AIG Israel Insurance Company Ltd

Interim Financial Report

(Unaudited)

As of June 30, 2016

Contents

Directors' report
AIG Israel Insurance Company Ltd ("the Company")
for the period ended June 30, 2016

The directors' report on the business of the Company as of June 30, 2016 ("**the directors' report**"), reviews the Company and developments in its business in the first half of 2016 ("**the reported period**"). The information in this report are as of June 30, 2016 ("**the date of report**") unless otherwise is indicated explicitly.

The Company is an "insurer" as this term is defined in the Supervision of Financial Services Law (Insurance), 1981. Therefore, this report is prepared based on Regulations 68-69 and the Second Addendum to the Insurance Business Supervision Regulations (Report Information), 1998 ("the Reporting Regulations") and according to the guidance issued by the Supervisor of Capital Markets, Insurance and Savings in the Israel Ministry of Finance ("the **Supervisor of Insurance**" or "**the Supervisor**"). This directors' report was prepared assuming that the user is also holding the Company's 2015 periodic report.

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

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

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

Forward looking information

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

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1. Condensed description of the Company:

1.1 Organizational structure

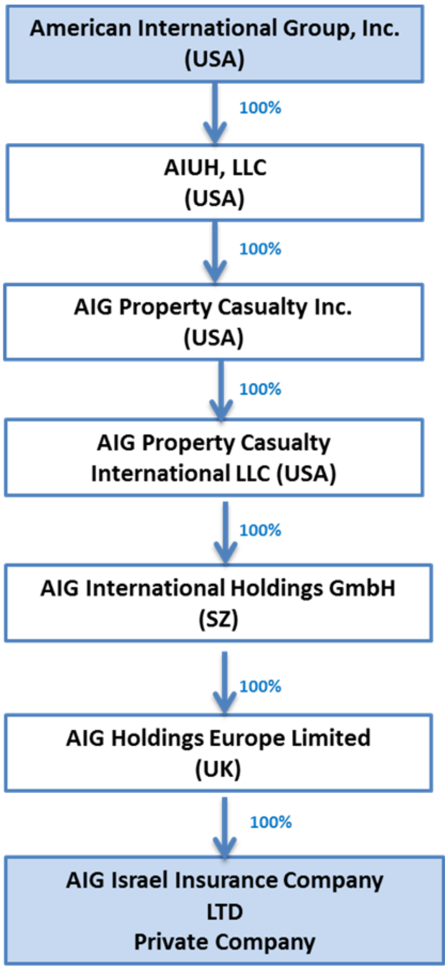
AIG Israel Insurance Company Ltd ("**the Company**") was incorporated in Israel on March 27, 1996, as a private limited liability company. The Company began its insurance activity in May 1997. The company does not hold any subsidiaries or related companies. The Company has no activity outside of Israel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

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

On June 1, 2016, as part of organizational restructuring in the AIG corporation, all shares of the Company that were held by AIG Europe Holdings Limited ("**AEHL**") were transferred to AIG Holdings Europe Limited ("**AHEL**").

As of the date of this report, the sole shareholder of the Company is AHEL, which holds the entire issued share capital of the Company. AHEL is a company in the global AIG corporation.

The following is the undated holding structure of the Company:



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

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

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

1.2 Areas of activity

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

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

1.3 Dependency on customers or marketing entities

The Company has no dependency on any single customer in most business activities. For more information see Sections 2.1.3, 2.2.3, 2.3.3, 2.4.3, 2.5.3 and 2.6.3 in Chapter A (description of company's business) in the company's 2015 periodic report.

1.4 Developments or material changes in reinsurance agreements

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

1.5 Material events since last financial statements

Due to the impact of the Vinograd Committee conclusions on results of the Company, as discussed in section 2 below, the Company restated its interim financial information for the first quarter and retrospectively recognized that impact within the comparative information that will be presented in the interim financial information as of March 31, 2017 and the 3-month period then ended.

For more information about the impact of the Vinograd Committee conclusions on the results of the Company, see section 4 below, and note 3 to the condensed interim financial information.

In May 2016, an agreement was signed between the Company and Isracard Ltd ("Isracard"). Under that agreement, among other things, the Company will provide oversees travel insurance coverage to customers of Isracard and provide them with services related to such travel insurance. The activity with Isracard customers is expected in late 2016.

2. Description of business environment:

General

In accordance with data published by the division of Capital Market, Insurance and Savings at the Israel Ministry of Finance, there are more than 20 Israeli insurance companies currently active in Israel; most of these companies are engaged in general insurance. In accordance with these data, as of December 31, 2015, insurance fees from the general insurance business amounted to NIS 19,956 million (excluding Karnit); the share of the 5 largest insurance companies – Harel, Clal, Phoenix, Migdal and Menorah – amounted to NIS 11,956 million, which constituted 60% of the total premiums in the Israeli general insurance sectors.

For further details regarding the competition in the different lines of business of the company and regarding the measures taken by the company to face competition in this competitive market, see Sections 2.1.2. 2.2.2, 2.3.2, 2.4.2, 2.5.2 and 2.6.2 in Chapter A (description of company's business) in the company's 2015 periodic report.

Developments in the company's macro-economic environment

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

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

	Jan-Jun 2016	Jan-Jun 2015	Apr-Jun 2016	Apr-Jun 2015	2015
Government bonds indexes					
General government bonds	2.7%	0.4%	1.2%	(3.6%)	1.6%
Linked government bonds	3.4%	0.0%	1.6%	(4.8%)	(0.2%)
NIS government bonds	2.2%	0.7%	1.0%	(2.7%)	2.8%
Corporate bonds indexes					
Tel Bond 60	2.1%	(0.2%)	1.3%	(1.6%)	(0.4%)
Tel Bond NIS	1.6%	0.8%	0.9%	(1.9%)	4.7%
Shares indexes					
Tel-Aviv 100	(7.9%)	10.0%	(3.1%)	0.3%	2.0%

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

For information on general trends in the insurance sector and their effect on company's business, see Section 4.3 in Chapter A (description of company's business) in the Company's 2015 periodic report.

Characteristics and developments in principal insurance lines of business

For information about characteristics and developments in principal insurance lines of business of the Company, see Sections 2.1.2, 2.2.2, 2.3.2, 2.4.2, 2.5.2, 2.6.2, 4.1, 4.5 and 4.7 in Chapter A (description of company's business) in the company's 2015 periodic report.

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

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

Legislation

- The Compensation to Office Holders of Financial Institutions (Special Approval and Non-Deductibility for Tax Purposes of Excessive Compensation), 2016 was published in the official gazette on April 12, 2016. The law caps the salary to office holders of financial institutions at NIS 2.5 million. Any amount paid in salaries to such office holders in excess of the NIS 2.5 million cap will not be deductible for tax purposes. The law also determines that the salary of any employee of a financial institution will not exceed an amount equal to 35 times the salary of the lowest-paid employee of that financial institution. To the best of the Company's knowledge, on July 11, 2016, an injunction was issued by the Supreme Court, sitting as the High Court of Justice, stating that the law will not come into force until a decision is handed down on the main petition against this legislation.

- In April 2016, the Compensations for Victims of Road Accidents Law (Amendment No. 25), 2016 was published in the official gazette. The amendment, among other things, introduces a provision that if the Supervisor finds an amount in the Karnit account in excess of what is necessary for financing its activity and ensuring its stability, she may, with agreement of the Minister of Justice, to instruct Karnit to refund those amounts to motor vehicle insurance customers, either directly or through any other way that will be determined.

  In this regard, note that in July 2016, the Supervisor issued a draft circular on refunding amounts from Karnit to the compulsory insurance customer population. The draft circular indicates that it appeared from the 2015 financial statements of Karnit that Karnit has an excess amount of NIS 1.2 billion, which is more than required to finance its operations and ensure its stability. As such, the draft contained provisions for refunding the excess amount in Karnit to the motor vehicle insurance population.

- On August 3, 2016, the Supervision of Financial Services Law (Legislative Amendments), 2016 was passed by the Knesset. That law provided, among other things, the creation of the Capital Market, Insurance and Savings Authority, which will have independent powers to fulfill its mandate, and that the Minister of Finance, with approval by the Government, will appoint a Supervisor of Capital Markets, Insurance and Savings for one, five-year term. Additionally, the law defined the duties of the new Authority as follows: representing the interest of insurance and regulated financial institution customers; ensuring the stability and appropriate management of regulated entities; promoting competition in the capital, insurance and savings markets and in the financial sector at large; promoting technology and business innovation; and that the Authority will perform its duties while taking into consideration the economic policy of the government; and that the Authority will act in relation to retirement savings, health insurance and nursing care insurance according to the policy of the government as reflected in its resolutions.

Circulars

- In April 2016, the Supervisor issued an in-principle ruling regarding the marketing of personal injury insurance policies. Among other things, the ruling sets out specific provisions for correction of irregularities in marketing of personal injury policies, including issuance of notices to those insured under such polices, repayment of insurance premiums in certain cases as required under the law and reporting to the Supervisor.

- In April 2016 the Supervisor issued a draft circular on the requirement to perform an IQIS in 2015. The circular provides guidance on performance of IQIS5, including a number of changes and updates compared to IQIS4. The main changes in the circular relate to stabilization of risk free interest rate curves by using extrapolation to the ultimate forward rate, composition of recognized equity, lower equity requirements in connection with investment in infrastructure (equity and debt), updating the formula used to calculate the equity requirement in respect of the premiums and reserves risk in general insurance and updating the guidelines regarding a special auditors' report which will focus on best estimate and risk margin. The IQIS5 is the last quantitative survey before the application of the new solvency regime which is based on the provisions of the Solvency II directive; insurers will be required to file the IQIS5 in August 2016. For more information about the results of IQIS 5 of the Company, and the excess capital of the Company as of August-December 2015, see section 3 below.

- In May 2016, the Supervisor issued Insurance Circular 2016-1-6, about retrieval of personal information. The purpose of the circular was to provide guidance to allow retrieval of insurance customer personal information. The circular provides, among other things, that retrieval of the information will be done using technology tools that provide access to the various insurance products and for settlement of a claim.

- In June 2016, the Supervisor issued Insurance Circular 2016-1-8 for amendment of the instructions for reporting to the Supervisor on rates in life insurance plans as set in the Life Insurance Circular 2015-1-24.

- In June 2016, the Supervisor issued Insurance Circular 2016-1-7, about engagement in insurance contracts. The purpose of this circular is to set guidance on insurance companies and insurance agent practices when selling insurance to customers.

- In June 2016, a third update was issued for the Supervisor position paper titled "Risk Management in Financial Institutions – A Cross-section Comparative Review". The paper reviews the findings that were collected by the Supervisor regarding risk management in insurance companies following an across-the-board review of insurance companies; (the review was aimed to assess the risk management infrastructure in insurance companies). The paper set out the Supervisor's position in connection with certain findings that have arisen in the course of the review and in connection with the appropriate application of her provisions in the field of risk management.

- In July 2016, the Supervisor issued Financial Institutions Circular 2016-9-9 titled "Clarification and Settlement of Claims and Handling Customer Complaints". The purpose of the circular is to set out a clear framework and rules for claims settlement by financial institutions, given the impact on customers' ability to exercise their rights and their ability to understand the options available to them in different stages of the procedure.

- In July 2016, the Supervisor issued an opinion paper titled "Audit Findings on Business Continuity – October 2015 Exercise". The opinion paper presents the findings of that exercise, and especially the gap between deficient implementation by financial institutions and best practices.

- In August 2016, the Supervisor issued Circular 2016-10-3, titled "Engagement of Financial Institutions with License Holders". The purpose of that circular is to apply the procedures that govern premiums paid to insurers through insurance agents, as established by Insurance Circular 2004/14 "Engagement of Insurer with Insurance Agent", to any engagement between a license holder and a financial institution.

- In August 2016, the Supervisor issued a circular titled "Amendment of Provisions of the Uniform Circular in Compulsory vehicle Insurance Sector". The Circular updated residual premiums for three-wheeled motorcycles and adds 5 safety systems for motorcycles that provide discounted premiums. In addition, on that same date, a circular listing factors for pricing compulsory vehicle insurance premiums was issued. The circular revises the factors in the compulsory insurance sector and its provisions will apply to premiums in policies that will enter into force beginning on October 1, 2016.

- In August 2016, the Supervisor issued provisions on business continuity management and emergency preparedness. The document includes instruction for a business continuity exercise in November 2016, simulating a war on all fronts.

Drafts

- In April 2016 the Supervisor issued a draft circular titled "Management of Cyber Risks in Financial Institutions". The purpose of the circular is to set out principles for the protection of the assets of financial institutions in order to ensure securing the rights of insurance customers by maintaining confidentiality, completeness and availability of information assets, information technology systems, business processes and proper functioning of the financial institution. The circular defines, among other things, the principles for management of cyber risks in a financial institution and the duty of financial institutions to manage those risks, based on cyber protection principles.

- In June 2016, the Supervisor issued a second draft circular titled "Fixed-Premium Life Insurance Plans". The draft sets principles for refunds to customers in the event of cancellation or reduction of fixed-premium in risk life insurance policies.

- In June 2016, the Supervisor issued draft circular titled "Insurance Policy Cancellation". The purpose of the draft was to simplify cancellation of policies and make this option more accessible through setting uniform guidance, requiring insurance companies to offer customers a number of avenues to cancel policies and indicating required actions that when met will lead to cancellation of the policy.

- In July 2016, the Supervisor issued a draft financial institutions circular titled "Investment Rules Applicable to Financial Institutions". The draft include amendments to the provisions regulating providing loans, securities lending and investment in non-marketable debt instruments.

- In July 2016, the Supervisor issued draft Supervision of Financial Services Regulations (Insurance) (Collective Health Insurance) (Amendment), 2016. The draft proposes, among other things, to allow different entities to provide health insurance policies, even if they are not affiliated to the insured group, and provides guidance to ensure that those entities will act in the benefit of the group of insurance customers vis-à-vis the insurer, including empowering the Supervisor to publish complementary provisions on this matter.

- In August 2016, the Supervisor issued draft Supervision of Financial Services Regulations (Insurance) (Maximum Commission in Reinsurance for Mortgages) (Amendment), 2016. The proposed amendment states that the maximum commission that is paid to agents for life insurance purchased to secure a mortgage loan may not exceed 20% of current premium paid for the insurance. In addition, in the first year of the life insurance policy for securing mortgage loans, it will be possible to pay scale commission of up to 60% of the premium paid in that year, and provided that the policy is not cancelled within 6 years from its start date. If the policy is cancelled, as above, part of the scale commission will be refunded for the remaining period up until 6 years from start date.

- In August 2016, the Supervisor issued draft guidance for Solvency II disclosure in the financial statements of insurance companies. The draft guidance sets rules on the required disclosure in financial statements of insurance companies in a Solvency II regimen, and including solvency under IQIS 5. For solvency disclosure of the Company, see section 3 below.

Vinograd Committee

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

On May 17, 2016, the Amendment to the Discounting Regulations was signed by the Minister of Social Affairs, and on June 9, 2016, it was published, adopting the recommendations of the Vinograd Committee.

On August 9, 2016, after the date of this financial information, it was announced on the website of the Ministry of Finance that the Minister of Finance decided, with agreement of the Minister of Social Affairs, that the above amendment to the Discounting Regulations, which was supposed to lower the discount rate and thus lower compulsory vehicle insurance premiums, will be cancelled. As of the date of preparing this interim financial information, the amendment has yet to be cancelled. Consequently, the company did not change the provisions in its interim financial statements following this announcement.

As of June 30, 2016, the Company estimates that the impact of the Vinograd Committee will cause an increase of the insurance contract liability in the compulsory vehicle segment. Accordingly, the Company decided to restate the financial information for the first quarter to reflect the above impact in the comparative information that will be presented in the interim financial information of the Company as of March 31, 2017 and the three-month period then ended.

For more information about the impact of the Vinograd Committee on the results of the Company, see section 4 below and note 3 to the condensed interim financial information.

Entry into and marketing of new lines of business

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

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

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

	June 30 2016	June 30 2015	December 31, 2015
Other assets	306,493	326,861	291,454
Deferred acquisition expenses	149,415	151,821	149,675
Financial investments and cash	1,557,621	1,640,734	1,633,451
Reinsurance assets	615,764	695,517	548,150
Total assets	**2,629,293**	**2,814,933**	**2,622,730**
Shareholders' equity	732,739	717,936	827,686
Liabilities in respect of insurance	1,566,900	1,740,843	1,417,989
Other liabilities	329,654	356,154	377,055
Total equity and liabilities	**2,629,293**	**2,814,933**	**2,622,730**

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

	Jan-Jun 2016	Jan-Jun 2015	Apr-Jun 2016	Apr-Jun 2015	2015
Gross earned premiums	506,856	480,836	255,637	248,505	988,885
Premiums earned by reinsurers	(83,115)	(79,910)	(40,828)	(40,850)	(160,623)
Premiums earned in retention	**423,741**	**400,926**	**214,809**	**207,655**	**828,262**
Net investment income (loss) and financing revenue	10,203	18,078	8,530	(22,604)	18,616
Fee revenue	23,011	21,357	10,972	10,235	37,061
Total revenue	**456,955**	**440,361**	**234,311**	**195,286**	**883,939**
Payments and change in liability for insurance contracts, in retention	(287,379)	(239,873)	(146,472)	(119,310)	(420,867)
Total other expenses	(154,935)	(156,891)	(74,949)	(82,426)	(319,010)
Income (loss) before income taxes	**14,641**	**43,597**	**12,890**	**(6,450)**	**144,062**
Taxes on income (tax benefit)	(4,588)	(16,568)	(4,707)	2,334	(53,971)
Income (loss) for the period and total comprehensive income (loss) for the period	**10,053**	**27,029**	**8,183**	**(4,116)**	**90,091**

Shareholders' equity and capital requirements

As of June 30, 2016, the Company's shareholders' equity exceeds the shareholders' equity required as of that date under the Insurance Business Regulations (Minimum Capital Required from an Insurer), 1998 by NIS 270.5 million.

For details regarding the amounts of equity required from the Company and the existing amounts in accordance with the minimum equity regulations, see note 6 to the financial statements.

On April 19, 2016, the Company's Board of Directors announced a dividend of NIS 105 million to AEHL, and it was paid on May 24, 2016 ("**the dividend distribution**").

According to IQIS 5 results, capital surplus of the Company increased as of December 31, 2015, under the Solvency II regimen relative to capital surplus under the existing Israeli regimen. The solvency ratio of the Company as calculated in IQIS 5 using the December 31, 2015 information was 182% before the dividend distribution and 165% after that payout.

For more information about the IQIS 5 exercise as performed by the Company, see note 6b to the condensed interim financial information.

4. Results of operations

The Company continued during the reported period to increase gross premiums, by 5.2% y/y. Total gross premiums in the reported period amounted to NIS 530.9 million compared with NIS 504.5 million in the corresponding period in 2015.

In the reported period, total premiums earned in retention amounted to NIS 444.1 million compared with NIS 422.2 million in the corresponding period in 2015 (a 5.2% increase).

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

Jan-Jun 2016	Life insurance	Health insurance	General insurance	Total
Gross	62,565	106,635	361,711	530,911
In retention	51,292	105,167	287,625	444,084
% of total gross	11.8	20.1	68.1	100.0
% of retention	11.6	23.7	64.7	100.0

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

Jan-December 2015	Life insurance	Health insurance	General insurance	Total
Gross	123,116	215,596	674,376	1,013,088
In retention	100,026	213,188	532,461	845,675
% of total gross	12.2	21.3	66.5	100.0
% of retention	11.8	25.2	63.0	100.0

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

	Jan-Jun 2016	Jan-Jun 2015	Apr-Jun 2016	Apr-Jun 2015	2015
Income (loss) from compulsory vehicle activity	(7,414)	9,349	(4,461)	(2,561)	59,882
Income (loss) from property vehicle activity	(3,421)	719	7,083	(2,819)	(11,742)
Income from home insurance activity	9,208	5,032	4,690	1,116	9,419
Income (loss) from commercial insurance activity	(5,926)	226	(8,712)	(2,752)	5,795
Income from health insurance activity	18,552	16,357	7,464	9,513	58,356
Income from life insurance activity	4,218	2,067	3,184	1,081	11,607
Other - Income (loss) not attributed to any line of business	(576)	9,847	3,642	(10,028)	10,745
Income (loss) before income taxes	**14,641**	**43,597**	**12,890**	**(6,450)**	**144,062**
Taxes on income (tax benefit)	(4,588)	(16,568)	(4,707)	2,334	(53,971)
Comprehensive income (loss) for the period	**10,053**	**27,029**	**8,183**	**(4,116)**	**90,091**

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

The following is explanation on the development in some items:

a. Net investment income and financing income was NIS 10.2 million, compared with NIS 18.1 million in the corresponding period of 2015. The decrease in investment income resulted from lower investment returns in the Israeli equity market compared with the corresponding period in 2015 (see section 2 above).

b. The loss of the Company from compulsory vehicle insurance in the reported period was NIS 7.4 million compared with NIS 9.3 million in the corresponding period in 2015. The decrease in income mainly resulted from a significant increase in the claims item. The main factors that contributed to this increase are as follows:
   - A provision following the Vinograd Committee conclusions (see section 2 above) at a gross amount of NIS 21 million and NIS 11.5 million in retention.
   - An increase in the share of the Company in pending claims of the Pool at NIS 8.1 million. This increase included NIS 3.5 million in impact of the Vinograd Committee.

   Following the above, the Company restated its financial statements for the first quarter and retrospectively recognized the impact of the Vinograd Committee conclusions. For more information about the impact of the Vinograd Committee on the results of the Company, see note 3 to the condensed interim financial information. Note that the reported period is the first reporting period in which business results in the compulsory vehicle sector are calculated without calculating the reserve for excess of income over expenses "accrual".

c. Company's loss from property vehicle insurance in the reported period was NIS 3.4 million, compared with a profit of NIS 0.7 million in the corresponding period in 2015. The transition from profit to loss started in 2015 and this trend continued in the reported period as well. The main reason for the loss from this activity is a significant increase in the average amount of paid claim both in the case of property vehicle insurance products sold directly to clients and with such products sold through insurance agents. As a result of the transition to loss, the Company recorded for the first time a reserve for premium deficiency at the total amount of NIS 11.3 million in its 2015 periodic report. The Company made an in-depth assessment of the factors that led to this increase in average claim and has taken a number of available steps to reduce the claims ratio. As a result of those findings, claim ratio seems to trend lower, which allowed releasing NIS 5.4 million from the reserve for premium deficiency, which amounted as of June 30, 2016 to NIS 5.9 million.

d. The income of the Company from home insurance in the reported period was NIS 9.2 million compared with NIS 5.0 million in the corresponding period in 2015. The increase in profitability is mainly a result of an improvement in claim ratio due to the fact that no significant natural damage events occurred in the reported period, as opposed to the corresponding period, which was impacted by natural damages.

e. The loss of the Company from professional liability insurance in the reported period was NIS 10.6 million compared with an income of NIS 0.2 million in the corresponding period in 2015. The decrease in this item was mainly due to the development of a certain claim in directors' liability insurance at NIS 9 million in retention.

f. The income of the Company from other property liability insurance in the reported period was NIS 1.6 million compared with a loss of NIS 0.2 million in the corresponding period in 2015. The increase in income is mainly a result of a decrease in expense ratio.

g. The income of the Company from other liability insurance in the reported period was NIS 3.0 million compared with an income of NIS 0.6 million in the corresponding period in 2015. The increase in this item is mainly a result of an increase in investment income and decrease in claims and expense ratios.

h. The income of the Company from health insurance in the reported period was NIS 18.5 million compared with NIS 16.4 million in income in the corresponding period in 2015. The increase in income mainly resulted from a decrease in expense ratio.

i. The income of the Company from life insurance in the reported period was NIS 4.2 million compared with NIS 2.1 million in the corresponding period in 2015. This increase mainly resulted from a decrease in expense retio.

5. Cash flows and liquidity

Net cash provided by operating activities in the reported period was NIS 146.7 million, compared with NIS 12.6 million provided by operating activities in the corresponding period in 2015.

Net cash used in investing activities in the reported period amounted to NIS 9.9 million, compared with NIS 6.3 million in the corresponding period in 2015.

Net cash used in financing activity of the Company in the reported period (dividend paid) was NIS 105 million.

As a result of the above, the balance of cash and cash equivalents in the reported period increased by NIS 31.8 million and amounted NIS 91.4 million as of June 30, 2016.

6. Sources of funding

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

7. The effect of external factors

For more information, see section 2 above.

8. Material subsequent events

For information about a motion to certify a class action that was filed against the Company after June 30, 2016, see note 9 to the condensed interim financial statements.

For information about an announcement on the Ministry of Finance website about the decision of the Minister of Finance, with agreement with the Minister of Social Affairs, to cancel the amendment to the National Insurance Discounting Regulations, see note 3 to the condensed financial information.

For information about a letter that was issued by the Supervisor in August 2016 about dividend distributions by insurance companies, see note 6c above.

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

Controls and procedures applied to disclosure

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

Internal controls over financial reporting

In the course of the quarter ending on June 30, 2016, no change has occurred in the internal control of the Company over financial reporting that materially affected or is reasonably expected to materially affect the Company's internal control on financial reporting.

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

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

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

_________________	___________________
Ralph Mucerino	Shay Feldman
Chairman of the Board of Directors	CEO

August 23, 2016

<u>AIG Israel Insurance Company Ltd</u>

Declarations relating to the Financial Statements

Declaration

I, Shay Feldman hereby declare that:

1. I reviewed the interim report of AIG Israel Insurance Company Ltd. (hereafter – "the insurance company") for the quarter ended June 30, 2016 (hereafter – "the report").

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

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

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

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

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

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

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

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

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

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

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

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

Shay Feldman - CEO

August 23, 2016

Declaration

I, David Rothstein hereby declare that:

1. I reviewed the interim report of AIG Israel Insurance Company Ltd. (hereafter – "the insurance company") for the quarter ended June 30, 2016 (hereafter – "the report").

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

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

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

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

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

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

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

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

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

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

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

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

____

David Rothstein - CFO

August 23, 2016

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

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

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

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

The Insurance Company's management with the supervision of its Board of Directors evaluates the effectiveness of the internal control of the Insurance Company over financial reporting as at June 30, 2016, based on criteria set in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation management believes that as at June 30, 2016 the internal control of the Insurance Company over financial reporting is effective.

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

Date of approval of financial statements: August 23, 2016

AIG ISRAEL INSURANCE COMPANY LTD.

FINANCIAL INFORMATION FOR INTERIM PERIOD
(Unaudited)

JUNE 30, 2016

AIG ISRAEL INSURANCE COMPANY LTD.

FINANCIAL INFORMATION FOR INTERIM PERIOD
(Unaudited)

JUNE 30, 2016

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

Introduction

We have reviewed the attached financial information of AIG Israel Insurance Company Ltd ("the Company"), which is comprised of the condensed statement of financial position as of June 30, 2016 and the condensed statements of comprehensive income, changes in equity and cash flows for the six and three months period ended on that date. The Board of Directors and management are responsible for the preparation and presentation of the financial information for this interim period in accordance with the provisions of International Accounting Standard No. 34, 'Interim Financial Reporting'(hereafter "IAS 34"), and they are also responsible for the preparation of the financial information for this interim period in accordance with the disclosure requirements of the Supervision of Financial Services (Insurance) Law, 1981 and the regulations promulgated thereunder. Our responsibility is to express a conclusion with respect to the financial information for this interim period, based on our review.

Scope of review

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

Conclusion

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

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

Without qualifying our above conclusion, we draw attention to note 3 to the interim financial information on restatement of the interim financial information as of March 31, 2016 and for the three-month period then ended, in order to retrospectively reflect a correction in the amount of liability of the Company to insurance contracts as of that date. As discussed in that note, the information in this interim financial information and for the three-month period ended June 30, 2016 already includes the impact of that restatement.

Tel-Aviv, Israel
August 23, 2016

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

Kesselman & Kesselman, Trade Tower, 25 Hamered Street, Tel-Aviv 6812508, Israel,
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AIG ISRAEL INSURANCE COMPANY LTD.

CONDENSED STATEMENTS OF FINANCIAL POSITION

AS OF JUNE 30, 2016

	June 30		December 31,
	2016	2015	2015
	(Unaudited)		(Audited)
	NIS in thousands		
Assets			
Intangible assets	28,628	22,236	26,397
Deferred acquisition costs	149,415	151,821	149,675
Property and equipment	12,196	8,892	11,469
Reinsurance assets	615,764	695,517	548,150
Premiums collectible	213,681	201,282	206,867
Current tax assets	-	54,313	3,250
Other receivables	51,988	40,138	43,471
	1,071,672	1,174,199	989,279
Financial investments:			
Marketable debt instruments	1,188,120	1,204,780	1,200,998
Non-marketable debt instruments	166,460	180,332	203,935
Marketable shares	-	99,988	92,851
Other	111,691	65,894	73,424
TOTAL FINANCIAL INVESTMENTS	1,466,271	1,550,994	1,571,208
CASH AND CASH EQUIVALENTS	91,350	89,740	62,243
TOTAL ASSETS	2,629,293	2,814,933	2,622,730

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

Date of approval of financial information for interim period by the Board of Directors of the Company: August 23, 2016

AIG ISRAEL INSURANCE COMPANY LTD.

CONDENSED STATEMENTS OF FINANCIAL POSITION

AS OF JUNE 30, 2016

	June 30		December 31,
	2016	2015	2015
	(Unaudited)		(Audited)
	NIS in thousands		
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	6	6	6
Share premium	250,601	250,601	250,601
Equity reserves	11,084	11,084	11,084
Retained earning	471,048	456,245	565,995
TOTAL EQUITY ATTRIBUTABLE TO COMPANY SHAREHOLDERS	732,739	717,936	827,686
LIABILITIES:			
Liabilities in respect of insurance contracts and investment contracts that are not yield dependent	1,566,900	1,740,843	1,417,989
Liabilities in respect of deferred taxes, net	2,784	6,440	8,141
Retirement benefit obligation, net	2,087	3,148	2,781
Liabilities to reinsurers	235,889	272,231	279,347
Liabilities for current taxes	14,958	-	-
Payables	73,936	74,335	86,786
TOTAL LIABILITIES	1,896,554	2,096,997	1,795,044
TOTAL EQUITY AND LIABILITIES	2,629,293	2,814,933	2,622,730

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

AIG ISRAEL INSURANCE COMPANY LTD.

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE SIX AND THREE-MONTHS PERIOD ENDED JUNE 30, 2016

	Six months ended June 30		Three months ended June 30		Year ended December 31,
	2016	**2015**	**2016**	**2015**	**2015**
	(Unaudited)				**(Audited)**
	NIS in thousands				
Gross earned premiums	506,856	480,836	255,637	248,505	988,885
Premiums earned by reinsurers	(83,115)	(79,910)	(40,828)	(40,850)	(160,623)
Premiums earned in retention	423,741	400,926	214,809	207,655	828,262
Investment income (loss), net and financing income	10,203	18,078	8,530	(22,604)	18,616
Commission income	23,011	21,357	10,972	10,235	37,061
TOTAL INCOME	456,955	440,361	234,311	195,286	883,939
Payments and change in liabilities with respect to insurance contracts, gross	(390,388)	(381,915)	(219,122)	(150,400)	(480,825)
Share of reinsurers in increase in insurance liabilities and payments for insurance contracts	103,009	142,042	72,650	31,090	59,958
Payments and change in liabilities for insurance contracts, retention	(287,379)	(239,873)	(146,472)	(119,310)	(420,867)
Commission, marketing expenses and other acquisition costs	(116,863)	* (118,995)	(58,188)	* (64,117)	(239,888)
General and administrative expenses	(40,685)	* (36,233)	(20,138)	* (15,938)	(82,884)
Financing income (expenses), net	2,613	(1,663)	3,377	(2,371)	3,762
TOTAL EXPENSES	(442,314)	(396,764)	(221,421)	(201,736)	(739,877)
INCOME (LOSS) BEFORE TAXES ON INCOME	14,641	43,597	12,890	(6,450)	144,062
Taxes on income (tax benefit)	(4,588)	(16,568)	(4,707)	2,334	(53,971)
INCOME (LOSS) FOR THE PERIOD AND TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	10,053	27,029	8,183	(4,116)	90,091
BASIC EARNINGS (LOSS) PER SHARE:					
Basic income (loss) per share	1.75	4.72	1.43	(0.72)	15.72
Number of shares used in calculating basic income per share	5,730	5,730	5,730	5,730	5,730

* After reclassification due to change in accounting policy – see note 2u to the 2015 annual financial statements of the Company.

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

AIG ISRAEL INSURANCE COMPANY LTD.

CONDENSED STATEMENTS OF CHANGES IN EQUITY

FOR THE SIX AND THREE-MONTHS PERIOD ENDED JUNE 30, 2016

	Share capital	Share premium	Other reserves	Retained earnings	Total
	NIS in thousands				
BALANCE AS OF JANUARY 1, 2016 (audited)	6	250,601	11,084	565,995	827,686
CHANGE IN THE 6 MONTHS ENDED JUNE 30, 2016 (unaudited) -					
Total income and comprehensive income in the 6 months ended June 30, 2016				10,053	10,053
Transactions with owners carried directly to equity - dividend				(105,000)	(105,000)
BALANCE AS OF JUNE 30, 2016 (unaudited)	6	250,601	11,084	471,048	732,739
BALANCE AS OF JANUARY 1, 2015 (audited)	6	250,601	11,084	429,216	690,907
CHANGES IN THE 6 MONTHS ENDED JUNE 30, 2015 (unaudited) -					
total income and comprehensive income in the 6 months ended June 30, 2015				27,029	27,029
BALANCE AS OF JUNE 30, 2015 (unaudited)	6	250,601	11,084	456,245	717,936
BALANCE AS OF APRIL 1, 2016 (unaudited)	6	250,601	11,084	567,865	829,556
CHANGES IN THE 3 MONTHS ENDED JUNE 30, 2016 (audited)					
Total income and comprehensive income in the 3 months ended June 30, 2016				8,183	8,183
Transaction with shareholders, recognized directly in equity – dividend				(105,000)	(105,000)
BALANCE AS OF JUNE 30, 2016 (unaudited)	6	250,601	11,084	471,048	732,739
BALANCE AS OF APRIL 1, 2015 (unaudited)	6	250,601	11,084	460,361	722,052
CHANGES IN THE 3 MONTHS ENDED JUNE 30, 2015 (audited) -					
total income and comprehensive income in the 3 months ended June 30, 2015				(4,116)	(4,116)
BALANCE AS OF JUNE 30, 2015 (unaudited)	6	250,601	11,084	456,245	717,936
BALANCE AS OF JANUARY 1, 2015 (audited)	6	250,601	11,084	429,216	690,907
CHANGES IN THE YEAR ENDED DECEMBER 31, 2015 (audited):					
Accumulated net tax impact, at December 31, 2015, of elimination of retention and first-time implementation of the "best practice"*				81,688	81,688
Total income and comprehensive income				90,091	90,091
Transaction with shareholders, recognized directly in equity – dividend				(35,000)	(35,000)
BALANCE AS OF DECEMBER 31, 2015 (audited)	6	250,601	11,084	565,995	827,686

* For more information on this change in accounting policy, whose accumulated impact fully arise from elimination of accumulation in vehicle and liabilities business - see note 2r(1)(d)(5) to the 2015 annual financial statements.

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

AIG ISRAEL INSURANCE COMPANY LTD.

CONDENSED STATEMENTS OF CASH FLOWS

FOR THE SIX AND THREE-MONTHS PERIOD ENDED JUNE 30, 2016

	Six months ended June 30		Three months ended June 30		Year ended December 31,
	2016	2015	2016	2015	2015
	(Unaudited)				(Audited)
	NIS in thousands				
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net cash provided by (used in) operations (Appendix A)	113,566	(24,636)	76,766	7,600	10,261
Interest received	24,641	26,008	12,572	13,008	44,813
Dividend received	178	1,233	41	956	2,480
Income taxes received (paid), net	8,297	9,993	(18,250)	(24,676)	(22,941)
Net cash provided by (used in) operating activities	146,682	12,598	71,129	(3,112)	34,613
CASH FLOWS FROM INVESTING ACTIVITIES:					
Changes in assets covering equity and non-insurance liabilities:					
Acquisition of property and equipment	(3,524)	*(900)	(1,827)	*(277)	(6,019)
Acquisition of intangible assets	(6,355)	(5,365)	(3,578)	(3,137)	(13,423)
Net cash used in investing activities	(9,879)	(6,265)	(5,405)	(3,414)	(19,442)
CASH FLOWS FROM FINANCING ACTIVITIES -					
dividend paid to shareholders	(105,000)	-	(105,000)	-	(35,000)
Net cash used in financing activities	(105,000)	-	(105,000)	-	(35,000)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	31,803	6,333	(39,276)	(6,526)	(19,829)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	62,243	83,087	133,436	95,947	83,087
IMPACT OF FLUCTUATION IN EXCHANGE RATE ON CASH AND CASH EQUIVALENTS	(2,696)	320	(2,810)	319	(1,015)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	91,350	89,740	91,350	89,740	62,243

* Immaterial reclassification of comparative information.

AIG ISRAEL INSURANCE COMPANY LTD.

CONDENSED STATEMENTS OF CASH FLOWS

FOR THE SIX AND THREE-MONTHS PERIOD ENDED JUNE 30, 2016

	Six months ended June 30		Three months ended June 30		Year ended December 31,
	2016	**2015**	**2016**	**2015**	**2015**
		(Unaudited)			**(Audited)**
			NIS in thousands		
APPENDIX A - CASH FLOWS FROM OPERATIONS -					
Income (loss) before taxes on income	14,641	43,597	12,890	(6,450)	144,062
Adjustments for- Income and expenses not involving cash flows:					
Change in liabilities with respect to insurance contracts that are not yield dependent	148,911	25,582	77,486	(107,736)	(134,592)
Change in reinsurance assets	(67,614)	23,454	(38,909)	105,027	139,009
Chang in deferred acquisition costs	260	(3,607)	1,716	3,140	(1,461)
Change in retirement benefits obligation, net	(694)	78	(346)	39	(288)
Depreciation of property and equipment	2,797	*2,671	1,441	*1,456	5,213
Amortization of intangible asset	4,124	3,539	2,065	1,771	7,436
Losses (gains), net, on financial investments:					
Marketable debt instruments	1,946	15,110	(1,366)	32,617	26,506
Non-marketable debt instruments	2,865	7,265	1,856	253	7,154
Marketable shares	4,162	(8,388)	-	485	(825)
Marketable index fund certificates	4,126	(443)	2,719	1,557	(329)
Impact of fluctuation in exchange rate on cash and cash equivalents	2,696	(320)	2,810	(319)	1,015
	103,579	64,941	49,472	38,290	48,838
Changes in operating assets and liabilities:					
Liabilities to reinsurers	(43,458)	(8,367)	(59,429)	(12,812)	(1,251)
Investments in financial assets, net	91,838	(71,063)	73,226	9,691	(110,236)
Premiums collectible	(6,814)	(7,945)	17,870	2,727	(13,530)
Receivables	(8,517)	11	(128)	1,243	(3,322)
Payables	(12,851)	(18,569)	(4,496)	(11,125)	(6,118)
Current tax assets	(33)	-	(26)	-	(889)
	20,165	(105,933)	27,017	(10,276)	(135,346)
Adjustments for interest and dividend:					
Interest received	(24,641)	(26,008)	(12,572)	(13,008)	(44,813)
Dividend received	(178)	(1,233)	(41)	(956)	(2,480)
	(24,819)	(27,241)	(12,613)	(13,964)	(47,293)
Net cash provided by (used in) operations	113,566	(24,636)	76,766	7,600	10,261

Cash flows from operating activities include those purchases and sales (net) of financial investments, arising from activity relating to insurance contracts.

* Immaterial reclassified of comparative information

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

AIG ISRAEL INSURANCE COMPANY LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS

NOTE 1 - GENERAL

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

On June 1, 2016, as part of an organizational restructuring of the AIG corporation, all shares of the Company that were owned by AIG Europe Holdings Limited ("**AEHL**") were transferred to AIG Holdings Europe Limited ("**AHEL**"). As of the date of this report, the sole shareholder of the Company is AHEL, which holds the entire issued share capital of the Company. AHEL is a company in the global AIG corporation.

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

DEFINITIONS:

1) The Company – AIG Israel Insurance Company Ltd.

2) The parent company – AIG Holdings Europe 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 that do not constitute insurance contracts.

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

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

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

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

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

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

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

NOTE 1 - GENERAL (continued):

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

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

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

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

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

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

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

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

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

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

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

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS:

a. The Company's condensed financial information as of June 30, 2016 and for the six- and three-month interim periods ended on that date ("the interim financial information") has been prepared in accordance with the provisions of IAS 34 'Interim Financial Reporting" (hereafter – "IAS 34") and is in compliance with the disclosure requirements of the Supervision of Financial Services (Insurance) Law, 1981 ("the supervision law") and the regulations promulgated there under. The interim financial information should be read in conjunction with the Company's annual financial statements as of December 31, 2015 and for the year ended thereon including the accompanying notes (hereinafter - the 2015 annual financial statements), which are in compliance with International Financial Reporting Standards, which are standards and interpretations published by the International Accounting Standards Board (hereafter – "IFRS").

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

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

b. Estimates

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

Significant judgments exercised by management in preparation of these condensed interim financial statements as well as the uncertainty involved in the key sources of those estimates were identical to the ones used in the Company's annual financial statements for the year ended December 31, 2015.

For information about the impact of the Vinograd Committee on updating the interest rate used for discounting occupational accident victims, see note 3 below.

NOTE 3 - IMPLICATIONS OF THE VINOGRAD COMMITTEE RECOMMENDATIONS – CORRECTION OF ERROR IN THE 2016 FIRST QUARTER INTERIM REPORT

On June 8, 2014, the Vinograd Committee was appointed, with the mandate to examine whether the data used by the Israel National Insurance Institute (NII) to calculate benefits for workplace injuries are up-to-date, and whether modifications are needed in life expectancy tables and interest rates used in discounting NII workplace injury benefits. Recommendations of the committee were published in March 2016, and they include, among other things, recommendations for the amendment of National Insurance Regulations (Discounting), 1978 (hereinafter - the discounting regulations) in relation to updating payments according to the current, higher, life expectancy and discounting one-off payments based on a 4-year average in a way detailed in the recommendations, whereas, as long as no such determination is set, interest rate will be set to 2% instead of 3% as indicated by the regulations so far, and that on the backdrop of lower recent interest rates.

On May 17, 2016, the Amendment to the Discounting Regulations was signed by the Minister of Social Affairs, and on June 9, 2016, it was published, adopting the recommendations of the Vinograd Committee.

As of June 30, 2016, management estimated that the impact of the Vinograd Committee will be a pre-tax NIS 11.5 million (NIS 7.4 million after tax) increase in the liability for insurance contracts of the Company in the vehicle compulsory sector. In addition, the Company's share of the Pool's liabilities resulting from the effects of the Vinograd Committee as of the said date, are NIS 3.5 million pre-tax (NIS 2.3 million after tax). Accordingly, insurance liability was increased as of that date. The impact on other sectors is negligible.

On August 9, 2016, after the date of this financial information, it was announced on the website of the Ministry of Finance that the Minister of Finance decided, with agreement of the Minister of Social Affairs, that the above amendment to the Discounting Regulations, which was supposed to lower the discount rate and thus lower compulsory vehicle insurance premiums, will be cancelled. As of the date of preparing this interim financial information, the amendment has yet to be cancelled. Consequently, the company did not change the provisions in its interim financial statements following this announcement.

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

NOTE 3 - IMPLICATIONS OF THE VINOGRAD COMMITTEE RECOMMENDATIONS – CORRECTION OF ERROR IN THE 2016 FIRST QUARTER INTERIM REPORT (continued):

Thus, the Company decided to correct information in the first quarter report after inclusion of the above impact in the comparative information, which will be presented in the interim financial statements of the Company as of March 31, 2017 and the 3-month period then ended.

The following presents the impact of the correction:

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

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

NOTE 3 - IMPLICATIONS OF THE VINOGRAD COMMITTEE RECOMMENDATIONS – CORRECTION OF ERROR IN THE 2016 FIRST QUARTER INTERIM REPORT (continued):

	As reported in first quarter financial statements	Correction	Restated amounts
Note 4 - Segment information:			
General insurance sector – for the 3-months period ended March 31, 2016:			
Payments and change in liabilities for insurance contracts, gross	(117,663)	(19,400)	(137,063)
Share of reinsurers in increase of insurance liabilities and payments for insurance contracts	18,790	8,400	27,190
Payments and change in liabilities for insurance contracts, retention	(98,873)	(11,000)	(109,873)
Total comprehensive income (loss) before tax	4,847	(11,000)	(6,153)
Liability for insurance contracts gross as of March 31, 2016	1,305,973	19,400	1,325,373
Compulsory vehicle insurance sector within the additional information about the general insurance sector – for the 3-month period ended March 31, 2016:			
Payments and change in liabilities for insurance contracts, gross	(26,121)	(19,400)	(45,521)
Share of reinsurers in increase of insurance liabilities and payments for insurance contracts	4,835	8,400	13,235
Payments and change in liabilities for insurance contracts, retention	(21,286)	(11,000)	(32,286)
Total comprehensive income (loss) before tax	8,047	(11,000)	(2,953)
Liability for insurance contracts gross as of March 31, 2016	486,253	19,400	505,653
Liability for insurance contracts retention as of March 31, 2016	391,524	11,000	402,524

NOTE 3 - IMPLICATIONS OF THE VINOGRAD COMMITTEE RECOMMENDATIONS – CORRECTION OF FIRST QUARTER REPORTS (continued):

	As reported in first quarter financial statements	Correction	Restated amounts
	NIS in thousands		
Note 5 - Equity and capital requirements – management and capital requirements (section b.):			
The amount required under Supervisor regulations and guidance (a)	530,082	336	530,418
Existing amount calculated under capital regulations: primary capital	836,607	(7,051)	829,556
Total existing equity calculated under capital regulations	836,607	(7,051)	829,556
Surplus	306,525	(7,387)	299,138
Surplus after deduction of detained surplus	306,525	(7,387)	299,138
(a) The amount required, including capital requirement for:			
Investment and other assets	49,937	336	50,273
Total amount required under capital regulations	530,082	336	530,418

All information for the three months ended June 30, 2016, which appear in this interim financial information, are after restatement of the first quarter report, as indicated above.

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

NOTE 4 - SIGNIFICANT ACCOUNTING POLICIES:

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

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

b. New accounting standards:

1) New IFRS and amendments to existing standards that came into effect and are mandatory for reporting periods commencing on January 1, 2016:

Amendment to IAS 1 "Financial Statements Presentation" (hereinafter - IAS 1 Amendment):

NOTE 4 - SIGNIFICANT ACCOUNTING POLICIES (continued):

IAS 1 Amendment deals with the following topics: materiality and its impact on disclosures in the financial statements, presentation of subtotals, order of note presentation in the financial statements and disclosure of accounting policies.

IAS 1 Amendment did not have material impact on the financial statements of the Company.

2) 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 2015 financial statements, the Company specified new IFRS and additional amendments to existing IFRS, which have not yet become effective and have not been early adopted by the Company.

Since the date of issuance of the Company's annual financial statements through the date of approval of these interim financial statements, no new standards of amendments to existing standards were issued that may have material impact on the Company's financial statements.

NOTE 5 - 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 segment, the health insurance segment and the life insurance segment, as follows:

1) Life insurance segment

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

2) Health insurance segment

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

3) General insurance segment

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

- **Compulsory motor vehicle sector**

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

NOTE 5 - SEGMENT INFORMATION (continued):

- **Motor vehicle property sector**

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

- **Home insurance sector**

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

- **Professional liability sector**

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

- **Property sectors and others**

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

- **Other liability sectors**

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

NOTE 5 - SEGMENT INFORMATION (continued):

	For 6-months period ended June 30, 2016 (unaudited)				
	Life insurance	Health insurance	General insurance	Not attributed to operating segments	Total
	NIS in thousands				
Gross earned premiums	62,658	106,346	337,852		506,856
Premiums earned by reinsurers	(11,273)	(1,473)	(70,369)		(83,115)
Premiums earned in retention	51,385	104,873	267,483		423,741
Investment income (loss), net and financing income	1	1,472	11,045	(2,315)	10,203
Commission income	1,804	227	20,980		23,011
Total income	53,190	106,572	299,508	(2,315)	456,955
Payments and change in liabilities for insurance contracts, gross	(23,801)	(50,138)	(316,449)		(390,388)
Share of reinsurers in increase of insurance liabilities and payments for insurance contracts	4,987	2,128	95,894		103,009
Payments and change in liabilities for insurance contracts, in retention	(18,814)	(48,010)	(220,555)		(287,379)
Commissions and other acquisition costs	(24,218)	(25,987)	(66,658)		(116,863)
General and administrative expenses	(5,940)	(14,023)	(20,722)		(40,685)
Financing income, net	-	-	874	1,739	2,613
Total comprehensive income (loss) before taxes on income	4,218	18,552	(7,553)	(576)	14,641
Liabilities for insurance contracts, gross, as of June 30, 2016	58,344	117,032	1,391,524		1,566,900

NOTE 5 - SEGMENT INFORMATION (continued):

	For 6-months period ended June 30, 2015 (unaudited)				
	Life insurance	Health insurance	General insurance	Not attributed to operating segments	Total
	NIS in thousands				
Gross earned premiums	60,594	104,703	315,539		480,836
Premiums earned by reinsurers	(11,659)	(1,305)	(66,946)		(79,910)
Premiums earned in retention	48,935	103,398	248,593		400,926
Investment income (loss), net and financing income	(1)	671	4,970	12,438	18,078
Commission income	1,924	264	19,169		21,357
Total income	50,858	104,333	272,732	12,438	440,361
Payments and change in liabilities for insurance contracts, gross	(25,565)	(48,237)	(308,113)		(381,915)
Share of reinsurers in increase of insurance liabilities and payments for insurance contracts	9,325	1,831	130,886		142,042
Payments and change in liabilities for insurance contracts, in retention	(16,240)	(46,406)	(177,227)		(239,873)
Commission and other acquisition costs *	(25,407)	(28,060)	(65,528)		(118,995)
General and administrative expenses *	(7,144)	(13,510)	(15,579)		(36,233)
Financing income (expenses), net	-	-	928	(2,591)	(1,663)
Total comprehensive income before taxes on income	2,067	16,357	15,326	9,847	43,597
Liabilities for insurance contracts, gross, as of March 31, 2015	55,584	140,790	1,544,469		1,740,843

* After reclassification due to change in accounting policy – see note 2u to the 2015 annual financial statements of the Company.

NOTE 5 - SEGMENT INFORMATION (continued):

	For 3-months period ended June 30, 2016 (unaudited)				
	Life insurance	Health insurance	General insurance	Not attributed to operating segments	Total
	NIS in thousands				
Gross earned premiums	31,050	53,318	171,269		255,637
Premiums earned by reinsurers	(5,400)	(739)	(34,689)		(40,828)
Premiums earned in retention	25,650	52,579	136,580		214,809
Investment income (loss), net and financing income	-	943	6,922	665	8,530
Commission income	875	98	9,999		10,972
Total income	26,525	53,620	153,501	665	234,311
Payments and change in liabilities for insurance contracts, gross	(12,307)	(27,429)	(179,386)		(219,122)
Share of reinsurers in increase of insurance liabilities and payments for insurance contracts	2,842	1,104	68,704		72,650
Payments and change in liabilities for insurance contracts, in retention	(9,465)	(26,325)	(110,682)		(146,472)
Commission and other acquisition costs	(12,337)	(12,425)	(33,426)		(58,188)
General and administrative expenses	(1,539)	(7,406)	(11,193)		(20,138)
Financing income, net	-	-	400	2,977	3,377
Total comprehensive income (loss) before taxes on income	3,184	7,464	(1,400)	3,642	12,890

NOTE 5 - SEGMENT INFORMATION (continued):

	For 3-months period ended June 30, 2015 (unaudited)				
	Life insurance	Health insurance	General insurance	Not attributed to operating segments	Total
	NIS in thousands				
Gross earned premiums	30,435	52,496	165,574		248,505
Premiums earned by reinsurers	(5,613)	(676)	(34,561)		(40,850)
Premiums earned in retention	24,822	51,820	131,013		207,655
Investment income (loss), net and financing income	-	(1,943)	(13,932)	(6,729)	(22,604)
Commission income	942	145	9,148		10,235
Total income	25,764	50,022	126,229	(6,729)	195,286
Payments and change in liabilities for insurance contracts, gross	(13,416)	(20,183)	(116,801)		(150,400)
Share of reinsurers in increase of insurance liabilities and payments for insurance contracts	4,971	(98)	26,217		31,090
Payments and change in liabilities for insurance contracts, in retention	(8,445)	(20,281)	(90,584)		(119,310)
Commission and other acquisition costs *	(14,359)	(14,349)	(35,409)		(64,117)
General and administrative expenses *	(1,879)	(5,879)	(8,180)		(15,938)
Financing income, net	-	-	928	(3,299)	(2,371)
Total comprehensive income (loss) before taxes on income	1,081	9,513	(7,016)	(10,028)	(6,450)

* After reclassification due to change in accounting policy – see note 2u to the 2015 annual financial statements of the Company.

NOTE 5 - SEGMENT INFORMATION (continued):

	For the year ended December 31, 2015 (audited)				
	Life insurance	Health insurance	General insurance	Not attributed to operating segments	Total
	NIS in thousands				
Gross earned premiums	123,046	216,421	649,418		988,885
Premiums earned by reinsurers	(23,095)	(2,408)	(135,120)		(160,623)
Premiums earned in retention	99,951	214,013	514,298		828,262
Investment income, net, and financing income	-	1,236	8,617	8,763	18,616
Commission income	3,907	565	32,589		37,061
Total income	103,858	215,814	555,504	8,763	883,939
Payments and change in liabilities with respect to insurance contracts, gross	(40,010)	(76,333)	(364,482)		(480,825)
Share of reinsurers in increase of insurance liabilities and payments for insurance contracts	11,939	2,805	45,214		59,958
Payments and change in liabilities with respect to insurance contracts in retention	(28,071)	(73,528)	(319,268)		(420,867)
Commission and other acquisition costs	(44,998)	(53,411)	(141,479)		(239,888)
General and administrative expenses	(19,182)	(30,519)	(33,183)		(82,884)
Financing income (expenses)	-	-	1,780	1,982	3,762
Total comprehensive income before taxes on income	11,607	58,356	63,354	10,745	144,062
Liabilities with respect to insurance contracts, gross, as of December 31, 2015	49,140	115,230	1,253,619	-	1,417,989

NOTE 5 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment:

	For 6-months period ended June 30, 2016 (unaudited)						
	Compulsory motor vehicle	Motor vehicle property	Personal Property	Professional liability	Other property Sectors*	Other liability Sectors*	Total
	NIS in thousands						
Gross premiums	75,106	161,290	51,880	34,098	18,701	20,636	361,711
Reinsurance premiums	(1,050)	(58)	(8,553)	(29,700)	(17,811)	(16,914)	(74,086)
Premiums in retention	74,056	161,232	43,327	4,398	890	3,722	287,625
Change in balance of unearned premiums, in retention	(3,487)	(14,432)	(2,161)	87	(11)	(138)	(20,142)
Premiums earned in retention	70,569	146,800	41,166	4,485	879	3,584	267,483
Investment income, net and financing income							
Commission income	4,652	2,289	764	1,376	268	1,696	11,045
Total income	-	-	2,482	8,675	5,253	4,570	20,980
	75,221	149,089	44,412	14,536	6,400	9,850	299,508
Payments and change in liabilities for insurance contracts, gross							
Share of reinsurers in payments and change in liabilities for insurance contracts	(85,698)	(116,861)	(19,856)	(68,547)	(17,694)	(7,793)	(316,449)
Share of reinsurers in increase of insurance liabilities and payments for insurance contracts	18,564	-	2,303	52,746	16,651	5,630	95,894
Commission, marketing expenses and other acquisition costs	(67,134)	(116,861)	(17,553)	(15,801)	(1,043)	(2,163)	(220,555)
General and administrative expenses							
Financing income, net	(12,315)	(27,321)	(11,183)	(8,229)	(3,413)	(4,197)	(66,658)
Total expenses	(3,186)	(8,658)	(7,009)	(1,090)	(305)	(474)	(20,722)
	-	330	541	3	-	-	874
Total comprehensive income (loss) before taxes on income	(82,635)	(152,510)	(35,204)	(25,117)	(4,761)	(6,834)	(307,061)
Liabilities for insurance contracts, gross, as of June 30,2016							
Net liabilities for insurance contracts as of June 30, 2016	(7,414)	(3,421)	9,208	(10,581)	1,639	3,016	(7,553)
	522,134	231,216	70,015	215,522	84,723	267,914	1,391,524
	416,635	231,216	62,254	40,498	3,664	37,614	791,881

* The results of others property sectors reflect mainly the results of engineering insurance sectors with 76% of the total premiums attributable to these sectors.
The results of other liability sectors reflect mainly the results of the third party liability insurance sector, with 36% of the total premiums attributable to these sectors.

NOTE 5 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment:

	For the 6-months period ended June 30, 2015 (unaudited)						
	Compulsory Motor Vehicle	Motor vehicle property	Personal Property	Professional liability	Property and others sectors*	Other liability sectors*	Total
	NIS in thousands						
Gross premiums	76,909	142,796	51,881	31,095	16,449	19,822	338,952
Reinsurance premiums	(1,078)	(58)	(10,041)	(26,579)	(15,539)	(15,996)	(69,291)
Premiums in retention	75,831	142,738	41,840	4,516	910	3,826	269,661
Change in balance of unearned premiums, in retention	(5,750)	(13,645)	(1,200)	(16)	(14)	(443)	(21,068)
Premiums earned in retention	70,081	129,093	40,640	4,500	896	3,383	248,593
Investment income, net, and financing income							
Commission income	2,371	707	262	812	89	729	4,970
Total income	-	-	2,398	8,170	4,229	4,372	19,169
	72,452	129,800	43,300	13,482	5,214	8,484	272,732
Payments and change in liabilities for insurance contracts, gross							
Share of reinsurers in payments and change of liabilities for insurance contracts	(69,269)	(101,164)	(25,019)	(96,001)	7,705	(24,365)	(308,113)
Share of reinsurers in increase of insurance liabilities and payments for insurance contracts	21,303	-	3,736	92,942	(8,704)	21,609	130,886
Commission, marketing expenses and other acquisition costs **	(47,966)	(101,164)	(21,283)	(3,059)	(999)	(2,756)	(177,227)
General and administrative expenses **							
Financing expenses, net	(12,564)	(25,933)	(11,492)	(8,010)	(3,415)	(4,114)	(65,528)
Total expenses	(2,573)	(2,311)	(6,081)	(2,663)	(956)	(995)	(15,579)
	-	327	588	4	-	9	928
Total comprehensive income (loss) before taxes on income	(63,103)	(129,081)	(38,268)	(13,728)	(5,370)	(7,856)	(257,406)
Gross liabilities for insurance contracts as of June 30, 2015	9,349	719	5,032	(246)	(156)	628	15,326
Net liabilities with respect to insurance contracts as of June 30, 2015	699,570	190,524	68,845	231,431	71,445	282,654	1,544,469
	526,521	190,524	60,440	46,278	3,506	42,153	869,423

* The results of others property sectors reflect mainly the results of the property insurance sectors with 84% of the total premiums attributable to these sectors.
The results of other liability sectors reflect mainly the results of the third party liability insurance sector, with 47% of the total premiums attributable to these sectors.

** After reclassification due to change in accounting policy – see note 2u to the 2015 annual financial statements of the Company.

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

NOTE 5 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment:

	For 3-months period ended June 30, 2016 (unaudited)						
	Compulsory motor vehicle	Motor vehicle property	Personal Property	Professional liability	Other property Sectors*	Other liability Sectors*	Total
	NIS in thousands						
Gross premiums	34,462	74,886	23,786	13,295	(376)	6,842	152,895
Reinsurance premiums	(482)	(29)	(2,605)	(11,434)	615	(5,525)	(19,460)
Premiums in retention	33,980	74,857	21,181	1,861	239	1,317	133,435
Change in balance of unearned premiums, in retention	1,516	593	177	508	82	269	3,145
Premiums earned in retention	35,496	75,450	21,358	2,369	321	1,586	136,580
Investment income, net, and financing income	2,914	1,442	485	857	166	1,058	6,922
Commission income	-	-	677	4,381	2,626	2,315	9,999
Total income	38,410	76,892	22,520	7,607	3,113	4,959	153,501
Payments and change in liabilities for insurance contracts, gross	(40,177)	(50,925)	(9,003)	(63,267)	(9,905)	(6,109)	(179,386)
Share of reinsurers in payments and change of liabilities for insurance contracts	5,329	-	585	48,962	8,922	4,906	68,704
Payments and change in liabilities for insurance contracts in retention	(34,848)	(50,925)	(8,418)	(14,305)	(983)	(1,203)	(110,682)
Commission, marketing expenses and other acquisition costs	(6,329)	(14,223)	(5,984)	(3,524)	(1,606)	(1,760)	(33,426)
General and administrative expenses	(1,694)	(4,814)	(3,675)	(674)	(86)	(250)	(11,193)
Financing income, net	-	153	247	-	-	-	400
Total expenses	(42,871)	(69,809)	(17,830)	(18,503)	(2,675)	(3,213)	(154,901)
Total comprehensive income (loss) before taxes on income	(4,461)	7,083	4,690	(10,896)	438	1,746	(1,400)

* Property sectors and others mainly reflect the results of property insurance.
Other liabilities mainly reflect the results of product liability insurance, which represents 39% of premium in those sectors.

NOTE 5 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment:

	For the 3-months period ended June 30, 2015 (unaudited)						
	Compulsory Motor Vehicle	Motor vehicle property	Personal Property	Professional liability	Property and others sectors*	Other liability sectors*	Total
	NIS in thousands						
Gross premiums	35,612	67,936	22,750	14,237	7,797	8,551	156,883
Reinsurance premiums	(495)	(29)	(4,303)	(12,279)	(7,289)	(6,854)	(31,249)
Premiums in retention	35,117	67,907	18,447	1,958	508	1,697	125,634
Change in balance of unearned premiums, in retention	1,224	346	3,264	419	74	52	5,379
Premiums earned in retention	36,341	68,253	21,711	2,377	582	1,749	131,013
Investment income, net, and financing income	(6,448)	(2,190)	(1,118)	(1,926)	(265)	(1,985)	(13,932)
Commission income	-	-	923	4,170	1,988	2,067	9,148
Total income	29,893	66,063	21,516	4,621	2,305	1,831	126,229
Payments and change in liabilities for insurance contracts, gross	(43,554)	(53,589)	(12,762)	(10,158)	19,783	(16,521)	(116,801)
Share of reinsurers in payments and change of liabilities for insurance contracts	18,719	-	1,345	10,464	(19,251)	14,940	26,217
Payments and change in liabilities for insurance contracts in retention	(24,835)	(53,589)	(11,417)	306	532	(1,581)	(90,584)
Commission, marketing expenses and other acquisition costs **	(6,272)	(14,032)	(6,451)	(4,322)	(2,065)	(2,267)	(35,409)
General and administrative expenses **	(1,347)	(1,588)	(3,120)	(1,220)	(474)	(431)	(8,180)
Financing expenses, net	-	327	588	4	-	9	928
Total expenses	(32,454)	(68,882)	(20,400)	(5,232)	(2,007)	(4,270)	(133,245)
Total comprehensive income (loss) before taxes on income	(2,561)	(2,819)	1,116	(611)	298	(2,439)	(7,016)

* The results of others property sectors reflect mainly the results of the property insurance sectors with 86% of the total premiums attributable to these sectors. The results of other liability sectors reflect mainly the results of product liability insurance sector, with 45% of the total premiums attributable to these sectors.

** After reclassification due to change in accounting policy – see note 2u to the 2015 annual financial statements of the Company.

NOTE 5 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment:

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

* The results of others property sectors reflect mainly the results of the property insurance sector, with 83% of the total premiums attributable to these sectors.
The results of other liability sectors reflect mainly the results of the product liability insurance sector, with 44% of the total premiums attributable to these sectors.

NOTE 5 - SEGMENT INFORMATION (continued):

5.1 Additional information relating to life insurance segment:

For the 6-months period ended June 30, 2016 (unaudited) (NIS in thousands):

	Policies without savings element		Total
	Risk sold as single policy		
	Private	Group	
Gross risk premiums	62,565	-	62,565
Payments and change in liabilities for gross insurance contracts	23,801	-	23,801

For the 6-months period ended June 30, 2015 (unaudited) (NIS in thousands):

	Policies without savings element		Total
	Risk sold as single policy		
	Private	Group	
Gross risk premiums	60,663	-	60,663
Payments and change in liabilities for gross insurance contracts	25,565	-	25,565

For the 3-months period ended June 30, 2016 (unaudited) (NIS in thousands):

	Policies without savings element		Total
	Risk sold as single policy		
	Private	Group	
Gross risk premiums	31,052	-	31,052
Payments and change in liabilities for gross insurance contracts	12,307	-	12,307

For the 3-months period ended June 30, 2015 (unaudited) (NIS in thousands):

	Policies without savings element		Total
	Risk sold as single policy		
	Private	Group	
Gross risk premiums	30,356	-	30,356
Payments and change in liabilities for gross insurance contracts	13,416	-	13,416

NOTE 5 - SEGMENT INFORMATION (continued):

For the year ended December 31, 2015 (audited) (NIS in thousands):

	Policies not containing savings element		Total
	Risk sold as single policy		
	Private	Group	
Gross risk premiums	123,116	-	123,116
Payments and change in liabilities for gross insurance contracts	40,010	-	40,010

5.2 Additional information relating to healthcare segment:

For the 6-months period ended June 30, 2016 (unaudited) (NIS in thousands):

	Long-term	Short-term	Total
Gross premiums	86,040	20,595	*106,635
Payments and change in liabilities for gross insurance contracts	39,000	11,138	50,138

* Includes mainly policies issued to individuals

For the 6-months period ended June 30, 2015 (unaudited) (NIS in thousands):

	Long-term	Short-term	Total
Gross premiums	85,391	19,458	*104,849
Payments and change in liabilities for gross insurance contracts	38,722	9,515	48,237

* Includes mainly policies issued to individuals

For the 3-months period ended June 30, 2016 (unaudited) (NIS in thousands):

	Long-term	Short-term	Total
Gross premiums	42,613	11,019	* 53,632
Payments and change in liabilities for gross insurance contracts	22,408	5,021	27,429

* Includes mainly policies issued to individuals

For the 3-months period ended June 30, 2015 (unaudited) (NIS in thousands):

	Long-term	Short-term	Total
Gross premiums	42,455	10,039	* 52,494
Payments and change in liabilities for gross insurance contracts	18,068	2,115	20,183

* Includes mainly policies issued to individuals

NOTE 5 - SEGMENT INFORMATION (continued):

For the year ended December 31, 2015 (audited) (NIS in thousands):

	Long-term	Short-term	Total
Gross premiums	172,613	42,983	* 215,596
Payments and change in liabilities for gross insurance contracts	65,506	10,827	76,333

* Includes mainly policies issued to individuals

NOTE 6 - SHAREHOLDERS' EQUITY AND CAPITAL REQUIREMENTS:

a. Capital management and requirements

1) The policy of management is to maintain strong capital base to enable the Company to continue its business to allow it provide return to its shareholders and to support future business activity. The Company is subject to capital requirements of the Supervisor of Insurance.

2) The table below provides information on required and existing capital of the Company, pursuant to the Supervision of Financial Services (Insurance) (Minimum Required Capital by Insurers), 1998 (hereinafter - the capital regulations), and the guidance of the Supervisor.

	June 30		December 31,
	2016	2015	2015
	(Unaudited)		(Audited)
	NIS in thousands		
The amount required under capital regulations and supervisor guidelines (a)	462,268	543,152	515,769
Existing amount calculated under capital regulations:			
Primary capital	732,739	717,936	827,686
Total existing capital calculated under capital regulations	732,739	717,936	827,686
Surplus	**270,471**	**174,784**	**311,917**
Amount of investments that is required to be provided against capital surplus, under the Supervisor guidance, and therefore represent detained surplus.	-	-	-
Surplus net of detained surplus	**270,471**	**174,784**	**311,917**

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

	June 30		December 31,
	2016	2015	2015
	(Unaudited)		(Audited)
(a) The required amount including capital requirements for:	NIS in thousands		
Operations in general insurance	112,473	126,645	106,236
Exceptional life insurance risks	39,169	34,211	36,790
Deferred acquisition costs related to life insurance	82,216	84,053	84,452
Investment assets and other assets	50,811	66,253	44,547
Catastrophe risks related to general insurance	149,359	200,651	218,294
Operating risks	28,240	31,339	25,450
Total	462,268	543,152	515,769

3) On April 19, 2016, the Board of Directors of the Company approved a NIS 105 million dividend, representing approx. 42% of the issued capital (share capital and premium) of the Company as of March 31, 2016. The dividend amount per share is NIS 18,325. The dividend was paid on May 24, 2016.

b. Solvency II

For information about the Solvency II (hereinafter - the directive) - based regimen (hereinafter - the directive), as issued by the Supervisor, and the IQIS exercises, which are designed to calibrate the model (simulations of the effect of the directive on the insurer's equity given its existing business mix and balance sheet) - see note 12(d) to the 2015 annual financial statements. According to the guidance issued as above by the Supervisor, insurance companies will be required to comply with the new capital requirements, which will replace the existing ones beginning from the 2016 annual financial statements.

As indicated in that note, according to the results of the IQIS4 exercise that the Company performed regarding 2014, capital surplus as of December 31, 2014 increased when calculated in accordance with the directive, compared to capital surplus based on the existing Israeli regimen.

On April 21, 2016, the Supervisor issued guidance for performing an IQIS regarding 2015 (hereinafter - IQIS 5).

The guidance to perform IQIS 5 includes several changes and updates relative to IQIS 4. Those mainly include, among other things, stabilization of risk-free interest curves through extrapolation up to the Ultimate Forward Rate, recognized capital composition, lower capital requirement when investing in infrastructures (capital and debt), update of formula for calculating capital requirement for general insurance premiums and reserves risk, and update of guidelines on special auditor's special report focusing on Best Estimate and risk margin.

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

b. Solvency II (continued)

The guidance further indicates that IQIS 5 calculation, which would be the last quantitative review before implementing the new directive and replacing the existing solvency regimen, will contribute to compliance preparations by insurance companies and the drafting of final guidance. It also indicates that the boards of insurance company will be required to discuss the findings of IQIS 5 as would be reflected in reports to be submitted by management to the board, according to the guidance, prior to filing to the Supervisor.

According to the directive, insurance companies are required to file the results of the planned exercise to the Supervision. The Company completed IQIS 5 in July 2016.

According to IQIS 5 results, capital surplus of the Company increased as of December 31, 2015, under the Solvency II regimen relative to capital surplus under the existing Israeli regimen (see a. above). The solvency ratio (recognized equity to required equity ratio) of the Company as calculated in IQIS 5 using the December 31, 2015 information was 182% before a dividend of NIS 105 million that was paid in May 2016 and 165% after that payout.
Note that the model, in its present version, has very high sensitivity to changes in market and other variables and therefore capital requirements it reflects may be highly volatile.

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

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

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

NOTE 7 - FINANCIAL INSTRUMENTS AND FINANCIAL RISKS:

a. Fair value disclosure

Following the discussion in note 10(g) to the Company's 2015 annual financial statements, during the 6-month period ended June 30, 2016, no transfers were made between level 1 and level 2.

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

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

c. In the 6-month period ended June 30, 2016, no material changes have occurred in the financial risk management policy of the Company, compared to the policy it reported in its 2015 annual financial statements.

d. Composition of financial investments:

	As of June 30, 2016 (unaudited)		
	Measured at fair value through profit or loss	Loans and receivables	Total
	NIS in thousands		
Marketable debt instruments(1)	1,188,120	-	1,188,120
Non-marketable debt instruments(2)	-	166,460	166,460
Marketable shares(3)	-	-	-
Other(4)	111,691	-	111,691
Total	1,299,811	166,460	1,466,271

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

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

d. Composition of financial investments (continued):

	As of December 31, 2015 (audited)		
	Measured at fair value through profit or loss	Loans and receivables	Total
	NIS in thousands		
Marketable debt instruments(1)	1,200,998	-	1,200,998
Non-marketable debt instruments(2)	-	203,935	203,935
Marketable shares(3)	92,851	-	92,851
Other(4)	73,424	-	73,424
Total	1,367,273	203,935	1,571,208

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

	As of June 30, 2016 (unaudited)	
	Carrying amount	Amortized cost
	NIS in thousands	
Government bonds	553,471	549,229
Other debt assets:		
Other non-convertible debt assets	634,649	631,631
Other convertible debt assets	-	-
Total marketable debt assets	1,188,120	1,180,860

	As of June 30, 2015 (unaudited)	
	Carrying amount	Amortized cost
	NIS in thousands	
Government bonds	582,572	581,384
Other debt assets:		
Other non-convertible debt assets	622,208	628,836
Other convertible debt assets	-	-
Total marketable debt assets	1,204,780	1,210,220

	As of December 31, 2015 (audited)	
	Carrying amount	Amortized cost
	NIS in thousands	
Government bonds	589,845	587,667
Other debt assets:		
Other non-convertible debt assets	611,153	615,487
Other convertible debt assets	-	-
Total marketable debt assets	1,200,998	1,203,154

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

d. Composition of financial investments (continued):

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

	As of June 30, 2016 (unaudited)	
	Carrying amount	Fair value
	NIS in thousands	
Bank deposits	97,575	98,178
Other non-convertible debt assets	68,885	72,124
Total non-marketable debt assets	166,460	170,302

	As of June 30, 2015 (unaudited)	
	Carrying amount	Fair value
	NIS in thousands	
Bank deposits	98,061	97,771
Other non-convertible debt assets	82,271	83,520
Total non-marketable debt assets	180,332	181,291

	As of December 31, 2015 (unaudited)	
	Carrying amount	Fair value
	NIS in thousands	
Bank deposits	97,714	97,661
Other non-convertible debt assets	106,221	108,560
Total non-marketable debt assets	203,935	206,221

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

d. Composition of financial investments (continued):

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

	As of June 30, 2016 (unaudited)	
	Carrying amount	Cost
	NIS in thousands	
Marketable shares	-	-

	As of June 30, 2015 (unaudited)	
	Carrying amount	Cost
	NIS in thousands	
Marketable shares	99,988	88,663

	As December 31, 2015 (audited)	
	Carrying amount	Cost
	NIS in thousands	
Marketable shares	92,851	88,989

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

	As of June 30, 2016 (unaudited)	
	Carrying amount	Cost
	NIS in thousands	
Marketable financial investments	111,691	114,270

	As of June 30, 2015 (unaudited)	
	Carrying amount	Cost
	NIS in thousands	
Marketable financial investments	65,894	65,698

	As December 31, 2015 (audited)	
	Carrying amount	Cost
	NIS in thousands	
Marketable financial investments	73,424	73,867

NOTE 8 - TAXES ON INCOME:

a. Calculating the income tax for the interim period is based on the best estimate of the weighted income tax rate expected for the full fiscal year. The expected weighted average annual tax rate, as above, for the year ending December 31, 2016 is 35.90%, see also b below (2015 - 37.58%).

b. Changes in corporate tax rate that came into effect on January 1, 2016:

In January 2016, the Law for the Amendment of the Income Tax Ordinance (No. 216), 2016 was passed into law and published, enacting a reduction of corporate tax in 2016 and thereafter from 26.5% to 25%. As a result of lowering the tax rate as above, which was reflected for the first time in the financial statements of the Company for the 3-months period ended on March 31, 2016, the liability for deferred taxes decreased in the 6-months period ended June 30, 2016 by a negligible amount, which was recognized in deferred tax income.

c. Industry specific tax agreements for 2013-2015 signed on January 13, 2016:

On January 13, 2016, the Insurance Companies Association and the Israel Tax Authority signed industry-specific agreements regarding the 2013-2015 tax years. Under the industry-specific agreement referring to the 2014 tax year, some changes were made in the allocation rates of expense to preferred income and a mechanism was established for spreading out some of the movement in the provision for indirect expenses for claim settlement in subsequent years to the one in which the expense is registered. Under the industry-specific agreement for the 2015 tax year, commencing 2015, DAC expenses in life insurance are deductible for tax purposes over a 10-year period (instead of 4 years previously).

Since those agreements were signed during the course of January 2016, their implementation (including for previous tax years) was reflected for the first time in the financial statements of the Company for the 3-months period ended March 31, 2016.

Following the implementation of those agreements in the financial statements of the Company, the financial information for the six months ended June 30, 2016 included net tax income for previous years amounting to NIS 0.9 million.

NOTE 9 - CONTINGENT LIABILITIES - CLASS ACTION:

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

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

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

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

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

On July 10, 2013, a pretrial hearing was held, resulting in a court decision that the Company and all other defendants may file complementary responses to the motion for class action certification through October 6, 2013. The 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 March 6, 2014 and March 25, 2014. At the end of the examinations, the court recommended the claimant to consider whether to continue pursuing the case.

On June 8, 2014, the plaintiffs filed a notice to the effect that they maintain their position that the motion to certify 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. Recently, summaries by the plaintiffs and the insurance companies were filed. After receiving an extension, the plaintiffs filed their response summaries on February 1, 2016. The court has yet to hand down a decision.

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

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

   According to the plaintiffs, the class 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 plaintiffs are contravention of Sections 55 and 58 to the Supervision of Financial Services (Insurance) Law, 1981, breach of statutory duty, and breach of duty of good faith, negligence and unjust enrichment.

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

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

The amount of the individual claim filed by the plaintiffs against the Company is NIS 272 thousand and the amount claimed by the class from the Company amounts to NIS 5,784,187.

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

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

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

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

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

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

On April 7, 2016, the respondents filed their comments to the Supervisor's position, in which they argued, among other things, that the Supervisor's position supports their own arguments to the motions to certify, and that given the Supervisor's position, the plaintiffs should withdraw their motion to certify and the claim against the Company. The plaintiffs also filed their comments to the Supervisor's position and contended that it does not impact their argument in the motion to certify.

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

On May 11, 2016, the plaintiffs notified the court that at this stage they decided to withdraw their arguments raised in the motion to certify ("the plaintiffs' notice").

On May 19, 2016, the company filed a motion to dismiss the plaintiffs' notice. On May 24, 2016, an additional pretrial hearing was held, in which the plaintiffs agreed to the court's proposal to focus the action on extent of informing customer pre-contract and during preparing the contract (in distinction from the life of the policy). The court offered the parties to seek arbitration on the issues that remained disputed. The plaintiffs agreed to the proposal.

On June 5, 2016, the Company notified the court that it agreed to refer the remaining limited issues to arbitration, provided that the arbitration will be focused only on the option to provide more clarification in any of the insurance documents. On June 13, 2016, the plaintiffs notified that they agree to limit the claims in the arbitration process. On June 29, 2016, the Company notified the court that in those circumstance and given the response of the plaintiffs, it sees no point in referral to arbitration process, and asked the court to give its decision based on the written arguments that were filed and the position of the Supervisor.

On July 12, 2016, an additional pretrial hearing was held, in which the parties agreed to the court's proposal to refer the remaining disputed issues to arbitration process. The parties were ordered to notify the court on the identity of a mutually-agreed arbitrator by July 25, but as of the date of approving this interim financial information they were unable to agree on that issue.

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

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

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

The plaintiffs rely in their legal claim on the Supreme Court's ruling in the Zlutzin vs. Diur La-Olle case (civil appeal 17229/99) according to which even where repairs were not carried out in practice, the defendant (who caused the damage in the said case) should bear the VAT component. The plaintiffs also rely on In-Principle Ruling 2014-46025 titled "In-Principle Ruling on Payment of VAT and Depreciation of Unrepaired Vehicle". This in-principle ruling states that even if the customer did not repair the vehicle in practice the insurer must pay the customer insurance benefits including, among other things, VAT applicable in this matter. At this stage it is not yet clear whether the claim shall be heard in its current form since the class action plaintiff also filed an individual claim against the Company (including in connection with the VAT component) at the same time the class action motion was filed; the class action plaintiff requested the Court which hears the plaintiff's individual claim against the Company to allow him to withdraw the VAT component from this individual claim and to file a motion to certify a class action in respect of this component. On January 2, 2016, a decision was handed down, rejecting the motion by the plaintiff. The plaintiff issued a request for filing an appeal.

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

A pretrial is scheduled for November 17, 2016.

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

4. A legal claim and a motion to certify a class action were filed on October 19, 2015 against the Company and another insurance company. The plaintiffs claim that in many cases the defendants breach the provisions of Insurance Circular 2007-1-8 "Vehicle Appraisal (Property and Third Party)" by ignoring or reducing the repair quotes or appraisals carried out by external appraisers and using appraisals issued by appraisers, who work on behalf of the Company, rather than by issuing notice and referring the case to a deciding appraiser at the dates specified in the Insurance Circular.

   The class includes any insurance customer or third party whose car was damaged in a car accident in the course of the last seven years, to whom the defendants are required by law to pay damages and where an external appraiser, who is included in the list of external appraisers as specified in the Insurance Circular, prepared a repair quote or appraisal and the case was not referred to a deciding appraiser but rather, the appraisal of repairs and/or insurance compensation was carried out in practice by appraisers, who worked on behalf of the defendants, and those repair quotes and/or appraisals specified lower amounts and varied from the quotes and/or appraisals of the external appraisers; this group of plaintiffs includes insured, who signed statements of waiver as a condition for receipt of compensation from the defendants.

   In the motion to certify, the plaintiffs ask the Court to order the defendants to refund the difference between the compensation received by members of the above group – whether this compensation was in the form of insurance funds, repairs made to the car or any other compensation to which members of the group were eligible under a repair quote and/or appraisal of the external appraiser; the plaintiffs also asked the Court to issue a mandatory injunction ordering the defendants to follow the provisions of the Insurance Circular by the letter, including honoring any repair quote and/or appraisal, which was prepared by an external appraiser, and which was not referred to a deciding appraiser in accordance with the provisions of the Insurance Circular; the plaintiffs also asked the Court to set measures for the enforce the said injunction. The plaintiffs also asked the Court to order the defendants to pay them individual compensation as well as the fees of their attorneys, as determined by the Court.

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

The Company negotiated with the attorney of the plaintiffs out of court in attempt to reach agreements that will make a redundant a court proceeding or decide on the disputes underlying the motion to certify. However, the parties reached agreements as above. The Company is required to file its response to the motion by May 31, 2016.

On July 12, 2016, an additional pretrial hearing was held, in which the court proposed the plaintiffs to withdraw their motion to certify. The plaintiffs need to notify the court on their decision through August 10, 2016, but as of the date of approving the interim financial information, their position has yet to be received.

In light of the information provided, at this preliminary stage, the Company's management and its legal advisors believe it is more likely than not that the court will not certify a class action.

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

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

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

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

   In January 27, 2016, the Central District Court approved the consolidation of cases.

   On June 23, 2016, the respondents filed to the Central District Court a mutually agreed motion to extend the deadline for filing response for the motion to certify by additional ten days.

   On that same day, the District Court approved the respondents' motion, and the date for filing their responses was set to July 11, 2016.

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

   The date for filing responses to the motion to certify was set to September 11, 2016.

   The date of the hearing on the motion to certify was scheduled to September 18, 2016.

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

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

6. A legal claim and a motion to certify a class action were filed against the Company on December 17, 2015. The applicant claimed that the Company breaches the provisions of its comprehensive car insurance policy, which includes the AIG EXTRA compensation clause since it does not pay the insured an extra compensation of up to 15% of the value of the insured car. The applicant claimed that the causes of action are breach of agreement, breach of disclosure obligations, misleading and unjust enrichment.

   The class includes any insurance customer of the Company who has a comprehensive car insurance policy, which includes an AIG EXTRA clause, but when the conditions of the clause were met did not receive the AIG EXTRA compensation.

   On April 3, 2016, the Court rejected a motion to dismiss outright that was filed by the Company.

   On April 13, 2016, the Company and the applicant reached a settlement, whereby the Company will pay the applicant NIS 1,500 and legal fee of NIS 11,500 within 15 days from the date a court decision, the lawsuit will be rejected and the motion to certify will be withdrawn ("recompense and fee").

   On May 5, 2016, the applicant and the Company issued an agreed motion to withdraw the class action in which they presented settlement details.

   On May 8, 2016, the court rejected the agreed motion for withdrawal and ruled that the parties are required to respond by May 16, 2016 whether they ask the applicant to withdraw the motion under Section 16 to the Class Action Law, 2006 ("the Law") or, alternatively, ask to settle the dispute under Section 18 to the Law ("the ruling").

   On May 9, 2016, the parties filed a joint motion to extend the deadline to respond to the ruling to May 30, 2016 and extend the date to file the response to the motion to certify to June 14, 2016 ("motion to extend").

   On May 16, 2016, the court rejected the motion to extend.

   On May 17, 2016, the parties filed an amended joint motion to withdraw the motion to certify based on the court's decision dated May 8, 2016.

   On May 18, 2016, the court ordered the Company to provide detailed information and documents in relation to the facts in respect of which it asked withdrawal. The court ordered to file the information relating to its procedures and insurance customer data ("the data").

   On May 19, 2016, the Company filed a response to the motion to certify. On May 22, the court accepted the request of the Company and ordered to file the data to the court in a sealed envelope, and that the court will later decide on the confidentiality of the data, through May 24, 2016. On May 24, 2016, the Company filed a motion for confidentiality of the data, along with a motion for a 24-hour extension for filing the data. On May 25, 2016, a deposition was filed in a sealed envelope, accompanied by the data, according to the court decision.

   On May 26, 2016, the court ruled that the procedures filed by the Company are not commercial secrets. The court ruled that prior to making the procedures an open exhibit in the case, the Company will be allowed to argue about the confidentiality of the procedures and about the motion to withdraw, and therefore, a hearing was scheduled for May 30, 2016. On May 30, 2016, a hearing was held with attendance of the plaintiff's attorney, in which the court allowed making the procedures public. In addition, the court rejected the motion to withdraw, in order to allow file a motion for settlement approval.

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

The court ordered both parties to file motions for settlement through June 13, 2016.

On June 13, 2016, the parties filed a joint motion for settlement approval, according to which, the Company will improve its internal procedures, such that Company will seek internal audit annually, and will examine annually cases of diminished value relating to its Extra policies. In addition, the Company will consider an alternative of underwriting automation for Extra policies. The parties recommended on recompense and legal fees (as defined above).

On June 14, 2016, the court ordered to place an advertisement announcing the settlement arrangement and to send notices on the settlement arrangement to the Attorney General, Director of Courts and Supervisor of Insurance in the Ministry of Finance. In addition, the court decided that at that stage there was no place to appoint an examiner pursuant to Section 19 to the law.

On June 17, 2016, the Company published advertisements in two newspapers, according to the court decision.

The last date for filing objections to the settlement arrangement was scheduled to July 31, 2016. On August 8, 2016, the motion for settlement approval was filed by agreement of both parties. The court ordered to wait and to re-file on September 21, 2016.

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

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

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

   According to the assessment of the Company, based on its legal counsel, it seems that a settlement may be on the horizon. A first pretrial hearing was scheduled to September 29, 2016.

8. On June 9, 2016, a motion for certification of a class action was filed against the Company. The plaintiff claims that the Company did not pay salary and statutory employee benefits as legally required. The class action seeks a total of NIS 4,770 thousand. A pretrial hearing was scheduled to February 6, 2017.

   At this preliminary stage of the claim, management and its legal counsel are still studying the matter and it is not possible to assess the likelihood of the motion being accepted. However, management believes, based on its legal counsel, that since the Company has a collective employment agreement and an active employee organization, there is foundation for striking out the motion.

9. On August 8, 2016, a motion for class action certification was filed against a number of insurance companies, including the Company. The motion concerns the impact of customer age on pricing premiums in vehicle compulsory and property insurance. The overall amount of damages sought is NIS 100 million.

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

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

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

	Number of claims	The amount claimed NIS in thousands
Pending applications for approval of legal claims as class actions - an amount relating to the Company was specified	9	* 73,062

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

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

NOTE 10 - SUBSEQUENT EVENTS:

a. For information about certification of a class action that was filed after June 30, 2016, see note 9 below.

b. For information on the Ministry of Finance website about the decision of the Minister of Finance, with agreement of the Minister of Social Affairs to cancel the amendment to the National Insurance Discounting Regulations, see note 3 above.

c. For information about a letter that was issued by the Supervisor in August 2016 about dividend distributions by insurance companies, see note 6c above.