858

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

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

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

c. Composition of financial investments(continued):

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

	As of September 30, 2014	
	(unaudited)	
	Book value	Reduced cost
	NIS in thousands	
Government debentures	632,230	615,845
Other marketable debt instruments:		
Other marketable debt instruments that are not convertible	568,702	558,030
Other marketable debt instruments that are convertible	62	62
Total marketable debt instruments	1,200,994	1,173,937

	As of September 30, 2013	
	(unaudited)	
	Book value	Reduced cost
	NIS in thousands	
Government debentures	705,242	701,368
Other marketable debt instruments:		
Other marketable debt instruments that are not convertible	343,864	335,944
Other marketable debt instruments that are convertible	123	124
Total marketable debt instruments	1,049,229	1,037,436

	As of December 31,	
	2013	
	(audited)	
	Book value	Reduced cost
	NIS in thousands	
Government debentures	768,336	761,641
Other debt instruments:		
Other debt instruments that are not convertible	405,754	397,027
Other debt instruments that are convertible	126	125
Total marketable debt instruments	1,174,216	1,158,793

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

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

a. Composition of financial investments(continued):

(2) Composition of non-marketable debt instruments

	As of September 30, 2014	
	(unaudited)	
	Book value	Fair value
	NIS in thousands	
Bank deposits	106,253	106,640
Other marketable debt instruments that are not convertible	53,060	53,583
Total non-marketable debt instruments	159,313	160,223
	As of September 30, 2013	
	(unaudited)	
	Book value	Fair value
	NIS in thousands	
Bank deposits	73,589	74,357
Other marketable debt instruments that are not convertible	32,977	33,640
Total non-marketable debt instruments	106,566	107,997
	As of December 31, 2013	
	(audited)	
	Book value	Fair value
	NIS in thousands	
Bank deposits	113,448	114,511
Other marketable debt instruments that are not convertible	15,256	15,886
Total non-marketable debt instruments	128,704	130,397

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

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

c. Composition of financial investments(continued):

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

	As of September 30, 2014	
	(unaudited)	
	<u>Book value</u>	<u>Cost</u>
	NIS in thousands	
Marketable shares	<u>87,816</u>	<u>82,139</u>

	As of September 30, 2013	
	(unaudited)	
	<u>Book value</u>	<u>Cost</u>
	NIS in thousands	
Marketable shares	<u>74,905</u>	<u>71,305</u>

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

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

	As of September 30, 2014	
	(unaudited)	
	<u>Book value</u>	<u>Cost</u>
	NIS in thousands	
Marketable financial investments	<u>36,501</u>	<u>35,380</u>

	As of September 30, 2013	
	(unaudited)	
	<u>Book value</u>	<u>Cost</u>
	NIS in thousands	
Marketable financial investments	<u>86,158</u>	<u>78,212</u>

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

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

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

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

NOTE 7 - TAXES ON INCOME

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

NOTE 8 - CONTINGENT LIABILITIES - CLASS ACTIONS:

1. A legal claim 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.

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

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

On June 8, 2014 the plaintiffs filed a notice to the effect that they maintain their position that the application to approve the claim as a class action shall be heard by the court. In accordance with the plaintiffs' notice, the court set a date for a summary hearing. The company is to file its summaries by March 8, 2015.

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

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, 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 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 September 28, 2014 the applicants filed a notice and application to postpone the proceedings in the case by three months. On October 6, 2014 the respondents informed the court that they do not object the application to postpone the proceedings.

On October 7, 2014 the court ruled that at this stage the applicants shall not be required to file their reply to the respondents' reply to the application to approve the claim as a class action; the court also ordered that no hearings shall be scheduled at this stage to hear the claim; however, the court clarified that this does not detract from the respondents' duty to file their reply to the application to approve the claim as a class action.

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

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

Since the claim is in its preliminary stage and collection of information and data from the company has not yet been completed nor has the Company decided how to reply to the claim and since the Company has not yet replied to the application to approve the claim as a class action, it is not possible to evaluate the Company's chances of prevailing in the claim.

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

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

NOTE 9 – SUBSEQUENT EVENTS:

On October 28, 2014 the Company's board of directors resolved to distribute a dividend of NIS 35 million to its shareholders, see note 5b.