AIG Israel Insurance Company Ltd

Interim Financial Report

(Unaudited)

As of March 31, 2015

Contents

Directors report o
AIG Israel Insurance Company Ltd ("the Company")
for the period ended March 31, 2015

The directors' report on the business of the Company as of March 31, 2015 ("**the directors' report**"), reviews the Company and developments in its business in the first quarter of 2015 ("**the reported period**"). The information in this report are as of March 31, 2015 ("**the date of report**") unless otherwise is indicated explicitly.

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

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

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

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

Forward looking information

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

1. Condensed description of the Company:

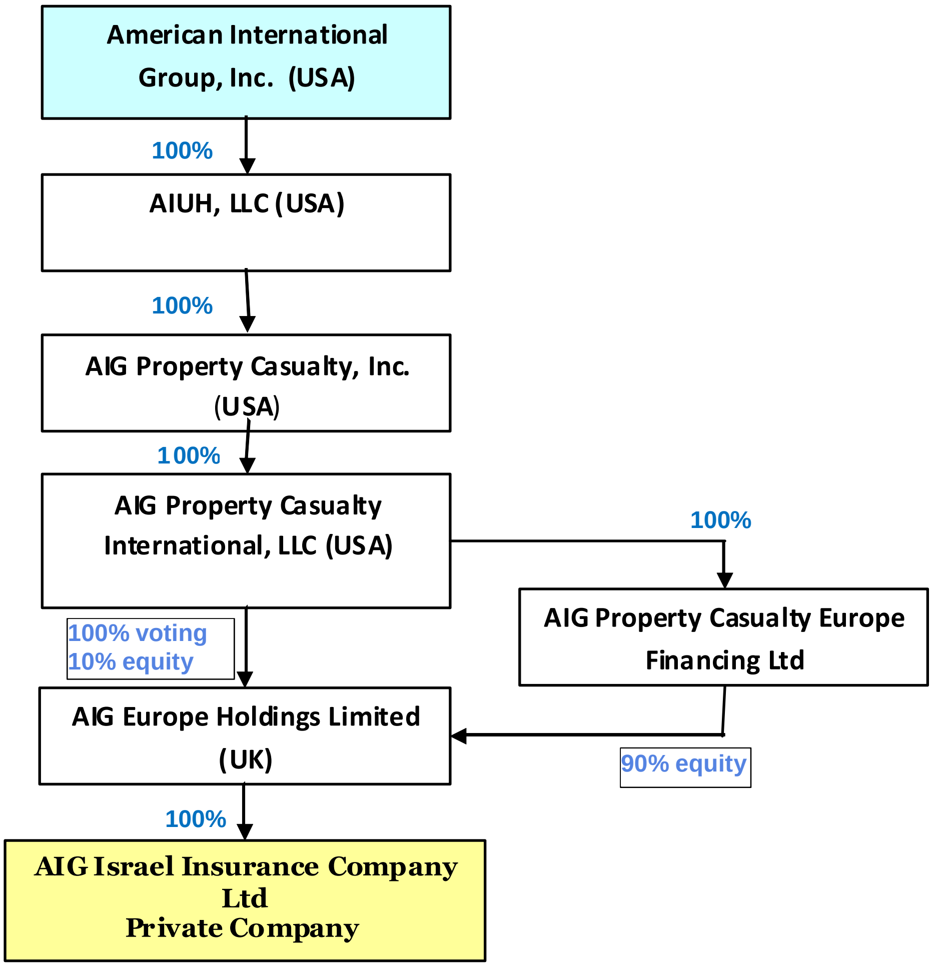
1.1 Organizational structure

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

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

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

The following is the holding structure of the Company:



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

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

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

1.2 <u>Areas of activity</u>

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 <u>Dependency on customers or marketing entities</u>

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

1.4 <u>Developments or material changes in reinsurance agreements</u>

For information about reinsurance see Section4.5 in Chapter A (description of company's business) in the company's periodic report.

1.5 <u>Event outside the ordinary course of company's business since last financial statements</u>

No such events took place since the last financial statements.

2. <u>Description of business environment:</u>

<u>General</u>

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 September 30, 2014, insurance fees from the general insurance business amounted to NIS 15,341 million (excluding Karnit); the share of the 5 largest insurance companies – Harel, Clal, Phoenix, Migdal and Menorah – amounted to NIS 9,530 million, which constituted 62% of the total premiums in the Israeli general insurance sectors.

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

Developments in the company's macro-economic environment

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

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

	Jan-Mar 2015	**Jan-Mar 2014**	**2014**
Government bonds indexes			
General government bonds	4.3%	2.1%	6.6%
Linked government bonds	4.9%	2.0%	5.8%
NIS government bonds	4.2%	1.9%	7.2%
Corporate bonds indexes			
Tel Bond 60	1.6%	1.9%	0.9%
Tel Bond NIS	2.9%	2.2%	4.0%
Shares indexes			
Tel-Aviv 100	10.0%	6.2%	6.8%

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

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

Characteristics and developments in principal insurance lines of business

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

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

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

Legislation

- On January 1, 2015, an amendment to Section 40 to the Supervision of Financial Services Law (Insurance), 1981 came into force. The amendment provides guidance on the introduction or change of an insurance plan, and requires an insurer to provide the Supervisor an advance notice 30 business days before the insurer intends to implement the new or changed insurance plan. The amendment also states that the Supervisor will be entitled to oppose the introduction or change of insurance plan, and also to impose different provisions on certain insurance segments, insurance plans or changes. In addition, the Supervisor will be authorized to direct an insurer to stop an insurance plan or change of plan after considering potential risk in the insurer. In addition, the amendment states that the supervisor is entitled (for special purposes that will be provided in writing, and after considering the potential risk to the insurer) to order an insurance to stop an insurance plan or plan change even for policies that were issued under an insurance plan before the amendment came into force, after finding that the insurance plan or some of its terms and conditions are depriving or cause serious or real damage to the interest of insurance customers.

Regulations

- On January 27, 2015, Insurance Business Supervision Regulations (Terms of Home Insurance Contracts) (Amendment), 2015 was published. The amendment includes, among other things, provisions about premium details for recovery of the insured asset, water and other liquid damages, method for calculation of indemnification, additional-amount insurance in an apartment building and third-party liability insurance. The amendment will come into force six months from its publication and apply to insurance contracts coming into effect on or after July 27, 2015.

Circulars

- On January 12, 2015, the Supervisor issued Insurance Circular 2015-1-2 titled "Calculation of General Insurance Reserves – Amendment", which states, among other things, the no reserve for excess income over expenses (accumulation), beginning from the financial statements as of December 31, 2015. The provisions of this circular have been fully incorporated into the regulatory codex.
- On January 12, 2015, the Supervisor issued Insurance Circular 2015-1-1 titled "Actuarial Assessment in General Insurance". The purpose of the circular is to promote better assessment of insurance liabilities in general insurance contracts, which is a key tool is assessing the liability of insurers, and mandate appending to the financial statements a professional opinion by an actuary on the assessment of such insurance liabilities. This circular indicates the scope of the actuarial assessment that the general insurance actuary is required to perform, the actuarial report that the actuary needs to prepare, and a language of the declaration that the actuary is required to sign, and which will be appended to the financial statements. Some provisions of this circular were incorporated into the regulatory codex.
- On January 12, 2015, the Supervisor issued Document 2015-2076 titled "Supervisor Opinion – Best Practices for Calculating General Insurance Reserves for Financial Reporting". The purpose of this document is to set best practices to actuaries for calculating general insurance reserves for the financial statements, so they will adequately reflect the insurance liability.
- On January 26, 2015, the Supervisor issued Insurance Circular 2015-1-3 titled "Amendment of Directives on the Format of Disclosures Required in the Financial Statements of Insurance Companies under IFRS". The purpose of the circular is to revise the format of disclosure in annual financial statements of insurance companies and to set immediate reporting requirement to the Supervisor in case of detecting material error in the financial statements.
- On February 3, 2015, the Supervisor issued Financial Institutions Circular 2015-9-5 titled "Adopting Insurance Plan and Articles of Provident Funds". The purpose of the circular is to set regulations for filing notifications on new insurance plans or articles, or changes thereof. This circular includes provisions on the information that needs to appear in the notification about adopting new insurance plans, collective insurance plans, termination of marketing, method for filing personal injury plans of less than one years and basis for insurance plan pricing.
- On February 12, 2015, the Supervisor issued an in-principle ruling for the purpose of the People with Disabilities Law. This decision prescribes that an insurance company that gives a customer with disabilities a "different treatment", as defined by the Law, or rejected a person with disability, must provide explanations in a letter. The notice needs to indicate that the decision by the insurance company is due to the higher insurance risk of that person relative to a person without a disability. In addition, the notice needs to include a summary of actuarial, statistical, medical or other information that served as basis for the decision by the insurance company, and a summary of the information relevant to that person.
- On February 26, 2015, the Supervisor issued Financial Institutions Circular 2015-9-9 titled "Monthly Report of Provident Funds, Pension Funds and Insurance Companies." The purpose of the circular was to revise and consolidated the provisions for mandatory monthly reporting of financial institutions and to improve the quality of reports sent to the Supervisor.
- On March 4, 2015, the Supervisor issued Financial Institutions Circular 2015-9-11 titled "Required Information on the Website of a Financial Institution." The purpose of the circular is to set requirements for minimum information that a financial institution needs to provide the public on its website.
- On March 9, 2015, a chapter titled "Measurement, Capital and Asset and Liabilities Management." The chapter includes provisions on principles for preparing financial statements and measuring assets.
- On March 18, 2015, the Supervisor issued Insurance Circular 2015-1-5 titled "Change of Insurance Amount in Mortgage-related life insurance." The purpose of the circular is to determine the way in which an insurance company needs to act in cases of change in flow of payment in a mortgage recycling transaction, when the terms and amount of insurance do not deviate from the term and amount of insurance in existing policies.

- On April 1, 2015, the Supervisor issued Insurance Circular 2015-1-8 titled "Independence between Individual Health Insurance Coverage". The purpose of this circular is to set provisions for marketing different insurance coverage in individual health insurance plans, and provisions about cancellation of such types of coverage that were sold together to allow customers to make informed choses about any of the types of coverage offered in the package and compare the cost of coverages with other insurers.
- On April 1, 2015, the Supervisor issued Insurance Circular 2015-1-7 titled "Preparation of Individual Health Insurance Plans". The purpose of this circular was to provide guidance for developing individual health insurance plan to address issues that arise from marketing an individual health insurance plan with fixed terms and conditions over the entire term of the policy.
- On April 1, 2015, the Supervisor issued Insurance Circular 2015-9-15 titled "Internal Control over Financial Reporting – Declarations, Reports and Disclosures and Management Responsibility for Financial Reporting, Amendment". The purpose of this circular is to amend Financial Institutions Circular 2010-9-7 titled "Internal Control over Financial Reporting – Declarations, Reports and Disclosures".
- On April 1, 2015, the Supervisor issued Financial Institution Circular 2015-9-14, titled "Financial Institution Circular at the Individual Asset Level". The purpose of the circular is to update and consolidate guidance on the quarterly list of individual assets that financial institutions file to the Supervisor, in order to improve the quality and availability of the report. The circular will come into effect beginning in the third quarter of 2015.
- On April 19, 2015, the Supervisor issued Capital and Solvency Circular 2015-1-19 titled "Mandatory Performance of IQIS in 2014". The purpose of this circular is to update the guidance on performing IQIS4, including a number of changes and updates compared with IQIS2, after reviewing changes in the preparation guidance compared to QIS5 and analysis of IQIS2 results. The main changes concern cancellation, longevity, interest, shares, risk margin and liquidity premium scenarios.
- On April 22, 2015, a chapter titled "Measurement, Equity and Management of Assets and Liabilities" was added to the regulatory codex. The chapter includes, among other things, guidance for measuring liabilities in life, general and health insurance, and includes provisions on insurance reserves, best practice for calculating general insurance reserves for financial reporting purposes, industry consolidation, setting the amount of reserve for policies sold shortly before balance sheet date and risks after balances sheet date and direct support redundancy. This chapter will come into force on June 1, 2015.
- On April 30, 2015, the Supervisor issued Insurance Circular 2015-1-11 titled "Guidance for Drafting Insurance Plans". The purpose of the circular is to update provisions to insurers on drafting insurance plans without depriving conditions to prevent harm to customers and clarify the responsibility of the insurer to draft insurance plans in as simple and clear way possible. The circular contains a list of guidelines for drafting an insurance plan.
- On May 3, 2015, the Supervisor issued a directive titled "Business Continuity Management and Preparation for Emergencies". The document includes guidance for performing business continuity drills to assess readiness of financial institutions for consequences of a severe earthquake in Israel.

Drafts

- On March 11, 2015, the Supervisor issued In-Principle Ruling 2014-46025 titled "In-Principle Ruling on Payment of VAT and Depreciation of Unrepaired Vehicle – Draft". This in-principle ruling states that when an insurance customer or a third party claims direct damages from repairing a vehicle and the insurer does not reject that claim, the insurer must pay the customer insurance benefits including, among other things, - vehicle depreciation and VAT applicable in this matter, even if the customer did not repair the vehicle in practice.

- On January 4, 2015, the Supervisor issued Draft Financial Institution Circular 2014-62 titled "Provision of Coordinated Loans". The draft circular deals with implementing the recommendations of the Committee for examining investments of financial institutions in coordinated loans (the Goldschmidt Committee report), and a draft circular on holding more than 20% of controlling instruments in a corporation. The drafts cover, among other things, the following issues: appointment of internal credit committee – composition and roles; expansion of the duties of investment control unit, including expansion its duties to perform retroactive samples; the roles applicable to financial institution that participate in syndication and consortium deals, including the information that the financial institution will receive from loan organizer, duties of the organizer and addressing conflict of interest issues of the organizer; guidance on disclosure past financial position of a controlling shareholders in distress, and mandating the investment committee to give a preliminary approval to a loan wherever the controlling shareholder or a company controlled by the controlling shareholder experienced financial difficulties; and providing temporary option, subject to approval by the Supervisor, to hold over 20% of controlling instruments of a corporation when shares of a corporations are received due to debt restructuring.
- On January 4, 2015, the Supervisor issued a second draft of relevant parts in the investment corporate governance codex. The draft includes provisions on the duties of the board in relation to investments of financial institutions and in relation to investment and credit committees. The draft is accompanied by amendments to Circular 2007-5-1 on credit risk management that adopt the recommendations of the Goldschmidt Committee on the duties of the board and investment committee in relation to coordinated loans and for the purpose of appointing a credit sub-committee.
- On January 21, 2015, the Supervisor issued Draft Financial Institutions Circular 2015-2 titled "Rules for the Provision of Credit by Financial Institutions". The draft circular deals with regulating the provision of credit by financial institutions, due to the growing popularity of non-banking credit, and to reduce the risks when providing the credit and over the life of the debt. The purpose of the draft directive is to allow more efficient allocation of credit by financial institutions. The draft sets guidance for the provision of leveraged loans, setting internal restrictions on providing credit, creating another tier of underwriting procedures for coordinated loans in which the financial institutions is allowed to rely on received collateral. In addition, the draft set general guidance on the actions in case of a breach of terms that allow debt acceleration and a duty to disclose borrowings that were taken to finance controlling shares in a corporation.
- On April 1, 2015, the Supervisor issued Draft Insurance Circular, titled "Report to the Supervisor on Rates in Life Insurance Plans". The purpose of the draft is to notify on an intention to develop an online calculator for life insurance rates to allow customers to compare premiums charged by different insurers, and regulate disclosure of rates by insurers in that calculator.
- On April 28, 2015, the Supervisor issued Draft Financial Institution Circular titled "Annual Report on Compliance by Financial Institutions – Amendment – Draft". The purpose of the draft is to amend Circular 2013-9-12 "Annual Report on Compliance by Financial Institutions", which requires financial institutions to disclose compliance information as part of reports that accompany the financial statements.

Entry into and marketing of new lines of business

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

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

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

	March 31, 2015	March 31, 2014	December 31, 2014
Other assets	315,796	318,501	349,256
Deferred acquisition expenses	154,961	146,443	148,214
Financial investments and cash	1,691,547	1,520,908	1,576,565
Reinsurance assets	800,544	686,846	718,971
Total assets	**2,962,848**	**2,672,698**	**2,793,006**
Shareholders' equity	722,052	669,512	690,907
Liabilities in respect of insurance	1,848,579	1,636,700	1,715,261
Other liabilities	392,217	366,486	386,838
Total equity and liabilities	**2,962,848**	**2,672,698**	**2,793,006**

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

	Jan-Mar 2015	Jan-Mar 2014	2014
Gross earned premiums	232,331	222,887	923,251
Premiums earned by reinsurers	(39,060)	(39,688)	(149,576)
Premiums earned in retention	193,271	183,199	773,675
Net investment revenue and financing revenue	40,682	25,720	49,127
Fee revenue	11,122	11,879	38,427
Total revenue	245,075	220,798	861,229
Payments and change in liability for insurance contracts, in retention	(120,563)	(101,074)	(428,884)
Total other expenses	(74,465)	(77,015)	(301,548)
Income before income taxes	**50,047**	**42,709**	**130,797**
Taxes on income	(18,902)	(16,201)	(47,894)
Income for the year and total comprehensive income for the year	**31,145**	**26,508**	**82,903**

Shareholders' equity and capital requirements

As of March 31, 2015, the Company's shareholders' equity exceeds the shareholders' equity required as of that date under the Insurance Business Regulations (Minimum Capital Required from an Insurer), 1998 by NIS 187.7 million.

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

4. Results of operations

The Company continued during Q1 2015 to increase gross premiums, by 4.0% y/y. Total gross premiums in the reported period amounted to NIS 264.7 million, up from NIS 254.5 million in the corresponding period in 2014.

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

Jan-March 2015	Life insurance	Health insurance	General insurance	Total
Gross	30,307	52,355	182,061	264,723
In retention	24,258	51,728	144,018	220,004
% of total gross	11.4	19.8	68.8	100.0
% of retention	11.0	23.5	65.5	100.0

Jan-March 2014	Life insurance	Health insurance	General insurance	Total
Gross	28,001	50,275	176,181	254,457
In retention	22,081	46,717	137,317	206,115
% of total gross	11.0	19.8	69.2	100.0
% of retention	10.7	22.7	66.6	100.0

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

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

	Jan-Mar 2015	Jan-Mar 2014	Jan-Dec 2014
Income from compulsory vehicle activity	11,910	5,344	26,643
Income from property vehicle activity	3,538	6,198	17,750
Income from home insurance activity	3,916	4,978	14,479
Income from commercial insurance activity	2,978	372	2,159
Income from health insurance activity	6,844	11,894	38,783
Income from life insurance activity	986	1,622	4,951
Other - Income not attributed to any line of business	19,875	12,301	26,032
Income before tax	**50,047**	**42,709**	**130,797**
Taxes on income	(18,902)	(16,201)	(47,894)
Income for the year and total comprehensive income the year	**31,145**	**26,508**	**82,903**

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 was NIS 40.7 million, compared with NIS 25.7 million in the corresponding period of 2014. The increase in investment income resulted from higher investment returns and a reduction in claims and expense ratio.

b. The income of the Company from compulsory vehicle insurance in the reported period was NIS 11.9 million compared with NIS 5.3 million in the corresponding period in 2014. The increased profitability is a result of higher investment returns and a reduction of claim ratio and expense ratio.

c. The income of the Company from property vehicle insurance in the reported period was NIS 3.5 million, compared with NIS 6.2 million in the corresponding period of 2014. The decrease in is mainly attributed to an increase in claims ratio.

d. The income of the Company from home insurance in the reported period was NIS 3.9 million compared with NIS 5.0 million in the corresponding period in 2014. The decreased profitability is mainly a result of an increase in claim ratio.

e. The income of the Company from professional liability insurance in the reported period was NIS 0.4 million compared with NIS 0.9 million in the corresponding period in 2014.

f. The loss of the Company from other property liability insurance in the reported period was NIS 0.5 million compared with NIS 0.1 million in the corresponding period in 2014.

g. The income of the Company from other liability insurance in the reported period was NIS 3.1 thousand compared with NIS 0.6 million in the corresponding period in 2014. The increased income is a result of a higher investment income and lower claim ratio.

h. The income of the Company from health insurance in the reported period was NIS 6.8 million compared with NIS 11.9 million in the corresponding period in 2014. The decreased income mainly resulted from a higher claim ratio.

i. The income of the Company from life insurance in the reported period was NIS 1 million compared with NIS 1.6 million in the corresponding period in 2014. The decrease in profitability is mainly a result of higher claim ratio and expense ratio.

5. Cash flows and liquidity

Net cash provided by operating activities in the reported period was NIS 15.7 million, compared with NIS 44.6 million provided by operating activities in the corresponding period in 2014.

Net cash used in investing activities in the reported period amounted to NIS 2.9 million, compared with amount of NIS 1.5 million in the corresponding period in 2014.

As a result of the above, the balance of cash and cash equivalents in the reported period increased by NIS 12.9 million and amounted NIS 95.9 million as of March 31, 2015.

6. Sources of funding

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

7. The effect of external factors

For more information, see section 2 above.

8. Material subsequent events

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

9. **<u>CEO and CFO Disclosure regarding the effectiveness of controls and procedures applied to company's disclosures</u>**

Controls and procedures applied to disclosure

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

Internal controls over financial reporting

In the course of the quarter ending on March 31, 2015 no change occurred in the internal control of the Company over financial reporting, which materially affected or is reasonably expected to materially affect the Company’s internal control on financial reporting.

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

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

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

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

May 19, 2015

AIG Israel Insurance Company Ltd

Declarations relating to the Financial Statements

Declaration

I, Shay Feldman hereby declare that:

1. I reviewed the interim report of AIG Israel Insurance Company Ltd. (hereafter – "the insurance company") for the quarter ended March 31, 2015 (hereafter – "the report").

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

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

4. The Company's other certifying officers and I are responsible for establishing and maintaining controls and procedures relating to disclosure[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

May 19, 2015

Declaration

I, David Rothstein hereby declare that:

1. I reviewed the interim report of AIG Israel Insurance Company Ltd. (hereafter – "the insurance company") for the quarter ended March 31, 2015 (hereafter – "the report").

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

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

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

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

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

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

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

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

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

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

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

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

____

David Rothstein - CFO

May 19, 2015

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

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

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

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

The Insurance Company's management with the supervision of its Board of Directors evaluates the effectiveness of the internal control of the Insurance Company over financial reporting as at March 31, 2015, based on criteria set in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation management believes that as at March 31, 2015 the internal control of the Insurance Company over financial reporting is effective.

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

Date of approval of financial statements: May 19, 2015

AIG ISRAEL INSURANCE CO. LTD.

FINANCIAL INFORMATION FOR INTERIM PERIOD
(Unaudited)

MARCH 31, 2015

AIG ISRAEL INSURANCE CO. LTD.

FINANCIAL INFORMATION FOR INTERIM PERIOD
(Unaudited)

MARCH 31, 2015

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

Introduction

We have reviewed the attached financial information of AIG Israel Insurance Co. Ltd ("the Company"), which information is comprised of the condensed statement of financial position As of March 31, 2015 and the condensed statements of comprehensive income, changes in equity and cash flows for the three-months ended on that date. The Board of Directors and management are responsible for the preparation and presentation of the financial information for this interim period in accordance with the provisions of International Accounting Standard No. 34, 'Interim Financial Reporting'(hereafter "IAS 34"), and they are also responsible for the preparation of the financial information for this interim period in accordance with the disclosure requirements of the Supervision of Financial Services (Insurance) Law, 1981 and the regulations promulgated thereunder. Our responsibility is to express a conclusion with respect to the financial information for this interim period, which conclusion is based on our review.

Scope of review

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

Conclusion

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

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

Tel-Aviv, Israel
May 19, 2015

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

AIG ISRAEL INSURANCE CO. LTD.

CONDENSED STATEMENTS OF FINANCIAL POSITION

AS OF MARCH 31, 2015

	March 31		December 31,
	2015	**2014**	**2014**
	(Unaudited)		**(Audited)**
	NIS in thousands		
Assets			
Intangible assets	20,870	14,265	20,410
Deferred acquisition expenses	154,961	146,443	148,214
Fixed assets	10,071	14,210	10,663
Reinsurance assets	800,544	686,846	718,971
Premiums collectible	204,009	195,526	193,337
Current tax assets	39,465	55,118	84,697
Other receivables	41,381	39,382	40,149
	1,271,301	1,151,790	1,216,441
Financial investments:			
Marketable debt instruments	1,258,448	1,166,095	1,183,798
Non-marketable debt instruments	170,087	139,508	164,461
Marketable shares	100,736	80,017	87,300
Other	66,329	24,512	57,919
TOTAL FINANCIAL INVESTMENTS	1,595,600	1,410,132	1,493,478
Cash and cash equivalents	95,947	110,776	83,087
TOTAL ASSETS	2,962,848	2,672,698	2,793,006

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 Board of Directors of Company: May 19, 2015

AIG ISRAEL INSURANCE CO. LTD.

CONDESED STATEMENTS OF FINANCIAL POSITION

AS OF MARCH 31, 2015

	March 31		December 31,
	2015	2014	2014
	(Unaudited)		(Audited)
	NIS in thousands		
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	6	6	6
Share premium	250,601	250,601	250,601
Other capital reserve	11,084	11,084	11,084
Retained earning	460,361	407,821	429,216
TOTAL EQUITY ATTRIBUTABLE TO COMPANY SHAREHOLDERS	722,052	669,512	690,907
LIABILITIES:			
Liabilities in respect of insurance contracts and without-profits investment contracts	1,848,579	1,636,700	1,715,261
Liabilities in respect of deferred taxes, net	18,604	29,451	10,267
Liabilities with respect to employee rights upon retirement, net	3,108	2,232	3,069
Liabilities towards reinsurers	285,043	261,041	280,598
Payables	85,462	73,762	92,904
TOTAL LIABILITIES	2,240,796	2,003,186	2,102,099
TOTAL EQUITY AND LIABILITIES	2,962,848	2,672,698	2,793,006

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

AIG ISRAEL INSURANCE CO. LTD.

CONDESED STATEMENTS OF OTHER COMPREHENSIVE INCOME

FOR THE THREE MONTHS ENDED MARCH 31, 2015

	Three months ended March 31		Year ended December 31,
	2015	2014	2014
	(Unaudited)		(Audited)
	NIS in thousands		
Gross earned premiums	232,331	222,887	923,251
Premiums earned by reinsurers	(39,060)	(39,688)	(149,576)
Premiums earned on non-ceded business	193,271	183,199	773,675
Investment income, net and financing income	40,682	25,720	49,127
Commission income	11,122	11,879	38,427
TOTAL INCOME	245,075	220,798	861,229
Payments and movement in liabilities	(231,515)	(151,811)	(577,858)
with respect to insurance contracts, gross	110,952	50,737	148,974
Share of reinsurers in increase of insurance liabilities and payments with respect to insurance contracts	(120,563)	(101,074)	(428,884)
Payments and movement in liabilities with respect to insurance contracts, retained amount	(39,645)	(43,610)	(166,902)
Commission, marketing expenses and other acquisition expenses			
General and administrative expenses	(35,528)	(32,494)	(140,159)
Financing income (expenses), net	708	(911)	5,513
TOTAL EXPENSES	(195,028)	(178,089)	(730,432)
PROFIT BEFORE TAXES ON INCOME	50,047	42,709	130,797
Taxes on income	(18,902)	(16,201)	(47,894)
PROFIT FOR PERIOD AND TOTAL COMPREHENSIVE INCOME FOR PERIOD	31,145	26,508	82,903
BASIC EARNINGS PER SHARE -	5.53	4.71	14.73
number of shares used in computation of basic earnings per share	5,630	5,630	5,630

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

AIG ISRAEL INSURANCE CO. LTD.

CONDENSED STATEMENTS OF CHANGES IN EQUITY

FOR THE THREE MONTHS ENDED MARCH 31, 2015

	Share capital	Share Premium	Other capital reserves	Retained earnings	Total
	NIS in thousands				
BALANCE AS OF JANUARY 1, 2015 (audited)	6	250,601	11,084	429,216	690,907
CHANGES DURING THE THREE MONTHS ENDED MARCH 31, 2015 (unaudited) **-**					
total comprehensive income for the three months ended March 31, 2015				31,145	31,145
BALANCE AS OF MARCH 31, 2015 (unaudited)	6	250,601	11,084	460,361	722,052
BALANCE AS OF JANUARY 1, 2014 (audited)	6	250,601	11,084	381,313	643,004
CHANGES DURING THE THREE MONTHS ENDED MARCH 31, 2014 (unaudited) **-**					
total comprehensive income for the three months ended March 31, 2014				26,508	26,508
BALANCE AS OF MARCH 31, 2014 (unaudited)	6	250,601	11,084	407,821	669,512
BALANCE AS OF JANUARY 1, 2014 (audited)	6	250,601	11,084	381,313	643,004
CHANGES DURING THE YEAR 2014 (audited):					
Total comprehensive income for year ended December 31, 2014				82,903	82,903
Dividend				(35,000)	(35,000)
BALANCE AS OF DECEMBER 31, 2014 (audited)	6	250,601	11,084	429,216	690,907

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

AIG ISRAEL INSURANCE CO. LTD.

CONDESED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2015

	Three months ended March 31		Year ended December 31,
	2015	**2014**	**2014**
	(Unaudited)		**(Audited)**
	NIS in thousands		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net cash provided by (used in) operating activities (Appendix A)	(32,236)	29,956	96,078
Interest received	13,000	12,122	45,484
Dividend received	277	436	2,337
Income taxes received (paid)	34,669	2,120	(78,334)
Net cash provided by (used in) operating activities	15,710	44,634	65,565
CASH FLOWS FROM INVESTING ACTIVITIES:			
Changes in asset cover for equity and non-insurance liabilities:			
Acquisition of fixed assets	(623)	(375)	(1,769)
Acquisition of Intangible assets	(2,228)	(1,114)	(12,218)
Net cash used in investing activities	(2,851)	(1,489)	(13,987)
CASH FLOWS FROM FINANCING ACTIVITIES -			
Dividend paid to Company's shareholders	-	-	(35,000)
Net cash used in financing activities	-	-	(35,000)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	12,859	43,145	16,578
BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	83,087	67,616	67,616
INFLUENCE OF FLUCTIONS IN EXCHANGE RATE ON CASH AND CASH EQUIVALENTS	1	15	(1,107)
BALANCE OF CASH AND CASH QUIVALENTS AT END OF PERIOD	95,947	110,776	83,087

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

AIG ISRAEL INSURANCE CO. LTD.

CONDESED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2015

	Three months ended ended March 31		Year ended December 31,
	2015	**2014**	**2014**
	(Unaudited)		**(Audited)**
	NIS in thousands		
APPENDIX A - CASH FLOWS FROM OPERATING ACTIVITIES -			
Profit before taxes on income	50,047	42,709	130,797
Adjustments for- Income and expenses not involving cash flows:			
Increase in insurance contracts not depending on yield			
Increase in deferred acquisition expenses	51,745	27,797	74,234
Increase (decrease) in liabilities with respect	(6,747)	(5,923)	(7,694)
to employee rights upon retirement, net	39	(213)	624
Depreciation of fixed assets	1,215	1,413	6,354
Depreciation of intangible asset	1,768	1,648	6,607
Losses (gains), net on realization of financial investments:			
Marketable debt instruments	(17,507)	(8,952)	4,057
Non-marketable debt instruments	7,012	622	(3,525)
Marketable shares	(8,873)	(4,765)	(3,313)
Index linked certificates	(2,000)	(591)	(675)
Influence of fluctuation in exchange rate on cash and cash equivalents	(1)	(15)	1,107
	76,698	53,730	208,573
Changes in operating assets and liabilities:			
Liabilities towards reinsurers	4,445	4,856	24,413
Investments in financial assets, net	(80,754)	8,422	(85,158)
Premiums collectible	(10,672)	(9,112)	(6,923)
Receivables	(1,232)	(339)	(1,106)
Payables			
	(95,657)	(11,216)	(64,674)
Adjustments with respect to interest and dividend received:			
Interest received	(13,000)	(12,122)	(45,484)
Dividend received	(277)	(436)	(2,337)
Net cash provided by (used in) operating activities	(32,236)	29,956	96,078

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

AIG ISRAEL INSURANCE CO. LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS

NOTE 1 - GENERAL

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

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

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

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

DEFINITIONS:

1) The Company – AIG Israel Insurance Co Ltd.

2) The parent company – AIG Europe Holdings Limited

3) Supervisor - Supervisor of Insurance (Commissioner of the Capital Market, Insurance and Savings at the Israel Ministry of Finance).

4) The Supervision Law – The Supervision of Financial Services (Insurance) Law, 1981.

5) Investment contracts – policies which do not constitute insurance contracts.

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

7) CPI - The consumer price index published by the Israeli Central Bureau of Statistics.

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

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

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

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

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

NOTE 1 – GENERAL (continued):

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

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

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

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

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

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

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

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

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

22) Premium - Premium including fees and receipts for related services.

23) The expression, 'premiums earned,' refers to premiums that relate to the period under review.

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS:

a. The Company's condensed financial information as of March 31, 2015 and for the three-month interim period ended on that date ("the financial information for the interim period") has been prepared in accordance with the provisions of IAS 34 'Interim Financial Reporting" (hereafter – "IAS 34") and is in compliance with the disclosure requirements of the Supervision of Financial Services (Insurance) Law, 1981 ("the supervision law") and the regulations promulgated there under. The financial information for the interim period should be considered in conjunction with the annual financial statements as of December 31, 2014 and for the year ended thereon including the accompanying notes which are in compliance with International Financial Reporting Standards, which are standards and interpretations published by the International Accounting Standards Board (hereafter – IFRS).

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

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

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

Significant judgments exercised by management in preparation of these condensed interim financial statements as well as the uncertainty involved in the key sources of those estimates were identical to the ones used in the Company's annual financial statements for the year ended December 31, 2014.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES:

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

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

b) New accounting standards applied for the first time:

1) New IFRS and amendments to existing standards that came into effect and are mandatory for reporting periods commencing on January 1, 2015

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

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

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

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

As specified in the 2014 annual financial statements of the company, further amendments to existing IFRS came into effect which are mandatory for accounting periods commencing on January 1, 2015. However, the first time application of those amendments did not have a material effect on the company's financial information for the interim reporting period (including comparative figures).

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (continued):

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

It its annual 2014 financial statements, the company specified new IFRS and additional amendments to existing IFRS, which have not yet become effective and have not been early adopted by the company.

Since the date of issuing the annual financial statements of the Company through the date of approving this interim financial information, no new or amended standards have been issued.

NOTE 4 - SEGMENT INFORMATION

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

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

1) Life assurance sector

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

2) Health insurance sector

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

NOTE 4 - SEGMENT INFORMATION (Continued):

3) General insurance sector

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

- **Compulsory motor vehicle line**

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

- **Motor vehicle property line**

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

- **Flats insurance sector**

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

- **Professional liability line**

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

- **Other Property lines**

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

- **Other liability lines**

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

NOTE 4 - SEGMENT INFORMATION (continued):

	For the 3-month period ended March 31, 2015 (unaudited)				
	Life assurance	Health insurance	General insurance	Not apportionable to operating segments	Total
	NIS in thousands				
Gross earned premiums	30,159	52,207	149,965		232,331
Premiums earned by reinsurers	(6,046)	(629)	(32,385)		(39,060)
Premiums earned by non-ceded business	24,113	51,578	117,580		193,271
Investment income, net	(1)	2,614	18,902	19,167	40,682
Commission income	982	119	10,021		11,122
Total income	25,094	54,311	146,503	19,167	245,075
Change in insurance liabilities and payments with respect to insurance contracts (gross)	(12,149)	(28,054)	(191,312)		(231,515)
Share of reinsurers in increase of insurance liabilities and payments with respect to insurance contracts	4,354	1,929	104,669		110,952
Payments and Change in insurance liabilities with respect to insurance contracts relating to non-ceded business	(7,795)	(26,125)	(86,643)		(120,563)
Commission and other acquisition expenses	(7,508)	(9,581)	(22,556)		(39,645)
General and administrative expenses	(8,805)	(11,761)	(14,962)		(35,528)
Financing income, net	-	-	-	708	708
Total comprehensive income before taxes on income	986	6,844	22,342	19,875	50,047
Gross liabilities with respect to insurance contracts as of March 31,2015	54,609	145,242	1,648,728		1,848,579

NOTE 4 - SEGMENT INFORMATION (continued):

	For the 3-month period ended March 31, 2014 (unaudited)				
	Life assurance	Health insurance	General insurance	Not apportionable to operating segments	Total
	NIS in thousands				
Gross earned premiums	27,982	50,457	144,448		222,887
Premiums earned by reinsurers	(5,920)	(3,559)	(30,209)		(39,688)
Premiums earned by non-ceded business	22,062	46,898	114,239		183,199
Investment income, net	20	1,709	11,712	12,279	25,720
Commission income	874	1,074	9,931		11,879
Total income	22,956	49,681	135,882	12,279	220,798
Change in insurance liabilities and payments with respect to insurance contracts (gross)	(9,244)	(20,487)	(122,080)		(151,811)
Share of reinsurers in increase of insurance liabilities and payments with respect to insurance contracts	2,443	2,488	45,806		50,737
Payments and Change in insurance liabilities with respect to insurance contracts relating to non-ceded business	(6,801)	(17,999)	(76,274)		(101,074)
Commission and other acquisition expenses	(7,381)	(9,907)	(26,322)		(43,610)
General and administrative expenses	(7,152)	(9,848)	(15,494)		(32,494)
Financing income (expenses), net	-	(33)	(900)	22	(911)
Total comprehensive income before taxes on income	1,622	11,894	16,892	12,301	42,709
Gross liabilities with respect to insurance contracts as of March 31,2014	39,491	132,439	1,464,770		1,636,700

NOTE 4 - SEGMENT INFORMATION (continued):

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

NOTE 4 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment:

	For the 3-month period ended March 31, 2015 (unaudited)						
	Compulsory motor vehicle	**Motor vehicle property**	**Personal property**	**Professional liability**	**Other property branches***	**Other liability branches***	**Total**
	NIS in thousands						
Gross premiums	41,297	74,860	29,131	16,858	8,652	11,271	182,069
Reinsurance premiums	(583)	(29)	(5,738)	(14,300)	(8,250)	(9,142)	(38,042)
Premiums relating to non-ceded business	40,714	74,831	23,393	2,558	402	2,129	144,027
Change in balance of unearned premiums relating to non-ceded business	(6,974)	(13,991)	(4,464)	(435)	(88)	(495)	(26,447)
Premiums earned on non-ceded business	33,740	60,840	18,929	2,123	314	1,634	117,580
Investment income, net	8,819	2,897	1,380	2,738	354	2,714	18,902
Commission income	-	-	1,475	4,000	2,241	2,305	10,021
Total income	42,559	63,737	21,784	8,861	2,909	6,653	146,503
Increase in insurance liabilities and payments with respect to insurance contracts	(25,715)	(47,575)	(12,257)	(85,843)	(12,078)	(7,844)	(191,312)
Share of reinsurers in increase of insurance liabilities and payments with respect to insurance contracts	2,584	-	2,391	82,478	10,547	6,669	104,669
Increase in insurance liabilities and payments with respect to insurance contracts relating to non-ceded business	(23,131)	(47,575)	(9,866)	(3,365)	(1,531)	(1,175)	(86,643)
Commission, marketing expenses and other acquisition expenses	(4,363)	(8,528)	(3,353)	(3,420)	(1,178)	(1,714)	(22,556)
General and administrative expenses	(3,155)	(4,096)	(4,649)	(1,711)	(654)	(697)	(14,962)
Financing expenses, net	-	-	-	-	-	-	-
Total expenses	(30,649)	(60,199)	(17,868)	(8,496)	(3,363)	(3,586)	(124,161)
Total comprehensive income (loss) before taxes on income	11,910	3,538	3,916	365	(454)	3,067	22,342
Gross liabilities with respect to insurance contracts as of March 31,2015	677,230	185,792	71,003	348,244	96,061	270,398	1,648,728
Net liabilities with respect to insurance contracts as of March 31,2015	522,083	185,792	61,818	53,249	4,619	41,069	868,630

* The results of other property lines reflect mainly the results of the property insurance line the operations of which attract 75% of the total premiums attributable to these lines.
The results of other liability lines reflect mainly the results of the product warranty insurance line, the operations of which attract 49% of the total premiums attributable to these lines

NOTE 4 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment:

	For the 3-month period ended March 31, 2014 (unaudited)						
	Compulsory motor vehicle	Motor vehicle property	Personal property	Professional liability	Other property branches *	Other liability branches *	Total
	NIS in thousands						
Gross premiums	40,619	70,362	28,841	16,285	9,825	10,249	176,181
Reinsurance premiums	(574)	(26)	(6,686)	(13,807)	(9,425)	(8,346)	(38,864)
Premiums relating to non-ceded business	40,045	70,336	22,155	2,478	400	1,903	137,317
Change in balance of unearned premiums relating to non-ceded business	(6,803)	(12,345)	(2,588)	(622)	(176)	(544)	(23,078)
Premiums earned on non-ceded business	33,242	57,991	19,567	1,856	224	1,359	114,239
Investment income, net	5,556	1,627	970	1,587	248	1,724	11,712
Commission income	-	-	2,174	3,171	2,411	2,175	9,931
Total income	38,798	59,618	22,711	6,614	2,883	5,258	135,882
Increase in insurance liabilities and payments with respect to insurance contracts	(28,664)	(39,762)	(7,979)	(8,744)	(9,596)	(27,335)	(122,080)
Share of reinsurers in increase of insurance liabilities and payments with respect to insurance contracts	4,404	-	1,139	7,378	8,555	24,330	45,806
Increase in insurance liabilities and payments with respect to insurance contracts relating to non-ceded business	(24,260)	(39,762)	(6,840)	(1,366)	(1,041)	(3,005)	(76,274)
Commission, marketing expenses and other acquisition expenses	(5,018)	(9,926)	(5,559)	(2,844)	(1,182)	(1,793)	(26,322)
General and administrative expenses	(4,176)	(3,732)	(5,306)	(1,152)	(522)	(606)	(15,494)
Financing expenses, net	-	-	(28)	(377)	(70)	(425)	(900)
Total expenses	(33,454)	(53,420)	(17,733)	(5,739)	(2,815)	(5,829)	(118,990)
Total comprehensive income (loss) before taxes on income	5,344	6,198	4,978	875	68	(571)	16,892
Gross liabilities with respect to insurance contracts as of March 31,2014	647,276	160,141	63,288	245,039	72,953	276,073	1,464,770
Net liabilities with respect to insurance contracts as of March 31,2014	489,173	160,141	55,362	46,893	3,768	42,496	797,833

* The results of other property lines reflect mainly the results of the property insurance line the operations of which attract 75% of the total premiums attributable to these lines.
The results of other liability lines reflect mainly the results of the product warranty insurance line, the operations of which attract 49% of the total

NOTE 4 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment

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

* The results of other property lines reflect mainly the results of the property insurance line the operations of which attract 83% of the total premiums attributable to these lines.
The results of other liability lines reflect mainly the results of the product warranty insurance line, the operations of which attract 44% of the total premiums attributable to these lines.

NOTE 5 - SHAREHOLDERS' EQUITY AND CAPITAL REQUIREMENTS:

Management and capital requirements:

a. Management pursues a policy of maintaining a sound equity base, thereby allowing the Company to continue operations in such manner that will enable it to provide a return to its shareholders and undertake future commercial operations. The Company is required to adhere to the capital requirements laid down by the Supervisor.

b. The table below provides information with respect to the capital requirements as set out in the capital regulations and the amendments thereto and in the directives of the Supervisor, together with information relating to the level of the Company's existing capital.

Company's existing capital with respect to the capital requirements

	March 31		December 31,
	2015	2014	2014
	(Unaudited)		(Audited)
The amount required under capital regulations and supervisor guidelines (a)	534,304	515,616	546,550
Existing amount computed under capital regulations:			
Primary capital	722,052	669,512	690,907
Total existing capital existing computed under capital requirements	722,052	669,512	690,907
Surplus	**187,748**	**153,896**	**144,357**

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

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

	March 31		December 31,
	2015	2014	2013
	(Unaudited)		(Audited)
	NIS in thousands		
Operations related to general insurance	125,897	118,361	123,599
Exceptional life assurance risks	32,996	28,072	31,756
Deferred acquisition expenses in relation to life assurance	84,845	82,395	85,505
Investment assets and other assets	66,133	53,916	73,831
Catastrophe risk related to general insurance	191,004	203,193	200,903
Operating risks	33,429	29,679	30,956
Total	534,304	515,616	546,550

NOTE 6 – FINANCIAL INSTRUMENTS AND FINANCIAL RISKS

a. Fair value disclosure

Following the discussion in note 10(g) to the financial statements dated December 31, 2014 no transfers were made in the reported period between level 1 and level 2.

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

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

2. For details of the fair value of financial investments, see section d below.

c. No material changes have occurred in the financial risk management policy of the Company, compared to the policy it reported in its 2014 annual financial statements.

d. Composition of financial investments:

		As of March 31, 2015 (unaudited)		
		NIS in thousands		
		Measured at fair value through profit or loss	Loans and receivables	Total
		NIS in thousands		
Marketable debt instruments	(1)	1,258,448	-	1,258,448
Non-marketable debt instruments	(2)	-	170,087	170,087
Marketable shares	(3)	100,736	-	100,736
Other	(4)	66,329	-	66,329
Total		1,425,513	170,087	1,595,600

		As of March 31, 2014 (unaudited)		
		Measured at fair value through profit or loss	Loans and receivables	Total
		NIS in thousands		
Marketable debt instruments	(1)	1,166,095	-	1,166,095
Non-marketable debt instruments	(2)	-	139,508	139,508
Marketable shares	(3)	80,017	-	80,017
Other	(4)	24,512	-	24,512
Total		1,270,624	139,508	1,410,132

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

d. Composition of financial investments (continued):

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

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

	As of March 31, 2015 (unaudited)	
	Carrying amount	Amortized cost
	NIS in thousands	
Government debentures	651,228	626,375
Other marketable debt instruments:		
Other marketable debt instruments that are not convertible	607,158	598,270
Other marketable debt instruments that are convertible	62	62
Total marketable debt instruments	1,258,448	1,224,707

	As of March 31, 2014 (unaudited)	
	Carrying amount	Amortized cost
	NIS in thousands	
Government debentures	734,121	720,374
Other marketable debt instruments:		
Other marketable debt instruments that are not convertible	431,849	412,104
Other marketable debt instruments that are convertible	125	125
Total marketable debt instruments	1,166,095	1,132,603

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

d. Composition of financial investments (continued):

	As of December 31, 2014 (audited)	
	Carrying amount	Amortized cost
	NIS in thousands	
Government debentures	629,992	622,306
Other debt instruments:		
Other debt instruments that are not convertible	553,744	557,229
Other debt instruments that are convertible	62	62
Total marketable debt instruments	1,183,798	1,179,597

(2) Composition of non-marketable debt instruments

	As of March 31, 2015 (unaudited)	
	Carrying amount	Fair value
	NIS in thousands	
Bank deposits	97,032	98,157
Other marketable debt instruments that are not convertible	73,055	77,025
Total non-marketable debt instruments	170,087	175,182

	As of March 31, 2014 (unaudited)	
	Carrying amount	Fair value
	NIS in thousands	
Bank deposits	120,843	123,389
Other marketable debt instruments that are not convertible	18,665	15,439
Total non-marketable debt instruments	139,508	138,828

	As of December 31, 2014 (audited)	
	Carrying amount	Fair value
	NIS in thousands	
Bank deposits	60,808	60,893
Other marketable debt instruments that are not convertible	103,653	103,559
Total non-marketable debt instruments	164,461	164,452

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

d. Composition of financial investments (continued):

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

	As of March 31, 2015 (unaudited)	
	Carrying amount	Cost
	NIS in thousands	
Marketable shares	100,736	88,516

	As of March 31, 2014 (unaudited)	
	Carrying amount	Cost
	NIS in thousands	
Marketable shares	80,017	74,339

	As December 31, 2014 (audited)	
	Carrying amount	Cost
	NIS in thousands	
Marketable shares	87,300	83,854

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

	As of March 31, 2015 (unaudited)	
	Carrying amount	Cost
	NIS in thousands	
Marketable financial investments	66,329	64,394

	As of March 31, 2014 (unaudited)	
	Carrying amount	Cost
	NIS in thousands	
Marketable financial investments	24,512	23,688

	As December 31, 2014 (audited)	
	Carrying amount	Cost
	NIS in thousands	
Marketable financial investments	57,916	57,919

NOTE 7 - TAXES ON INCOME

Computing the income tax for the interim period is based on the best estimate of the weighed income tax rate expected for the full fiscal year. The average annual tax rate of the company in the year ended December 31, 2015 is 37.71% (2014 – 37.71%).

NOTE 8 - CONTINGENT LIABILITIES - CLASS ACTIONS:

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

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

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

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

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

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

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

On June 8, 2014 the plaintiffs filed a notice to the effect that they maintain their position that the application to approve the claim as a class action shall be heard by the court. In accordance with the plaintiffs' notice, the court set a date for a summary hearing. The claimants have recently filed their summaries; after the date for filing the Company's summaries was postponed, the Company is to file its summaries by June 6, 2015.

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

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

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

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

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

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

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

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

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

On April 19, 2015 the applicants filed their reply to the reply to the application to approve the claim as a class action. The applicants reject the claims raised in the reply to the application. A preliminary hearing for the application was set for June 14, 2015.

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

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

Pending applications for approval of legal claims as class actions:	**Number of claims**	**The amount claimed NIS in thousands**
An amount relating to the company	2	28,081

Embedded value reporting
of
AIG Israel Insurance Company Ltd
As of December 31, 2014

Date issued: May 19, 2015

Table of contents

1. General

1.1 Background and scope of disclosure

Under a circular of the Israel Supervisor of Insurance dated August 12, 2007 (Insurance Circular 2007-1-11) ("**the Circular**"), insurance companies are required to disclose annually, along with the financial information for the first quarter of each year, information about their embedded value ("**embedded value**" or "**EV**") of long-term insurance policies (life insurance and health insurance) for the end of previous year. In compliance with the circular, AIG Israel Insurance Company Ltd ("**the Company**") discloses below the embedded value of its long-term insurance business as of December 31, 2014.

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

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

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

1.2 Forward-looking statement

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

1.3 The main chapters in this document

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

1.4 Definitions

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

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

Present value of future profits (PVFP)	Discounting of future expected profit stream arising from covered in-force businesses (see paragraph 2.5.2 below).
Adjusted net worth (ANW)	The net worth of the company after a number of adjustments to make it consistent with the value of the in-force portfolio (see paragraph 2.5.1 below)

Cost of required capital (CoC)	The cost of required capital is the impact, from shareholders perspective, on embedded value due to the requirement mandating the Company to hold a minimum capital (see paragraph 2.5.3 below)
Value of in-force (VIF)	The value of the in-force portfolio is the present value of future profits less the cost of required capital
Embedded value (EV)	The embedded value is the aggregate of the following two components: Value in-force (VIF) and adjusted net worth. Note that the adjusted net worth is the equity relating to the operations of the entire company and not only those covered within the scope of EV. Also note that the value of in-force does not include: General insurance business (elementary) The ability to create additional business in the future (goodwill).
Value of new business (VNB)	The present value from the time of sale to the end of policy lifetime of expected profits for the covered businesses that were sold during the reported year.
Covered businesses	The businesses covered in the computation of in-force value: Long-term personal policies within the life insurance and health insurance portfolio in force as of December 31, 2014, including future premium increases

1.5 Comments, clarifications and limitations

1.5.1 General

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

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

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

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

1.5.2 Reforms and legislation

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

a. Possible future changes in the capital requirements based on drafts/opinion papers issued by the Ministry of Finance.

In April 2013, the Minister of Health announced the appointment of the Advisory Board for Strengthening the Public Health System ("the German Committee").

As mandatory provisions, the findings of the German Committee do not have an effect on the health insurance activities as well as the embedded value of this activity for businesses sold through December 31, 2014.

This report does not reflect the findings of the committee since such findings have not yet been issued; even after they are issued, there may be significant uncertainties as to the effect of those findings, since many bodies shall be involved in the application thereof.

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

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

1.5.3 Addressing risk

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

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

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

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

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

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

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

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

1.5.4 Asset valuation at fair value

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

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

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

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

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

2. Embedded value calculation methodology

2.1 General

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

2.2 Treatment of risks

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

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

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

2.3 General assumptions

2.3.1 Return, discount interest and inflation:

The future return and discount interest is determined using the risk-free interest linked to the cpi. Risk-free interest rates (spot) as of 2014 year-end are:

Year-end	Interest rate	Year-end	Interest rate	Year-end	Interest rate
2015	1.42%	2025	0.89%	2035	1.47%
2016	-0.12%	2026	0.99%	2036	1.50%
2017	0.04%	2027	1.07%	2037	1.53%
2018	0.09%	2028	1.14%	2038	1.56%
2019	0.18%	2029	1.20%	2039	1.59%
2020	0.29%	2030	1.26%	2040	1.62%
2021	0.40%	2031	1.31%	2041	1.64%
2022	0.53%	2032	1.35%	2042	1.67%
2023	0.65%	2033	1.39%	2043	1.69%
2024	0.78%	2034	1.43%	2044	1.71%

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

2.3.2 Tax

- Tax rate on financial institutions (including profit tax)

Year	2014	2015	+2016
Tax rate	37.71%	37.71%	37.71%

2.4 Demographic and operating assumptions

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

2.4.1 Demographic assumptions

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

2.4.2 Future administrative and general expenses

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

2.5 Computation method

2.5.1 Adjusted net worth (ANW)

The amount of net worth is taken from the December 31, 2014 financial statements of the Company. This amount was reduced by the amount of deferred acquisition expenses based on the related balance sheet information, less the allowance for deferred tax in their respect and less the expected tax benefit for the part of the deductible deferred acquisition cost.

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

2.5.2 Present value of future profits (PVFP)

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

2.5.3 Cost of required capital (CoC)

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

2.5.4 Value of new business (VNB)

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

The calculation of VNB was made for the following populations:

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

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

2.6 Treating options and financial promises

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

2.7 Analysis of change in EV and EV-based profit

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

1. Adjustments to embedded value as of December 31, 2013 – This item includes amendments relative to opening data, including changes to the calculation methodology. Some technical revisions to the model were made in 2014.

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

    a. Life insurance: the overall value of the portfolio decreased due to a NIS 15.4 update of the rates of cancellations.

    b. Health insurance: the overall value of the portfolio decreased due to increase of the rate of expenses and update of the rates of cancellations at the total amount of NIS 81.7 million.

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

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

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

    c. Profit expected to go from in-force portfolio to adjusted net worth during 2014 – In 2014, the expected profit for 2014 was transferred from the value of in-force to adjusted net worth, such that in total this source does not affect total embedded value as a whole. According to the method of determining adjusted net worth, this profit does not include the impact of reducing DAC, except for the tax credit and tax deduction on DAC.

4. The impact of variations from operating and demographic assumptions in 2014 – Naturally, actual experience around claims rates, cancellations, expenses etc., were different during the period from those assumed at the beginning of the year for the purpose of calculating embedded value. Those variations have impact on expected profits after year-end and also profits for that year itself, and the impacts are presented in this section separately for in-force portfolio and adjusted net worth, respectively. In addition, this section includes the effect of a number of factors that each is considered by the Company to immaterial, including, changes in existing insurance policies, reinsurance terms or commission agreements with agents.

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

6. Development expenses not covered in EV – This presents the impact of exceptional expenses that were not included in embedded value, but attributed to future sales, on actual profits in the year. In 2014, no expenses were excluded from EV.

It is common to call the sum of the changes in paragraphs 2 to 6 "embedded value operating profit". This amount reflects the value that was added to the embedded value or profit in terms of value that arises from operating activity of the Company, except for the impact from businesses not covered by EV (such as elementary insurance) and before the impact of unexpected economic factors, such as unexpected changes in market interest rates, the financial markets and inflation.

7. Profit from exceptional items – No exceptional events occurred in 2014 that affected the change in EV and are not explained by other items in this report.

8. The effect of inflation in 2014 – This item includes the effect of inflation in the reported year (-0.1%) on the opening balance. The following paragraphs present the effect of real returns on top of CPI.

9. Profit from variation from economic assumptions in 2014 and changes in economic assumptions – this item includes two components:

   a. The effect on the value of in-force resulting from changes in economic assumptions that are based on market interest rates. Those assumptions include discount interest and expected returns.

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

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

   c. Tax rates did not change in 2014.

   It is common to call the sum of changes in section 2 to 9 "embedded value-based profit on covered business". This amount reflects the value that was added to embedded value, or profit in terms of value, that arose in the operating activity of the Company, including effects of economic factors and exceptional items, but excluding the effect of businesses not covered by EV (such as elementary insurance).

10. Profit from non-covered business – The total embedded value includes the entire equity of the Company, and therefore, some of the increase/decrease in embedded value is explained by the profits/losses of business that is not covered by the in-force.

11. Capital movements – This item presents the change in embedded value that results from capital movements during the year. A NIS 35 million was distributed in 2014.

2.8 Sensitivity tests

The sensitivity tests presented in 3.4 and 3.5 below were prepared while adopting the following approaches:

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

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

3. Sensitivity for new business relates to changes from the end of 2014 and thereafter, and not to the period from the time of sale through the end of 2014.

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

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

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

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

3. Results

3.1 The embedded value as of December 31, 2014

Million NIS	EV on covered business in life and health insurance
Adjusted net worth (see 3.3 below)	637.7
Present value of future profits, net of tax	607.6
Less cost of required capital	-18.8
Embedded value	**1,226.5**

3.2 Value of new business from sales in 2014

Million NIS	VBN on covered business in life and health insurance
Value of new business before cost of required capital	110.1
Cost of required capital on new business	-5.9
Total value of new business	**104.2**

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

	Million NIS
Equity (Company balance sheet)	690.9
Revaluation of assets corresponding to covered business and presented in the financial statements at cost to fair value less tax	0
Less deferred acquisition costs (DAC to balance sheet)*	-85.5
Add - reserve for deferred tax on DAC	32.3
Less value of acquired insurance accounts and goodwill thereon, included in equity, net of tax	0
Adjusted net worth on covered business	637.7

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

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

	Section	Adjusted net worth	Value of in-force	Embedded value
Embedded value as of December 31, 2013		591.8	609.0	1,200.8
Adjustments to embedded value as of December 31, 2013	2.7.1	-	-	-
Adjusted embedded value as of December 31, 2013		**591.8**	**609.0**	**1,200.8**
Operating profit from in-force as of December 31, 2013				
- Change in operating and demographic assumptions	2.7.2	-	-97.1	-97.1
- Expected real growth	2.7.3	11.4	3.4	14.8
- Total profit expected to move from in-force to net worth in 2014	2.7.3	69.0	-69.0	-
- Effect of variation from operating and demographic assumptions in 2013 and other changes to in-force	2.7.4	-7.3	-25.5	-32.8
Total		**73.2**	**-188.3**	**-115.1**
Profit from new business	2.7.5	-34.5	138.7	104.2
Development expenses not included in EV	2.7.6	-	-	-
Embedded value operating profit		**38.7**	**-49.6**	**-11.0**
Profit from exceptional items	2.7.7	-	-	-
Effect of inflation in 2014	2.7.8	-0.4	-0.6	-1.0
Income from variation from economic assumptions in 2014 and change in economic assumptions	2.7.9	2.9	30.1	33.0
Total embedded value profit		**41.2**	**-20.2**	**21.1**
Profit from non-covered business	2.7.10	39.6	-	39.6
Total embedded value profit of all Company business		**80.9**	**-20.2**	**60.7**
Movements in equity	2.7.11	-35.0	-	-35.0
Total change in EV		**45.9**	**-20.2**	**25.7**
Embedded value as of December 31, 2014		**637.7**	**588.8**	**1226.5**

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

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

Net income	82.9
Items transferred through equity reserve	-
Comprehensive income (after tax)	**82.9**
Change in DAC before tax	-3.7
Tax on change in DAC	1.5
Change in asset valuation at fair value net of tax	0.0
Net change in value of in-force/goodwill on the balance sheet	0.0
Comprehensive income adjusted to basis of embedded value	80.7
Movement in equity	-35.0
Total change in adjusted net worth	**45.7**

3.6 Sensitivity analysis for covered business in accordance with Circular requirements

	See section	Change in embedded value		Change in value of new business	
		Million NIS	%	Million NIS	%
Basic result		1,226.5		104.2	
0.5% reduction in risk-free interest	2.8.7	83.1	6.77%	6.6	6.35%
10% increase in administration and general expenses		-32.6	-2.66%	-6.7	-6.47%
10% increase in cancellation rate		-54.6	-4.45%	-15.4	-14.82%
10% increase in mortality rate	2.8.4	-28.5	-2.33%	-7.2	-7.34%
10% increase in morbidity rate	2.8.6	-53.8	-4.39%	-10.4	-10.03%

Michal Burger F.IL.A.A
Life Insurance Appointed Actuary

Avital Yael Koler F.IL.A.A
Health Insurance Appointed Actuary