

AIG ISRAEL INSURANCE CO. LTD.

FINANCIAL INFORMATION FOR INTERIM PERIOD
(Unaudited)

JUNE 30, 2013

AIG ISRAEL INSURANCE CO. LTD.

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

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

Introduction

We have reviewed the attached financial information of AIG Israel Insurance Co. Ltd ("the Company"), which information is comprised of the condensed statement of financial position As of June 30, 2013 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
August 20, 2013

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

AIG ISRAEL INSURANCE CO. LTD.

CONDENSED STATEMENT OF FINANCIAL POSITION

AS OF JUNE 30, 2013

	June 30		December 31,
	2013	2012	2012
	(Unaudited)		(Audited)
	NIS in thousands		
A s s e t s			
INTANGIBLE ASSETS	13,786	10,840	15,732
DEFERRED ACQUISITION EXPENSES	136,573	125,314	130,191
FIXED ASSETS	16,645	17,158	16,885
REINSURANCE ASSETS	657,880	571,310	585,532
PREMIUMS COLLECTIBLE	180,257	171,733	174,155
OTHER RECEIVABLES	36,990	31,904	33,668
	<u>1,042,131</u>	<u>928,259</u>	<u>956,163</u>
FINANCIAL INVESTMENTS:			
Marketable debt instruments	1,141,868	981,258	1,099,646
Non-marketable debt instruments	106,763	57,015	77,925
Marketable shares	70,258	58,197	68,284
Index linked certificates	80,988	111,809	93,487
Total financial investments	<u>1,399,877</u>	<u>1,208,279</u>	<u>1,339,342</u>
CASH AND CASH EQUIVALENTS	52,013	98,499	93,540
TOTAL ASSETS	<u>2,494,021</u>	<u>2,235,037</u>	<u>2,389,045</u>

Ralph Mucerino
Director

Shay Feldman
C.E.O

David Rothstein
C.F.O

Date of approval of financial information for interim period by Board of Directors of Company:
August 20, 2013

AIG ISRAEL INSURANCE CO. LTD.

CONDENSED STATEMENT OF FINANCIAL POSITION

AS OF JUNE 30, 2013

	June 30		December 31,
	2013	2012	2012
	(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	346,920	233,944	315,413
TOTAL EQUITY ATTRIBUTABLE TO COMPANY SHAREHOLDERS	608,611	495,635	577,104
LIABILITIES:			
Liabilities in respect of insurance contracts and without-profits investment contracts	1,526,841	1,393,749	1,409,340
Liabilities in respect of deferred taxes, net	9,827	6,925	8,877
Liabilities with respect to employee rights upon retirement, net	2,425	1,642	2,326
Liabilities towards reinsurers	251,333	241,216	254,484
Liability with respect to current taxes	26,586	24,942	48,549
Payables	68,398	70,928	88,365
TOTAL LIABILITIES	1,885,410	1,739,402	1,811,941
TOTAL EQUITY AND LIABILITIES	2,494,021	2,235,037	2,389,045

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

AIG ISRAEL INSURANCE CO. LTD.

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE SIX AND THREE MONTHS ENDED JUNE 30, 2013

	Six months ended June 30		Three months ended June 30		Year ended December 31,
	2013	2012	2013	2012	2012
	(Unaudited)				(Audited)
	NIS in thousands				
Gross earned premiums	432,258	400,907	218,590	202,203	827,158
Premiums earned by reinsurers	(88,768)	(89,766)	(44,127)	(44,046)	(185,701)
Premiums earned on non-ceded business	343,490	311,141	174,463	158,157	641,457
Investment income, net	29,218	*27,043	16,448	*5,555	97,239
Commission income	22,588	24,584	10,377	10,958	47,628
TOTAL INCOME	395,296	362,768	201,288	174,670	786,324
Payments and movement in liabilities					
with respect to insurance contracts, gross	(317,872)	(173,096)	(167,570)	(110,907)	(403,690)
Share of reinsurers in increase of insurance liabilities					
And payments with respect to insurance contracts	122,587	71,777	66,605	24,729	152,790
Payments and movement in liabilities with respect to insurance contracts, retained amount	(195,285)	** (101,319)	(100,965)	(86,178)	** (250,900)
Commission, marketing expenses and other acquisition expenses	(71,156)	(76,416)	(35,954)	(39,681)	(147,372)
General and administrative expenses	(77,786)	(69,041)	(40,083)	(34,309)	(142,078)
Financing expenses, net	(1,346)	*695	177	*1,322	(2,206)
TOTAL EXPENSES	(345,573)	(246,081)	(176,825)	(158,846)	(542,556)
PROFIT BEFORE TAXES ON INCOME	49,723	116,687	24,463	15,824	243,768
Taxes on income	(18,216)	(40,819)	(9,030)	(5,769)	(86,431)
PROFIT FOR PERIOD AND TOTAL COMPREHENSIVE INCOME FOR PERIOD	31,507	75,868	15,433	10,055	157,337
BASIC EARNINGS PER SHARE	5.60	13.48	2.74	1.79	27.95
Number of shares used in computation of basic earnings per share	5,630	5,630	5,630	5,630	5,630

* As to change to "accrual" period in respect of the compulsory motor vehicle business, see note 3b.

** Reclassified.

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

AIG ISRAEL INSURANCE CO. LTD.
CONDENSED STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX MONTHS AND THREE MONTHS ENDED JUNE 30, 2013

	Share capital	Share Premium	Other capital reserves	Retained earnings	Total
	NIS in thousands				
BALANCE AS OF JANUARY 1, 2013 (audited)	6	250,601	11,084	315,413	577,104
CHANGES DURING THE SIX MONTHS ENDED JUNE 30, 2013 (unaudited) -					
total net income and comprehensive income for six months ended June 30, 2013				31,507	31,507
BALANCE AS OF JUNE 30, 2013 (unaudited)	<u>6</u>	<u>250,601</u>	<u>11,084</u>	<u>346,920</u>	<u>608,611</u>
BALANCE AS OF JANUARY 1, 2012 (audited)	6	250,601	11,084	158,076	419,767
CHANGES DURING THE SIX MONTHS ENDED JUNE 30, 2012 (unaudited) -					
total net income and comprehensive income for six months ended June 30, 2012				75,868	75,868
BALANCE AS OF JUNE 30, 2012 (unaudited)	<u>6</u>	<u>250,601</u>	<u>11,084</u>	<u>233,944</u>	<u>495,635</u>
BALANCE AS OF APRIL 1, 2013 (unaudited)	6	250,601	11,084	331,487	593,178
CHANGES DURING THE THREE MONTHS ENDED JUNE 30, 2013 (unaudited) -					
total net income and comprehensive income for three months ended June 30, 2013				15,433	15,433
BALANCE AS OF JUNE 30, 2013 (unaudited)	<u>6</u>	<u>250,601</u>	<u>11,084</u>	<u>346,920</u>	<u>608,611</u>
BALANCE AS OF APRIL 1, 2012 (unaudited)	6	250,601	11,084	223,889	485,580
CHANGES DURING THE THREE MONTHS ENDED JUNE 30, 2012 (unaudited) -					
total net income and comprehensive income for three months ended June 30, 2012				10,055	10,055
BALANCE AS OF JUNE 30, 2012 (unaudited)	<u>6</u>	<u>250,601</u>	<u>11,084</u>	<u>233,944</u>	<u>495,635</u>
BALANCE AS OF JANUARY 1, 2012 (audited)	6	250,601	11,084	158,076	419,767
CHANGES DURING THE YEAR 2012 (audited)					
total net income and comprehensive income for year ended December 31, 2012				157,337	157,337
BALANCE AS OF DECEMBER 31, 2012 (audited)	<u>6</u>	<u>250,601</u>	<u>11,084</u>	<u>315,413</u>	<u>577,104</u>

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

AIG ISRAEL INSURANCE CO. LTD.

CONDENSED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS AND THREE MONTHS ENDED JUNE 30, 2013

	Six months ended June 30		Three months ended June 30		Year ended December 31, 2012
	2013	2012	2013	2012	(Audited)
	(Unaudited)				
	NIS in thousands				
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net cash used in operating activities (Appendix A)	(23,034)	(20,554)	(15,276)	17,299	(15,557)
Interest received	24,001	23,246	11,899	9,716	40,660
Dividend received	1,168	2,000	973	1,081	3,680
Income taxes received (paid)	(40,231)	(5,239)	(38,501)	(7,553)	(25,021)
Net cash provided by (used in) operating activities	(38,096)	(547)	(40,905)	20,543	3,762
CASH FLOWS FROM INVESTING ACTIVITIES:					
Changes in asset cover for equity and non-insurance liabilities:					
Acquisition of fixed assets	(2,413)	(778)	(205)	(539)	(2,916)
Acquisition of Intangible assets	(1,064)	(3,426)	(485)	(1,782)	(11,202)
Net cash used in investing activities	(3,477)	(4,204)	(690)	(2,321)	(14,118)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(41,573)	(4,751)	(41,595)	18,222	(10,356)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	93,540	103,562	93,954	80,861	103,562
INFLUENCE OF FLUCTIONS IN EXCHANGE RATE ON CASH AND CASH EQUIVALENTS	46	(312)	(346)	(584)	334
CASH AND CASH QUIVALENTS AT END OF PERIOD	<u>52,013</u>	<u>98,499</u>	<u>52,013</u>	<u>98,499</u>	<u>93,540</u>

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

AIG ISRAEL INSURANCE CO. LTD.

CONDENSED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS AND THREE MONTHS ENDED JUNE 30, 2013

	Six months ended June 30		Three months ended June 30		Year ended December 31,
	2013	2012	2013	2012	2012
	(Unaudited)				(Audited)
	NIS in thousands				
APPENDIX A - CASH FLOWS FROM OPERATING ACTIVITIES -					
Profit before taxes on income	49,723	116,687	24,463	15,824	243,768
Adjustments for- Income and expenses not involving cash flows:					
Increase in insurance contracts not depending on yield	45,154	(37,056)	7,537	11,808	(35,688)
Increase in deferred acquisition expenses	(6,382)	(6,656)	891	1,167	(11,533)
Increase (decrease) in liabilities with respect to employee rights upon retirement, net	99	(405)	(112)	(302)	279
Depreciation of fixed assets	2,653	2,363	1,393	1,176	4,775
Depreciation of intangible asset	3,010	2,569	1,507	1,454	5,453
Losses (gains), net on realization of financial investments:					
Marketable debt instruments	3,051	(5,573)	(3,253)	(2,639)	(40,324)
Non-marketable debt instruments	(469)	(1,016)	(515)	(787)	(1,072)
Marketable shares	(2,248)	6,708	1,646	7,683	(2,823)
Index linked certificates	(4,931)	(1,812)	(1,813)	1,221	(9,341)
Influence of fluctuation in exchange rate on cash and cash equivalents	(46)	312	346	584	(334)
	<u>89,614</u>	<u>76,121</u>	<u>32,090</u>	<u>37,189</u>	<u>153,160</u>
Changes in operating assets and liabilities:					
Liabilities towards reinsurers	(3,151)	29,806	(18,286)	11,942	43,074
Investments in financial assets, net	(55,937)	(80,925)	(23,661)	(25,666)	(160,121)
Premiums collectible	(6,102)	(15,520)	9,373	2,669	(17,942)
Receivables	(3,322)	(1,048)	(1,464)	(1,251)	(2,813)
Payables	(19,967)	(3,742)	(956)	3,213	13,425
Liability with respect to current taxes	1,000	-	500	-	-
	<u>(87,479)</u>	<u>(71,429)</u>	<u>(34,494)</u>	<u>(9,093)</u>	<u>(124,377)</u>
Adjustments with respect to interest and dividend received:					
Interest received	(24,001)	(23,246)	(11,899)	(9,716)	(40,660)
Dividend received	(1,168)	(2,000)	(973)	(1,081)	(3,680)
Net cash (used in) operating activities	<u>(23,034)</u>	<u>(20,554)</u>	<u>(15,276)</u>	<u>17,299</u>	<u>(15,557)</u>

Cash flows from operating activities include net acquisitions and disposals of pension investments arising from insurance contract activity.

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

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

NOTE 1 - GENERAL

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 single shareholder in the Company is the global AIG corporation - American International Group Inc. (hereinafter: global AIG corporation or AIG), holding all of the Company's ordinary shares voting shares.

On May 13, 2013 Aurec Gold Investments Ltd. (hereafter- Aurec) transferred all its holdings in Company's shares to global AIG Corporation. This transfer has taken place further to a share purchase agreement that was signed between the parties in January 2013. Through the date of transfer as above, the global AIG Corporation held 50% of the ordinary shares of the Company and 51% of the voting shares of the company and Aurec Gold Investments Ltd. held 50% of the ordinary shares of the Company and 49% of the voting shares of the Company.

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

DEFINITIONS:

- 1) Supervisor- supervisor of insurance (Commissioner of the Capital Market, Insurance and Savings at the Israel Ministry of Finance).
- 2) CPI - The consumer price index published by the Israeli Central Bureau of Statistics.
- 3) Known CPI - The CPI known at the end of the month.
- 4) Related parties - as defined in IAS 24 "Related Party Disclosures".
- 5) Life insurance fund - Actuarial fund calculated in accordance with the principles generally accepted for this purpose in Israel.
- 6) Unexpired risks fund - Funds calculated in accordance with the Regulations for Calculation of General Insurance Funds.
- 7) Accrual* - The accumulated surplus of income over expenses (comprising premiums, acquisition costs, claims and part of the income from investments, all net of the reinsurers' share for the relevant underwriting year), as calculated in accordance with the Regulations for Calculation of General Insurance Funds, less a provision for unexpired risks and less outstanding claims.

As to change of accrual period - see note 3.

- 8) 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).

* The balance sheet includes the accrual under the "liabilities in respect of non-yield dependent insurance contract and investments".

AIG ISRAEL INSURANCE CO. LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

NOTE 1 - GENERAL (continued):

- 9) Details of account regulations- Supervision of Insurance Businesses (Details of account) Regulations, 1998.
- 10) Investment Method Regulations - The Supervision of Insurance Business Regulations (Investment Methods in Capital, Reserves and Liabilities of the Insurer), 2001 and amendments as amended.
- 11) Shareholders' Capital Regulations - The Supervision of Insurance Business Regulations (minimum shareholders' equity required from an insurer), 1998 and amendments as amended.
- 12) Account Segregation Regulations in Life Insurance - The Supervision of Insurance Regulations (Method of Segregation of Accounts and Assets of Insurer in Life Insurance), 1984.
- 13) 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.
- 14) 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.
- 15) 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.
- 16) Liability for insurance contracts - Insurance reserves and outstanding claims in general insurance.
- 17) Premium - Premium including fees.
- 18) The expression, 'premiums earned,' refers to premiums that relate to the period under review.

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS:

- a. The condensed financial information of the Company as of June 30 and for the 6- and 3-month period then ended (hereinafter - "the interim financial information") was prepared in accordance with IAS 34 "Interim Financial Reporting", and it complies with disclosure guidance in the Financial Services Supervision Law (Insurance), 1981 ("the Supervision Law") and the regulations enacted thereafter. Note that the interim financial information has to be read together with the Company's annual financial statements as of December 31, 2012 and the year then ended and the accompanying notes, which have been prepared in accordance with International Financial Reporting Standards (IFRS).

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

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

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

- 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, 2012.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES:

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

- 1) Taxes on income for the reported interim period are accounted for on the basis on management's best estimate of the average tax rate applicable to the projected annual profits.
- 2) New accounting standards applied for the first time:
 - a.** New IFRS and amendments to existing standards that came into effect and are mandatory for reporting periods commencing on January 1, 2013

IAS 19 – "Employee Benefits" (Revised 2011)

The amendment to IAS 19 makes changes to the recognition and measurement of defined benefit plans and termination benefit and to the disclosures for all employee benefits discussed in IAS 19. Set forth below is a summary of the key changes:

- Actuarial gains and losses are renamed "Remeasurements of the net defined benefit liability (asset)" (hereinafter - remeasurements), which includes in addition to actuarial gains and losses certain elements as defined in IAS 19 Amendment. Remeasurements are recognized immediately in other comprehensive income. This eliminates the option to recognize actuarial gains or losses through profit or loss and the option to use the "corridor" approach.
- Past service costs will be recognized immediately in the period of a plan amendment; unvested benefits will no longer be spread over a future service period.

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

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (Continued):

- Annual expense for a funded benefit plan will include net interest expense or income, calculated by applying the discount rate to the net defined benefit asset or liability. This will replace the "finance charge" and "expected return on plan assets" currently applied under IAS 19.
- The distinction between short term and long term benefits for measurement purposes shall be based on when payment is expected, not when payment can be demanded.
- Any benefit that has a future service obligation is not a termination benefit. A liability for a termination benefit is recognized when the entity can no longer withdraw the offer of the termination benefit or recognizes any related restructuring costs.
- There are additional disclosure requirements compared with IAS 19 in its present version.

The Company applied IAS 19 (Revised) for the first time commencing January 1, 2013, the standard is applied retrospectively to all reported periods.

Until the first time application of IAS 19 (Revised), the Company's accounting policy was to credit or charge to the statement of income in the period in which they arose, those actuarial gains or losses which stem from changes to actuarial valuations and from the difference between previous assumptions and actual results.

Upon the first time application of IAS 19 (Revised), "remeasurements" as computed under the new provisions, are charged to other comprehensive income.

The first-time application of the standard had no impact on the three months ended June 30, 2013. In connection with comparative information, there is no impact on the financial information.

As specified in the annual 2012 financial statements of the Company, additional amendments to IFRS came into effect and are mandatory for reporting periods starting on January 1, 2013; however, the first time application of those amendments does not have a material effect on the interim financial information of the Company (including comparative figures).

b. IAS 1 (Amendment) "Financial Statements Presentation"

1. IAS 1 Amendment changes the disclosure of items presented in other comprehensive income (OCI) in the statement of comprehensive income. Key points in IAS 1 Amendment are:

- Items presented in OCI should be separated into two groups, based on whether or not they may be recycled to profit or loss in the future. Accordingly, items that will not be recycled will be presented separately from items that may be recycled in the future.

AIG ISRAEL INSURANCE CO. LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (Continued):

Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately.

- The title used by IAS 1 for the statement of comprehensive income has changed to "statement of profit or loss and other comprehensive income". However IAS 1 still permits entities to use other titles.

The Company adopted IAS 1 for annual period beginning on January 1, 2013, retrospectively to all reported periods.

As all OCS items of the Company may be recycled in the future to profit or loss, the first-time adoption of IAS 1 Amendment had no material impact on the consolidated financial statements.

- c. As detailed in the 2012 annual financial statements of the Company, additional amendment to IFRSs are issued, became effective and are mandatory for accounting periods beginning on January 1, 2013, but their first-time adoption has no material impact on the interim financial information of the Company (including comparative information).

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

In its annual 2012 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.

- b. According to an approval by the Supervisor, the company has maintain prior to 2012 in the compulsory vehicle business an accrual of five years compared to three years, as is the practice in the industry. Beginning in 2012, the company maintains a three-year accrual, according to practice in the industry. For three-month period ended June 30, 2012 and the year ended December 31, 2012, this change has resulted in a decrease in the payments item and the liabilities in respect of insurance contracts (gross); this change has also resulted in a NIS 79.3 million increase in income before taxes on income and a NIS 51.3 increase in total comprehensive income and net income for the period.

NOTE 4 - SEGMENT INFORMATION

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

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

a. Life assurance sector

The life assurance sector provides cover for life assurance risk only.

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

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (Continued):

b. 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.

c. 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.

d. 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.

e. 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.

f. 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.

g. 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.

h. 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.

i. Other liability lines

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

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

NOTE 4 - SEGMENT INFORMATION (continued):

	For the 6-month period ended June 30, 2013 (unaudited)				
	Life assurance	Health insurance	General insurance	Not apportionable to operating segments	Total
	NIS in thousands				
Gross earned premiums	49,365	99,119	283,774		432,258
Premiums earned by reinsurers	(10,831)	(7,065)	(70,872)		(88,768)
Premiums earned by non-ceded business	38,534	92,054	212,902		343,490
Investment income, net	61	2,514	15,052	11,591	29,218
Commission income	1,642	2,196	18,750		22,588
Total income	40,237	96,764	246,704	11,591	395,296
Change in insurance liabilities and payments with respect to insurance contracts (gross)	(16,232)	(40,722)	(260,918)		(317,872)
Share of reinsurers in increase of insurance liabilities and payments with respect to insurance contracts	4,361	4,589	113,637		122,587
Payments and Change in insurance liabilities with respect to insurance contracts relating to non-ceded business	(11,871)	(36,133)	(147,281)		(195,285)
Commission and other acquisition expenses	(11,070)	(19,227)	(40,859)		(71,156)
General and administrative expenses	(15,173)	(20,884)	(41,729)		(77,786)
Financing expenses, net	-	(66)	(1,337)	57	(1,346)
Profit before taxes on income	2,123	20,454	15,498	11,648	49,723
Gross liabilities with respect to insurance contracts as of June 30, 2013	23,501	127,300	1,376,040		1,526,841

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

NOTE 4 - SEGMENT INFORMATION (continued):

	For the 6-month period ended June 30, 2012 (unaudited)				Total
	Life assurance	Health insurance	General insurance	Not apportionable to operating segments	
Gross earned premiums	42,765	96,134	262,008		400,907
Premiums earned by reinsurers	(10,121)	(11,641)	(68,004)		(89,766)
Premiums earned by non-ceded business	32,644	84,493	194,004		311,141
Investment income (loss), net	(587)	*3,437	*21,804	*2,389	*27,043
Commission income	1,963	3,774	18,847		24,584
Total income	34,020	91,704	234,655	2,389	362,768
Change in insurance liabilities and payments with respect to insurance contracts (gross)	(19,322)	(45,076)	(108,698)		(173,096)
Share of reinsurers in increase of insurance liabilities and payments with respect to insurance contracts	6,428	2,935	62,414		71,777
Payments and Change in insurance liabilities with respect to insurance contracts relating to non-ceded business.	(12,894)	(42,141)	**(46,284)		(101,319)
Commission and other acquisition expenses	(11,138)	(23,575)	(41,703)		(76,416)
General and administrative expenses	(13,361)	(16,468)	(39,212)		(69,041)
Financing income (expenses), net	-	*(88)	*(1,641)	*2,424	*695
Profit (Loss) before taxes on income	(3,373)	9,432	105,815	4,813	116,687
Gross liabilities with respect to insurance contracts as Of June 30,2012	29,402	128,407	1,235,940		1,393,749

*Reclassified

** As to change to accrual period in respect of the compulsory motor vehicle business, see note 3b.

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

NOTE 4 - SEGMENT INFORMATION (continued):

	For the 3-month period ended June 30, 2013 (unaudited)				Total
	Life assurance	Health insurance	General insurance	Not apportionable to operating segments	
Gross earned premiums	25,087	50,058	143,445		218,590
Premiums earned by reinsurers	(5,427)	(3,436)	(35,264)		(44,127)
Premiums earned by non-ceded business	19,660	46,622	108,181		174,463
Investment income (loss), net	32	1,609	9,210	5,597	16,448
Commission income	809	1,068	8,500		10,377
Total income	20,501	49,299	125,891	5,597	201,288
Change in insurance liabilities and payments with respect to insurance contracts (gross)	(8,700)	(22,470)	(136,400)		(167,570)
Share of reinsurers in increase of insurance liabilities and payments with respect to insurance contracts	1,782	2,844	62,414		66,605
Payments and Change in insurance liabilities with respect to insurance contracts relating to non-ceded business.	(6,918)	(19,626)	(74,421)		(100,965)
Commission and other acquisition expenses	(5,708)	(9,676)	(20,570)		(35,954)
General and administrative expenses	(8,990)	(10,854)	(20,239)		(40,083)
Financing income (expenses), net	-	(29)	(632)	838	177
Profit (Loss) before taxes on income	(1,115)	9,114	10,029	6,435	24,463

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

NOTE 4 - SEGMENT INFORMATION (continued):

	For the 3-month period ended June 30, 2012 (unaudited)				
	Life assurance	Health insurance	General insurance	Not apportionable to operating segments	Total
Gross earned premiums	21,764	48,040	132,399		202,203
Premiums earned by reinsurers	(5,127)	(5,840)	(33,079)		(44,046)
Premiums earned by non-ceded business	16,637	42,200	99,320		158,157
Investment income (loss), net	(334)	*1,671	*9,940	*(5,722)	*5,555
Commission income	1,019	1,892	8,047		10,958
Total income	17,322	45,763	117,307	(5,722)	174,670
Change in insurance liabilities and payments with respect to insurance contracts (gross)	(11,143)	(18,119)	(81,645)		(110,907)
Share of reinsurers in increase of insurance liabilities and payments with respect to insurance contracts	3,997	1,762	18,970		24,729
Payments and Change in insurance liabilities with respect to insurance contracts relating to non-ceded business.	(7,146)	(16,357)	**(62,675)		(86,178)
Commission and other acquisition expenses	(6,804)	(10,618)	(22,259)		(39,681)
General and administrative expenses	(6,587)	(8,659)	(19,063)		(34,309)
Financing income (expenses), net	-	*(43)	*(890)	*2,255	*1,322
Profit (Loss) before taxes on income	(3,215)	10,086	12,420	(3,467)	15,824

*Reclassified

** As to change to accrual period in respect of the compulsory motor vehicle business, see note 3b.

AIG ISRAEL INSURANCE CO. LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 4 - SEGMENT INFORMATION (continued):

	For year ended December 31, 2012 (audited)				
	Life assurance	Health insurance	General insurance	Not Apportion able to operating segments	Total
	NIS in thousands				
Gross earned premiums	89,467	198,231	539,460		827,158
Premiums earned by reinsurers	(21,017)	(21,696)	(142,988)		(185,701)
Premiums earned by non-ceded business	68,450	176,535	396,472		641,457
Investment income, net	165	9,806	54,425	32,843	97,239
Commission income	3,366	6,996	37,266		47,628
Total income	71,981	193,337	488,163	32,843	786,324
Change in insurance liabilities and payments with respect to insurance contracts (gross)	(30,624)	(79,215)	(293,851)		(403,690)
Share of reinsurers in increase of insurance liabilities and payments with respect to insurance contracts	10,107	6,946	135,737		152,790
Payments and Change in insurance liabilities with respect to insurance contracts relating to non-ceded business.	(20,517)	(72,269)	* (158,114)		(250,900)
Commission and other acquisition expenses	(20,760)	(48,638)	(77,974)		(147,372)
General and administrative expenses	(26,780)	(32,216)	(83,082)		(142,078)
Financing income (expenses), net	-	(187)	(3,255)	1,236	(2,206)
Profit before taxes on income	3,924	40,027	165,738	34,079	243,768
Gross liabilities with respect to insurance contracts as of December 31, 2012	25,433	126,525	1,257,382		1,409,340

* As to change to accrual period in respect of the compulsory motor vehicle business, see note 3b.

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

NOTE 4 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment:

	For the 6 month period ended June 30, 2013 (unaudited)						
	Compulsory motor vehicle	Motor vehicle property	Personal property	Professional liability	Other property branches (*)	Other liability branches (*)	Total
	NIS in thousands						
Gross premiums	68,496	116,620	50,392	21,855	22,856	20,270	300,489
Reinsurance premiums	(967)	(55)	(9,468)	(18,354)	(21,857)	(17,267)	(67,968)
Premiums relating to non-ceded business	67,529	116,565	40,924	3,501	999	3,003	232,521
Change in balance of unearned premiums relating to non-ceded business	(7,638)	(11,922)	(1,098)	124	(71)	986	(19,619)
Premiums earned on non-ceded business	59,891	104,643	39,826	3,625	928	3,989	212,902
Investment income, net	7,030	2,041	1,436	1,786	380	2,379	15,052
Commission income	-	-	1,874	5,273	5,696	5,907	18,750
Total income	66,921	106,684	43,136	10,684	7,004	12,275	246,704
Increase in insurance liabilities and payments with respect to insurance contracts	(58,405)	(74,710)	(19,316)	(39,933)	(43,530)	(28,624)	(260,918)
Share of reinsurers in increase of insurance liabilities and payments with respect to insurance contracts	13,318	-	1,733	34,077	41,884	22,625	113,637
Increase in insurance liabilities and payments with respect to insurance contracts relating to non-ceded business	(41,487)	(74,710)	(17,583)	(5,856)	(1,646)	(5,999)	(147,281)
Commission, marketing expenses and other acquisition expenses	(6,781)	(11,908)	(7,257)	(5,759)	(3,917)	(5,237)	(40,859)
General and administrative expenses	(9,501)	(12,082)	(12,493)	(3,813)	(1,932)	(1,908)	(41,729)
Financing expenses, net	-	-	(34)	(472)	(127)	(704)	(1,337)
Total expenses	(57,769)	(98,700)	(37,367)	(15,900)	(7,622)	(13,848)	(231,206)
Profit (loss) before taxes on income	9,152	7,984	5,769	(5,216)	(618)	(1,573)	15,498
Gross liabilities with respect to insurance contracts as of June 30, 2013	605,587	141,644	55,167	218,093	84,786	270,763	1,376,040

* The results of other property branches reflect mainly the results of the property insurance branch the operations of which attract 85% of the total premiums attributable to these branches.

The results of other liability branches reflect mainly the results of the third party warranty insurance branch, the operations of which attract 39% of the total premiums attributable to these branches.

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

NOTE 4 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment:

	For the 6 month period ended June 30, 2012 (unaudited)						
	Compulsory motor vehicle	Motor vehicle property	Personal Property	Professional liability	Other property branches (**)	Other liability branches (**)	Total
	NIS in thousands						
Gross premiums	56,468	101,362	47,653	23,860	25,478	20,346	275,167
Reinsurance premiums	(797)	(57)	(7,231)	(19,978)	(24,553)	(17,526)	(69,962)
Premiums relating to non-ceded business	55,671	101,305	40,422	4,062	925	2,820	205,205
Change in balance of unearned premiums relating to non-ceded business	(2,994)	(6,536)	(2,482)	118	12	681	(11,201)
Premiums earned on non-ceded business	52,677	94,769	37,940	4,180	937	3,501	194,004
Investment income, net	11,649	2,649	*1,788	*2,407	*553	*2,758	*21,804
Commission income	-	-	1,536	5,405	6,138	5,768	18,847
Total income	64,326	97,418	41,264	11,992	7,628	12,027	234,655
Increase in insurance liabilities and payments with respect to insurance contracts	36,946	(64,637)	(12,429)	(13,624)	(11,897)	(43,057)	(108,698)
Share of reinsurers in increase in insurance liabilities and payments with respect to insurance contracts	5,262	-	943	9,419	10,873	35,917	62,414
Increase in insurance liabilities and payments with respect to insurance contracts relating to non-ceded business	***42,208	(64,637)	(11,486)	(4,205)	(1,024)	(7,140)	(46,284)
Commission, marketing expenses and other acquisition expenses	(6,730)	(12,272)	(6,293)	(6,259)	(5,033)	(5,116)	(41,703)
General and administrative expenses	(9,798)	(11,646)	(11,507)	(3,219)	(1,395)	(1,647)	(39,212)
Financing expenses, net	-	-	*(44)	*(592)	*(169)	*(836)	*(1,641)
Total expenses	25,680	(88,555)	(29,330)	(14,275)	(7,621)	(14,739)	(128,840)
Profit (loss) before taxes on income	90,006	8,863	11,934	(2,283)	7	(2,712)	105,815
Gross liabilities with respect to insurance contracts as of June 30,2012	571,218	125,814	53,107	185,335	57,158	243,308	1,235,940

* Reclassified

** The results of other property branches reflect mainly the results of the property insurance branch the operations of which attract 64% of the total premiums attributable to these branches.

The results of other liability branches reflect mainly the results of the third party warranty insurance branch, the operations of which attract 40% of the total premiums attributable to these branches.

*** As to change to accrual period in respect of the compulsory motor vehicle business, see note 3b.

AIG ISRAEL INSURANCE CO. LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 4 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment:

For the 3 month period ended June 30, 2013 (unaudited)

	Compulsory motor vehicle	Motor vehicle property	Personal Property	Professional liability	Other property branches (*)	Other liability branches (*)	Total
	NIS in thousands						
Gross premiums	31,664	54,914	22,841	8,610	8,210	8,892	135,131
Reinsurance premiums	(444)	(27)	(5,162)	(7,187)	(7,863)	(7,514)	(28,197)
Premiums relating to non-ceded business	31,220	54,887	17,679	1,423	347	1,378	106,934
Change in balance of unearned premiums relating to non-ceded business	(365)	(1,306)	1,850	399	113	556	1,247
Premiums earned on non-ceded business	30,855	53,581	19,529	1,822	460	1,934	108,181
Investment income, net	4,308	1,290	819	1,094	236	1,463	9,210
Commission income	-	-	627	2,378	2,559	2,936	8,500
Total income	35,163	54,871	20,975	5,294	3,255	6,333	125,891
Increase in insurance liabilities and payments with respect to insurance contracts	(23,843)	(36,039)	(7,717)	(32,406)	(24,133)	(12,262)	(136,400)
Share of reinsurers in increase in insurance liabilities and payments with respect to insurance contracts	1,852	-	358	28,211	23,215	8,343	61,979
Increase in insurance liabilities and payments with respect to insurance contracts relating to non-ceded business	(21,991)	(36,039)	(7,359)	(4,195)	(918)	(3,919)	(74,421)
Commission, marketing expenses and other acquisition expenses	(3,279)	(6,138)	(3,666)	(2,879)	(2,007)	(2,601)	(20,570)
General and administrative expenses	(4,537)	(5,629)	(6,131)	(1,962)	(997)	(983)	(20,239)
Financing expenses, net	-	-	(16)	(222)	(60)	(334)	(632)
Total expenses	(29,807)	(47,806)	(17,172)	(9,258)	(3,982)	(7,837)	(115,862)
Profit (loss) before taxes on income	5,356	7,065	3,803	(3,964)	(727)	(1,504)	10,029

* The results of other property branches reflect mainly the results of the property insurance branch the operations of which attract 79% of the total premiums attributable to these branches.

The results of other liability branches reflect mainly the results of the third party warranty insurance branch, the operations of which attract 37% of the total premiums attributable to these branches.

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

NOTE 4 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment:

	For the 3 month period ended June 30, 2012 (unaudited)						
	Compulsory motor vehicle	Motor vehicle property	Personal Property	Professional liability	Other property branches (*)	Other liability branches (*)	Total
	NIS in thousands						
Gross premiums	26,199	48,222	21,720	10,235	6,949	7,782	121,107
Reinsurance premiums	(370)	(29)	(3,461)	(8,499)	(6,756)	(6,725)	(25,840)
Premiums relating to non-ceded business	25,829	48,193	18,259	1,736	193	1,057	95,267
Change in balance of unearned premiums relating to non-ceded business	1,285	721	870	460	97	620	4,053
Premiums earned on non-ceded business	27,114	48,914	19,129	2,196	290	1,677	99,320
Investment income, net	5,117	1,273	*874	*1,075	*317	1,284	*9,940
Commission income	-	-	625	2,415	2,421	2,586	8,047
Total income	32,231	50,187	20,628	5,686	3,028	5,547	117,307
Increase in insurance liabilities and payments with respect to insurance contracts	(21,060)	(31,084)	(5,957)	(6,131)	3,825	(21,238)	(81,645)
Share of reinsurers in increase in insurance liabilities and payments with respect to insurance contracts	864	-	480	3,902	(4,187)	17,911	18,970
Increase in insurance liabilities and payments with respect to insurance contracts relating to non-ceded business	*** (20,196)	(31,084)	(5,477)	(2,229)	(362)	(3,327)	(62,675)
Commission, marketing expenses and other acquisition expenses	(3,682)	(7,036)	(3,720)	(2,978)	(2,419)	(2,424)	(22,259)
General and administrative expenses	(4,755)	(5,522)	(5,666)	(1,581)	(1,059)	(480)	(19,063)
Financing expenses, net	-	-	*(21)	*(281)	*(153)	*(435)	*(890)
Total expenses	(28,633)	(43,642)	(14,884)	(7,069)	(3,993)	(6,666)	(104,887)
Profit (loss) before taxes on income	3,598	6,545	5,744	(1,383)	(965)	(1,119)	12,420

* Reclassified

** The results of other property branches reflect mainly the results of the property insurance branch the operations of which attract 64% of the total premiums attributable to these branches.

The results of other liability branches reflect mainly the results of the third party warranty insurance branch, the operations of which attract 40% of the total premiums attributable to these branches.

*** As to change to accrual period in respect of the compulsory motor vehicle business, see note 3.

AIG ISRAEL INSURANCE CO. LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

NOTE 4 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment

	For year ended December 31, 2012 (audited)						
	Compulsory motor vehicle	Motor vehicle property	Personal Property	Professional liability	Other property branches (*)	Other liability branches (*)	Total
	NIS in thousands						
Gross premiums	115,247	200,477	96,381	45,864	44,443	51,362	553,774
Reinsurance premiums	(1,616)	(115)	(15,683)	(38,227)	(42,987)	(43,348)	(141,976)
Premiums relating to non-ceded business	113,631	200,362	80,698	7,637	1,456	8,014	411,798
Change in balance of unearned premiums relating to non-ceded business	(5,992)	(6,736)	(3,273)	1,093	(24)	(394)	(15,326)
Premiums earned on non-ceded business	107,639	193,626	77,425	8,730	1,432	7,620	396,472
Investment income, net	28,410	7,291	4,864	5,812	1,277	6,771	54,425
Commission income	-	-	2,623	11,369	10,662	12,612	37,266
Total income	136,049	200,917	84,912	25,911	13,371	27,003	488,163
Payments and Change in insurance liabilities with respect to insurance contracts (gross)	(1,966)	(127,957)	(25,399)	(22,602)	(28,183)	(87,744)	(293,851)
Share of reinsurers in increase of insurance liabilities and payments with respect to insurance contracts	19,763	-	2,052	13,526	26,424	73,972	135,737
Payments and Change in insurance liabilities with respect to insurance contracts relating to non-ceded business	** 17,797	(127,957)	(23,347)	(9,076)	(1,759)	(13,772)	(158,114)
Commission, marketing expenses and other acquisition expenses	(11,868)	(23,894)	(11,112)	(12,899)	(8,241)	(9,960)	(77,974)
General and administrative expenses	(20,793)	(24,920)	(24,672)	(6,481)	(3,047)	(3,169)	(83,082)
Financing expenses, net	-	-	(84)	(1,169)	(288)	(1,714)	(3,255)
Total expenses	(14,864)	(176,771)	(59,215)	(29,625)	(13,335)	(28,615)	(322,425)
Profit (loss) before taxes on income	121,185	24,146	25,697	(3,714)	36	(1,612)	165,738
Gross liabilities with respect to insurance contracts as of December 31, 2012	578,753	126,232	53,900	185,635	57,578	255,284	1,257,382

* The results of other property branches reflect mainly the results of the property insurance branch the operations of which attract 86% of the total premiums attributable to these branches.

The results of other liability branches reflect mainly the results of the product warranty insurance branch, the operations of which attract 54% of the total premiums attributable to these branches.

** As to change to accrual period in respect of the compulsory motor vehicle business, see note 3.

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

NOTE 5 - SHAREHOLDERS' EQUITY AND CAPITAL REQUIREMENTS:

Management and capital requirements:

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

Company's existing capital with respect to the capital requirements

	June 30, 2013	June 30, 2012	December 31, 2012
	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Audited)</u>
The amount required under capital regulations and Supervisor guidelines (a)	467,719	418,733	436,785
Existing amount computed under capital regulations:			
Primary capital	608,611	495,635	577,104
Total existing capital existing computed under capital requirements	608,611	495,635	577,104
Surplus	<u>140,892</u>	<u>76,902</u>	<u>140,319</u>

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

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

	June 30, 2013	June 30, 2012	December 31, 2012
	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Audited)</u>
	<u>NIS in thousands</u>		
Operations related to general insurance	112,335	108,772	108,966
Exceptional life assurance risks	24,658	20,990	22,762
Deferred acquisition expenses in relation to life assurance	76,029	67,979	73,464
Investment assets and other assets	50,609	56,098	48,058
Catastrophe risk related to general insurance	176,242	139,830	158,058
Operating risks	27,846	25,064	25,477
T o t a l	<u>467,719</u>	<u>418,733</u>	<u>436,785</u>

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

NOTE 6 - TAXES ON INCOME

Income tax calculation in the reported period is based on the best estimation of the weighted average of expected tax rates for the full fiscal year. The expected average annual tax rate for the year ended December 31, 2013 is 36.22%. The increase in the average tax rate over the average rate for the Company in 2012 (35.53%) is mainly due to the increase in the profit tax rate on June 1, 2013 from 17% to 18%.

Also, on August 5, 2013, the Law for Change of National Priorities (Legislative Amendments for Achieving the Budgetary Goals for 2013-2014), 2013 (hereinafter - the Law) was published in Reshumot (the Israeli government official gazette), which enacts, among other things the increase of the corporate tax rate to 26.5% (instead of 25%) beginning in 2014 and thereafter.

NOTE 7 - CONTINGENT LIABILITIES - CLASS ACTIONS:

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

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

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

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

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

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

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

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

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

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

The Supreme Court shall hear the appeal on December 23, 2013.

The Company's legal counsels assess that it is more likely than not that the Court will reject the appeal.

- b.** A legal claim and an application to approve the claim as a class action were filed against the company and 6 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 response to a motion for class action certification on June 2, 2013, and on July 7, 2013 the plaintiff filed his response to defendant's response to motion to certificate.

On July 10, 2013, a pretrial hearing was held, where the court concluded that the Company and the other defendants may file a rejoinder on their behalf on the motion for class action certification through October 6, 2013. Further, the court decided that to the extent that the plaintiffs will be interested to file a motion for discovery of specific documents, they must do so within 30 days, a response as above will be filed within 14 days and a response thereto will be filed within 7 days, with court recess period counted. In addition, a deposition cross examination was scheduled for February 24, 2014 and March 6, 2014.

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

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

The legal counsel believes that it is more likely than not that the lawsuit will be rejected. The assessment is based on the fact that no legal obligation exists to classify a vehicle as it is classified in the vehicle licensing. In addition, each insurer has the freedom to compute premium as it sees fit.

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

According to the plaintiff – Ms. Ilanit Nadav – she was insured under a compulsory vehicle insurance policy with the Israel Motor Insurance Pool (hereafter – "the pool"). According to the policy issued to the plaintiff, the insurance period commences at the date of payment of premium but not before April 1, 2008. The plaintiff paid the premium on April 7, 2008 – a day after she was injured in a car accident. The plaintiff's insurance claim for indemnification for damage caused in the accident was rejected and it was determined that at the date on which the accident happened she did not have a valid insurance policy.

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

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

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

The Company filed its response to the motion to certify a class action on June 5, 2013 and the plaintiff is supposed to file his response to the response to motion to certify on August 15, 2013. A pretrial in this case is scheduled for September 29, 2013.

The legal counsel believes that it is more likely than not that the motion for certification of class action will be rejected.

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

- d. On June 9, 2013, Ms. Talya Cohen and Mr. Reuven Cohen (hereinafter - the plaintiffs) filed to the Tel Aviv Yaffo District Court a motion for certification of a NIS 165,075,000 class action against the Company.

The lawsuit deals with the argument of the plaintiffs that the Company violates the provisions of the Communications Law, 1982, including section 30A of that law that prohibits the distribution of advertisements, including through short text messages, other than in compliance with the explicit conditions as specified by the Communications law, and a violation of the Privacy Protection Law, 1981, and especially the provision on "direct mailing" as specified in the Privacy Protection Law.

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

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

The plaintiffs claim that text messages sent by the Company on the renewal of comprehensive vehicle insurance policy of the plaintiffs is a prohibited "advertisement" as defined by section 30A of the Communications Law. The plaintiffs further argue that the text messages sent by the Company are "direct mailing", and that such direct mailing was done in violation of the Privacy Protection Law.

The plaintiffs argue that sending text messages without consent and their attempts to remove themselves from the mailing list were unsuccessful, due to the requirement of the Company to make use of unreasonable identification in the circumstances of this matter for identifying the plaintiffs.

The plaintiffs claim that the underlying goal of sending the text messages was to pressure them to renew the insurance policy, without any true possibility for removal from text messaging list, but only through many conditions that compromise individual rights, freedom of selection and privacy.

The plaintiffs argue that the Supervisor of Insurance has prohibited a practice that was common in the past of automatically renewing vehicle insurance policies at the end of policy term, but the defendant nonetheless found a way around that to continue with this practice. The plaintiffs further argue that in any event, this case does not involve compulsory vehicle insurance, but comprehensive insurance only, which is voluntary.

The plaintiffs argue that the Company has violated the provisions of the Privacy Protection Law with regards to what is permitted and prohibited in managing databases for direct mailing services under sections 17D and 17F (a) of the Privacy Protection Law about the duty to indicate the source for collecting information for the database, and disclosing that a call is made through direct mailing and disclosing the database registration number. The plaintiffs further ask for compensation for violating section 30A(i) of the Communications Law, stating that such violation is a civil tort which is subject to the provisions of the Civil Wrongs Ordinance, as well as a general compensation for aggravation.

The plaintiffs refer to the provisions of the amended Class Action Law, 2006 which explicitly added section 30A of the Communications Law to the list of qualifying violations and the law's provisions allowing to pursue a class action.

The plaintiffs refer to section 20(c) of the Class Action Law, arguing that that section indicates that in cases where damage to each member of the class may not be quantified accurately, nor members can be identified, the legislature allows to compensate the public at large.

The plaintiffs argue that the Company has 74,663 property insurance clients, based on data by the Supervisor of Capital Markets, Insurance and Savings for 2011, which indicates that 2,333,247 vehicles are insured for property damages, and that the Company has a 3.2% market share. The plaintiffs then go on to assume that each member of the class was sent one to four violating advertisement by the Company, or two violating messages on average over the last five years. Therefore, and according to a compensation of NIS 1,000 per message, the plaintiffs estimated the damage of the class for this head of tort at NIS 746,630,000.

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

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

Alternatively, the plaintiffs ask that the lawsuit amount will be determined based on an opinion of a court-appointed expert. However, as the plaintiffs do not have the full and accurate data, they set the amount of damage for this head of tort at NIS 150,000,000 subject to preserving the right to revise this amount based on the full and appropriate amount received from the Company.

In addition, the plaintiffs argue that the damage caused to members of the class for lack of option for removal without pay is the cost of calls caused to the plaintiffs at an estimated NIS 75,000.

The plaintiffs further argue that class members need to be additionally compensated for non-monetary damages that were caused to them including, general damage, mental damage, a compromise of autonomy, damage to privacy, inconvenience, nuisance and failure to comply with the law regarding databases, which were quantified by the plaintiffs at NIS 15,000,000.

The plaintiffs request, among other things, the following reliefs:

- 1) Certify the claim as class action with estimated monetary and non-monetary damages of NIS 165,075,000.
- 2) An injunction against the defendant, prohibiting it from such unlawful conduct so as to refrain from sending violating messages and change the defective mechanism for removal and align it with provisions of the law.
- 3) Order the defendant to provide the plaintiffs and the class relevant data and summary reports on the scale of sending the violating advertisements or, alternatively, to appoint an expert on the behalf of the court.
- 4) To determine the fee of the attorneys representing the plaintiffs in the motion for class action certification.

The legal counsel is unable to assess at this stage the likelihood of that motion.

If the lawsuit is certified as a class action, it is not possible, in the opinion of the legal counsel at this preliminary stage to assess the likelihood of class action success and the financial charge on the Company if the class action is approved, that, among other things, because the scale and substance of discussing the matter of this case after class action certification will be affected by the decision of the court on the motion for class action certification, which usually refers to the causes of the certified and uncertified causes of the lawsuits, approved and unapproved reliefs etc.

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:	<u>Number of claims</u>	<u>The amount claimed NIS in thousands</u>
An amount relating to the company was specified	<u>4</u>	<u>717,812</u>

AIG ISRAEL INSURANCE CO. LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

APPENDIX - DETAILS OF ASSETS REPRESENTING FINANCIAL INVESTMENTS

Details of financial investments:

	As of June 30, 2013 (Unaudited)		
	Measured at fair value through profit or loss	Loans and receivables	Total
	NIS in thousands		
Marketable debt instruments	1,141,868	-	1,141,868
Non-marketable debt instruments	-	106,763	106,763
Marketable shares	70,258	-	70,258
Index linked certificates	80,988	-	80,988
Total	1,293,114	106,763	1,399,877

	As of June 30, 2012 (Unaudited)		
	Measured at fair value through profit or loss	Loans and receivables	Total
	NIS in thousands		
Marketable debt instruments	981,258	-	981,258
Non-marketable debt instruments	-	57,015	57,015
Marketable shares	58,197	-	58,197
Index linked certificates	111,809	-	111,809
Total	1,151,264	57,015	1,208,279

	As of December 31, 2012 (Audited)		
	Measured at fair value through profit or loss	Loans and receivables	Total
	NIS in thousands		
Marketable debt instruments	1,099,646	-	1,099,646
Non-marketable debt instruments	-	77,925	77,925
Marketable shares	68,284	-	68,284
Index linked certificates	93,487	-	93,487
Total	1,261,417	77,925	1,339,342

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

APPENDIX - DETAILS OF ASSETS REPRESENTING FINANCIAL INVESTMENTS (continued):

Details of financial investments (continued):

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

	As of June 30, 2013	
	(Unaudited)	
	Book	Reduced
	value	cost
	NIS in thousands	
Government debentures	822,964	810,238
Other marketable debt instruments:		
Other marketable debt instruments that are not convertible	318,780	311,304
Other marketable debt instruments that are convertible	124	121
Total marketable debt instruments	<u>1,141,868</u>	<u>1,121,663</u>

	As of June 30, 2012	
	(Unaudited)	
	Book	Reduced
	value	cost
	NIS in thousands	
Government debentures	698,721	691,148
Other marketable debt instruments:		
Other marketable debt instruments that are not convertible	282,537	287,929
Other marketable debt instruments that are convertible	-	-
Total marketable debt instruments	<u>981,258</u>	<u>979,077</u>

	As of December 31, 2012	
	(Audited)	
	Book	Reduced
	value	cost
	NIS in thousands	
Government debentures	810,322	787,010
Other marketable debt instruments:		
Other marketable debt instruments that are not convertible	289,324	283,778
Other marketable debt instruments that are convertible	-	-
Total marketable debt instruments	<u>1,099,646</u>	<u>1,070,788</u>

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

APPENDIX - DETAILS OF ASSETS REPRESENTING FINANCIAL INVESTMENTS(continued):

Details of other financial investments (continued):

2. Composition of non-marketable debt instruments

	As of June 30, 2013	
	(Unaudited)	
	Book value	Fair value
	NIS in thousands	
Other marketable debt instruments that are not convertible	106,763	108,616
Total non-marketable debt instruments	106,763	108,616
	As of June 30, 2012	
	(Unaudited)	
	Book value	Fair value
	NIS in thousands	
Other marketable debt instruments that are not convertible	57,015	57,738
Total non-marketable debt instruments	57,015	57,738
	As of December 31, 2012	
	(Audited)	
	Book value	Fair value
	NIS in thousands	
Other marketable debt instruments that are not convertible	77,925	83,480
Total non-marketable debt instruments	77,925	83,480

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

APPENDIX - DETAILS OF ASSETS REPRESENTING FINANCIAL INVESTMENTS (continued):

Details of other financial investments (continued):

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

	As of June 30, 2013	
	(Unaudited)	
	Book value	Cost
	NIS in thousands	
Marketable shares	70,258	69,729
	As of June 30, 2012	
	(Unaudited)	
	Book value	Cost
	NIS in thousands	
Marketable shares	58,197	68,350
	As December 31, 2012	
	(Audited)	
	Book value	Cost
	NIS in thousands	
Marketable shares	68,284	68,141

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

APPENDIX - DETAILS OF ASSETS REPRESENTING FINANCIAL INVESTMENTS (continued)

Details of other financial investments (continued):

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

		As of June 30, 2013	
		(Unaudited)	
		<u>Book value</u>	<u>Cost</u>
		<u>NIS in thousands</u>	
	Marketable financial investments	<u>80,988</u>	<u>74,002</u>
		As of June 30, 2012	
		(Unaudited)	
		<u>Book value</u>	<u>Cost</u>
		<u>NIS in thousands</u>	
	Marketable financial investments	<u>111,809</u>	<u>115,013</u>
		As December 31, 2012	
		(Audited)	
		<u>Book value</u>	<u>Cost</u>
		<u>NIS in thousands</u>	
	Marketable financial investments	<u>93,487</u>	<u>89,488</u>